Directel

Directel Holdings Limited
直通電訊控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8337

ANNUAL REPORT 2018

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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.

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CORPORATE INFORMATION

CHAIRMAN AND NON-EXECUTIVE DIRECTOR

Li Kin Shing

EXECUTIVE DIRECTORS

Pang Kwok Chau (Chief Executive Officer)
Li Wang

NON-EXECUTIVE DIRECTORS

Wong Kin Wa
Hu Tiejun

INDEPENDENT NON-EXECUTIVE DIRECTORS

Chen Xue Dao
Lee Man Yee, Maggie
Liu Kejun

AUTHORISED REPRESENTATIVES

Pang Kwok Chau
Li Chi Chung

COMPLIANCE OFFICER

Pang Kwok Chau

COMPANY SECRETARY

Li Chi Chung, CPA

AUDIT COMMITTEE

Lee Man Yee, Maggie (Chairman)
Chen Xue Dao
Liu Kejun

REMUNERATION COMMITTEE

Lee Man Yee, Maggie (Chairman)
Li Kin Shing
Chen Xue Dao

NOMINATION COMMITTEE

Lee Man Yee, Maggie (Chairman)
Pang Kwok Chau
Chen Xue Dao

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BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

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STOCK CODE

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AUDITORS

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

CHAIRMAN’S STATEMENT

On behalf of the Board of Directors (the “Board”) of Directel Holdings Limited (the “Company”), I am pleased to present the annual results of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2018 to all the shareholders.

RESULTS OF THE YEAR

For the year ended 31 December 2018, the Group recorded revenue of approximately HK$256,279,000, representing an increase of approximately 3.3 times as compared with last year. Loss for the year attributable to equity shareholders of the Company in 2018 decreased by approximately 71.4% to approximately HK$1,778,000 when compared with loss of approximately HK$6,222,000 for the last corresponding year. Excluding the effect of the increase in fair value on contingent consideration payables amounted to approximately HK$2,991,000 for the acquisition of Joint Top Group in September 2017, the Group recorded a profit of approximately HK$1,213,000 for the year ended 31 December 2018. Basic and diluted loss per ordinary share for the year ended 31 December 2018 was 0.06 HK cents respectively as compared with basic and diluted loss of 0.20 HK cents respectively for the year ended 31 December 2017.

REVIEW FOR THE YEAR

The performance of the Group has improved for the year ended 31 December 2018 compared to that of 2017. The monthly average number of activated phone numbers increased by approximately 90.2% to 106,547 for the year 2018 when compared to that of 2017, after the launch of the new 4G services in October 2017. The revenue derived from the provision of telecommunications services increased substantially to approximately HK$105,130,000 for the year ended 31 December 2018 compared to approximately HK$27,281,000 for the last corresponding year.

In September 2017, the Group completed the acquisition of various subsidiaries in the People’s Republic of China (the “PRC”) and Singapore which mainly engage in the provision of mobile telecommunications services and distribution business including distribution of mobile phones and electronic products and distribution of mobile and data top-up e-vouchers. The revenue generated through such acquisitions amounted to approximately HK$146,620,000 for the year ended 31 December 2018, representing an increase of approximately 2.3 times as compared with approximately HK$44,044,000 in the last corresponding year. I believe that the acquisitions will continue to enhance the Group’s operations, broaden its revenue source, expand its geographical reach and make a great contribution to the Group’s overall revenue in the coming years.

FUTURE PROSPECTS

Through the efforts of the Group’s employees, the Company has achieved certain results in 2018. Looking forward, we are highly confident in the future.

The contracts signed with customers by the Group in 2017 has continued to perform as scheduled and has been progressing well. Our business in the PRC has still been developing. Via CEPA qualification, we provide mobile communication services to outbound travel and Individual Visit Scheme tourists from Guangdong Province, of which we believe the growth potential is huge. Our distribution business of mobile phones and electronic products, which has started in Hong Kong and the PRC and has been growing constantly, also yielded an amount of revenue for the Group.

Meanwhile, our business in Singapore, including provision of mobile and data top-up services, is also in good progress. Through the integration of telecommunication resources in Singapore with the existing telecommunication resources of the Group, we have developed roaming telecommunication products for our customers. Cooperation agreements were signed with various Taiwan agents, under which we shall provide them with mobile data and voice calls services and through which it is believed that our business in Singapore will be further enhanced.

Driven by the development of the Greater Bay Area, the number of inbound and outbound travellers has been increasing and there will be continuous and large demand for roaming data traffic. We will seize the opportunity to actively expand marketing channels in various regions to develop the Group's services, and at the same time seek more resources to lower costs and enhance profits.

I would like to take this opportunity to express my heartfelt thanks to all our shareholders, customers, suppliers and business partners for their continuing and substantial support, and also to my fellow directors for their guidance as well as to our staff for their valuable contribution and effort during the year.

Li Kin Shing
Chairman

Hong Kong, 27 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

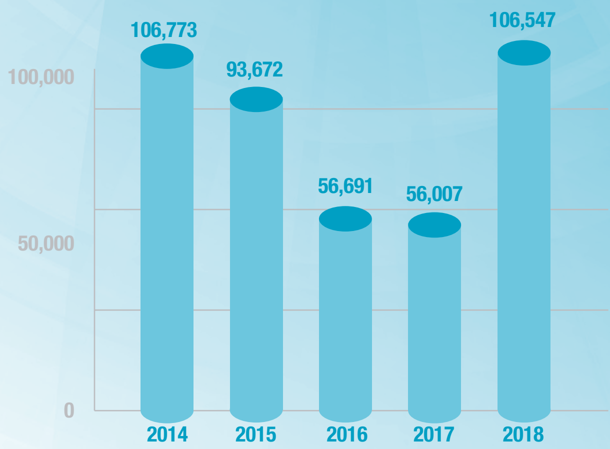
Business in Hong Kong

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

The Group has successfully upgraded its network in Hong Kong to be compatible with the 4G network in October 2017 and thereafter introduced the 4G services. With the introduction of the new 4G services together with the additional coverage provided by an existing service provider, the Group is able to broaden its mobile roaming coverage to over 60 countries and to launch a new mobile roaming application called "DIRECT-TX", for users to make phone calls through the application in the broadened coverage. The Group continued its marketing efforts in promoting its new 4G telecommunications services and is currently actively contacting distributors for distribution of its various 4G products. The Group has entered into distribution contracts with three distributors in 2017 and a number of distributors have also expressed their interests in becoming the Group's distributors. Among the three distribution contracts the Group has entered into, contracts with two of the distributors included a term that the distributors would commit subscription of not less than HK$29 million and HK$21.3 million worth of airtime and mobile data services in aggregate throughout the period ended 31 December 2018, respectively. For the year ended 31 December 2018, the two contracts with committed subscription have been fulfilled and the Group is confident to enter into new contracts with distributors with committed subscription in the near future.

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

Monthly average number of activated phone numbers



The Group is confident that various 4G product offerings will help the Group to broaden its user base as well as the total usage of airtime and mobile data, which in turn will strengthen the market position of the Group and increase its revenue as well as the market share of the Group in the competitive telecommunications industry.

In the second quarter of 2018, the Group has diversified its business in Hong Kong to the distribution of mobile phones and electronic products. For the year ended 31 December 2018, the revenue generated from such distribution business was approximately HK$60,596,000 which represents the sales proceeds of the mobile phones and electronic products, net of returns and discounts.

In addition, the Group has signed a cooperation agreement with a hotel booking service provider, in which the Group shall provide free mobile telecommunications services, including airtime and mobile data usage, to guests of hotels in and outside of Hong Kong who have made their hotel bookings through the designated hotel booking application or platform. The Group shall receive a commission rebated by the hotel booking service provider for the services rendered. The hotel booking application and platform have been developed and launched in the fourth quarter of 2017.

Business in the PRC

On 8 September 2017, the Group completed the acquisition of Joint Top Investments Limited (“Joint Top”) together with its subsidiary, Guangzhou Directel Telecommunications Limited* 廣州直通電訊有限公司 (“GZDT”) (together with Joint Top, the “Joint Top Group”) (the “PRC Acquisition”). Following the completion of the acquisition, Joint Top became an indirect wholly-owned subsidiary of the Company and thereafter, the Group has been engaging in the provision of mobile telecommunications services and distribution business in Guangdong province in the PRC.

* For identification only

GZDT is principally engaged in three main businesses. The first is the provision of mobile telecommunications services in Guangdong province of the PRC, especially focusing on prepaid telecommunications business. It strategically sets inbound and outbound travellers as its target end users for its pre-paid telecommunications products in view of the strong demand for local and roaming telecommunications services from inbound and outbound travellers respectively. GZDT principally carries two major categories of pre-paid telecommunications products, namely (i) local pre-paid products which mainly target inbound travellers to the PRC and allow users to enjoy voice calls and mobile data services in the PRC without incurring roaming charges; and (ii) roaming pre-paid products which mainly target PRC outbound travellers who would like to enjoy voice calls and mobile data services during their overseas travels at lower charges. GZDT distributes the roaming pre-paid products mainly through its established network including travel agents, hotels, telecommunications services/equipment agents/distributors, retail stores/chains, automobile 4S shops and others.

GZDT has successfully secured contracts with 5 sales channels/distributors for the pre-paid telecommunications business. Out of the 5 contracts, (i) two contracts are with local distributors which include a term that each distributor has committed subscription of not less than RMB20 million worth of mobile and data services in aggregate for the coming two years from the date of the respective contracts; and (ii) one contract is with a distributor which includes a term that the relevant distributor has agreed to procure not less than RMB5 million worth of annual sales of telecommunications services provided by GZDT during the three years contract term.

GZDT has engaged in the provision of mobile and data top-up services sourced from the dealers of the 3 major mobile network operators in the PRC and resale to ultimate users through the e-commerce platform which is connected to various online payment platforms. Various functions of mobile phones such as online shopping, mobile navigation, video watching and online games playing etc. lead to increasing demand for mobile data traffic and trouble faced by mobile users of insufficient data traffic. Through the new mobile and data top-up services provided by GZDT, mobile users can enjoy a special discount rate on the mobile and data top-up which superimpose on their original mobile data packages and thus solve the particular needs of users such as roaming day plan and video watching plan. For the year ended 31 December 2018, the revenue generated from the provision of mobile and data top-up services increased by approximately 2.8 times to approximately HK$46,388,000 when compared with approximately HK$12,229,000 for the period after the date of completion of the acquisition to 31 December 2017. The Directors believe that the growing demand of mobile data traffic will make a great contribution to the Group's overall revenue in the coming years.

In addition to pre-paid telecommunications business, GZDT has leveraged its established relationship and connection with telecommunications services/equipment agents/distributors to commence the mobile phones distribution business. GZDT has entered into mobile phone and electronic products supply contracts with two suppliers in different provinces of the PRC which enable GZDT to sell the most popular and price competitive handsets to dealers. At the same time, GZDT is actively negotiating with other telecommunications equipment distributors for further potential business co-operation.

GZDT has successfully secured a contract with a telecommunications equipment distributor which includes a term that the relevant distributor has committed to procure sales of mobile phones and electronic products in aggregate of not less than RMB50 million throughout the period ending 31 December 2020. For the year ended 31 December 2018, the revenue generated from the distribution business which represents the sales proceeds of the mobile phone and electronic products, net of returns and discounts, increased by approximately 92.5% to approximately HK$26,904,000 when compared with approximately HK$13,976,000 for the period after the date of completion of the acquisition to 31 December 2017.

In addition to the abovementioned, the Group obtained the Mainland and Hong Kong Closer Economic Partnership Arrangement ("CEPA") qualification in June 2017 and obtained the approval letter from the Guangdong Communications Administration 廣東省通信管理局備案批准 in December 2017 which allows the Group to sell its SIM cards through distributors to local customers in Guangdong Province who intend to travel abroad and use data services while they are abroad. In view of this, GZDT acts as a new distribution channel of the Group's products (especially the 4G roaming products as mentioned above) in the Guangdong Province market. The Group will continue to leverage on the established network and sales channels of GZDT to penetrate into the PRC market. In a longer term perspective, it is the Group's plan to use GZDT as a platform to reach other PRC markets outside the Guangdong Province. Thus, the Company is of the view that the PRC Acquisition will continue to enhance the Group's operation, broaden its revenue source and expand its geographical reach.

Business in Singapore

On the other hand, the Group always targets to expand its business to Southeast Asia. In September 2017, the Group completed an acquisition of South Data Communication Pte. Ltd. ("South Data"), a company incorporated in Singapore, which is principally engaged in the provision of telecommunications services and distribution business in Singapore. Following the completion of the acquisition, South Data became an indirect wholly-owned subsidiary of the Company and acts as the Group's platform to establish a foothold in the telecommunications market in Singapore. South Data has entered into contracts with several distributors in 2018 for the pre-paid telecommunications business. For the year ended 31 December 2018, the revenue derived from the provision of telecommunications services was approximately HK$9,517,000. In respect of the distribution business, South Data has already successfully secured a contract with one of the largest e-commerce platform operator in Singapore (the "E-commerce Platform Operator") as a sale channel in which it will purchase mobile and data top-up e-vouchers from South Data and then resell to ultimate mobile users and the E-commerce Platform Operator has committed to procure not less than SGD36 million worth of mobile and data top-up credits in aggregate throughout the period ending 31 December 2020. The E-commerce Platform Operator has a wide distribution channel of over 800 point of sales in Singapore and the ultimate users can easily top up their mobile phones through various popular payment methods such as credit cards and online payment. For the year ended 31 December 2018, the revenue derived from the distribution of mobile and data top-up business increased by approximately 2.6 times to approximately HK$63,649,000 when compared with approximately HK$17,839,000 for the last corresponding year. The Directors are confident that the new business would greatly improve the Group's business performance and operation and act as a milestone in the expansion of telecommunications market to other Asia Pacific territories.

The Company is also continuously exploring suitable business development/investment opportunities in the relevant telecommunications business, and will issue announcement(s) in accordance with the applicable GEM Listing Rules, as and when appropriate.

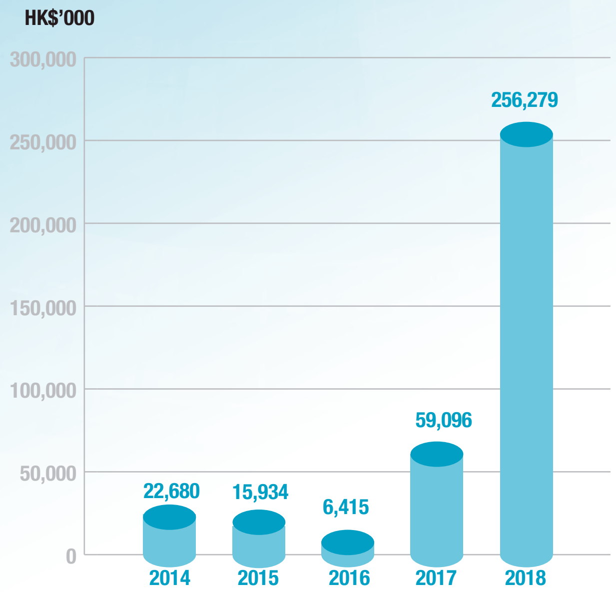
Besides exploring new revenue sources, the Group will at the same time implement stringent cost control measures in order to improve its business and financial performance. The Group is currently negotiating with the service providers to further reduce (i) the unit cost of airtime and mobile data; and (ii) the level of monthly minimum purchase amount which was previously agreed with the MNOs.

FINANCIAL REVIEW

Revenue

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

Revenue



Cost of Sales

The Group's cost of sales increased by approximately 3.3 times to approximately HK$235,009,000 for the year ended 31 December 2018 compared to approximately HK$54,208,000 for the last corresponding year. The increase was mainly attributable to the increase in cost of roaming data from the provision of telecommunications services and the new distribution business by the acquisition of the wholly owned subsidiaries in September 2017.

Gross Profit

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

Other Income

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

Other Net (Loss)/Income

For the year ended 31 December 2017, the Group recorded other net income of approximately HK$944,000 while for the year ended 31 December 2018, the Group incurred other net loss of approximately HK$4,285,000. The incurrence of other net loss was mainly due to foreign exchange loss arising from the movements in the exchange rate between Hong Kong dollars and Renminbi during the year and the increase in fair value change on contingent consideration payables amounted to approximately HK$2,991,000 for the acquisition of Joint Top Group in September 2017.

Administrative and Other Operating Expenses

The Group's administrative and other operating expenses for the year ended 31 December 2018 increased by approximately 40.1% to approximately HK$19,294,000 when compared to approximately HK$13,775,000 for the last corresponding year. The increase was primarily due to the amortisation of intangible assets acquired in the second half of 2017, the increase of staff cost and depreciation.

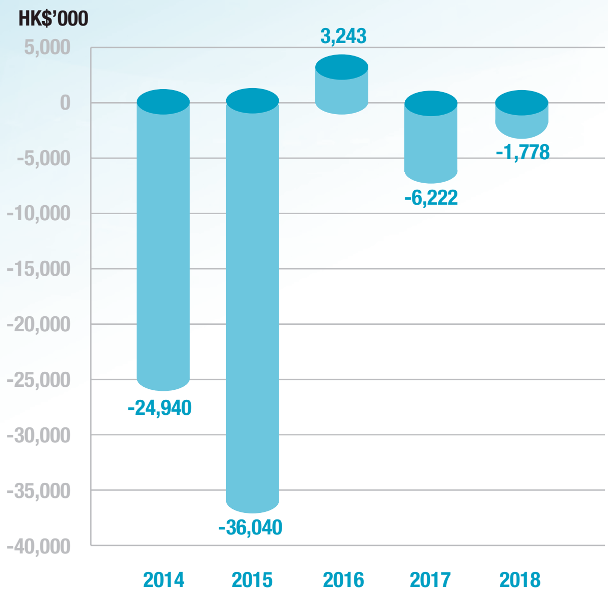
Income Tax Credit

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

Loss Attributable to Shareholders

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

(Loss)/profit attributable to shareholders



OTHER INFORMATION

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

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

The IPO Proceeds were approximately HK$69.2 million, amongst which approximately HK$59.5 million had been utilised up to 31 December 2018. As disclosed in the announcement of the Company dated 12 September 2018, the Directors had resolved to change part of the use of the unutilised net proceeds from the Placing. Therefore, the breakdown of the Company's actual use of the IPO Proceeds up to 31 December 2018 is as follows:

	Proposed use of the IPO Proceeds as disclosed in the prospectus of the Company dated 28 May 2010 (the "Prospectus")	Resolved change of use of the IPO Proceeds as disclosed in the announcement dated 12 September 2018 (the "Announcement")	Actual use of the IPO Proceeds from the date of listing to 31 December 2018
	HK$ million	*HK$ million*	*HK$ million* (unaudited)
Expansion of the business of mobile phone services in Macau, Taiwan and other Asia Pacific territories	22.7	22.7	22.7
Upgrading of the Group's telecommunications equipment for compatible with the mobile network operated by the Group's service providers in Hong Kong and the PRC	20.8	12.8	11.9
Development and implementation of RF-SIM business plans in Hong Kong and Macau	18.9	12.3	4.3
Distribution of mobile phones and equipment overseas (Note)	–	12.1	12.1
Working capital	6.8	9.3	8.5
Total	69.2	69.2	59.5

Note: As disclosed in the announcement of the Company dated 12 September 2018, the Directors had resolved to allocate part of the use of the unutilised net proceeds to distribution of mobile phones and equipment overseas.

Based on the information currently available and the Board's estimation of the future market condition, the Company intends to utilise approximately HK$1.7 million (representing approximately 17.5% of the unutilised IPO Proceeds of approximately HK$9.7 million) in the following manner:

1. *Upgrading of the Group's telecommunications equipment for compatible with the mobile network operated by the Group's service providers in Hong Kong and the PRC*

   Up to 31 December 2018, approximately HK$11.9 million out of approximately HK$12.8 million of the changed use of IPO Proceeds allocated to the upgrading of the Group's telecommunications equipment for compatible with the mobile network operated by the Group's service providers in Hong Kong and the PRC has been utilised. The Group has successfully upgraded its network in Hong Kong to be compatible with 4G network in October 2017, which supports higher-speed mobile data transmission. Although the Group began exploring options to upgrade its existing system to a 4G system since 2014, the upgrading work only started to take place in mid-2017 as significant amount of time has been spent on researching the technology and comparing quotations from various equipment suppliers and to solve the technical complications in transferring the Group's existing data from one system to the new system. The upgrade cost amounted to approximately HK$8 million which includes the equipment cost of the 4G core networks, implementation cost of the core networks and first year system warranty. The Group plans to pay the entire upgrade cost by the IPO Proceeds, of which approximately HK$7.1 million has been paid up to 31 December 2018 and the remaining HK$0.9 million is expected to be paid in the first half of 2019. It is expected that no substantial cost will be further incurred for the upgrading of the 4G system within a short period of time.

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

   Up to 31 December 2018, approximately HK$4.3 million out of approximately HK$12.3 million of the changed use of IPO Proceeds allocated to development and implementation of RF-SIM business plans in Hong Kong and Macau has been utilised. Upon completion of the Placing, the Group originally intended to launch and promote the use of RF-SIM technology for applications including the access control services and promotion services for commercial customers and mobile wallet and payment services immediately upon the Placing. In view of this, the Group had explored with mobile network operators in Hong Kong to launch the above applications. However, the Group experienced difficulties in promoting the above applications to mobile network operators in Hong Kong because the market of electronic wallet and payment has been dominated by a stored value smart card system. The Group had also approached potential partners in Macau to attempt to launch similar RF-SIM applications but failed to reach any conclusion.

   After attempting for around three years, the Group decided to shift the application of RF-SIM technology to smart living with mobile access to doors and other facilities. The Group approached various major residential property management companies to introduce the application of RF-SIM technology for smart living in large-scale private housing estates in Hong Kong. However, the co-operations were not materialised as the Group failed to agree the commercial terms with the management companies.

   Since the completion of the Placing, the development and implementation of RF-SIM business continues to be one of the business development agendas of the Group and the Group continues to conduct in-house research to explore the different applications of the RF-SIM technology. The slow utilisation of the IPO Proceeds originally allocated to this segment was due to the slower than expected business development progress. The Company will closely monitor the development of its RF-SIM business and will consider the need to further change the use of the IPO Proceeds allocated to this segment if appropriate.

3. *Working capital*

The remaining HK$0.8 million of the unutilised changed use of IPO Proceeds allocated to fund working capital and other general corporate purposes is expected to be applied to the same in the first quarter of 2019.

The remaining unutilised IPO Proceeds of approximately HK$9.7 million have been placed as interest bearing deposits in banks. As at the date of this 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 31 December 2018, the Group had no outstanding loan or borrowing, and the gearing ratio (being ratio of total long term borrowings to equity) was therefore inapplicable. As at 31 December 2018, total equity attributable to equity holders of the Company amounted to approximately HK$98,059,000 (as at 31 December 2017: approximately HK$100,622,000).

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

LIQUIDITY AND FINANCIAL RESOURCES

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

FOREIGN EXCHANGE EXPOSURE

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily Renminbi ("RMB"), Singapore dollars ("SGD") and United States dollars ("US$"). The Group currently does not have hedging policy in respect of the foreign currency risk. However, the management monitors the related foreign currency risk exposure closely and will consider hedging significant foreign currency risk exposure should the need arises. As at 31 December 2018, the Group did not have any derivatives for hedging against the exchange rate risk.

PLEDGE OF ASSETS

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

CONTINGENT LIABILITY

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

MATERIAL ACQUISITION, DISPOSAL OR SIGNIFICANT INVESTMENT

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

CAPITAL COMMITMENTS

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

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 4 to the consolidated financial statements.

STAFF AND REMUNERATION POLICY

As at 31 December 2018, the Group had 23 employees (2017: 18 employees). Among them, 11 employees worked in Hong Kong, 11 employees worked in the PRC and 1 employee worked in Singapore. Breakdown of the Group's staff by functions as at 31 December 2018 is as follows:

Function	As at 31 December 2018	As at 31 December 2017
Management	2	2
Financial and accounting	6	5
Sales and marketing	8	6
Information technology, repair and maintenance	3	2
Customer service	2	1
Administration and human resources	2	2
Total	23	18

The total staff remuneration including directors' remuneration paid or payable by the Group in 2018 was approximately HK$4,907,000 (2017: approximately HK$3,481,000). Remuneration paid to staff, including Directors, 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.

DISCLOSURE UNDER CHAPTER 17 OF THE GEM LISTING RULES

The Directors confirmed that they were not aware of any circumstances which would give rise to a disclosure requirement under Rules 17.22 to 17.24 of the GEM Listing Rules during the year.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group will be issuing a separate environmental, social and governance ("ESG") report for the financial year ended 31 December 2018 and in accordance with the Environmental, Social and Governance Reporting Guide of the Stock Exchange. The ESG report will disclose information on the Group's ESG management approach, strategy, priorities and objectives.

DIRECTORS' REPORT

The Directors present their annual report together with the audited financial statements of the Group for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Its subsidiaries are principally engaged in the provision of mobile telecommunications services and distribution business. The Group also provides services of resale of airtime and mobile data, telesales dealership and other services. The principal activities and other particulars of its subsidiaries are set out in note 12 to the financial statements.

PRINCIPAL PLACE OF BUSINESS

The Company has established a principal place of business in Hong Kong at Office Nos. 1, 2, 14 and 15, 37th Floor, Hong Kong Plaza, No. 188 Connaught Road West.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2018 as well as a discussion on the Group's future business development are set out in the section headed "Management Discussion and Analysis" on pages 6 to 17 of this report.

Description of the principal risks and uncertainties facing the Group can be found in the below paragraph.

Principal Risks and Uncertainties

The directors are aware that a number of factors may affect the results and operation of the Group, including some which are specific to the Group or the industries in which the Group operates as well as others that are common to most of other businesses. The directors have established a policy to ensure that significant risks which may adversely affect the Group's performance are identified, reported, monitored, and managed on a continuous basis.

Major risks are summarized below and are by no means exhaustive or comprehensive, and there may be other risks, in addition to those shown below, which are not known to the Group or which may not be material now but could turn out to be material in the future.

Intense Competition

The Group operates in markets and industries which are glut of pricing pressure, loss of market share, and increased promotional, marketing and customer acquisition expenditures. The Group has operated in this extremely competitive landscape for the last few years. If we do not respond timely to our competitors, our costs may increase and the customer demand for our services may decline and our revenue would decrease continuously.

Services Provider

The Group is a MVNO which provides mobile telecommunications services but does not own nor control its own mobile telecommunications infrastructure and has to rely on the services provided by several third party telecommunications service providers. The quality of services and stability of operating facilities provided and managed by the Group's telecommunications service providers could have material influence on the operations of the Group. Any termination or discontinuation of services or any faulty or defective services provided by such service providers, including but not limited to network or operating system disconnection of the Group caused by insufficient resources or capacity, decline in the speed of network connection between the Group and its telecommunications service providers, failure to sustain the operations of networks and servers, or failure to resolve such problems promptly, would reduce the satisfaction of the Group's customers, which would materially and adversely affect the Group's operation and financial performance.

The Group has been outsourcing its data processing and billing management services, its telesales dealership services, customer hotline services to connected persons of the Group. Any faulty or unsatisfactory services provided by the Group's service providers could materially and adversely affect the Group's operation, customer satisfaction and financial performance.

Nevertheless, we have developed long-standing relationships with our service providers so as to minimize the impact from any disruptions or discontinuation of services.

Information System/Technology

The Group is dependent on information technology systems and networks. The stability of the Group's services depends upon the ability to protect its telecommunications system and equipment against damage from human error, power loss, telecommunications failure, sabotage, hackers and similar events. Any material disruption or slowdown of our IT systems, including a disruption or slowdown caused by our failure to successfully upgrade our systems, system failures, viruses or cyber-attacks could cause a loss of data or operation interruption. Therefore, we invest continuously in our IT system so as to keep up with the technology security and availability and integrity of critical operation data.

Growth Strategy

The Group seeks to expand its operations overseas. This increases its exposure to multiple and occasionally conflicting regulatory regimes. The Group's lack of familiarity with such overseas markets, in particular the lack of clarity in, and interpretation of, continuously changing laws and regulations increases the risk of the Group's ability to successfully operate in such markets. In addition, the Group will develop its business both organically and through new business combinations, strategic investments and acquisitions. If market conditions change or for any other reason, the Group may decide to delay, modify or forgo some aspects of its growth strategy.

Cyber Security

The Group processes large amounts of customer data, personal information and other sensitive commercial data which are susceptible to cyber threats. If the Group suffers data security breaches or cyber-attacks which interrupt its operations, the Group's operations, financial performance and reputation may be adversely affected.

Financial

The Group is exposed to financial risks, such as, credit risks, interest rate risks, foreign currency risks and liquidity risks. The Group reviews regularly and manages its capital structure to maintain a sound capital position. A significant portion of the Group's trade receivables and deposits in banks is denominated in foreign currency i.e. Renminbi ("RMB") and Singapore dollars ("SGD"). The Group currently does not have hedging policy in respect of the foreign currency risk. Nevertheless, the Group has continuously evaluated and monitored the fluctuation of RMB and SGD and may consider entering into forward contracts in order to manage its exposure to adverse fluctuations in foreign currency exchange rate. For details of the Group's financial management policies and strategies in managing these financial risks, please refer to note 23 to the consolidated financial statements.

Macroeconomic Environment

The slowdown in global economies or deterioration of global financial markets may result in negative changes in the business environment and decline in demand for the Group's services. It is therefore important that the Group is aware of any such changes of economic environment and adjust its business plan under different market conditions.

People

The Group's success is attributable to the highly skilled and qualified managerial, sales, marketing, administrative, operating, and technical personnel. Any departure of key officers or employees, or the inability to recruit the replacement personnel with equivalent qualifications timely, could materially and adversely affect the Group's operations and prospects.

Besides, discussions on the Group's environmental policies, performance, compliance with relevant laws and regulations and key relationships with its stakeholders which have a significant impact on the Group are provided in the paragraphs below.

Environmental Policies, Performance and Compliance with Laws and Regulations

We are committed to building an environmentally-friendly corporation that pays close attention to conserving natural resources. We strive to minimize our environmental impact by saving electricity and encouraging recycle of office supplies and other materials. We also require factories of our suppliers to operate in strict compliance with the relevant environmental regulations and rules and possess all necessary permission and approval from the relevant regulators.

The Group has complied with relevant laws including, among others, the Telecommunications Ordinance (Cap.106), the Trade Descriptions Ordinance (Cap. 362), the Personal Data (Privacy) Ordinance (Cap. 486) and the regulations in relation to its business including health and safety, workplace conditions, employment and the environment. The Group understands a better future depends on everyone's participation and contribution and thus it has encouraged employees, customers, suppliers and other stakeholders to participate in environmental and social activities which benefit the community as a whole.

Key Relationships with Employees, Customers, Distributors and Suppliers

Human resources are one of the greatest assets of the Group and the Group regards the personal development of its employees as highly important. The Group ensures all staff are reasonably remunerated and also continues to improve and regularly review and update its policies on remuneration and benefits, training, occupational health and safety. The Group wants to continue to be an attractive employer for committed employees and therefore adopted a new share option scheme in 2016 to recognise and reward the contribution of the employees to the growth and development of the Group.

The Group maintains a good relationship with its customers. A customer complaint handling mechanism is in place to receive, analyse and study complaints and make recommendations on remedies with the aim of improving service quality.

We sell our services to end customers mainly through third-party distributors. We work with our distributors like we are business partners and share common view for upholding our brand value, specifically focusing on attracting and retaining customers so as to drive revenue growth. We require our distributors to comply with our distribution policies including but not limited to product selling price and promotional activities. Besides, we also monitor the repayment history, sales performance and financial condition of our distributors.

The Group has developed long-standing and good relationships with its suppliers and conducts a fair and strict appraisal including track record, experience, reputation and quality control effectiveness of its suppliers on an annual basis.

FINANCIAL INFORMATION

Financial Summary

A summary of the consolidated statement of profit or loss and other comprehensive income and the assets and liabilities of the Group for the last five financial years is set out on page 132 of this report.

Results and Dividends

The results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss and other comprehensive income, page 60 of this report.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2018. No dividend was paid for the year ended 31 December 2017.

Major Customers and Major Suppliers

For the year ended 31 December 2018, the revenue attributable to the largest customer and the five largest customers accounted for approximately 26.3% and approximately 58.2% of the Group's revenue respectively.

For the year ended 31 December 2018, purchases from the largest supplier and the five largest suppliers accounted for approximately 26.9% and approximately 62.7% of the Group's total purchases respectively.

None of the Directors, or any of their respective associates, or any shareholders (whom to the knowledge of the Directors own more than 5% of the issued share capital of the Company), had any interests in any of the Group's five largest customers or five largest suppliers during the year.

Share Capital

Details of movements in the share capital of the Company during the year are set out in note 22(b) to the financial statements.

Unlisted Warrants

On 30 April 2014, the Company entered into a warrant subscription agreement (the "Warrant Subscription Agreement") with JD Edward Asset Management Company Limited, an independent third party (the "Subscriber") in relation to the subscription of a total of 200,000,000 unlisted warrants (the "Warrant(s)") by the Subscriber at the issue price of HK$0.01 per unit of Warrants (the "Warrant Subscriptions"). The Warrants entitled the Subscriber to subscribe in cash for in aggregate of 200,000,000 shares in the Company at the subscription price of HK$0.1648 per new share (subject to anti-dilutive adjustment) for a period of 60 months commencing from the date of issue of the Warrants. On 29 May 2014, the conditions set out in the Warrant Subscription Agreement have been fulfilled and completion of the Warrant Subscriptions took place. The net proceeds from the Warrant Subscriptions (after expenses of approximately HK$346,000) were approximately HK$1,654,000. Pursuant to an ordinary resolution passed at the extraordinary general meeting of the Company on 3 June 2015, a specific mandate was given to the directors of the Company to allot and issue new Shares (subject to adjustment) upon exercise of subscription rights attaching to the Warrants. On 23 June 2015, the Company completed a bonus issue on the basis of two bonus shares for every one held by the existing shareholders ("Bonus Issue"). As a result of the Bonus Issue, the subscription price for such warrant shares and the number of warrant shares to be issued and allotted upon exercise of the subscription rights attached to the Warrants shall be adjusted from HK$0.1648 to HK$0.0549 and from 200,000,000 Shares to 600,000,000 Shares respectively. On 23 November 2016, the Subscriber as transferor, transferred 200,000,000 Warrants to six individuals, as transferees, at a consideration of HK$2,000,000 (at HK$0.01 per Warrant). As at the date of this report, no Warrants have been exercised and the Company has not utilised any of the net proceeds.

Reserves

Details of movements in reserves of the Company and the Group during the year are set out in note 22(a) to the financial statements and the consolidated statement of changes in equity respectively.

Distributable Reserve and Share Premium

According to the articles of association of the Company and the Companies Law of the Cayman Islands, after passing the review of debt paying ability of the Group, the share premium account can be attributed to shareholders. As at 31 December 2018, the Company had reserves of approximately HK$26,704,000 (31 December 2017: approximately HK$28,734,000) available for distribution to equity shareholders of the Company.

Property, Plant and Equipment

Details of movements in property, plant and equipment of the Group are set out in note 11 to the financial statements.

Continuing Connected Transactions

For the year ended 31 December 2018, approximately HK$857,000 under the category of the services provided by related parties and approximately HK$996,000 under the category of the rental of properties from related parties as disclosed in note 26 to the financial statements fell under the definition of continuing connected transactions under Chapter 20 of the GEM Listing Rules. Details are disclosed in note 26 to the financial statements.

Continuing connected transactions exempt from the reporting, annual review, announcement and independent shareholders' approval requirements

A. Service agreement between China-Hongkong Telecom Limited ("China-HK Telecom") and China Elite Information Technology Ltd. in respect of data processing and billing management services.

B. Licence agreement between China-HK Telecom and Directel Limited in respect of RF-SIM.

C. Tenancy agreement between the Company and Talent Information Engineering Co., Limited in respect of the Company's office in Hong Kong.

D. Service agreement between China-HK Telecom and International Elite Limited – Macao Commercial Offshore in respect of development and maintenance of Company's website until 31 August 2017. China-HK Telecom has entered into such service agreement with Guangzhou Global Link Intelligent Information Technology Co., Ltd*廣州國聯智慧信息技術有限公司, a wholly-owned subsidiary of International Elite Limited with effect from September 2017.

E. Service agreement between Directel Communications Limited and Guangzhou Global Link Intelligent Information Technology Co., Ltd*廣州國聯智慧信息技術有限公司, for development and maintenance of the Company's online platform and mobile applications.

F. Service agreements

    1. Service agreement between Elitel Limited and International Elite Limited - Macao Commercial Offshore (novated from its affiliated company, PacificNet Communications Limited - Macao Commercial Offshore ("PacificNet Communications"), on 1 October 2011) in respect of built-in secretary ("BIS") services; and

    2. Service agreement between China-HK Telecom and Winet Engineering Limited (novated from its affiliated company, International Elite Limited – Macao Commercial Offshore, on 1 September 2018) in respect of BIS and customer hotline services.

G. Service agreement between China-HK Telecom and Winet Engineering Limited (novated from its affiliated company, International Elite Limited – Macao Commercial Offshore, on 1 September 2018) in respect of telesales services.

The continuing connected transactions as referred to in paragraphs F and G fell under the category of continuing connected transactions exempt from the independent shareholders' approval requirements during the three years ended 31 December 2012. Upon their renewal on 12 December 2012, 24 December 2015 and 24 December 2018, these continuing connected transactions as referred to in paragraphs F and G fell under the category of de minimis transactions and are therefore exempt from the reporting, annual review, announcement and independent shareholders' approval requirements.

* *For identification only*

Details of the above connected transactions are disclosed in note 26 to the financial statements and the Prospectus.

The Directors confirm that the Group has complied with the disclosure requirements in accordance with Chapter 20 of the GEM Listing Rules.

EVENTS AFTER THE REPORTING PERIOD

No significant event has taken place subsequent to 31 December 2018 and up to the date of this report.

THE PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to issue new shares on a pro-rata basis to existing shareholders of the Company.

CLOSURE OF REGISTER OF MEMBERS

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

DIRECTORS

The Directors who held office during the year and up to the date of this report were:

Chairman and Non-executive Director

Li Kin Shing (李健誠)

Executive Directors

Pang Kwok Chau (彭國洲) (Chief Executive Officer)
Li Wang (李宏)

Non-executive Directors

Wong Kin Wa (黃建華)
Hu Tiejun (胡鉄君)

Independent Non-executive Directors

Chen Xue Dao (陳學道)
Lee Man Yee, Maggie (李敏怡)
Liu Kejun (劉克鈞)

In accordance with the Company's articles of association, Mr. Li Kin Shing, Mr. Pang Kwok Chau and Mr. Chen Xue Dao shall retire by rotation at the forthcoming annual general meeting of the Company, and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company.

Confirmation of Independence

The Company has received from each of its independent non-executive Directors an annual confirmation of his/her independence pursuant to Rule 5.09 of the GEM Listing Rules and considers that all the independent non-executive Directors are independent.

Directors' Service Contracts

Each of Mr. Pang Kwok Chau and Mr. Li Wang has entered into a renewal service agreement with the Company to serve as an executive Director for a term of three years commencing from 1 May 2016. Each of these service contracts may be terminated by either party thereto giving to the other not less than three months' prior notice in writing or less than three months' prior notice in writing agreed by both parties.

Each of Mr. Li Kin Shing and Mr. Wong Kin Wa has entered into a renewal service agreement with the Company to serve as a non-executive Director for a term of three years commencing from 1 May 2016. Mr. Hu Tiejun has entered into a service agreement with the Company to serve as a non-executive Director for an initial term of three years commencing from 7 June 2016. Each of these service contracts may be terminated by either party thereto giving to the other not less than three months' prior notice in writing or less than three months' prior notice in writing agreed by both parties.

Each of Mr. Chen Xue Dao and Ms. Lee Man Yee, Maggie has entered into a renewal service agreement with the Company to serve as an independent non-executive Director for a term of three years commencing from 1 June 2016. Mr. Liu Kejun has entered into a service agreement with the Company to serve as an independent non-executive Director for an initial term of three years commencing from 7 June 2016. Each of these service contracts may be terminated by either party thereto giving to the other not less than three months' prior notice in writing or less than three months' prior notice in writing agreed by both parties.

None of the Directors, including those to be re-elected at the forthcoming annual general meeting, has a service agreement which is not determinable by the Group within one year without the payment of compensation (other than statutory compensation).

All of them are subject to retirement by rotation in accordance with the Company's articles of association.

Permitted Indemnity Provision

Pursuant to the Company's Articles of Association, every director is entitled to be indemnified out of the assets of the Company from and against all actions, costs, charges, losses, damages and expenses which he or she may incur or sustain in connection with the execution of his or her duty provided that this indemnity shall not extend to any matter in respect of any fraud, dishonesty or recklessness which may attach to any of the directors.

The Company has arranged appropriate Directors' and officers' liability insurance policy of the Company during the year ended 31 December 2018.

Contract of significance

Save for the service contracts of the Directors and the contracts under the paragraph named "Continuing Connected Transaction" as disclosed above and note 26 to the financial statements, no contract of significance in relation to the Group's business to which the Company, its subsidiaries and controlling shareholders and their controlled entities was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year under review or at any time during the year under review.

DIRECTORS AND SENIOR MANAGEMENT

The brief biographical details of Directors and senior management are set out in pages 49 to 51 of this report.

Emolument Policy

A remuneration committee is set up for reviewing the Group's emolument policy and structure for all remuneration of the directors and senior management having regard to the Group's operating results, individual performance and comparable market practices.

Directors' Emoluments and Five Employees with Highest Emolument

Details of directors' emoluments and five employees with highest emolument are set out in note 8 and note 9 to the financial statements.

No emoluments have been paid to the Directors as an inducement to join or upon joining the Group or as compensation for loss of office during the year ended 31 December 2018 (2017: Nil). No Director waived or agreed to waive any emoluments during the year ended 31 December 2018 (2017: Nil).

During the year ended 31 December 2018, no emoluments were paid by the Group to any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2017: Nil).

Staff Contribution Retirement Schemes

The amounts of contributions and details of the Group's defined contribution retirement schemes are set out in note 6(a) to the financial statements.

SHARE INTERESTS

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

As at 31 December 2018, so far as it is known to the Directors, the Directors and the chief executive of the Company had the following interests and short positions in the shares, underlying shares or the debentures of the Company or any of its associated corporations within the meaning of part XV of the Securities and Futures Ordinance (the "SFO"), which would have to be notified to the Company and the Stock Exchange pursuant to the provision of Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions of which they were taken or deemed to have under such provisions of the SFO) and/or required to be entered in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules:

(i) Long position in shares of the Company:

Name of Director	Nature of Interest/ Capacity	Number of Ordinary Shares	Approximate Percentage of Shareholding
Mr. Li Kin Shing	Interest of controlled corporation	2,088,750,000 *(Note)*	67.11%
	Beneficial owner	101,250,000	3.25%
Mr. Pang Kwok Chau	Beneficial owner	30,000,000	0.96%
Mr. Wong Kin Wa	Beneficial owner	30,000,000	0.96%

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 31 December 2018, none of the Directors nor the chief executives of the Company had any interests or short positions in any shares, underlying shares and/or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest and/or short positions which were taken or deemed to have under such provisions of the SFO), or which were recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or which would have to be notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

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

As at 31 December 2018, 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	67.11%
Ms. Kwok King Wa	Interest of controlled corporation	2,088,750,000 *(Note 1)*	67.11%
	Interest of spouse	101,250,000 *(Note 2)*	3.25%

Notes:

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

(2) Mr. Li Kin Shing is the spouse of Ms. Kwok King Wa. Accordingly, Ms. Kwok King Wa is deemed to be interested in the 101,250,000 shares under the SFO.

Save as disclosed above, as at 31 December 2018, so far as it is known to the Directors, there was no other person (other than the Directors or chief executive of the Company) with interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which would be recorded in the register of the Company required to be kept under section 336 of the SFO or who are directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

COMPETING INTERESTS

During the year ended 31 December 2018, save as disclosed below, none of the Directors or controlling shareholders of the Company nor their respective associates is considered to have interests in a business that competes or is likely to compete, either directly or indirectly, with the businesses of the Group other than those businesses where the Directors have been appointed or were appointed as directors to represent the interests of the Company and/or the Group.

Directel Limited, a company incorporated in the Cayman Islands, is held as to 50% and 50% by Mr. Li Kin Shing, a non-executive Director, the chairman of the Company, a controlling shareholder and a substantial shareholder of the Company, and Ms. Kwok King Wa, a controlling shareholder and a substantial shareholder of the Company and the spouse of Mr. Li Kin Shing, respectively. According to the GEM Listing Rules, Directel Limited is an associate of Mr. Li Kin Shing and Ms. Kwok King Wa.

Directel Limited is the legal and beneficial owner of the RF-SIM intellectual property rights in Hong Kong and Macau. Further, Directel Limited is the licensee of the operation rights of RF-SIM in markets other than the PRC in addition to its owned RF-SIM intellectual property rights in Hong Kong and Macau and it has the right to grant licences of the operation rights of RF-SIM intellectual property rights to others in markets other than the PRC. There is a risk that such services provided by Directel Limited may compete with the services provided by the Group as Directel Limited is expected to grant licences of the operation rights of RF-SIM intellectual property rights in other regions in the future.

Prior to 29 November 2018, Sunward Telecom Limited ("Sunward Telecom") and its wholly-owned subsidiaries (collectively, the "Sunward Group") were wholly-owned by International Elite Ltd., a company incorporated in the Cayman Islands and a listed company on the Main Board of the Stock Exchange (Stock Code: 1328), in which Mr. Li Kin Shing and Ms. Kwok King Wa were its controlling shareholders. Since 29 November 2018, the Sunward Group had been directly wholly-owned by Mr. Li Kin Shing. According to the GEM Listing Rules, the Sunward Group were the associates of Mr. Li Kin Shing and Ms. Kwok King Wa for the year ended 31 December 2018. The Sunward Group, as a whole, is principally engaged in (i) the research and development, production and sales of RF-SIM products; (ii) licensing of the RF-SIM operations rights in markets other than Hong Kong and Macau, and (iii) research and development and technology transfer of CA-SIM application rights to customers.

The Directors confirm that as China-Hongkong Telecom Limited, a wholly-owned subsidiary of the Company, has obtained the exclusive licence of the operation rights of RF-SIM intellectual property rights in Hong Kong and Macau and since the services provided by the Group are mainly in Hong Kong and Macau, there will be no direct competition between the services provided by Directel Limited, which are in territories other than the PRC, Hong Kong and Macau. There will also be no direct competition between the services provided by the Sunward Group, which its strategy is to concentrate on the application of the RF-SIM intellectual property rights in the PRC. Nevertheless, Mr. Li Kin Shing, Ms. Kwok King Wa and Directel Limited (as Covenantors) executed a deed of non-competition undertaking in favour of the Company on 24 May 2010 pursuant to which the Covenantors have undertaken to the Company inter alia, that (i) the Covenantors shall not, directly or indirectly, engage in, invest in, participate in, or attempt to participate in, whether on his/her/its own account or with each other or in conjunction with or on behalf of any person or company, any business which will or may compete with the RF-SIM business of the Group in Hong Kong and Macau; and (ii) in the event the Covenantors or their associates were given any business opportunities that is or may involve in direct or indirect competition with the business of the Group, the Covenantors shall assist the Company in obtaining such business opportunities in the terms being offered to the Covenantors, or more favourable terms being acceptable to the Company.

SHARE OPTION SCHEME

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

The maximum number of shares which may be issued upon exercise of all options granted and to be granted under the Share Option Scheme is 311,250,000 shares, representing 10% of the shares of the Company in issue as at 31 December 2018. The maximum number of shares issuable under share options granted to each eligible participant in the Share Option Scheme (including both exercised and outstanding options) within any 12-month period is limited to 1% of the shares of the Company in issue. Any grant or further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting. A grant of share options under the Share Option Scheme to a director, chief executive or substantial shareholder of the Company, or to any of their associates, is subject to approval in advance by the independent non-executive directors (excluding any independent non-executive director who is the grantee of the Option). In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, which would result in the shares issued and to be issued, upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding), to such person in the 12-month period up to and including the date of the grant in excess of 0.1% of the shares of the Company in issue and with an aggregate value (based on the closing price of the Company's shares at the date of grant) in excess of HK$5 million, are subject to shareholders' approval in advance in a general meeting.

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

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

The Company did not grant or cancel any options under the Share Option Scheme any time during the year, and as at 31 December 2018, there was no outstanding share option under the Share Option Scheme.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

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

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

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

CORPORATE GOVERNANCE

The corporate governance report adopted by the Company is set out in pages 32 to 48 of this report.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public throughout the year ended 31 December 2018 and as at the date of this report.

AUDITORS

KPMG will retire and being eligible, offer themselves for re-appointment as auditors of the Company at the forthcoming annual general meeting of the Company. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the said meeting.

On behalf of the Board

Li Kin Shing
Chairman

Hong Kong, 27 March 2019

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

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

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

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

BOARD OF DIRECTORS

The Company is governed by the Board, which is responsible for overseeing the overall strategy and development of the Company, as well as monitoring the internal control policies, succession planning, risk management, significant acquisitions, evaluating the financial performance of the Group and other significant operational and financial issues. The Board sets the overall strategies and directions for the Group with a view to developing its business and enhancing the shareholders value. The Board delegates to the Company's management the following duties: preparation of financial statements for the Board's review before their publication, formulation of business execution strategy, definition and enforcement of company policies, implementation of adequate risk management and internal control systems, and compliance with the relevant laws and regulations.

The Board currently comprises two executive Directors, three non-executive Directors and three independent non-executive Directors ("INEDs"). The composition of the Board is set out as follows:

Executive Directors
Mr. Pang Kwok Chau (彭國洲) (Chief Executive Officer)
Mr. Li Wang (李宏)

Non-executive Directors
Mr. Li Kin Shing (李健誠) (Chairman)
Mr. Wong Kin Wa (黃建華)
Mr. Hu Tiejun (胡鉄君)

Independent Non-executive Directors
Mr. Chen Xue Dao (陳學道)
Ms. Lee Man Yee, Maggie (李敏怡)
Mr. Liu Kejun (劉克鈞)

The term of appointment of the Directors are set out in page 25 of this report and the profile of the Directors are set out in pages 49 to 51 of this report.

Save that Mr. Li Kin Shing, the chairman and a non-executive Director is the brother of Mr. Li Wang, there are no relationships (including financial, business, family or other material or relevant relationships) among other members of the Board.

In compliance with Rules 5.05(1) and (2), and 5.05A of the GEM Listing Rules, the Company has appointed sufficient number of INEDs (representing at least one-third of the Board) with at least one of them having appropriate professional qualifications or accounting or related financial management expertise. The INEDs, together with the executive Director, ensure that the Board prepares its financial and other mandatory reports in strict compliance with the relevant standards and that appropriate systems are in place to protect the interest of the Company and its shareholders. The Company has received an annual confirmation of independence from each of the INEDs and considers that their independence is in compliance the GEM Listing Rules as at the date of this report.

The term of appointment of each non-executive director and independent non-executive director is for a period of three years, subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the articles of association of the Company.

In accordance with the articles of association of the Company, at each AGM one third of the Directors for the time being shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years. Such retiring Directors may, being eligible, offer themselves for re-election at the AGM. All Directors appointed by the Board to fill a casual vacancy shall hold office only until the first general meeting of shareholders after their appointment and be subject to re-election at such meeting and all Directors appointed by the Board as an addition to the existing Board shall hold office only until the next following AGM and shall then be eligible for re-election.

None of the Directors, including those to be re-elected at the forthcoming annual general meeting, has a service agreement which is not determinable by the Group within one year without the payment of compensation (other than statutory compensation).

Board meetings

The Board regularly meets in person or through other electronic means of communication at least four times every year to determine overall strategic direction and objectives and approve quarterly, interim and annual results, and other significant matters. Notice of regular Board meeting are duly given to all Directors, who are all given an opportunity to attend and include matters in the agenda for discussion. Apart from regular meetings, senior management from time to time provides Directors information on activities and development of the businesses of the Group. The company secretary records the proceedings of each Board meeting by keeping minutes, including the record of all decisions by the Board together with concerns raised and dissenting views expressed (if any). Draft of Board minutes are circulated to all Directors for comment and approval as soon as practicable after the meeting. All minutes are open for inspection at any reasonable time on request by any Director.

During the year ended 31 December 2018, the Board held six meetings. The attendances of individual at these Board meetings were as follows:

Name of Directors	Number of Meetings Attended
Mr. Li Kin Shing (李健誠) (Chairman and Non-Executive Director)	6/6
Mr. Pang Kwok Chau (彭國洲) (Executive Director and Chief Executive Officer)	6/6
Mr. Li Wang (李宏) (Executive Director)	6/6
Mr. Wong Kin Wa (黃建華) (Non-Executive Director)	6/6
Mr. Hu Tiejun (胡鉄君) (Non-Executive Director)	6/6
Mr. Chen Xue Dao (陳學道) (Independent Non-Executive Director)	6/6
Ms. Lee Man Yee, Maggie (李敏怡) (Independent Non-Executive Director)	6/6
Mr. Liu Kejun (劉克鈞) (Independent Non-Executive Director)	6/6

Each Director ensures that he/she can give sufficient time, commitments and attention to the affairs of the Company for the year.

The list of Directors and their role and function are published on the websites of the Stock Exchange and the Company.

Pursuant to the code provision A.1.8 of the CG Code, appropriate insurance cover for the Directors' and officers' liabilities in respect of legal actions against the Directors and officers of the Company arising out of corporate activities of the Group has been arranged by the Company.

DIRECTORS' TRAINING

As part of an ongoing process of directors' training, the Directors are updated with latest developments regarding the GEM Listing Rules and other applicable regulatory requirements from time to time to ensure compliance of the same by all Directors. All Directors are encouraged to attend external forum or training courses on relevant topics which may count towards continuous professional development training. Continuing briefings and professional development to Directors will be arranged whenever necessary.

Pursuant to the code provision A.6.5 of the CG Code, all directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the board remains informed and relevant. During the year and up to the date of this report, all Directors have participated in appropriate continuous professional development activities either by attending training courses or self-reading which are relevant to the Company's business or to the Directors' duties and responsibilities. The participation by individual director during the year ended 31 December 2018 is recorded in the table below.

Name of Directors	Attending (Note)
Executive Directors	
Mr. Pang Kwok Chau (彭國洲)	√
Mr. Li Wang (李宏)	√
Non-executive Directors	
Mr. Li Kin Shing (李健誠)	√
Mr. Wong Kin Wa (黃建華)	√
Mr. Hu Tiejun (胡鉄君)	√
Independent Non-executive Directors	
Ms. Lee Man Yee, Maggie (李敏怡)	√
Mr. Chen Xue Dao (陳學道)	√
Mr. Liu Kejun (劉克鈞)	√

Note:

- seminar(s)/course(s)/conference(s)/forums relevant to the business or directors' duties and responsibilities
- reading newspaper, journals, regulatory updates and relevant materials

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Pursuant to the code provision A.2.1 of the CG Code, the roles of the Chairman and Chief Executive Officer are segregated and are held by Mr. Li Kin Shing and Mr. Pang Kwok Chau respectively to ensure their respective independence, accountability and responsibility. The Chairman is responsible for the Group's strategic planning and the management of the operations of the Board, while the Chief Executive Officer takes the lead in the Group's operations and business development. There is a clear division of responsibilities between the Chairman and Chief Executive Officer which provides a balance of power and authority.

NON-COMPETITION UNDERTAKING

Each of the controlling shareholders and Directel Limited (collectively, the "Covenantors" and each a "Covenantor") entered into a deed of non-competition undertaking with the Company on 24 May 2010 pursuant to which each of the Covenantors has, jointly and severally, among other things, irrevocably and unconditionally undertaken with the Company that at any time during the Relevant Period (as defined below), each of the Covenantors shall:

(i) 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 business then engaged and from time to time engaged by the Group in any territory, saved and except for the RF-SIM business in any territories outside Hong Kong and Macau (the "Restricted Business");

(ii) take all possible actions (including any acts and omissions) to procure that his/her/its associates (other than members of the Group) 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, the Restricted Business;

(iii) 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;

(iv) take all possible actions (including any acts and omissions) to procure that his/her/its associates (other than members of the Group) shall not, directly or indirectly, engage in, invest in, participate in, or attempt to participate in, whether on 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

(v) not, and procure that his/her/its associates (other than members of the Group) not, for the purpose of competing with the business then engaged and from time to time engaged by the Group, to solicit or endeavor to cause any employee, former employee, or then existing employee of the Company and the members of the Group to work for the Covenantors or his/her/its associates (other than members of the Group); and shall not, without the Company's consent, make use of any information pertaining to the business of the Group which may have come to his/her/its knowledge in his/her/its capacity, as the case may be, as the controlling shareholders or his/her/its associates.

The above restrictions do not apply in the following cases:

(i) each of the Covenantors and his/her/its associates (excluding members of the Group) may hold securities of any company which conducts or is engaged in any Restricted Business provided that (a) such securities are listed on a recognised stock exchange (as defined in the SFO); and (b) the aggregate number of securities held by the Covenantors and their respective associates (excluding members of the Group) do not exceed 5% of the issued shares of such company;

(ii) each of the Covenantors and his/her/its associates (excluding members of the Group) may invest in the Group; and

(iii) the interests of Mr. Li Kin Shing and Ms. Kwok King Wa, jointly and/or severally, in Directel Limited. The Company agreed that each of Mr. Li Kin Shing and Ms. Kwok King Wa may continue to hold such interests in Directel Limited.

Under the deed of non-competition undertaking, the Covenantors further undertake to the Company the following:

(i) the Covenantors shall allow, and shall procure that the relevant associates (excluding members of the Group) to allow, the Directors and the Company's auditors to have access to such financial records of such Covenantors and/or their respective associates as may be necessary for the Company to determine whether the terms of the deed of non-competition have been complied with;

(ii) the Covenantors shall allow, and shall procure that their associates (excluding members of the Group) to allow, the independent non-executive Directors to review, at least on an annual basis, the Covenantors' compliance with the deed of non-competition undertaking and the warrant, preferred warrant or right of first refusal set up by the Covenantors in current or future competitive business activities;

(iii) the Covenantors shall provide all information necessary for the annual review by the independent non-executive Directors in making a fair and reasonable assessment of the Covenantors' compliance with the deed of non-competition undertaking including but not limited to, (i) a list of listed companies in which he/she/it and/or his/her/its associates are beneficially interested or legally holds 5% or more shareholding interest and the nature of business of each of such companies; and (ii) a list of private companies in which he/she/it and/or his/her/its associates beneficially and/or legally holds and the nature of business of each of such companies;

(iv) without prejudicing the generality of paragraph (i) above, the Covenantors shall provide to the Company with a declaration annually for inclusion by the Company in its annual report, in respect of their compliance with the terms of the deed of non-competition undertaking and disclose such information in the corporate governance report under the annual report of the Company (any such disclosure would be consistent with the principles of making voluntary disclosures in the corporate governance report);

(v) the Company shall disclose decisions on matters reviewed by the independent non-executive Directors relating to the compliance and enforcement of the deed of non-competition undertaking either through the annual report, or by way of announcements to the public;

(vi) in the event the Covenantors or their associates (excluding members of the Group) were given any business opportunity that is or may involve in direct or indirect competition with the business of the Group, the Covenantors shall assist, and shall procure their relevant associates to assist, the Company in obtaining such business opportunity directly or in the event that such business opportunity relates to the provision of any service(s) which is/are supplementary to the core business of such Covenantors or the relevant associates, by ways of subcontracting or outsourcing in the terms being offered to the Covenantors or the relevant associates, or more favourable terms being acceptable to the Company if the Covenantors give up the business opportunity, it is deemed to give up such business opportunity and the Covenantors cannot involve in the business derived from such business activities; and

(vii) each of the Covenantors agrees to indemnify the Company from and against any and all losses, damages and costs which loss, damage or cost is resulted from any failure to comply with the terms of the deed of non-competition by the Covenantors or any of their respective associates.

For the above purpose, the "Relevant Period" means the period commencing from the date of the deed of non-competition undertaking and shall expire on the earlier of (i) the date on which the Covenantors (together with their respective associates), whether directly or indirectly, cease to be interested in 10% or more of the issued share capital of the Company; and (ii) the date on which the Shares cease to be listed on the Stock Exchange.

The independent non-executive Directors will review, at least on an annual basis, the compliance with the deed of non-competition undertaking by the Covenantors.

BOARD COMMITTEES

The Company has established three Board committees (the "Board Committees"), namely the Audit Committee, the Nomination Committee and the Remuneration Committee to assist the Board in discharging its duties and responsibilities. The Board Committees are provided with sufficient resources to discharge their duties and are able to obtain outside independent professional advice in connection with their duties at the Company's expenses.

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 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.

During the year under review, the audit committee held four meetings. The attendance record of the meetings is as follows:

Name of Directors	Number of Meetings Attended
Ms. Lee Man Yee, Maggie (李敏怡) (Independent Non-Executive Director)	4/4
Mr. Chen Xue Dao (陳學道) (Independent Non-Executive Director)	4/4
Mr. Liu Kejun (劉克鈞) (Independent Non-Executive Director)	4/4

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 is also responsible for reviewing and supervising the financial reporting process and internal control of the Group.

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

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

Auditors' Remuneration

For the year ended 31 December 2018, the remuneration paid/payable to the external auditors in respect of audit services amounted to approximately HK$1,255,000 (2017 approximately HK$1,185,000), and non-audit services assignment amounted to approximately HK$15,000 (2017: approximately HK$116,000) which includes remuneration paid/payable to KPMG for the provision of tax compliance and advisory services.

NOMINATION COMMITTEE

The Company has established a nomination committee on 20 May 2010 with written terms of reference. The nomination committee comprises one executive Director namely Mr. Pang Kwok Chau and two independent non-executive Directors namely Ms. Lee Man Yee, Maggie and Mr. Chen Xue Dao. Ms. Lee Man Yee, Maggie has been appointed as the chairman of the nomination committee.

The nomination committee follows a formal, fair and transparent procedure for the appointment of new directors to the Board. The nomination committee reviews the structure, size and composition of the Board, identifies suitably qualified candidates to become Board members and select or make recommendations to the Board on the selection of candidates nominated for directorships and succession planning for directors, and accesses the independence of independent non-executive directors. During this process, the nomination committee considers candidates based on merit and with due regard to the benefits of diversity on the Board. The nomination committee also took into consideration the criteria such as skills, experience, professional knowledge and the Company's needs when considering new director appointments. The terms of reference of the nomination committee have been uploaded to the website of the Stock Exchange and the Company.

The Directors held a meeting on 27 March 2019 for the nominations of Directors. The attendance record of the meeting is as follows:

Name of Directors	Number of Meetings Attended
Mr. Pang Kwok Chau (彭國洲) (Executive Director and Chief Executive Officer)	1/1
Mr. Chen Xue Dao (陳學道) (Independent Non-Executive Director)	1/1
Ms. Lee Man Yee, Maggie (李敏怡) (Independent Non-Executive Director)	1/1

In the latest meeting, the nomination committee members considered and passed resolutions recommending that all the Directors shall be retained. In addition, resolutions were passed pursuant to the articles of association of the Company, and subject to the proposed arrangement being passed at the forthcoming annual general meeting, that Mr. Li Kin Shing, Mr. Pang Kwok Chau and Mr. Chen Xue Dao will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

Furthermore, the nomination committee has reviewed the annual confirmation of independence submitted by the independent non-executive Directors, assessed their independence and reviewed the structure, size and diversity (including without limitation, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service) of the Board.

Also, the nomination committee has reviewed that Mr. Chen Xue Dao has served the Company as an independent non-executive Director for more than 9 years. The Board considers that he continues to be independent and is able to satisfy the GEM Listing Rules' requirements for independence as an independent non-executive Director for the following reasons:

(a) Mr. Chen has confirmed his independence to the Stock Exchange in respect of each of the factors set out in Rule 5.09 of the GEM Listing Rules;

(b) Mr. Chen has demonstrated continued independent judgement which contributes positively to the development of the Company's strategy and policies;

(c) since the listing of the Company in 2010, neither Mr. Chen nor any of his immediate family members, has had and have any executive or management role or functions in the Company and its subsidiaries, nor has he or any of his immediate family members been employed by any member of the Group;

(d) neither Mr. Chen nor any of his immediate family members, has received any remuneration from the Company apart from Director's fees and does not participate in the Group's staff incentive plan or pension scheme;

(e) neither Mr. Chen nor any of his immediate family members, has received any remuneration from a third party in relation to his directorship;

(f) neither Mr. Chen nor any of his immediate family members, has any financial, business, family or other material relationships with the Group, its management, advisers and business;

(g) neither Mr. Chen nor any of his immediate family members, holds any cross directorships or other significant links with other directors through involvement with other companies;

(h) neither Mr. Chen nor any of his immediate family members, holds any issued Share capital of the Company;

(i) neither Mr. Chen nor any of his immediate family members, serves as a director or employee of a significant competitor of the Group; and

(j) after due and careful consideration, the Nomination Committee of the Board considers Mr. Chen suitably independent to carry out his duties as an independent non-executive Director.

The Board would consider to enhance its diversity with different expertise when appointing or re-electing an independent non-executive Director. Mr. Chen possess extensive experience in engineering and telecommunications expertise. The Board considers Mr. Chen is independent and can bring further contributions to the Board and its diversity with his experience and expertise.

Board Diversity Policy

The Board had adopted a board diversity policy for maintaining a balance of skills, experience and diversity of perspectives on the Board, which are appropriate to the requirements of the Company's business.

The following is a summary of the board diversity policy:

- reviewing and assessing the composition of the Board to maintain an appropriate range and balance of talents, skills, experience and background on the Board;
- recommending candidates for appointment to the Board by considering merit against objective criteria and with due regard for the benefits of diversity on the Board; and
- conducting the annual review of the effectiveness of the Board by considering the balance of talents, skills, experience, independence and knowledge of the Board and the diversity of the Board.

The achievement of these criteria will be measurable on an objective review, which can enhance the diversity of background and experience of individual directors and the effectiveness of the Board in promoting shareholders' interests.

Nomination Policy

The Group adopted a nomination policy (the "Nomination Policy") on 31 December 2018. A summary of this policy is disclosed as below:

1. *Objective*

    1.1 The objective of this Nomination Policy is to ensure the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business.

    1.2 The ultimate responsibility for selection and appointment of directors of the Company ("Director(s)") rests with the entire Board.

    1.3 The nomination committee of the Company ("Nomination Committee") shall nominate suitable candidates to the Board for it to consider and make recommendations to shareholders for election as Directors at general meetings or appoint as Directors to fill casual vacancies or as an addition to the existing Board.

    1.4 The Nomination Committee may, as it considers appropriate, nominate a number of candidates more than the number of Directors to be appointed or re-appointed at a general meeting, or the number of casual vacancies to be filled.

2. *Selection Criteria*

2.1 The factors listed below would be used as reference by the Nomination Committee in assessing the suitability of a proposed candidate: -

- Reputation for integrity
- Accomplishment and experience
- Qualifications
- Compliance with legal and regulatory requirements
- Commitment in respect of available time and relevant interest
- Independence
- Diversity in all its aspects, including but not limited to gender, age (18 years or above), cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service

These factors are for reference only, and not meant to be exhaustive and decisive. The Nomination Committee has the discretion to nominate any person, as it considers appropriate.

2.2 Retiring Directors are eligible for nomination by the Board to stand for re-election at a general meeting.

2.3 Proposed candidates will be asked to submit the necessary personal information in a prescribed form, together with their written consent to be appointed as a Director and to the public disclosure of their personal data on any documents or the relevant websites for the purpose of or in relation to their standing for election as a Director.

2.4 The Nomination Committee may request candidates to provide additional information and documents, if considered necessary.

3. *Nomination Procedures*

3.1 The secretary of the Nomination Committee shall call a meeting of the Nomination Committee, and invite nominations of candidates from Board members if any, for consideration by the Nomination Committee prior to its meeting. The Nomination Committee may also put forward candidates who are not nominated by Board members.

3.2 For filling a casual vacancy, the Nomination Committee shall make recommendations for the Board's consideration and approval. For proposing candidates to stand for election at a general meeting, the Nomination Committee shall make nominations to the Board for its consideration and recommendation.

3.3 Pursuant to the articles of association of the Company, a member (duly qualified to attend and vote at the meeting, and other than the person to be proposed) who wish to recommend a candidate for election to the office of Director at any general meeting must submit a signed written notice, for which such notice is given of his/her intention to propose such person for election and also a notice signed by the person to be proposed of his/her willingness to be elected shall have been lodged at the head office or at the registration office of the Company, provided that the minimum length of the period, during which such notice(s) are given, shall be at least seven (7) days and that (if the notices are submitted after the despatch of the notice of the general meeting appointed for such election) the period for lodgment of such notice(s) shall commence on the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting.

3.4 A candidate is allowed to withdraw his/her candidature at any time before the general meeting by serving a notice in writing to the company secretary of the Company.

3.5 The Board shall have the final decision on all matters relating to its recommendation of candidates to stand for election at any general meeting.

4. *Review*

The Nomination Committee shall review this Nomination Policy to ensure it remains relevant to the Company's needs and reflects both current regulatory requirements and good corporate governance practice at least annually and shall make recommendations, should it thinks appropriate, of any amendments to this Nomination Policy to the Board for its consideration.

Dividend Policy

The Group adopted a dividend policy (the "Dividend Policy") on 31 December 2018. A summary of this policy is disclosed as below:

The articles of association of the Company provide that the Board may from time to time pay to the shareholders such interim dividends as appear to the Board to be justified by the financial conditions and the profits of the Company. The Board may also pay half-yearly or at other suitable intervals any dividend which may be payable at a fixed rate if the Board is of the opinion that the financial conditions and the profits of the Company justify the payment. The Board may in addition from time to time declare any pay special dividends. No dividend shall be declared or paid or shall be made otherwise than in accordance with the Companies Law of the Cayman Islands.

Declaration of dividend is subject to the discretion of the Board, taking into consideration of, among others, the following factors:

(i) availability of distributable profits;

(ii) earnings;

(iii) financial conditions;

(iv) capital requirements;

(v) cash requirements;

(vi) development plans; and

(vii) other factors as deemed relevant at such time by the Board.

REMUNERATION COMMITTEE

The Company has established a remuneration committee with written terms of reference in compliance with the CG Code as set out in Appendix 15 of the GEM Listing Rules. The remuneration committee comprises one non-executive Director, namely, Mr. Li Kin Shing and two independent non-executive Directors, namely Mr. Chen Xue Dao and Ms. Lee Man Yee, Maggie. Ms. Lee Man Yee, Maggie has been appointed as the chairman of the remuneration committee. The primary duties of the remuneration committee are, amongst other things, to review and determine the terms of remuneration packages, bonuses and other compensation payable to the Directors and senior management and to make recommendation to the Board on the Group's policy and structure for all remuneration of the Directors and senior management.

Remuneration committee held a meeting on 27 March 2019. The attendance record of the meeting is as follows:

Name of Directors	Number of Meetings Attended
Mr. Li Kin Shing (李健誠) (Non-Executive Director)	1/1
Ms. Lee Man Yee, Maggie (李敏怡) (Independent Non-Executive Director)	1/1
Mr. Chen Xue Dao (陳學道) (Independent Non-Executive Director)	1/1

Remuneration committee members have considered, reviewed and made recommendations to the Board on the remuneration policy and structure of the Company and the terms of service contracts of all Directors and senior management. The remuneration committee members are of the opinion that the provisions of the service contracts of all Directors and senior management are fair.

Details of directors' emoluments and five employees with highest emolument are set out in note 8 and note 9 to the financial statements.

Pursuant to the code provision B.1.5 of the CG Code, the remuneration of the members of the senior management by band for the year ended 31 December 2018 is set out below:

In the band of	Number of individuals
HK$Nil – HK$1,000,000	2

CORPORATE GOVERNANCE FUNCTIONS

The Board has delegated the corporate governance functions to the Audit Committee with the following duties:

- to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;
- to review and monitor the training and continuous professional development of Directors;
- to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors;
- to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report; and
- to report to the Board on the corporate governance matters.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss.

In respect of internal control system, procedures have been designed for safeguarding assets against unauthorised use or disposition, ensuring the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensuring compliance of applicable laws, rules and regulations.

The Audit Committee (on behalf of the Board) oversees management in the design, implementation and monitoring of the risk management and internal control systems, and the management has confirmed with the Audit Committee (and the Board) on the effectiveness of these systems for the year ended 31 December 2018. Besides, the Board has also conducted annual review of its risk management and internal control systems and has convened meeting periodically to discuss the financial, operational and risk management control. The Directors are of the opinion that the risk management and internal control systems implemented by the Group at present have been valid and adequate.

COMPANY SECRETARY

Mr. Li Chi Chung was appointed as the company secretary of the Company since 7 June 2016. The biographical details of Mr. Li Chi Chung is set out in the section of Profile of Directors and Senior Management on page 51 of this report. Up to the date of this report, Mr. Li Chi Chung has undertaken not less than 15 hours of relevant professional training to update his skill and knowledge.

INVESTOR RELATIONS

The Board recognises the importance of good communications with all shareholders. The Company believes that maintaining a high level of transparency is a key to enhancing investor relations. It is committed to a policy of open and timely disclosure of corporate information to its shareholders and investors.

The Company updates its shareholders on its latest business developments and financial performance through its annual, interim and quarterly report and notices, announcements and circulars. The corporate website of the Company (www.directel.hk) provides a communication platform to the public and the shareholders.

The attendance record of members of the Board to the annual general meeting held on 11 May 2018 is as follows:

Name of Directors	Attendance/Number of meetings held
Mr. Li Kin Shing (李健誠) (Chairman and Non-Executive Director)	1/1
Mr. Pang Kwok Chau (彭國洲) (Executive Director and Chief Executive Officer)	1/1
Mr. Li Wang (李宏) (Executive Director)	1/1
Mr. Wong Kin Wa (黃建華) (Non-Executive Director)	1/1
Mr. Hu Tiejun (胡鉄君) (Non-Executive Director)	1/1
Mr. Chen Xue Dao (陳學道) (Independent Non-Executive Director)	1/1
Ms. Lee Man Yee, Maggie (李敏怡) (Independent Non-Executive Director)	1/1
Mr. Liu Kejun (劉克鈞) (Independent Non-Executive Director)	1/1

During the year ended 31 December 2018, there had been no significant change in the Company's constitutional documents.

SHAREHOLDERS' RIGHTS

Convening an extraordinary general meeting

Pursuant to article 64 of the articles of association of the Company, extraordinary general meetings of the Company (the "EGM(s)") shall also be convened on the requisition of one or more shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the Company Secretary for the purpose of requiring an EGM to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within twenty one days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s), as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Putting enquiries to the Board

Shareholders may at any time make enquiries to the Board or make a request for the Company's information to the extent such information is publicly available. Any such questions shall be first directed to the Company Secretary at the Company's head office and principal place of business in Hong Kong at Office Nos. 1, 2, 14 and 15, 37th Floor, Hong Kong Plaza, No. 188 Connaught Road West.

Putting forward proposals at shareholders' meeting

The procedures for shareholders to put forward proposals at general meeting include a written notice of proposals being submitted by shareholders, addressed to the Company Secretary of the Company at our head office. Specific enquiries by shareholders requiring the Board's attention can be sent in writing to the Company Secretary at the Company's head office. Other general enquiries can be directed to the Company through the Company's website.

FINANCIAL REPORTING

The Directors are responsible for the preparation of the financial statements for each financial year, which give a true and fair view of the financial position and operating results of the Group. The auditors are responsible to form an independent opinion based on the audit, on the financial statements prepared by the Directors and report the opinion solely to the shareholders of the Company.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

CHAIRMAN AND NON-EXECUTIVE DIRECTOR

Mr. Li Kin Shing (李健誠), aged 61, is the chairman and a non-executive Director. Mr. Li has over 29 years of experience in the telecommunications industry. He has been an executive director and the chairman of Global Link Communications Holdings Limited ("Global Link"), a company listed on GEM, since 26 May 2016. Mr. Li was the chairman, an executive director and chief executive officer of International Elite Ltd. ("IEL") till 27 December 2018, a company listed on the Main Board and controlled by Mr. Li and his spouse, Ms. Kwok King Wa till 28 November 2018. Mr. Li was the chief executive officer and president of ChinaCast Education Corporation, a limited liability company incorporated in the State of Delaware, US, whose shares are displayed on the Over the Counter Bulletin Board when he resigned from these positions on 2 February 2007 following the acquisition of ChinaCast Education Corporation by an Independent Third Party, in December 2006. Mr. Li has confirmed that there were no disagreements between Mr. Li and ChinaCast Education Corporation on any matter relating to the ChinaCast Education Corporation's operations, policies or practices that resulted in his resignation. ChinaCast Education Corporation is a for-profit, post-secondary education and e-learning services provider in China. Mr. Li is the brother of Mr. Li Wang, the executive Director of the Company. He was appointed as the chairman and non-executive Director on 31 August 2009. Mr. Li is a director of New Everich Holdings Limited, which is interested in 2,088,750,000 shares of the Company representing 67.11% of the issued share capital of the Company. Mr. Li is also interested in 101,250,000 shares of the Company representing 3.25% of the issued share capital of the Company.

EXECUTIVE DIRECTORS

Mr. Pang Kwok Chau (彭國洲), aged 58, is the chief executive officer and an executive Director. He is responsible for the overall marketing strategic planning and direction of the Group. Mr. Pang obtained a craft certificate in radio servicing (無線電修理行業技能證書) after the completion of a two-year part-time evening course from a Technical Institute under the Education Department, Hong Kong in July 1979 immediately following his graduation from secondary school and has over 24 years of experience in the telecommunications industry, especially in international roaming operation. Since joining the Group, Mr. Pang has actively involved in the Group's business of "One Card Multiple Number" service in Hong Kong and the PRC. He has also involved in the Group's overall corporate governance since 2007. Before joining the Group as the general manager in 2001, Mr. Pang served as the manager of China-Hong Kong Telelink Company Limited since 1995. He was appointed as an executive Director on 31 August 2009.

Mr. Li Wang (李宏), aged 48, is the executive Director. He is responsible for the overall management, corporate planning and business development of the Group. Mr. Li has over 15 years of experience in telecommunications industry. Mr. Li worked as a manager of a PRC telecommunications company namely, 廣州天龍信息工程公司 (Guangzhou Talent Information Engineering Company Limited) from 1993 to 1997 and was responsible for the management and promotion of pager and mobile telecommunications services business. Mr. Li then worked as a vice-general manager of 廣東直通電訊股份有限公司 (Guangdong Zhitong Telecommunications Limited) from 1997 to 1999, and gained experience in marketing of telecommunication service business. He also worked as a director of Directel Communications Limited from 1995 to 2000, a director of Target Link Enterprises Limited, a private company engaged in investment of software, from 1997 to 2004 and a director and a legal representative of 廣東直通投資有限公司 (Guangdong Zhitong Investment Ltd.) from 1992 to 2009. He is the brother of Mr. Li Kin Shing, the chairman and non-executive Director of the Company. He was appointed as an executive Director on 31 August 2009.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTOR

Mr. Wong Kin Wa (黃建華), aged 51, is a non-executive Director. Mr. Wong obtained a diploma in auditing from Guangzhou Radio & TV University in 1988. Mr. Wong has over 18 years of finance and marketing experience, in particular in the telecommunications industry in Hong Kong and Macau. He is an executive director of Global Link since 26 May 2016. Mr. Wong had been an executive director and chief financial officer of IEL till 27 December 2018, a company listed on the Main Board and controlled by Mr. Li Kin Shing and his spouse, Ms. Kwok King Wa till 28 November 2018. Before joining IEL in 2000, he was the manager of China-Hong Kong Telelink Co., Ltd. from 1997 to 1999. Mr. Wong joined Denway Motors Limited (駿威汽車有限公司) (previously known as Denway Investment Limited), a company listed on the Main Board, as the vice general manager of the Finance Department from 1993 to 1997. He was appointed as a non-executive Director on 31 August 2009.

Mr. Hu Tiejun (胡鉄君), aged 68, was appointed as a non-executive Director on 7 June 2016. He holds a Bachelor Degree in Physics from the Zhongshan (Sun Yat-sen) University (中山大學) and has over 40 years' experience in telecommunications, computer systems, data warehouse and information network. Mr. Hu is now a marketing director of WIMAX Forum, which is an industryled, not-for-profit organization, South East Asia district and a vice-president and general secretary of Worldwide Ethnic Chinese Wireless & Radio Association. Mr. Hu had been an executive Director of Global Link till May 2016.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chen Xue Dao (陳學道), aged 76, was appointed as an independent non-executive Director on 20 May 2010. Mr. Chen is currently an honorary member of the China Institute of Communications (中國通信學會). He was the honorary chairman of the Guangdong Institute of Communications (廣東省通信學會) and honorary chairman of Guangdong Communication Industry Association (廣東省通信行業協會) till 2017. Mr. Chen holds the qualification of a senior engineer at Professor grade and he has been granted the special subsidy by the State Council of the PRC for his prominent contributions to engineering science since 1992. From August 2010 to August 2014, Mr. Chen was an independent director of Eastone Century Technology Holding Co., Ltd. (Guangdong) (廣東宜通世紀科技股份有限公司) (stock code: 300310), a company listed in the Shenzhen Stock Exchange. Mr. Chen has been an independent director of GCI Science & Technology Co., Ltd. (廣州傑賽科技股份有限公司), a company listed in the Shenzhen Stock Exchange with stock code 002544 till May 2018. Mr. Chen is currently an independent non-executive Director of IEL.

Ms. Lee Man Yee, Maggie (李敏怡), aged 48, was appointed as an independent non-executive Director on 20 May 2010. Ms. Lee has over 18 years of accounting, finance, taxation, audit and corporate governance experience and is a member of Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Ms. Lee obtained a diploma in business administration in the PRC from the Hong Kong Productivity Council.

Mr. Liu Kejun (劉克鈞), aged 64, was appointed as an independent non-executive Director on 7 June 2016. He has extensive experience and knowledge in telecommunication. He graduated from Beijing College of Posts and Telecommunications (later renamed as Beijing University of Posts and telecommunications) in 1978 and Norwegian School of Management BI in 2001. Mr. Liu was previously the head of Research Institute of Telecommunications, Science and Technology of Guangdong* (廣東省電信科學技術研究院) and served in the National Engineering Laboratory of China Unicom* (中國聯通國家工程實驗室). Mr. Liu was approved as a senior engineer (professor grade) in telecommunication by Ministry of Industry and Information Technology of the PRC in October 2004. He has served as a part-time professor of the School of Electronic and Computer Engineering of the Shenzhen Graduate School of Peking University from 2013 to 2016. Mr. Liu had been an independent non-executive Director of Global Link till May 2016.

SENIOR MANAGEMENT

Mr. Lo Ping Fai, aged 53, joined the Group in 2008 and has been the manager of the information technology and network department of the Group since September 2017. He is responsible for the overall management and to provide advice on various information technology and network technical issues to the Group. Mr. Lo has more than 10 years of experience in telecommunications industry. Prior to joining the Group, Mr. Lo has worked for several companies for over 11 years as system developer. Mr. Lo holds a bachelor degree of arts from The University of Winnipeg.

Mr. Li Chi Chung (李智聰), aged 45, joined the Group in 2011 and is the financial manager of the Group. He was further appointed as the company secretary of the Company on 7 June 2016. He is responsible for the financial and accounting issues of the Group. Mr. Li has over 17 years of experience in accounting, finance, taxation and corporate governance and is an associate member of the Hong Kong Institute of Certified Public Accountant. Mr. Li holds a bachelor degree of arts in financial management and accounting from the Heriot-Watt University.

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Independent auditor's report to the shareholders of Directel Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Directel Holdings Limited ("the Company") and its subsidiaries ("the Group") set out on pages 60 to 131, which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Independent auditor's report to the shareholders of Directel Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

Impairment assessment of intangible assets including goodwill and valuation of contingent consideration payables arising from business acquisitions

Refer to notes 13, 14 and 15 to the consolidated financial statements and the accounting policies in notes 2(e) and 2(h).

The Key Audit Matter

The Group entered into two major business acquisitions in which intangible assets, goodwill and contingent consideration payables arose.

Intangible assets and goodwill

Included in the consolidated statement of financial position are intangible assets of HK$4,869,000 and goodwill of HK$34,003,000 as of 31 December 2018, which arose from past acquisitions.

The Group performs impairment assessments of intangible assets that have an indefinite useful life and goodwill at least annually. For intangible assets with finite useful lives, the Group reviews these for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable, and at least annually, reviews whether there is any change in their expected useful lives.

For the purpose of performing impairment assessments, all intangible assets and goodwill have been allocated to groups of cash-generating units ("CGUs"). The recoverable amount of the underlying CGUs is supported by value-in-use calculations which are based on future discounted cash flows. Management concluded that the intangible assets and goodwill were not impaired as of 31 December 2018.

We focused on this area as the assessments made by management involved significant estimates and judgements, including sales growth rates, gross profit margin, net profit margin and perpetual growth rates used to estimate future cash flows and discount rates applied to these forecasted future cash flows of the underlying CGUs. These estimates and judgements may be affected by unexpected changes in future market or economic conditions or discount rates applied.

How the matter was addressed in our audit

Our audit procedures to assess the impairment of intangible assets and goodwill and measurement of contingent consideration payables including the following:

Intangible assets and goodwill

- understanding, evaluating and validating management's key controls over the impairment assessment process, comparing the methodology used (value-in-use calculations based on future discounted cash flows) by the Group to market practice;
- obtaining management's future cash flow forecasts, testing the mathematical accuracy of the underlying value-in-use calculations and agreeing them to the approved five-year financial budget and future forecasts; comparing historical actual results to those budgeted to assess the quality of management's forecasts;
- assessing the reasonableness of key assumptions used in the calculations, comprising sales growth rates, gross profit margin, net profit margin, perpetual growth rates and discount rates. When assessing these key assumptions, discussing them with management to understand and evaluate management's basis for determining the assumptions, and comparing them to external industry outlook reports and economic growth forecasts from a number of sources; engaging our valuation experts to assist us in assessing the reasonableness of the discount rates used by management by comparing the discount rates used to entities with similar risk profiles and market information;

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Independent auditor's report to the shareholders of Directel Holdings Limited
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Impairment assessment of intangible assets including goodwill and valuation of contingent consideration payables arising from business acquisitions

Refer to notes 13, 14 and 15 to the consolidated financial statements and the accounting policies in notes 2(e) and 2(h).

The Key Audit Matter	How the matter was addressed in our audit
	• obtaining and testing management's sensitivity analysis around the key assumptions, to ascertain that selected adverse changes to key assumptions, both individually and in aggregate, would not cause the carrying amount of intangible assets including goodwill to exceed the recoverable amount; • evaluating management's assessment on whether any events or change in circumstances indicate there may be a change in the expected useful lives of intangible assets.
Contingent consideration payables As at 31 December 2018, the Group also had contingent consideration payables of HK$33,433,000 which is payable in 2020. The Group recognised consideration for acquisition at fair value (estimated at the date of acquisition) for each contingent consideration arrangement. These fair value measurements require management's estimation and significant judgement on post-acquisition performance of the acquired businesses and discount rates used. Contingent consideration payables are remeasured at fair value at each reporting date, and may be affected by changes in the estimation of post-acquisition performance of the acquired businesses. Any resulting gain or loss is recognised in the consolidated statement of profit or loss and other comprehensive income. For the year ended 31 December 2018, a loss of HK$2,991,000 was recognised. We focused on this area as the assessment made by management involved significant estimates and judgements in relation to the post-acquisition performance of individual businesses and discount rates applied, which may be affected by unexpected changes in future market or economic conditions or significant events or circumstances related to the acquired businesses.	*Contingent consideration payables* • understanding, evaluating and validating management's key controls over the contingent consideration payables assessment process; • checking the contingent consideration payables calculation prepared by management against the formula stated in the sale and purchase agreement for each of the acquired businesses; • evaluating performance forecasts used in the contingent consideration payables calculation, testing the mathematical accuracy of the underlying calculation of consideration payables and agreeing them to the financial projection prepared by management for the specific financial period stipulated by the sale and purchase agreement; analysing the key assumptions adopted by management with reference to their business plan and historical actual results to assess the quality of management's financial projection; • comparing the discount rates used by management against market information and internal data; • assessing the events and circumstances emerging since the last assessment which triggered the remeasurement; comparing the performance forecasts to the business plan prepared by management and obtaining evidence of those events or circumstances to support the remeasurement.

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Independent auditor's report to the shareholders of Directel Holdings Limited
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Revenue recognition

Refer to notes 3 and 4 to the consolidated financial statements and the accounting policies on notes 2(l) and 2(s).

The Key Audit Matter	How the matter was addressed in our audit
The Group is principally engaged in the provision of telecommunications services and distribution business. *Provision of telecommunications services* Revenue from the provision of telecommunications services is principally generated from the trading of airtime sourced from mobile network operators which is subsequently sold in various forms, including prepaid SIM cards and recharge vouchers, through several different channels. Revenue comprises a high volume of individually low value transactions. The transactions and the corresponding call detail records ("CDR") are captured by information technology systems (the "Systems") maintained by China Elite Information Technology Ltd, a related party of the Group. Cash received on the sale of prepaid SIM cards and recharge vouchers is initially deferred. Revenue is recognised when telecommunications services are provided to end customers, which is the point of time when airtime is utilised by end customers, and the respective nominal amounts are deducted from the prepaid SIM cards or recharge vouchers. Prepaid SIM cards and recharge vouchers are non-refundable and customers may not utilise all of their contracted rights within the service period. Such unutilised treatments are referred to as "breakage". An expected amount of breakage is estimated by management based on historical experience and is recognised as revenue in proportion to the pattern of telecommunications services provided to customers. Any residual contract liabilities at the end of the service period is fully recognised in the consolidated statement of profit or loss and other comprehensive income. We identified recognition of revenue from provision of telecommunications services as a key audit matter because (1) revenue is one of the key performance indicators of the Group and, therefore, there is a potential risk that revenue could be recorded in the incorrect period or subject to manipulation to meet financial targets or expectations; and (2) the estimation of the utilisation pattern of telecommunications services is inherently subjective and requires significant judgement and estimation which increases the risk of error or potential management bias.	Our audit procedures to assess the recognition of revenue including the following: *Provision of telecommunications services* • assessing the design, implementation and operating effectiveness of key internal controls over the receipt of cash from the sales of prepaid SIM cards and recharge vouchers; • assessing the design, implementation and operating effectiveness of key internal controls over the reconciliation from the CDR captured by the Systems to the monthly airtime usage record provided by external airtime suppliers; • sending confirmations to airtime suppliers to confirm the airtime usage during the year, on a sample basis. For unreturned confirmations, comparing airtime usage recorded by the Group with monthly statements provided by airtime suppliers; • performing analytical procedures to develop an expectation of revenue based on airtime usage records and comparing our expectation with the revenue recorded by the Group; • performing a recalculation of the contract liabilities as at the reporting date by selecting a sample of activated telephone numbers as at that date and comparing the airtime usage with relevant underlying documentation, including the CDR captured in the Systems and airtime usage confirmed by the airtime suppliers, to assess whether the related revenue has been appropriately recognised or deferred; • analysing the Group's historical data for utilisation of prepaid SIM cards and recharge vouchers and the revenue recognised for telecommunications services provided to determine an expectation of the breakage amount for the year; comparing our expectation with the actual figures recorded by the Group and investigating unusual items or trends and assessing whether or not there was an indication of management bias;

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Independent auditor's report to the shareholders of Directel Holdings Limited
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Revenue recognition

Refer to notes 3 and 4 to the consolidated financial statements and the accounting policies on notes 2(l) and 2(s).

The Key Audit Matter	How the matter was addressed in our audit
	• assessing, on a sample basis, whether residual contract liabilities has been recognised in the consolidated statement of profit or loss and other comprehensive income at the end of the relevant service period; • inspecting manual journal entries relating to revenue and contract liabilities raised during the year and the corresponding underlying documentation for those journal entries which were considered to be significant or met certain specified risk-based criteria.
Distribution business	*Distribution business*
Revenue from distribution business is principally generated from the resale of mobile phones and electronic products, mobile and data top-up e-vouchers, and is recognised when control over inventories is transferred to customers. We identified recognition of revenue from the distribution business as a key audit matter because revenue is one of the key performance indicators of the Group and, therefore, there is a potential risk that revenue could be recorded in the incorrect period or subject to manipulation to meet financial targets or expectations.	• assessing the design, implementation and operating effectiveness of key internal controls over the recognition, measurement and presentation of sales revenue; • inspecting sale and purchase agreements, on a sample basis, to understand the terms of transactions and assess whether management recognised the related revenue in accordance with the Group's accounting policies, with reference to the requirements of the prevailing accounting standards; • inspecting, on a sample basis, revenue transactions recorded during the year with the underlying sale and purchase agreements, delivery documents with the customers' acknowledgement of goods acceptance, invoices and bank-in slips for settled balances and assessing whether the related revenue has been recognised in accordance with the Group's revenue recognition policies;

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Independent auditor's report to the shareholders of Directel Holdings Limited
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Revenue recognition

Refer to notes 3 and 4 to the consolidated financial statements and the accounting policies on notes 2(l) and 2(s).

The Key Audit Matter	How the matter was addressed in our audit
	• sending confirmations to major customers to confirm the revenue during the year, on a sample basis. For unreturned confirmations, comparing revenue recorded by the Group with the underlying sale and purchase agreements, delivery documents with the customers' acknowledgement of goods acceptance and invoices; • comparing, on a sample basis, specific revenue transactions recorded before and after the financial year end with the underlying sale and purchase agreements, delivery documents with the customers' acknowledgement of goods acceptance and invoices to determine whether the related revenue has been recognised in the appropriate financial year; • inspecting manual journal entries relating to revenue raised during the year and the corresponding underlying documentation for those journal entries which were considered to be significant or met certain specified risk-based criteria.

Information other than the consolidated financial statements and auditor's report thereon

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independent auditor's report to the shareholders of Directel Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

Responsibilities of the directors for the consolidated financial statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

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Independent auditor's report to the shareholders of Directel Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Guen Kin Shing.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

27 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Note	2018 *HK$'000*	2017 *(Note (i))* *HK$'000*
Revenue	3, 4	256,279	59,096
Cost of sales		(235,009)	(54,208)
Gross profit		21,270	4,888
Other income	5(a)	374	984
Other net (loss)/income	5(b)	(4,285)	944
Administrative and other operating expenses		(19,294)	(13,775)
Loss before taxation	6	(1,935)	(6,959)
Income tax credit	7(a)	157	737
Loss for the year attributable to equity shareholders of the Company		(1,778)	(6,222)
Other comprehensive income for the year			
Item that 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)		633	—
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale securities: net movement in the fair value reserve (recycling) *(Note (ii))*		–	89
Exchange differences on translation of financial statements of overseas subsidiaries		(1,418)	135
Total comprehensive income for the year attributable to equity shareholders of the Company		(2,563)	(5,998)
Loss per share	10		
– Basic		(0.06) cents	(0.20) cents
– Diluted		(0.06) cents	(0.20) cents

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

Notes:

(i) The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2(c).

(ii) This amount arose under the accounting policies applicable prior to 1 January 2018. As part of the opening balance adjustments as at 1 January 2018 the balance of this reserve has been reclassified to fair value reserve (non-recycling) and will not be reclassified to profit or loss in any future periods. See note 2(c)(i).

The notes on pages 64 to 131 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Note	2018 HK$'000	2017 *(Note)* HK$'000
Non-current assets			
Property, plant and equipment	11	11,739	13,283
Goodwill	15	34,003	34,003
Intangible assets	14	4,869	7,314
Other non-current financial assets	16	2,739	2,106
Deferred tax assets	21(b)	1,783	1,808
Deposits		—	327
Total non-current assets		55,133	58,841
Current assets			
Inventories	17(a)	3,522	3,022
Trade receivables	18	55,358	15,728
Other receivables, deposits and prepayments	18	14,309	6,697
Taxation recoverable	21(a)	—	120
Pledged bank deposits	19	200	—
Cash and cash equivalents	19	15,711	58,169
Total current assets		89,100	83,736
Current liabilities			
Payables and accruals and contract liabilities	20	10,972	9,562
Taxation payable	21(a)	—	10
Total current liabilities		10,972	9,572
Net current assets		78,128	74,164
Total assets less current liabilities		133,261	133,005
Non-current liabilities			
Contingent consideration payables	13(a)	33,433	30,442
Deferred tax liabilities	21(b)	1,769	1,941
Total non-current liabilities		35,202	32,383
Net assets		98,059	100,622
Capital and reserves	22		
Share capital		31,125	31,125
Share premium		46,749	46,749
Warrant reserve		1,654	1,654
Exchange reserve		(1,283)	135
Fair value reserve		722	89
Retained profits		19,092	20,870
Total equity		98,059	100,622

Approved and authorised for issue by the board of directors on 27 March 2019.

Mr. Pang Kwok Chau	**Mr. Li Wang**
Director	*Director*

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2(c).

The notes on pages 64 to 131 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Share capital *HK$'000* Note 22(b)	Share premium *HK$'000* Note 22(d)(i)	Warrant reserve *HK$'000* Note 22(d)(ii)	Exchange reserve *HK$'000* Note 22(d)(vi)	Fair value reserve (recycling) *HK$'000* Note 22(d)(iv)	Fair value reserve (non-recycling) *HK$'000* Note 22(d)(v)	Retained profits *HK$'000*	Total equity *HK$'000*
Balance at 1 January 2017	31,125	46,749	1,654	—	—	—	27,092	106,620
Changes in equity for 2017:								
Loss for the year	—	—	—	—	—	—	(6,222)	(6,222)
Other comprehensive income	—	—	—	135	89	—	—	224
Total comprehensive income	—	—	—	135	89	—	(6,222)	(5,998)
Balance at 31 December 2017 and 1 January 2018 (note)	31,125	46,749	1,654	135	89	—	20,870	100,622
Impact on initial application of IFRS 9	—	—	—	—	(89)	89	—	—
Adjusted balance at 1 January 2018	31,125	46,749	1,654	135	—	89	20,870	100,622
Changes in equity for 2018:								
Loss for the year	–	–	–	–	–	–	(1,778)	(1,778)
Other comprehensive income	–	–	–	(1,418)	–	633	–	(785)
Total comprehensive income	–	–	–	(1,418)	–	633	(1,778)	(2,563)
Balance at 31 December 2018	31,125	46,749	1,654	(1,283)	–	722	19,092	98,059

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2(c).

The notes on pages 64 to 131 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Note	2018 *HK$'000*	2017 *HK$'000*
Operating activities			
Loss before taxation		(1,935)	(6,959)
Adjustments for:			
Depreciation	11	2,849	1,959
(Reversal of)/provision for write down of inventories	17(b)	(3)	2
Impairment loss of trade receivables	6(b)	218	–
Amortisation of intangible assets	14	2,445	748
Interest income	5(a)	(198)	(434)
Fair value change on contingent consideration	5(b)	2,991	–
Changes in working capital:			
Change in deposits		327	(103)
Change in inventories		(497)	(1,787)
Change in trade receivables		(39,848)	21,294
Change in other receivables, deposits and prepayments		(7,612)	(308)
Change in payables and accruals and contract liabilities		1,483	(529)
Cash (used in)/generated from operations		(39,780)	13,883
Profits tax refunded		120	—
Net cash (used in)/generated from operating activities		(39,660)	13,883
Investing activities			
Interest received		198	434
Payment for the purchase of property, plant and equipment		(1,378)	(7,578)
Placement of pledged bank deposits		(200)	—
Payment for purchase of available-for-sale securities		—	(2,017)
Payment for acquisition of subsidiaries	13	—	(12,827)
Net cash used in investing activities		(1,380)	(21,988)
Net decrease in cash and cash equivalents		(41,040)	(8,105)
Cash and cash equivalents at beginning of the year	19	58,169	66,148
Effect of foreign exchange rate changes		(1,418)	126
Cash and cash equivalents at end of the year	19	15,711	58,169

The notes on pages 64 to 131 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 BACKGROUND OF THE COMPANY

Directel Holdings Limited (the "Company") was incorporated in the Cayman Islands on 28 July 2009 as an exempted company with limited liability under the Companies Law of the Cayman Islands. Its principal place of business in Hong Kong is at Office Nos. 1, 2, 14 and 15, 37th Floor, Hong Kong Plaza, No. 188 Connaught Road West, Hong Kong and its registered office is at Clifton House, 75 Fort Street, PO Box 1350, Grand Cayman KY1-1108, Cayman Islands.

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

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2018 comprise the Company and its subsidiaries (together referred to as the "Group").

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

– contingent consideration (see note 2(e)).

– equity securities at fair value through other comprehensive income ("FVOCI") (see note 2(f)).

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Basis of preparation of the financial statements *(Continued)*

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 27.

(c) Changes in accounting policies

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

(i) IFRS 9, *Financial instruments*

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

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

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 31).

(i) IFRS 9*, Financial instruments*

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Changes in accounting policies *(Continued)*

(i) IFRS 9*, Financial instruments (Continued)*

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

a. Classification of financial assets and financial liabilities

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

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

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

Note: Under IAS 39, equity securities not held for trading were classified as available-for-sale securities. The equity securities are classified as at FVPL under IFRS 9, unless they are eligible for and designated at FVOCI by the Group. At 1 January 2018, the Group designated its investment at FVOCI, as the investment is held for strategic purposes (see note 16).

For an explanation of how the Group classifies and measures financial assets and recognises related gains and losses under IFRS 9, see respective accounting policy notes in notes 2(f), (j)(i), (m) and (n).

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Changes in accounting policies *(Continued)*

(i) IFRS 9*, Financial instruments (Continued)*

b. Credit losses

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

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

The Group has concluded that there would be no material impact for the initial application of the new impairment requirements in accordance with IFRS9 as at 1 January 2018.

For further details on the Group's accounting policy for accounting for credit losses, see note 2(j)(i).

c. Transition

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Changes in accounting policies *(Continued)*

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

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

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

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

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

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

a. Timing of revenue recognition

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Changes in accounting policies *(Continued)*

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

b. Significant financing component

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

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

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

c. Presentation of contract assets and liabilities

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

Previously, contract liabilities relating to provision of telecommunications services was presented as "Deferred income" under "Payables and accruals" (see note 20) amounting to HK$1,156,000 were reclassified to contract liabilities at 1 January 2018.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Changes in accounting policies *(Continued)*

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

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

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

(d) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date the control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(f)) or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment losses (note 2(j)(ii)).

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Business combination and goodwill

The Group applies the acquisition method to account for business combination. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are expensed as incurred.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IFRS 9 in profit or loss.

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 2(j)(ii)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Other investments in debt and equity securities

The Group's policies for investments in debt and equity securities, other than investments in subsidiaries, are set out below.

Investments in debt and equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at FVPL for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see note 23(f). These investments are subsequently accounted for as follows, depending on their classification.

(A) Policy applicable from 1 January 2018

Investments other than equity investments

Non-equity investments held by the Group are classified into one of the following measurement categories:

– amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see note 2(s)(iii)).

– FVOCI — recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

– FVPL if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Other investments in debt and equity securities *(Continued)*

(A) Policy applicable from 1 January 2018 (Continued)

Equity investments

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained profits. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognised in profit or loss as other income in accordance with the policy set out in note 2(s)(iv).

(B) Policy applicable prior to 1 January 2018

Investments in securities held for trading were classified as financial assets measured at FVPL. Any attributable transaction costs were recognised in profit or loss as incurred. At the end of each reporting period the fair value was remeasured, with any resultant gain or loss being recognised in profit or loss.

Dated debt securities that the Group had the positive ability and intention to hold to maturity were classified as held-to-maturity securities. Held-to-maturity securities were stated at amortised cost (for impairment see note 2(j)(i) — policy applicable prior to 1 January 2018).

Investments which did not fall into any of the above categories were classified as available-for-sale securities. At the end of each reporting period the fair value was remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve (recycling). Dividend income from equity investments and interest income from debt securities calculated using the effective interest method were recognised in profit or loss in accordance with the policies set out in notes 2(s)(iv) and 2(s)(iii), respectively. Foreign exchange gains and losses arising from debt securities were also recognised in profit or loss. When the investments were derecognised or impaired (see note 2(j)(i) - policy applicable prior to 1 January 2018), the cumulative gain or loss recognised in equity was reclassified to profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (note 2(j)(ii)).

Cost includes expenditures that are directly attributable to the acquisition of an asset.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

- Leasehold improvements — 5 years or the remaining lease term whichever is shorter
- Furniture and fixtures — 5 years
- Facilities equipment — 5-8 years
- Office equipment — 5 years
- Motor vehicles — 5 years

Both the useful life of an asset and its residual value, if any, are reviewed annually.

(h) Intangible assets (other than goodwill)

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 2(j)(ii)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

– Customer contracts — 3 to 4 years

Both the period and method of amortisation are reviewed annually.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made.

(j) Credit losses and impairment of assets

(i) Credit losses from financial instruments

(A) Policy applicable from 1 January 2018

The Group recognises a loss allowance for ECLs on the financial assets measured at amortised cost (including pledged bank deposits, cash and cash equivalents and trade and other receivables).

Financial assets measured at fair value, including units in equity securities measured at FVPL and equity securities designated at FVOCI (non-recycling), are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

– fixed-rate financial assets and trade and other receivables: effective interest rate determined at initial recognition or an approximation thereof;

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Credit loss and impairment of assets *(Continued)*

(i) Credit losses from financial instruments (Continued)

(A) Policy applicable from 1 January 2018 *(Continued)*

Measurement of ECLs *(Continued)*

– variable-rate financial assets: current effective interest rate.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 180 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Credit loss and impairment of assets *(Continued)*

(i) Credit losses from financial instruments (Continued)

(A) Policy applicable from 1 January 2018 *(Continued)*

Significant increases in credit risk *(Continued)*

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

– failure to make payments of principal or interest on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

Basis of calculation of interest income

Interest income recognised in accordance with note 2(s)(iii) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Credit loss and impairment of assets *(Continued)*

(i) Credit losses from financial instruments (Continued)

(A) Policy applicable from 1 January 2018 *(Continued)*

Basis of calculation of interest income *(Continued)*

Evidence that a financial asset is credit-impaired includes the following observable events:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

– the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset or trade and other receivables is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(B) Policy applicable prior to 1 January 2018

Prior to 1 January 2018, an "incurred loss" model was used to measure impairment losses on financial assets not classified as at FVPL (e.g. trade and other receivables, available-for-sale securities and held-to-maturity debt securities). Under the "incurred loss" model, an impairment loss was recognised only when there was objective evidence of impairment.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Credit loss and impairment of assets *(Continued)*

(i) Credit losses from financial instruments (Continued)

(B) Policy applicable prior to 1 January 2018 *(Continued)*

Objective evidence of impairment included:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence existed, an impairment loss was determined and recognised as follows:

- For trade and other receivables and other financial assets carried at amortised cost, impairment loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, where the effect of discounting was material. This assessment was made collectively where these financial assets shared similar risk characteristics, such as similar past due status, and had not been individually assessed as impaired. Future cash flows for financial assets which were assessed for impairment collectively were based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreased and the decrease could be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss was reversed through profit or loss. A reversal of an impairment loss was only recognised to the extent that it did not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

  When the recovery of a trade debtor or other financial assets carried at amortised cost was considered doubtful but not remote, associated impairment losses were recorded using an allowance account. When the Group was satisfied that recovery was remote, the amount considered irrecoverable was written off against the gross carrying amount of those assets directly. Subsequent recoveries of amounts previously charged to the allowance account were reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly were recognised in profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Credit loss and impairment of assets *(Continued)*

(i) Credit losses from financial instruments (Continued)

(B) Policy applicable prior to 1 January 2018 *(Continued)*

– For available-for-sale securities, the cumulative loss that had been recognised in the fair value reserve (recycling) was reclassified to profit or loss. The amount of the cumulative loss that was recognised in profit or loss was the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities were not reversed through profit or loss. Any subsequent increase in the fair value of such assets was recognised in other comprehensive income.

Impairment losses recognised in profit or loss in respect of available-for-sale debt securities were reversed if the subsequent increase in fair value could be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances were recognised in profit or loss.

(ii) Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– intangible assets;

– goodwill; and

– investments in subsidiaries in the Company's statement of financial position.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Credit loss and impairment of assets *(Continued)*

(ii) Impairment of other non-current assets (Continued)

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the first-in, first-out formula and comprises all costs of purchase, and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(l) Contract liabilities

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see note 2(s)). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 2(m)).

(m) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 2(j)(i)).

(n) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Cash and cash equivalents are assessed for ECL in accordance with the policy set out in note 2(j)(i).

(o) Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(p) Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Income tax *(Continued)*

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(r) Provisions and contingent liabilities

Provisions are recognised when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods and the provision of services in the ordinary course of the Group's business.

Revenue is recognised when control over a product or service is transferred to the customer at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Group takes advantage of the practical expedient in paragraph 63 of IFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Revenue from the provision of telecommunications services is measured based on the usage of the Group's telecommunications facilities and is recognised when the services are rendered. Service revenue in respect of standard service plans billed in advance is deferred and included under contract liabilities.

(ii) Revenue from the distribution business is recognised when control of the goods has transferred to the customer, which generally coincides with the time when the goods are delivered to customers and title has passed and collectability of the related receivables is reasonably assured.

In the comparative period, revenue from distribution business was recognised when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods.

(iii) Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost or FVOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see note 2(j)(i)).

(iv) Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the company initially recognises such non-monetary assets or liabilities. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items, including goodwill arising on consolidation of foreign operations acquired are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve. Goodwill arising on consolidation of a foreign operation acquired is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(u) Related parties

(i) A person, or a close member of that person's family, is related to the Group if that person:

(1) has control or joint control over the Group;

(2) has significant influence over the Group; or

(3) is a member of the key management personnel of the Group or the Group's parent.

(ii) An entity is related to the Group if any of the following conditions applies:

(1) The entity and the Group are member of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(2) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(3) Both entities are joint ventures of the same third party.

(4) One entity is a joint venture of a third party and the other entity is an associate of the third party.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Related parties *(Continued)*

(ii) An entity is related to the Group if any of the following conditions applies: *(Continued)*

(5) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(6) The entity is controlled or jointly-controlled by a person identified in (i).

(7) A person identified in (i) (1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(8) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(v) 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.

3 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 4.

(i) Disaggregation of revenue

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

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

Disaggregation of revenue from contracts with customers by the timing of revenue recognition and by geographic markets is disclosed in notes 4(a) and 4(b) respectively.

3 REVENUE *(Continued)*

(i) Disaggregation of revenue *(Continued)*

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

	2018 *HK$'000*	2017 *HK$'000*
Customer A - distribution business	67,335	17,839
Customer B - telecommunications services	—	12,299

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

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

4 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.

4 SEGMENT INFORMATION *(Continued)*

(a) Segment results

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

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

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

4 SEGMENT INFORMATION *(Continued)*

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

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

4 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 or the goods delivered. The geographical location of the specified non-current assets is based on the location of the operation to which they are allocated.

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

5 OTHER INCOME AND OTHER NET (LOSS)/INCOME

	2018 *HK$'000*	2017 *HK$'000*
(a) Other income		
Interest income on financial assets measured at amortised cost	198	434
Sundry income	176	550
	374	984
(b) Other net (loss)/income		
Net foreign exchange (loss)/gain	(1,294)	944
Fair value change on contingent consideration (note 23(f))	(2,991)	–
	(4,285)	944

6 LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

(a) Staff costs

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

Staff costs include directors' emoluments (note 8).

(b) Other items

	Note	2018 *HK$'000*	2017 *HK$'000*
Amortisation of intangible assets	14	2,445	748
Depreciation	11	2,849	1,959
Impairment loss of trade receivables	23(a)	218	–
Operating lease charges in respect of			
– rental of properties		1,522	1,140
– rental of transmission lines		1,167	995
Auditors' remuneration			
– audit services		1,255	1,185
– tax services		10	51
– other services		5	65
Cost of inventories	17(b)	149,879	31,842
Licence charges		1,015	1,038
Repair and maintenance		1,008	702

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

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

	2018 *HK$'000*	2017 *HK$'000*
Current tax – Overseas		
Provision for the year	–	10
Over-provision in respect of prior year	(10)	—
	(10)	10
Deferred tax		
Benefit of previously unrecognised tax losses now recognised	(1,142)	(1,808)
Utilisation of prior years' tax losses recognised	1,167	—
Origination and reversal of temporary differences	(172)	1,061
	(147)	(747)
	(157)	(737)

(i) Hong Kong Profits Tax

The Company's Hong Kong subsidiaries are subject to Hong Kong Profits Tax. In addition, whilst the Company and Elitel Limited, a direct wholly-owned subsidiary of the Company, are incorporated in the Cayman Islands, they are considered as having a presence in Hong Kong for tax purpose since they are primarily managed and controlled in Hong Kong. Accordingly, they are subject to tax on an entity basis on income arising in or derived from Hong Kong. The provision for Hong Kong Profits Tax for 2018 is calculated at 16.5% (2017: 16.5%) of the estimated assessable profits for the year. No provision for Hong Kong Profits Tax has been made for the year ended 31 December 2018 (2017: Nil) as the Group's operations in Hong Kong had tax losses brought forward to offset estimated assessable profits for the year.

(ii) Overseas tax

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

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME *(Continued)*

(b) Reconciliation between tax credit and accounting loss before taxation at applicable tax rates:

	2018 *HK$'000*	2017 *HK$'000*
Loss before taxation	**(1,935)**	(6,959)
Notional tax on loss before taxation, calculated at the rates applicable to assessable profit/(loss) in the countries concerned	**77**	(1,141)
Tax effect of non-deductible expenses	**610**	182
Tax effect of non-taxable income	**(32)**	(213)
Tax effect of unused tax losses not recognised	**701**	2,129
Tax effect of tax losses not previously recognised and utilised	**(485)**	—
Tax effect of deductible temporary differences not recognised	**106**	66
Tax effect of recognition of tax losses not previously recognised	**(1,142)**	(1,808)
Over-provision in respect of prior year	**(10)**	—
Others	**18**	48
Actual tax credit	**(157)**	(737)

8 DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to Section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	Directors' fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Contributions to retirement benefit plan *HK$'000*	Bonuses *HK$'000*	2018 Total *HK$'000*
Executive Directors					
Pang Kwok Chau	80	495	27	56	658
Li Wang	80	252	13	20	365
	160	747	40	76	1,023
Non-executive Directors					
Li Kin Shing	80	–	–	–	80
Wong Kin Wa	80	–	–	–	80
Hu Tiejun	80	–	–	–	80
	240	–	–	–	240
Independent Non-executive Directors					
Chen Xue Dao	80	–	–	–	80
Lee Man Yee, Maggie	80	–	–	–	80
Liu Kejun	80	–	–	–	80
	240	–	–	–	240
Total	640	747	40	76	1,503

8 DIRECTORS' EMOLUMENTS *(Continued)*

	Directors' fees	Salaries, allowances and benefits in kind	Contributions to retirement benefit plan	Bonuses	2017 Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive Directors					
Pang Kwok Chau	80	493	27	54	654
Li Wang	80	202	11	20	313
	160	695	38	74	967
Non-executive Directors					
Li Kin Shing	80	—	—	—	80
Wong Kin Wa	80	—	—	—	80
Hu Tiejun	80	—	—	—	80
	240	—	—	—	240
Independent Non-executive Directors					
Chen Xue Dao	80	—	—	—	80
Lee Man Yee, Maggie	80	—	—	—	80
Liu Kejun	80	—	—	—	80
	240	—	—	—	240
Total	640	695	38	74	1,447

During the years ended 31 December 2017 and 2018, there were no amounts paid or payable by the Group to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the years ended 31 December 2017 and 2018.

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2017: one) are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the other three (2017: four) individuals with highest emoluments are as follows:

	2018 *HK$'000*	2017 *HK$'000*
Salaries and other emoluments	879	1,116
Contributions to defined contribution retirement plan	47	54
Bonuses	85	13
	1,011	1,183

The emoluments of the three (2017: four) individuals with the highest emoluments are within the following band:

	2018 *Number of Individuals*	2017 *Number of individuals*
HK$Nil — HK$1,000,000	3	4

During the years ended 31 December 2017 and 2018, there were no amounts paid or payable by the Group to any of the highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which an individual waived or agreed to waive any remuneration during the years ended 31 December 2017 and 2018.

10 LOSS PER SHARE

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

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

10 LOSS PER SHARE *(Continued)*

Weighted average number of ordinary shares (Basic and diluted)

	2018 Number of shares '000	2017 Number of shares '000
Issued ordinary shares at 1 January	3,112,500	3,112,500
Weighted average number of ordinary shares at 31 December	3,112,500	3,112,500

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

11 PROPERTY, PLANT AND EQUIPMENT

	Furniture and fixtures HK$'000	Leasehold improvements HK$'000	Facilities equipment HK$'000	Office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost:						
At 1 January 2017	402	1,860	23,836	552	—	26,650
Additions	—	—	7,538	40	—	7,578
Acquisition of a subsidiary (Note 13(a))	—	—	—	—	2,637	2,637
At 31 December 2017 and 1 January 2018	402	1,860	31,374	592	2,637	36,865
Additions	—	—	1,262	43	—	1,305
At 31 December 2018	402	1,860	32,636	635	2,637	38,170
Accumulated depreciation:						
At 1 January 2017	92	403	18,445	485	—	19,425
Charge for the year	79	372	1,432	28	48	1,959
Acquisition of a subsidiary (Note 13(a))	—	—	—	—	2,198	2,198
At 31 December 2017 and 1 January 2018	171	775	19,877	513	2,246	23,582
Charge for the year	79	372	2,215	32	151	2,849
At 31 December 2018	250	1,147	22,092	545	2,397	26,431
Net book value:						
At 31 December 2018	152	713	10,544	90	240	11,739
At 31 December 2017	231	1,085	11,497	79	391	13,283

12 INVESTMENTS IN SUBSIDIARIES

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of incorporation/ establishment	Particulars of issued and paid up capital	Proportion of ownership interest Direct	Indirect	Principal activity
* Elitel Limited	Cayman Islands	2 shares of US$1 each	100%	—	Provision of telecommunications services
* China-Hongkong Telecom Limited	Hong Kong	100 shares	—	100%	Provision of telecommunications services
* Directel Communications Limited	Hong Kong	5,000,000 shares	—	100%	Provision of telecommunications services and distribution business
* Dynamic Profit International Limited	British Virgin Islands ("BVI")	1 share of US$1 each	100%	—	Investment holding
* Joint Top Investments Limited	Hong Kong	2 shares	—	100%	Investment holding
* Guangzhou Directel Telecommunications Limited#	The People's Republic of China (the "PRC")	HKD28,000,000	—	100%	Provision of telecommunications services and distribution business
* Asia Globe Investments Limited	Hong Kong	1 share	100%	—	Investment holding
* South Data Communication Pte. Ltd.	Singapore	10,000 shares of SGD1 each	—	100%	Provision of telecommunications services and distribution business
*Able Honor International Limited	BVI	1 share of US$1 each	100%	—	Investment holding
* Sky View Investments Limited	Hong Kong	1 share	—	100%	Provision of distribution business

* KPMG are not the statutory auditors of these companies.

\# The company name in English is a direct translation of the registered Chinese name for the purpose of identification.

13 BUSINESS COMBINATION

(a) Acquisition of Joint Top Investments Limited

On 8 September 2017, the Group completed the acquisition of Joint Top Investments Limited ("Joint Top") together with its subsidiary, Guangzhou Directel Telecommunications Limited* 廣州直通電訊有限公司 ("GZDT") (together with Joint Top, the "Joint Top Group") (the "PRC Acquisition"). Following the completion, Joint Top became an indirect wholly-owned subsidiary of the Company and thereafter, the Group has been engaging in the provision of telecommunications services and distribution business in Guangdong province in the PRC.

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

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

	HK$'000
Property, plant and equipment (note 11)	439
Intangible assets (note 14)	8,062
Inventories	1,021
Trade receivables	83
Other receivables, deposits and prepayments	3,054
Cash and cash equivalents	3,173
Payables and accruals	(3,451)
Fair value of net assets acquired	12,381
Goodwill (note 15)	28,061
Total consideration	40,442
Cash consideration paid	10,000
Contingent consideration payables	30,442
Total consideration	40,442
Cash consideration paid	10,000
Cash and cash equivalents acquired	(3,173)
Net cash outflow in respect of the PRC Acquisition during the year ended 31 December 2017	6,827

* For identification only

13 BUSINESS COMBINATION *(Continued)*

(b) Acquisition of South Data Communication Pte. Limited

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

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

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

	HK$'000
Other receivables	58
Fair value of net assets acquired	58
Goodwill (note 15)	5,942
Total consideration	6,000
Cash consideration paid and net cash outflow in respect of the Singapore Acquisition during the year ended 31 December 2017	6,000

14 INTANGIBLE ASSETS

	Customer contracts *HK$'000*
Cost:	
At 1 January 2017	—
Acquisition of a subsidiary (note 13(a))	8,062
At 31 December 2017, 1 January 2018 and 31 December 2018	8,062
Accumulated amortisation:	
At 1 January 2017	—
Charge for the year	748
At 31 December 2017 and 1 January 2018	748
Charge for the year	2,445
At 31 December 2018	3,193
Net book value:	
At 31 December 2018	4,869
At 31 December 2017	7,314

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

15 GOODWILL

	HK$'000
Cost:	
At 1 January 2017	—
Acquisition of subsidiaries (note 13(a))	34,003
At 31 December 2017, 1 January 2018 and 31 December 2018	34,003
Accumulated impairment losses:	
At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	—
Carrying amount:	
At 31 December 2018	34,003
At 31 December 2017	34,003

Impairment tests for cash-generating units containing goodwill

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

	2018 *HK$'000*	2017 *HK$'000*
Telecommunications services and distribution business - the PRC	28,061	28,061
Telecommunications services and distribution business - Singapore	5,942	5,942
	34,003	34,003

The recoverable amount of the CGU is determined based on value in use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated growth rate stated below. The growth rates used do not exceed the long-term average growth rates for the business in which the CGU operates. The impairment tests were based on the valuation by an independent valuer for the current year.

15 GOODWILL *(Continued)*

For each of the CGUs with an amount of goodwill, the key assumptions used in the value in use calculations are as follows:

	Telecommunications services and distribution business			
	The PRC		Singapore	
	2018	2017	2018	2017
Annual sales growth rate (average of financial forecasts period)	8.7%	1.5%	13.6%	11.7%
Gross profit margins	12.4%	15.5%	2.8%	2.9%
Long-term average growth rate	2.0%	2.0%	1.0%	1.0%
Pre-tax discount rate	21.7%	21.6%	17.1%	17.8%

These assumptions have been used for the analysis of each CGU within the operating segment.

Management has determined the values assigned to each of the above key assumptions as follows:

Assumption	**Approach used to determining values**
Annual sales growth rate	Annual sales growth rate over the five-year forecast period based on current industry trends, past performance and management's expectations for the future.
Gross profit margins	Based on past performance and management's expectations for the future.
Long-term average growth rate	This is the growth rate used to extrapolate cash flows beyond the five year period and the rate based on long-term average growth rate of telecommunications industry.
Pre-tax discount rate	The rate reflects specific risks relating to the relevant CGU and the countries in which they operate.

There are no other significant changes for the key assumptions applied in the value in use calculations in 2017 and 2018, except for 2018 annual sales growth rate in the CGU in the PRC which was increased to 8.7% arising from the new contracts signed for the provision of telecommunications services.

The gross profit margins of the PRC's CGU did not meet management's cash flow projections for the year ended 31 December 2018 as the profitable businesses were still under preparation stage for distribution channels of the distributors. The gross profit margins of Singapore's CGU did not meet management's cash flow projections for the year ended 31 December 2018 due to the lower gross profit margins generated from the business in order to gain the market share in Singapore. Any adverse change in the key assumptions could reduce the recoverable amount below carrying amount.

16 OTHER NON-CURRENT FINANCIAL ASSETS

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

Notes:

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

(ii) Available-for-sale equity securities were reclassified to equity securities designated at FVOCI (non-recycling) upon the initial application of IFRS 9 at 1 January 2018 (see note 2(c)(i)).

17 INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

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

(b) The analysis of the amount of inventories recognised as an expense and included in the profit or loss is as follows:

	2018 *HK$'000*	2017 *HK$'000*
Carrying amount of inventories sold	149,882	31,840
(Reversal of)/provision for write down of inventories	(3)	2
	149,879	31,842

The reversal of write down of inventories made in prior years arose due to an increase in the estimated net realisable value of certain SIM cards as a result of a change in consumer preferences.

18 RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2018 *HK$'000*	2017 *HK$'000*
Trade receivables		
– amounts due from third parties	55,576	15,728
Less: loss allowance (note 23(a))	(218)	—
	55,358	15,728
Other receivables, deposits and prepayments		
– amounts due from related parties	8	25
– other receivables	1,907	1,907
– deposits and prepayments	12,394	4,765
	14,309	6,697
	69,667	22,425

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

Ageing analysis

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

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

Generally, the provision of telecommunications services and distribution business to the Group's major customers, including their dealers, are made in an open account with credit terms up to 60 days after the date of invoice. Subject to negotiations, credit terms can be extended to three to six months (2017: three to four months) for certain customers with well-established trading and payment records on a case-by-case basis. Provision of telecommunications services to the Group's prepaid users are billed in advance, whereas postpaid users are made in an open account with credit terms up to 12 days after the date of invoice. Further details on the Group's credit policy are set out in note 23(a).

19 PLEDGED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

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

Note: Bank deposits of HK$200,000 (2017: HK$Nil) were pledged for the issuance of a performance bond by a bank (note 25).

20 PAYABLES AND ACCRUALS AND CONTRACT LIABILITIES

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

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

Notes:

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

(ii) Upon the adoption of IFRS 15, these amounts were reclassified from payables and accruals to contract liabilities. Payables and accruals and contract liabilities are aggregated into a single line item "Payables and accruals and contract liabilities" on the face of the consolidated statement of financial position (see note 2(c)(ii)).

20 PAYABLES AND ACCRUALS AND CONTRACT LIABILITIES *(Continued)*

(a) Trade payables

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

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

(b) Contract liabilities

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

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

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

Movements in contract liabilities

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

21 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position represents:

	2018 *HK$'000*	2017 *HK$'000*
Balance of Profits Tax provision relating to prior years	–	(120)
Overseas tax payable	–	10
	–	(110)

Representing:

	2018 *HK$'000*	2017 *HK$'000*
Taxation recoverable	–	(120)
Taxation payable	–	10
	–	(110)

(b) Deferred tax assets and liabilities recognised:

(i) Movement of each component of deferred tax assets and liabilities

The components of deferred tax assets/(liabilities) recognised in the consolidated statement of financial position and the movements during the year are as follows:

Deferred tax arising from:	**Depreciation allowances in excess of the related depreciation** *HK$'000*	**Tax losses** *HK$'000*	**Total** *HK$'000*
At 1 January 2017	(880)	—	(880)
(Charged)/credited to profit or loss (note 7(a))	(1,061)	1,808	747
At 31 December 2017 and 1 January 2018	(1,941)	1,808	(133)
Credited/(charged) to profit or loss (note 7(a))	172	(25)	147
At 31 December 2018	(1,769)	1,783	14

21 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

(b) Deferred tax assets and liabilities recognised: *(Continued)*

(ii) Reconciliation to the consolidated statement of financial position

	2018 *HK$'000*	2017 *HK$'000*
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(1,769)**	(1,941)
Net deferred tax assets recognised in the consolidated statement of financial position	**1,783**	1,808
	14	(133)

(c) Deferred tax assets not recognised:

In accordance with the accounting policy set out in note 2(q), the Group has not recognised deferred tax assets attributable to the future benefit of tax losses of HK$67,309,000 (2017: HK$73,351,000) sustained the operations of the Group as it is not probable that future taxable profits against which the losses can be utilised will be available.

Included in unrecognised tax losses are (i) losses of HK$66,059,000 (2017: HK$72,927,000) from Hong Kong operations that can be carried forward indefinitely, and (ii) losses of HK$1,250,000 (2017: HK$424,000) from the PRC operations that will expire in five years from the year in which they arose.

22 CAPITAL AND RESERVES

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Share capital *HK$'000* Note 22(b)	Share premium *HK$'000* Note 22(d)(i)	Warrant reserve *HK$'000* Note 22(d)(ii)	Other reserve *HK$'000* Note 22(d)(iii)	Fair value reserve (recycling) *HK$'000* Note 22(d)(iv)	Fair value reserve (non-recycling) *HK$'000* Note 22(d)(v)	Accumulated losses *HK$'000*	Total equity *HK$'000*
Balance at 1 January 2017	31,125	46,749	1,654	–	–	–	(17,061)	62,467
Changes in equity for 2017:								
Loss for the year	–	–	–	–	–	–	(954)	(954)
Other comprehensive income	–	–	–	–	89	–	–	89
Total comprehensive income	–	–	–	–	89	–	(954)	(865)
Balance at 31 December 2017 *(Note)*	31,125	46,749	1,654	–	89	–	(18,015)	61,602
Impact on initial application of IFRS 9	–	–	–	–	(89)	89	–	–
Adjusted balance at 1 January 2018	31,125	46,749	1,654	–	–	89	(18,015)	61,602
Changes in equity for 2018:								
Loss for the year	–	–	–	–	–	–	(2,030)	(2,030)
Other comprehensive income	–	–	–	–	–	633	–	633
Total comprehensive income	–	–	–	–	–	633	(2,030)	(1,397)
Balance at 31 December 2018	31,125	46,749	1,654	–	–	722	(20,045)	60,205

Note: The Group has initially applied IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2(c).

22 CAPITAL AND RESERVES *(Continued)*

(b) Share capital

	2018		2017	
	Number of shares	Nominal value *HK$'000*	Number of shares	Nominal value *HK$'000*
Authorised:				
At 1 January and 31 December	10,000,000,000	100,000	10,000,000,000	100,000
Issued and fully paid:				
At 1 January and 31 December	3,112,500,000	31,125	3,112,500,000	31,125

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.

(c) Unlisted warrants

On 30 April 2014, the Company entered into a warrant subscription agreement (the "Warrant Subscription Agreement") with JD Edward Asset Management Company Limited, an independent third party (the "Subscriber") in relation to the subscription of a total of 200,000,000 unlisted warrants (the "Warrant(s)") by the Subscriber at the issue price of HK$0.01 per unit of Warrants (the "Warrant Subscriptions"). The Warrants entitled the Subscriber to subscribe in cash for an aggregate of 200,000,000 shares in the Company at the subscription price of HK$0.1648 per new share (subject to anti-dilutive adjustment) for a period of 60 months commencing from the date of issue of the Warrants. On 29 May 2014, the conditions set out in the Warrant Subscription Agreement have been fulfilled and completion of the Warrant Subscriptions took place. The net proceeds from the Warrant Subscriptions (after expenses of approximately HK$346,000) were approximately HK$1,654,000. Pursuant to an ordinary resolution passed at the extraordinary general meeting of the Company on 3 June 2015, a specific mandate was given to the directors of the Company to allot and issue new Shares (subject to adjustment) upon exercise of subscription rights attaching to the Warrants. On 23 June 2015, the Company completed a bonus issue on the basis of two bonus shares for every one held by the existing shareholders ("Bonus Issue"). As a result of the Bonus Issue, the subscription price for such warrant shares and the number of warrant shares to be issued and allotted upon exercise of the subscription rights attached to the Warrants shall be adjusted from HK$0.1648 to HK$0.0549 and from 200,000,000 shares to 600,000,000 shares respectively. On 23 November 2016, the Subscriber as transferor, transferred 200,000,000 Warrants to six individuals, as transferees, at a consideration of HK$2,000,000 (at HK$0.01 per Warrant). At as the date of this report, no Warrants have been exercised and the Company has not utilised any of the net proceeds.

22 CAPITAL AND RESERVES *(Continued)*

(d) Nature and purpose of reserves

The nature and purpose of reserves are set out below:

(i) Share premium

The share premium represents the difference between the par value of the shares of the Company and proceeds received from the issuance of the shares of the Company net of share issuing expenses. The application of the share premium account of the Company is governed by the Companies Law (Revised) of the Cayman Islands, under which the balance of share premium account of the Company can be distributed as dividends provided that immediately following the date on which dividend is proposed to be distributed, the Company would be in a position to pay off its debts as they fall due in the ordinary course of business.

(ii) Warrant reserve

The warrants reserve represents the net proceeds received from the issue of warrants of the Company. The warrants reserve is transferred to share premium account when the warrant is exercised or released directly to retained profits when the warrant expires.

(iii) Other reserve

Other reserve amounting to HK$15 (2017: HK$15) represents the difference between the nominal value of the shares allotted and issued by the Company to a subsidiary and the nominal value of the share capital of that subsidiary acquired by the Company in a group reorganisation which took place on 7 September 2009.

(iv) Fair value reserve (recycling)

Prior to 1 January 2018, this reserve included the cumulative net change in the fair value of available-for-sale securities held at the end of the reporting period in accordance with IAS 39. This amount has been reclassified to fair value reserve (non-recycling) upon the initial adoption of IFRS 9 at 1 January 2018 (see note 2(c)(i)).

22 CAPITAL AND RESERVES *(Continued)*

(d) Nature and purpose of reserves *(Continued)*

(v) Fair value reserve (non-recycling)

The fair value reserve (non-recycling) comprises the cumulative net change in the fair value of equity securities designated at FVOCI under IFRS 9 that are held at the end of the reporting period (see note 2(f)).

(vi) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

The reserve is dealt with in accordance with the accounting policies set out in note 2(t).

(e) Distributability of reserves

At 31 December 2018, the aggregate amount of reserves available for distribution to the equity shareholders of the Company was HK$26,704,000 (2017: HK$28,734,000).

(f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure, monitors the return on capital, and makes adjustments to the capital structure in light of changes in economic conditions.

There were no changes in the Group's approach to capital management during the current and prior years.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

23 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investment.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade receivables. The Group's exposure to credit risk arising from pledged bank deposits, cash and cash equivalents are limited because the counterparties are banks and financial institution with a high credit rating, for which the Group considers to have low credit risk.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 18.9% (2017: 28.2%) and 67.8% (2017: 90.6%) of the total trade and other receivables was due from the Group's largest debtor and the five largest debtors respectively.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position.

Credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer. Normally, the Group does not obtain collateral from customers.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables as at 31 December 2018:

	Expected loss rate	Gross carrying amount	Loss allowance	Net carrying amount
	%	*HK$'000*	*HK$'000*	*HK$'000*
Neither past due nor impaired	0.1	40,677	(41)	40,636
1 to 30 days past due	0.2	7,014	(14)	7,000
31 to 90 days past due	0.3	2,975	(9)	2,966
91 to 360 days past due	1.3	4,819	(63)	4,756
More than 360 days past due	100	91	(91)	—
		55,576	(218)	55,358

23 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(a) Credit risk *(Continued)*

Expected loss rates are based on actual loss experience and adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

Comparative information under IAS 39

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment (see note 2(j)(i) – policy applicable prior to 1 January 2018). At 31 December 2017, no trade receivables were determined to be impaired. The aging analysis of trade debtors that were not considered to be impaired was as follows:

	2017 *HK$'000*
Neither past due nor impaired	14,004
1-30 days past due	374
31-90 days past due	828
91-360 days past due	522
	15,728

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, management believed that no impairment allowance was necessary in respect of these balances as there had been no significant change in credit quality and the balances were still considered fully recoverable.

Movement in the loss allowance account in respect of trade receivables during the year is as follows:

	2018 *HK$'000*	2017 *HK$'000*
Balance at 1 January	—	—
Impairment losses recognised during the year	218	—
Balance at 31 December	218	—

The origination of new trade receivables net of those settled resulted in an increase in loss allowance during the year ended 31 December 2018.

23 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the Company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The following table shows the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities which are based on contractual undiscounted cash flows and the earliest date the Group can be required to pay:

	2018 Contractual undiscounted cash flow			
	Within 1 year or on demand *HK$'000*	More than 1 year but less than 5 years *HK$'000*	Total *HK$'000*	Carrying amount at 31 December *HK$'000*
Payables and accruals and contract liabilities	10,972	—	10,972	10,972
Contingent consideration payables	—	40,000	40,000	33,433
	10,972	40,000	50,972	44,405

	2017 Contractual undiscounted cash flow			
	Within 1 year or on demand *HK$'000*	More than 1 year but less than 5 years *HK$'000*	Total *HK$'000*	Carrying amount at 31 December *HK$'000*
Payables and accruals and contract liabilities	9,562	—	9,562	9,562
Contingent consideration payables	—	40,000	40,000	30,442
	9,562	40,000	49,562	40,004

23 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(c) Interest rate risk

The Group has no significant exposure to interest rate risk.

(d) Currency risk

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily Renminbi ("RMB"), Singapore dollars ("SGD") and United States dollars ("US$"). The Group currently does not have hedging policy in respect of the foreign currency risk. However, management monitors the related foreign currency risk exposure closely and will consider hedging significant foreign currency risk exposure should the need arise.

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in Hong Kong dollars ("HK$"), translated using the spot rate at the end of the reporting period.

Exposures to foreign currencies *(expressed in HK$'000)*

	2018			2017		
	US$	*RMB*	*SGD*	*US$*	*RMB*	*SGD*
Trade and other receivables	14,041	18,964	9,969	—	9,388	4,699
Cash and cash equivalents	5,281	5,359	1,197	18	9,442	1,303
Payables and accruals and contract liabilities	(2)	(3,097)	(691)	(17)	(2,882)	—
Net exposures arising from recognised assets and liabilities	19,320	21,226	10,475	1	15,948	6,002

23 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(d) Currency risk *(Continued)*

Sensitivity analysis

The following table indicates the instantaneous change in the Group's loss after tax (and retained profits) and other components of consolidated equity that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies.

	2018		2017	
	Increase/ (decrease) in foreign exchange rates	Effect on loss after tax and retained profits *HK$'000*	Increase/ (decrease) in foreign exchange rates	Effect on loss after tax and retained profits *HK$'000*
RMB	5%	(796)	5%	(666)
	(5%)	796	(5%)	666
SGD	5%	(435)	5%	(251)
	(5%)	435	(5%)	251

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' loss after tax and retained profits measured in the respective financial currencies, translated into Hong Kong dollars at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the changes in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at end of reporting period. The analysis is performed on the same basis for 2017.

(e) Equity price risk

The Group is exposed to equity price changes arising from equity securities held for non-trading proposes (see note 16).

The Group's listed investment is listed on the Stock Exchange of Hong Kong Limited. Listed investments that are not held for trading purposes have been chosen based on their longer term growth potential and are monitored regularly for performance against expectations.

23 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(e) Equity price risk *(Continued)*

At 31 December 2018, it is estimated that an increase/decrease of 5% (2017: 5%) in the market value of the Group's listed equity securities, with all other variables held constant, the Group's total equity would have increased/decreased by HK$137,000 (2017: HK$105,000).

The sensitivity analysis indicates the instantaneous change in the Group's loss after tax (and retained profits) and other components of consolidated equity that would arise assuming that the changes in the market value had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to equity price risk at the end of the reporting period. It is also assumed that the fair values of the Group's equity investments would change in accordance with the market value, and that all other variables remain constant. The analysis is performed on the same basis for 2017.

(f) 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

23 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(f) Fair value measurement *(Continued)*

(i) Financial assets and liabilities measured at fair value (Continued)

Fair value hierarchy *(Continued)*

	Fair value at 31 December 2018 HK$'000	Fair value measurements as at 31 December 2018 categorised into Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000
Recurring fair value measurements				
Assets:				
Non-trading listed securities	2,739	2,739	–	–
Liabilities:				
Contingent consideration payables	33,433	–	–	33,433

	Fair value at 31 December 2017 HK$'000	Fair value measurements as at 31 December 2017 categorised into Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000
Recurring fair value measurements				
Assets:				
Non-trading listed securities	2,106	2,106	–	–
Liabilities:				
Contingent consideration payables	30,442	–	–	30,442

During the years ended 31 December 2017 and 2018, 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.

23 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(f) Fair value measurement *(Continued)*

(i) Financial assets and liabilities measured at fair value (Continued)

Information about Level 3 fair value measurements

The fair value of the contingent consideration relating to the acquisition of subsidiaries is determined based on the expected payment, discounted to present value using a risk-adjusted discount rate of 8.2% (2017: 6.5%).

The fair value of contingent consideration is determined by an independent external valuer based on the latest financial forecast of the acquired subsidiaries and other relevant information.

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

	2018 *HK$'000*	2017 *HK$'000*
Contingent consideration		
At 1 January	30,442	—
Fair value change on contingent consideration *(note 5(b))*	2,991	—
Acquisition of subsidiaries *(note 13(a))*	—	30,442
At 31 December	33,433	30,442

The fair value change on contingent consideration is included in "Other net (loss)/income" in the 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 31 December 2017 and 2018.

24 COMMITMENTS

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

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

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

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

The Group is the lessee in respect of a number of properties and transmission lines held under operating leases. The leases typically run for an initial period of one to ten years (2017: one to ten years), with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

25 CONTINGENT LIABILITY

Other than the contingent consideration payables as disclosed in note 13(a), as at 31 December 2018, performance bond of HK$200,000 was given by a bank in favour of the Office of the Communications Authority as security for the due performance and observance of the Group's obligation under Services-Based Operator Licence. The Group has pledged bank deposits for the above performance bond (note 19). At the end of the reporting period, the directors do not consider it probable that a claim will be made against the Group.

26 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 of the controlling shareholders

- China Elite Information Technology Ltd.
- Directel Limited
- Fastary Limited
- International Elite Ltd. (ceased to be subjected to common control of the controlling shareholder till 28 November 2018)
- International Elite Limited - Macao Commercial Offshore (ceased to be subjected to common control of the controlling shareholder till 28 November 2018)
- PacificNet Communications Limited - Macao Commercial Offshore
- 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
- China Elite Info Co., Ltd.
- Winet Engineering Limited

26 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(b) Transactions

Particulars of significant related party transactions entered into by the Group during the current year are as follows:

Related parties	*Note*	2018 *HK$'000*	2017 *HK$'000*
China Elite Information Technology Ltd.			
– Data processing and billing management*	(i)	360	360
International Elite Limited - Macao Commercial Offshore			
– Built-in secretarial and customer hotline services*	(i)	91	182
– Development and maintenance of the Company's website*	(i)	–	120
Winet Engineering Limited			
– Built-in secretarial and customer hotline services*	(i)	46	—
Talent Information Engineering Co., Limited			
– Rental of properties*	(ii)	996	996
廣州國聯智慧信息技術有限公司			
– Development and maintenance of the Company's website*	(i)	180	60
– Development and maintenance of the Company's online platform and mobile application*	(i)	180	—
China Elite Info Co., Ltd.			
– Rental of a property	(iii)	–	8

* Continuing connected transactions pursuant to Chapter 20 of the GEM Listing Rules. The disclosures required by Chapter 20 of the GEM Listing Rules are provided in section "Continuing Connected Transactions" of the Directors' Report.

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, online platform and mobile application.

(ii) The Group has leased certain properties from a related party under operating leases at an aggregate monthly rental of HK$83,000 for the period from 1 January 2018 to 31 December 2018.

(iii) The Group leased a property from the related party under an operating lease until 31 October 2017 at a price mutually agreed.

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

26 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(c) Balance with related parties

At 31 December 2018, the Group had the following balance with related parties:

	2018 *HK$'000*	2017 *HK$'000*
Amounts due from related parties		
– trade	8	25
Amounts due to related parties		
– trade	(14)	(23)

Note: The amounts due from/(to) related parties are unsecured, interest-free and recoverable/(repayable) on demand and is included in "Receivables, deposits and prepayments" (note 18) and "Payables and accruals and contract liabilities" (note 20) respectively.

(d) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors (as disclosed in note 8) and certain of the individuals with highest emoluments (as disclosed in note 9) are as follows:

	2018 *HK$'000*	2017 *HK$'000*
Short-term employee benefits	2,325	2,300
Contributions to defined contribution retirement plan	82	80
	2,407	2,380

Total remuneration is included in "staff costs" (note 6(a)).

27 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the financial statements. The following principal accounting policies involve the most significant judgements and estimates used in the preparation of the financial statements.

(a) Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives. The Group reviews annually the useful life of an asset. The depreciation expense for future periods is adjusted if there are significant changes from previous estimation.

(b) Impairment of non-current assets

In considering the impairment loss that may be required for certain property, plant and equipment and intangible assets of the Group, recoverable amount of these assets needs to be determined. The recoverable amount is the greater of the fair value less costs of disposal and the value in use. It is difficult to precisely estimate selling price because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the assets are discounted to their present value, which requires significant judgement relating to items such as level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of items such as revenue and operating costs.

(c) Recognition of deferred tax assets

Deferred tax assets are recognised in respect of unused tax losses and can only be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax losses can be utilised. Management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

27 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(d) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy set out in note 2(j)(ii).

The recoverable amount of an asset or a cash-generating unit has been determined based on its value-in-use. These calculations require the use of estimates. There are a number of assumptions and estimates involved for the preparation of cash flow projections for the period covered by the approved budget and the estimated terminal value. Key assumptions include the expected sales growth rates, net profit margin and selection of discount rates, to reflect the risks-involved and the earnings multiple that can be realised for the estimated terminal value.

Management prepared the financial budgets reflecting future performance and market development expectations. Judgement is required to determine key assumptions adopted in the cash flow projections and changes to key assumptions can significantly affect these cash flow projections and therefore the result of the impairment reviews.

(e) Contingent consideration

The Group's contingent consideration has been valued based on the forecasted revenue and gross profit of the acquired business for the future periods at measurement date. The valuation requires the Group to make significant estimates about future periods' revenue and gross profit of the acquired business with reference to their business plan to be implemented and future market conditions which are inherently uncertain.

28 COMPARATIVE FIGURES

The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 2(c).

Comparative figures in respective of certain components in revenue and cost of sales have been reclassified to conform to the current year's presentation.

29 IMMEDIATE AND ULTIMATE CONTROLLING PARTIES

At 31 December 2018, the directors consider the immediate parent and ultimate controlling parties of the Group to be New Everich Holdings Limited, which is incorporated in the BVI, and beneficially owned by the controlling shareholders as mentioned in note 26(a)(i). None of these parties produces financial statements available for public use.

30 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	2018 HK$'000	2017 HK$'000
Non-current assets			
Investments in subsidiaries	12	—*	—*
Property, plant and equipment		865	1,316
Other non-current financial assets		2,739	2,106
Total non-current assets		3,604	3,422
Current assets			
Amounts due from subsidiaries		57,654	32,312
Receivables, deposits and prepayments		293	387
Taxation recoverable		—	120
Cash and cash equivalents		1,585	30,373
Total current assets		59,532	63,192
Current liabilities			
Amounts due to subsidiaries		1,573	3,704
Payables and accruals		1,358	1,308
Total current liabilities		2,931	5,012
Net current assets		56,601	58,180
Total assets less current liabilities		60,205	61,602
Net assets		60,205	61,602
Capital and reserves	22(a)		
Share capital		31,125	31,125
Share premium		46,749	46,749
Warrant reserve		1,654	1,654
Fair value reserve		722	89
Accumulated losses		(20,045)	(18,015)
Total equity		60,205	61,602

Approved and authorised for issue by the board of directors on 27 March 2019.

Mr. Pang Kwok Chau
Director

Mr. Li Wang
Director

* The balance represents amount less than HK$1,000.

31 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2018 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
IFRS 16, *Leases*	1 January 2019
IFRIC 23, *Uncertainty over Income Tax Treatments*	1 January 2019
Annual Improvements to IFRSs 2015-2017 Cycle	1 January 2019
Amendments to IAS 28, *Long-term interest in associates and joint ventures*	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for IFRS 16, the actual impact upon the initial adoption of this standard may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standard is initially applied in the Group's first quarterly report for the three months ending 31 March 2019. The Group may also change its accounting policy elections, including the transition options, until the standard is initially applied in that financial report.

31 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018 *(Continued)*

IFRS 16, *Leases*

As disclosed in note 2(i), currently the Group classifies leases into operating leases for properties and transmission lines.

Once IFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

IFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties and transmission lines which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the consolidated statement of profit or loss over the period of the lease.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. As allowed by IFRS 16, the Group plans to use the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. The Group will therefore apply the new definition of a lease in IFRS 16 only to contracts that are entered into on or after the date of initial application. In addition, the Group plans to elect the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets.

The Group plans to elect to use the modified retrospective approach for the adoption of IFRS 16 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019 and will not restate the comparative information. As disclosed in note 24(b), at 31 December 2018 the Group's future minimum lease payments under non-cancellable operating leases amount to HK$1,947,000 and HK$972,000 for properties and transmission lines respectively, the majority of which is payable between 1 and 5 years after the reporting date or in more than 5 years. Upon the initial adoption of IFRS 16, the opening balances of lease liabilities and the corresponding right-of-use assets will be adjusted respectively, after taking account the effects of discounting, as at 1 January 2019.

Other than the recognition of lease liabilities and right-of-use assets, the Group expects that the transition adjustments to be made upon the initial adoption of IFRS 16 will not be material. However, the expected changes in accounting policies as described above could have a material impact on the Group's financial statements from 2019 onwards.

FIVE-YEAR SUMMARY

(Expressed in Hong Kong dollars)

	For the years ended 31 December				
	2018	2017	2016	2015	2014
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Results					
Revenue	**256,279**	59,096	6,415	15,934	22,680
Cost of sales	**(235,009)**	(54,208)	(13,562)	(18,728)	(20,324)
Gross profit/(loss)	**21,270**	4,888	(7,147)	(2,794)	2,356
Other income	**374**	984	1,115	2,369	2,365
Other net (loss)/income	**(4,285)**	944	(4,590)	(6,528)	(657)
Administrative and other operating expenses	**(19,294)**	(13,775)	(12,197)	(17,212)	(13,112)
Reversal of/(provision for) impairment loss on trade receivables (net)	**–**	—	25,934	(11,574)	(14,322)
(Loss)/ profit before taxation	**(1,935)**	(6,959)	3,115	(35,739)	(23,370)
Income tax credit/(expense)	**157**	737	128	(301)	(1,570)
(Loss)/ profit for the year attributable to equity shareholders of the Company	**(1,778)**	(6,222)	3,243	(36,040)	(24,940)

	At 31 December				
	2018	2017	2016	2015	2014
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets and Liabilities					
Total assets	**144,233**	142,577	114,140	116,355	147,845
Total liabilities	**(46,174)**	(41,955)	(7,520)	(12,978)	(8,428)
Total equity	**98,059**	100,622	106,620	103,377	139,417