# 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 2021

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

**GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.**

**Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**



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

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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

## REGISTERED OFFICE

Windward 3, Regatta Office Park
PO Box 1350
Grand Cayman KY1-1108
Cayman Islands

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Office Nos. 1, 2, 14 and 15
37th Floor, Hong Kong Plaza
No. 188 Connaught Road West
Hong Kong

## PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited
United Overseas Bank Limited (Singapore)

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

Ocorian Trust (Cayman) Limited
Windward 3, Regatta Office Park
PO Box 1350
Grand Cayman KY1-1108
Cayman Islands

## BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

## STOCK CODE

8337

## AUDITORS

KPMG
*Certified Public Accountants*
Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance
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 2021 to all the shareholders of the Company.

## RESULTS OF THE YEAR

For the year ended 31 December 2021, the Group recorded revenue of approximately HK$150,271,000, representing a decrease of approximately 29.7% as compared with last year. Loss for the year attributable to equity shareholders of the Company in 2021 increased by approximately 20.3 times to approximately HK$14,205,000 compared with a loss of approximately HK$668,000 for the last corresponding year. Basic and diluted loss per ordinary share for the year ended 31 December 2021 was 7.68 HK cents respectively as compared with basic and diluted loss of 0.36 HK cents respectively for the year ended 31 December 2020.

## REVIEW FOR THE YEAR

Performance of the Group has weakened for the year ended 31 December 2021 compared to that of 2020. The Group continued to face difficulties in the highly competitive mobile services industry and the revenue derived from the provision of telecommunications services decreased significantly by approximately 69.4% to approximately HK$11,096,000 for the year ended 31 December 2021 when compared to approximately HK$36,292,000 for the year ended 31 December 2020.

On the other hand, the Group faced a decrease in the distribution business including distribution of mobile phone, electronic products and mobile and data top-up e-vouchers. The revenue generated from such distribution business for the year ended 31 December 2021 was approximately HK$139,175,000, representing a decrease of approximately 21.6% when compared to approximately HK$177,494,000 for the year ended 31 December 2020.

## FUTURE PROSPECTS

Since the development of COVID-19 pandemic remains uncertain, including the areas adjacent to Hong Kong, it is still unable to exclude the possibility that the pandemic will cause further impact on the Group's operating results, and the business environment of the Group will continue to be full of challenges. The authorities have launched several policies that benefit the increase in consumption as well as consumers and manufacturers. In view of the above factors, the Group still remains a cautious positive attitude towards the medium to long-term business development.

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

# CHAIRMAN'S STATEMENT

The Group will continue, with Mobility as a Service (MaaS) as the core, introduce new technologies and establish cooperative relationship with industries in respect of tourists, hotels, airlines and insurances in a timely manner, to create demand for attractions of and communication products for travelling and has been actively looking for suitable partners in the Greater Bay Area and the Southeast Asia Region to provide mobile communication related services for tourists.

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, 25 March 2022

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW AND OUTLOOK

### Business in Hong Kong

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

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

The revenue derived from the provision of telecommunications services decreased significantly by approximately 27.3% to approximately HK$3,182,000 for the year ended 31 December 2021 compared to approximately HK$4,374,000 for the last corresponding year.

The Group has reinforced its cost control and provide extended credit periods to its distributors while staying alert to and proactively respond to different special situations. The Group is negotiating with the service providers to further reduce the unit cost of airtime and mobile data and thus the Group would be able to reduce the selling price of the pre-paid products to enhance competitiveness. The Group is now actively looking for distributors to develop overseas markets to enable overseas users who would like to enjoy mobile data services during their overseas travels at lower charges. The Group believes that various pre-paid product offerings will help the Group to broaden its user base as well as the total usage of airtime and mobile data, which in turn will strengthen the market position of the Group and increase our revenue as well as the market share of the Group in the competitive mobile telecommunications industry.

The Group has diversified its business in Hong Kong to the distribution of mobile phones and electronic products which became one of the main revenue stream in Hong Kong. For the year ended 31 December 2021, the revenue generated from such distribution business which represents the sales proceeds of mobile phones and electronic products, net of returns and discounts, decreased by approximately 9.8% to approximately HK$93,607,000 when compared with approximately HK$103,819,000 for the last corresponding year. The Group will continue to commit more resources and identify different suppliers to increase its offerings of mobile phones and electronic products, and to expand the source of revenue and enhance business performance.

### Business in the PRC

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

GZDT has engaged in the provision of mobile and data top-up services sourced from the dealers of the 3 major mobile network operators in the PRC and resale to ultimate users through the e-commerce platform which is connected to various online payment platforms. Various functions of mobile phones such as online shopping, mobile navigation, video watching and online games playing etc. lead to an increasing demand for mobile data traffic and trouble faced by mobile users of insufficient data traffic. Through the mobile and data top-up services provided by GZDT, mobile users can enjoy a special discount rate on the mobile and data top-up which superimpose on their original mobile data packages and thus solve the particular needs of users such as roaming day plan and video watching plan. Rigid isolation and quarantine measures and travel restrictions have been implemented by the PRC to address the COVID-19 pandemic, and market participants of the mobile top-up industry are affected to a different extent, in particular, due to safety concerns on COVID-19, operation of physical stores are temporarily suspended, reducing the transaction volume of offline channels, and coupled with intense competition within the industry, mobile and data top-up services sector of the PRC has been facing persistent challenges. For the year ended 31 December 2021, the revenue generated from the provision of mobile and data top-up services decreased by approximately 75.4% to approximately HK$7,851,000 when compared with approximately HK$31,855,000 for the last corresponding year. As a result of the intense competition within the industry and low profit margin, and coupled with an increase in data traffic included in a monthly fee package by mobile network operators in the PRC while the extra traffic fee beyond the package has been reduced, the amount of top-up by the mobile users in addition to the original monthly fee package through the top-up services provided by the Group has been decreased. The Group had therefore suspended the top-up services since the third quarter of 2021 and is seeking direct purchase of top-up services from mobile network operators instead of via intermediate distributors so as to increase discount rate, revenue and gross profit.

GZDT also engaged in the distribution of mobile phones and electronic products. For the year ended 31 December 2021, the revenue generated from the distribution business which represents the sales proceeds of the mobile phones and electronic products, net of returns and discounts, decreased by approximately 42.1% to approximately HK$2,682,000 when compared with approximately HK$4,630,000 for the corresponding period last year. The decrease was mainly attributable to the cancellation or reduction in purchase of the mobile and electronic products by our customers as a result of the outbreak of the COVID-19 since 2020. Besides, individual distributors defaulted repayments due to deteriorating operation environment, resulting in a necessary impairment losses on trade receivables in this respect by the Group in 2020. In order to reduce credit risks, the Group has adopted stricter standards on credit risks to examine and evaluate the capability of customers for satisfaction of debt.

* *For identification only*

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

### Business in Singapore

In September 2017, the Group completed an acquisition of South Data Communication Pte. Ltd. ("South Data") (the "Singapore Acquisition"), a company incorporated in Singapore, which is principally engaged in the provision of telecommunications services and distribution business in Singapore. In respect of the distribution business, South Data has entered into 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. The E-commerce Platform Operator has a wide distribution channel of over 1,000 point of sales in Singapore and the ultimate users can easily top up their mobile phones through various popular payment methods such as credit cards and online payment. For the year ended 31 December 2021, the revenue derived from the distribution of mobile and data top-up business decreased by approximately 37.9% to approximately HK$42,886,000 when compared with approximately HK$69,045,000 for the corresponding period last year. The Directors are confident that the distribution of mobile and data top-up business would improve the Group's business performance and operation and act as a foothold in the expansion of telecommunications market to other Asia Pacific territories.

### Outlook

Since the development of COVID-19 pandemic remains uncertain, including the areas adjacent to Hong Kong, it is still unable to exclude the possibility that the pandemic will cause further impact on the Group's operating results, and the business environment of the Group will continue to be full of challenges. The authorities have launched several policies that benefit the increase in consumption as well as consumers and manufacturers. In view of the above factors, the Group still remains a cautious positive attitude towards the medium to long-term business development.

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

On 17 August 2021, the Company entered into a framework agreement (the "Framework Agreement") with 密卡思（深圳）電訊有限公司 (MICAS (Shenzhen) Telecommunication Co., Ltd*) ("Micas"). According to the Framework Agreement, the Company and Micas (through its wholly-owned subsidiary in Hong Kong) intends to form a joint venture company in Hong Kong ("JV Company"), which will provide complete solutions for the digitization of industries, governments and other public institutions and communities around the world. On one hand, the JV Company will obtain IC and solutions of 5G small cell's radio units from Micas. On the other hand, the JV Company will explore other business opportunities in the global 5G infrastructure industry by relying on the Company's advantages in strong relationships with overseas and PRC domestic operators and professional management team in the telecommunications industry.

Micas is a limited liability company established in the PRC. Its principal business is the research and development of the core integrated chips of 5G small cell's radio units. As a member of the O-RAN Alliance (Open Radio Access Network Alliance), Micas provides turn-key solutions of 5G radio units which are O-RAN protocol aligned and are able to interface seamlessly with the upstream network products in Europe and the US. Micas also provides strong technical support to customers to form a stable 5G ecosystem with upstream and downstream of O-RAN members.

On 29 December 2021, the Company entered into a formal cooperation agreement (the "Cooperation Agreement") with MICAS (Hongkong) Corporation Limited（密卡思（香港）有限公司）("Micas HK") and Smart Cloud Infinity Technology Co., Limited（智雲無界科技有限公司）("SCIT"). The Company believes that the entry into the Cooperation Agreement will be conducive to facilitate the Group to commence the business in the 5G infrastructure sector. The Company, Micas and the management team led by Mr. Zhang Rikun ("Mr. Zhang") will jointly boost the business development of the JV Company with their respective capital, platform, relationship and resources advantages. With forward-looking industry insight and deep 5G technology reserves, it is the strategic goal of the JV Company and the Group to become the leading solutions provider of the global 5G infrastructure sector. As such, the Board of Directors is of the view that the entry into of the Cooperation Agreement and the establishment of the JV Company will be in the interests of the Company and its shareholders as a whole.

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

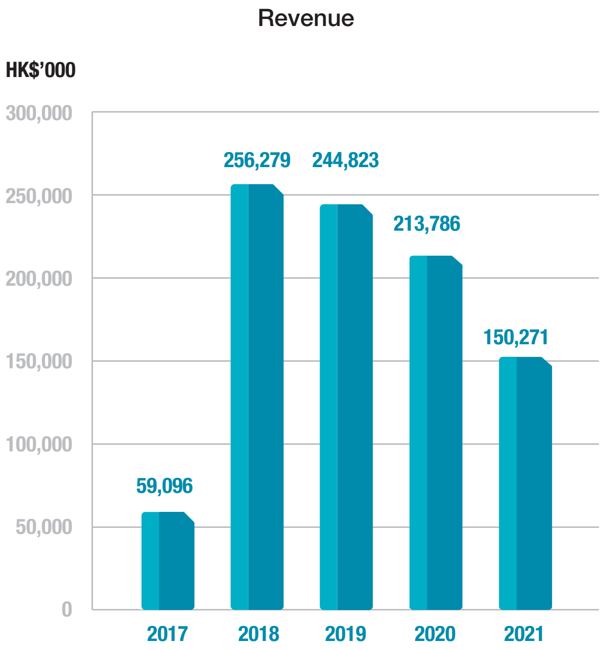
Besides exploring new revenue sources, the Group will at the same time implement stringent cost control measures in order to improve its business and financial performance. The Group is continuously negotiating with the service providers to further reduce the unit cost of airtime and mobile data.

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

## FINANCIAL REVIEW

### Revenue

For the year ended 31 December 2021, the revenue of the Group decreased to approximately HK$150,271,000 compared to approximately HK$213,786,000 for the last corresponding year, representing a decrease of approximately 29.7%. Revenue from the provision of telecommunications services and distribution business accounted for approximately HK$11,096,000 and HK$139,175,000 respectively, representing approximately 7.4% and 92.6% of the Group's revenue for the year ended 31 December 2021, respectively. The decrease was mainly attributable to the decrease in the revenue generated from the provision of telecommunications services and the distribution business.




### Cost of Sales

The Group's cost of sales decreased by approximately 30.5% to approximately HK$147,203,000 for the year ended 31 December 2021 compared to approximately HK$211,892,000 for the last corresponding year. The decrease in cost of sales was generally in line with the respective changes regarding the revenue derived from the provision of telecommunications services, the distribution of mobile phones and electronics products business and the distribution of mobile and data top-up business.

### Gross Profit

The gross profit of the Group for the year ended 31 December 2021 increased by approximately 62.0% to approximately HK$3,068,000 when compared to approximately HK$1,894,000 for the last corresponding year. The increase was mainly attributable to the improved gross profit margin for the provision of telecommunications services in Hong Kong due to the reduced unit cost and usage of mobile data by the mobile users.

### Other Income

The Group's other income for the year ended 31 December 2021 decreased by approximately 75.1% to approximately HK$199,000 when compared with approximately HK$800,000 for the last corresponding year. The decrease was mainly attributable to the decrease of interest income from bank deposits and no one-off wage subsidies provided by the HKSAR Government under the "Employment Support Scheme" in 2021.

### Other Net (Loss)/Income

For the year ended 31 December 2021, the Group recorded other net loss of approximately HK$74,000 while for the year ended 31 December 2020, the Group incurred other net income of approximately HK$36,405,000. The incurrence of other net income for the year ended 31 December 2020 was mainly due to the gain on extinguishment of contingent consideration payables of approximately HK$35,210,000 pursuant to the second supplemental agreement dated 24 December 2020 for the sale and purchase of the entire issued share capital of Joint Top Investments Limited ("Joint Top") while the incurrence of other net loss for the year ended 31 December 2021 was mainly due to the foreign exchange loss arising from the movements in the exchange rate between Hong Kong dollars and Singapore dollars during the year.

### Administrative and Other Operating Expenses

The Group's administrative and other operating expenses for the year ended 31 December 2021 decreased by approximately 54.0% to approximately HK$17,845,000 when compared to approximately HK$38,799,000 for the last corresponding year. The decrease was primarily due to the significant decrease of impairment losses on trade receivables and goodwill to approximately HK$96,000 for the year ended 31 December 2021 compared to approximately HK$20,539,000 for the last corresponding year.

### Finance Costs

The Group's finance costs for the year ended 31 December 2021 decreased by approximately 22.5% to approximately HK$62,000 when compared to approximately HK$80,000 for the last corresponding year. The decrease was attributable to the decrease in interest on lease liabilities.

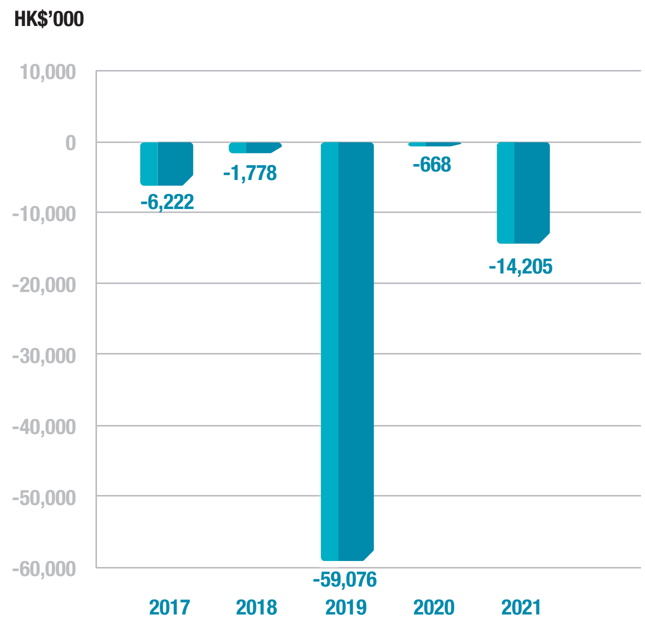
### Income Tax Credit/(Expense)

The Group recorded income tax expense of approximately HK$888,000 for the year ended 31 December 2020 while the Group' income tax credit for the year ended 31 December 2021 was approximately HK$494,000. Such income tax credit was mainly attributable to the decrease of deferred tax liabilities provided for the property, plant and equipment of the Group.

### Loss Attributable to Shareholders

The Group recorded a loss attributable to equity shareholders of the Company for the year ended 31 December 2021 of approximately HK$14,205,000, representing an increase of approximately 20.3 times when compared with approximately HK$668,000 for the last corresponding year. The significant increase in loss was mainly attributable to (i) non-occurrence of the gain on extinguishment of contingent consideration payables of approximately HK$35,210,000 pursuant to the second supplemental agreement dated 24 December 2020 for the sale and purchase of the entire issued share capital of Joint Top for the year ended 31 December 2020; and (ii) which was partially offset by the significant decrease in impairment losses on trade receivables and goodwill.

Profit/(loss) 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 2011 ("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$62.0 million had been utilised up to 31 December 2021. As disclosed in the announcements of the Company dated 12 September 2018 and 20 December 2021, 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 2021 is as follows:

| | Proposed use of the IPO Proceeds as disclosed in the prospectus of the Company dated 28 May 2010 (the "Prospectus") *HK$ million* | Resolved change of use of the IPO Proceeds as disclosed in the announcement dated 12 September 2018 (the "Announcements") *HK$ million* | Resolved change of use of the IPO Proceeds as disclosed in the announcement dated 20 December 2021 (the "Announcements") *HK$ million* | Actual use of the IPO Proceeds from the date of listing to 31 December 2021 *HK$ million* (unaudited) |
|---|---|---|---|---|
| Expansion of the business of mobile phone services in Macau, Taiwan and other Asia Pacific territories | 22.7 | 22.7 | 22.7 | 22.7 |
| Upgrading of the Group's telecommunications equipment for compatible with the mobile network operated by the Group's service providers in Hong Kong and the PRC | 20.8 | 12.8 | 12.8 | 12.8 |
| Development and implementation of RF-SIM business plans in Hong Kong and Macau | 18.9 | 12.3 | 4.3 | 4.3 |
| Distribution of mobile phones and equipment overseas *(Note)* | – | 12.1 | 20.1 | 12.9 |
| Working Capital | 6.8 | 9.3 | 9.3 | 9.3 |
| Total | 69.2 | 69.2 | 69.2 | 62.0 |

*Note:* As disclosed in the announcements of the Company dated 12 September 2018 and 20 December 2021, the Directors had resolved to allocate part of the use of the unutilised net proceeds to distribution of mobile phones and equipment overseas.

As at the date of this report, the Board confirmed that the IPO Proceeds has been used in accordance with the intentions previously announced by the Company in the Prospectus and Announcements. The remaining unutilised changed use of IPO Proceeds of approximately HK$7.2 million allocated to distribution of mobile phones and equipment overseas have been placed as interest bearing deposits in banks. Based on the information currently available and the Board's estimation of the future market condition, it is expected that the unutilized IPO Proceeds will be fully utilised by 30 June 2022.

## 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 2021, 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 2021, total equity attributable to equity holders of the Company amounted to approximately HK$55,979,000 (as at 31 December 2020: approximately HK$69,860,000).

As of 31 December 2021, the Company had an authorised share capital of HK$100,000,000 divided into 500,000,000 shares of a par value of HK$0.20 each ("Shares"), of which 184,875,000 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 2021, the Group had net current assets of approximately HK$51,355,000 (as at 31 December 2020: approximately HK$62,248,000), including cash and cash equivalents of approximately HK$29,524,000 (as at 31 December 2020: approximately HK$37,154,000). The current ratio was 8.5 as at 31 December 2021, lower than 13.6 as at 31 December 2020.

## 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 United States dollars ("US$"). As HK$ is pegged to the US$, the Group considers the risk of movements in exchange rate between HK$ and US$ to be insignificant. In respect of other currencies, the Group has no significant exposure to currency risk as substantially all the Group's transactions are denominated in functional currency. 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 2021, the Group did not have any derivatives for hedging against the exchange rate risk.

## PLEDGE OF ASSETS

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

## CONTINGENT LIABILITY

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

## MATERIAL ACQUISITION, DISPOSAL OR SIGNIFICANT INVESTMENT

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

## CAPITAL COMMITMENTS

As at 31 December 2021, the Group had no commitments contracted for but not provided for in the consolidated financial statements (2020: Nil).

## SEGMENT REPORTING

In accordance with IFRS 8, Operating Segments, operating segment is reported in a manner consistent with the internal reporting provided to the chief operating decision maker ("CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the key management team of the Company. The CODM reviews the Group's internal reports in order to assess performance, allocate resources and determine the operating segments. The Group has identified two reportable segments which are telecommunications services and distribution business. Details of the segment reporting are set out in note 4 to the consolidated financial statements.

## STAFF AND REMUNERATION POLICY

As at 31 December 2021, the Group had 21 employees (2020: 23 employees). Among them, 10 employees worked in Hong Kong, 10 employees worked in the PRC and 1 employee worked in Singapore. Breakdown of the Group's staff by functions as at 31 December 2021 is as follows:

| Function | As at 31 December 2021 | As at 31 December 2020 |
|---|---|---|
| Management | 2 | 2 |
| Financial and accounting | 4 | 4 |
| Sales and marketing | 5 | 6 |
| Information technology, repair and maintenance | 5 | 6 |
| Customer service | 2 | 2 |
| Administration and human resources | 3 | 3 |
| Total | 21 | 23 |

The total staff remuneration including directors' remuneration paid or payable by the Group in 2021 was approximately HK$4,958,000 (2020: approximately HK$4,632,000). 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 2021 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.

The Directors present their annual report together with the audited financial statements of the Group for the year ended 31 December 2021.

## 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 2021 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 5 to 14 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 118 of this report.

### Results and Dividends

The results of the Group for the year ended 31 December 2021 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 2021. No dividend was paid for the year ended 31 December 2020.

## Major Customers and Major Suppliers

For the year ended 31 December 2021, the revenue attributable to the largest customer and the five largest customers accounted for approximately 42.6% and approximately 89.7% of the Group's revenue respectively.

For the year ended 31 December 2021, purchases from the largest supplier and the five largest suppliers accounted for approximately 43.2% and approximately 87.4% 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.

## 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 2021, the aggregate amount of reserves available for distribution to the equity shareholders of the Company was HK$Nil (2020: approximately HK$53,496,000).

## 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 2021, approximately HK$780,000 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 25 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 25 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 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 Company's website.

Details of the above connected transactions are disclosed in note 25 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 2021 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 Friday, 10 June 2022 to Wednesday, 15 June 2022, both days inclusive. In order to ascertain the members' entitlement to the attendance of the forthcoming annual general meeting of the Company to be held on Wednesday, 15 June 2022, all share transfers documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, namely Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Thursday, 9 June 2022.

* *For identification only*

## 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（胡鐵君）

### 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 Wang, Mr. Li Kin Shing 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 2019. 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 2019. Mr. Hu Tiejun 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 7 June 2019. 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 2019. Mr. Liu Kejun 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 7 June 2019. 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 2021.

### 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 25 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 47 to 49 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 2021 (2020: Nil). No Director waived or agreed to waive any emoluments during the year ended 31 December 2021 (2020: Nil).

During the year ended 31 December 2021, 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 (2020: Nil).

### Staff Contribution Retirement Schemes

The amounts of contributions and details of the Group's contributions to retirement benefit schemes are set out in note 6(b) 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 2021, so far as it is known to the Directors, the Directors and the chief executive of the Company had the following interests and short positions in the shares, underlying shares or the debentures of the Company or any of its associated corporations within the meaning of part XV of the Securities and Futures Ordinance (the "SFO"), which would have to be notified to the Company and the Stock Exchange pursuant to the 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 | 104,437,500 *(Note)* | 56.49% |
| | Beneficial owner | 5,062,500 | 2.74% |
| Mr. Pang Kwok Chau | Beneficial owner | 1,500,000 | 0.81% |
| Mr. Wong Kin Wa | Beneficial owner | 1,500,000 | 0.81% |

*Note:* The 104,437,500 shares are owned by New Everich Holdings Limited ("New Everich") which is owned by Mr. Li Kin Shing and Ms. Kwok King Wa as to 54% and 46% respectively. Mr. Li Kin Shing is the spouse of Ms. Kwok King Wa. Accordingly, Mr. Li Kin Shing is deemed to be interested in the 104,437,500 shares under the SFO.

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

| Name of Director | Nature of Interest/Capacity | Approximate Percentage of Shareholding |
|---|---|---|
| Mr. Li Kin Shing | Beneficial owner | 100.00% *(Note)* |

*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 2021, none of the Directors nor the chief executives of the Company had any interests or short positions in any shares, underlying shares and/or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest and/or short positions which were taken or deemed to have under such provisions of the SFO), or which were recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or which would have to be notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

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

As at 31 December 2021, so far as it is known to the Directors, the persons (other than the Directors or chief executive of the Company) with interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which would be recorded in the register of the Company required to be kept under section 336 of the SFO or who are directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group were as follows:

**Long position in shares of the Company:**

| Name | Nature of Interest/Capacity | Number of Ordinary Shares | Approximate Percentage of Shareholding |
|---|---|---|---|
| New Everich | Beneficial owner | 104,437,500 | 56.49% |
| Ms. Kwok King Wa | Interest of controlled corporation | 104,437,500 *(Note 1)* | 56.49% |
| | Interest of spouse | 5,062,500 *(Note 2)* | 2.74% |
| Golden Brand Holdings Limited | Beneficial owner | 16,500,000 | 8.92% |
| Mr. Bai Zhifeng | Interest of controlled corporation | 16,500,000 *(Note 3)* | 8.92% |

*Notes:*

(1) The 104,437,500 shares are owned by New Everich which is owned by Mr. Li Kin Shing and Ms. Kwok King Wa as to 54% and 46% respectively. Mr. Li Kin Shing is the spouse of Ms. Kwok King Wa. Accordingly, Ms. Kwok King Wa is deemed to be interested in the 104,437,500 shares under the SFO.

(2) Mr. Li Kin Shing is the spouse of Ms. Kwok King Wa. Accordingly, Ms. Kwok King Wa is deemed to be interested in the 5,062,500 shares under the SFO.

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

Save as disclosed above, as at 31 December 2021, so far as it is known to the Directors, there was no other person (other than the Directors or chief executive of the Company) with interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which would be recorded in the register of the Company required to be kept under section 336 of the SFO or who are directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

## COMPETING INTERESTS

During the year ended 31 December 2021, save as disclosed below, none of the Directors or controlling shareholders of the Company nor their respective associates is considered to have interests in a business that competes or is likely to compete, either directly or indirectly, with the businesses of the Group other than those businesses where the Directors have been appointed or were appointed as directors to represent the interests of the Company and/or the Group.

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

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

Sunward Telecom Limited ("Sunward Telecom") and its wholly-owned subsidiaries (collectively, the "Sunward Group") were directly wholly-owned by Mr. Li Kin Shing. Therefore, the Sunward Group are the associates of Mr. Li Kin Shing under the GEM Listing Rules. The Sunward Group, as a whole, is principally engaged in (i) the research and development, production and sales of RF-SIM products; (ii) licensing of the RF-SIM operations rights in markets other than Hong Kong and Macau, and (iii) research and development and technology transfer of CA-SIM application rights to customers.

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

## SHARE OPTION SCHEME

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

The maximum number of shares which may be issued upon exercise of all options granted and to be granted under the Share Option Scheme is 18,487,500 shares, representing 10% of the shares of the Company in issue as at 31 December 2021. The maximum number of shares issuable under share options granted to each eligible participant in the Share Option Scheme (including both exercised and outstanding options) within any 12-month period is limited to 1% of the shares of the Company in issue. Any grant or further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting. A grant of share options under the Share Option Scheme to a director, chief executive or substantial shareholder of the Company, or to any of their associates, is subject to approval in advance by the independent non-executive directors (excluding any independent non-executive director who is the grantee of the Option). In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, which would result in the shares issued and to be issued, upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding), to such person in the 12-month period up to and including the date of the grant in excess of 0.1% of the shares of the Company in issue and with an aggregate value (based on the closing price of the Company's shares at the date of grant) in excess of HK$5 million, are subject to shareholders' approval in advance in a general meeting.

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

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

The Company did not grant or cancel any options under the Share Option Scheme any time during the year, and as at 31 December 2021, 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 2021, 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 2021, 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 30 to 46 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 2021 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, 25 March 2022

# 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 2021, the Company has complied with the code provisions as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 15 to the GEM Listing Rules applicable during the financial year ended 31 December 2021.

## CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

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

## 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 22 of this report and the profile of the Directors are set out in pages 47 to 49 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 2021, the Board held 5 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) | 5/5 |
| Mr. Pang Kwok Chau（彭國洲）(Executive Director and Chief Executive Officer) | 5/5 |
| Mr. Li Wang（李宏）(Executive Director) | 5/5 |
| Mr. Wong Kin Wa（黃建華）(Non-Executive Director) | 5/5 |
| Mr. Hu Tiejun（胡鉄君）(Non-Executive Director) | 5/5 |
| Mr. Chen Xue Dao（陳學道）(Independent Non-Executive Director) | 5/5 |
| Ms. Lee Man Yee, Maggie（李敏怡）(Independent Non-Executive Director) | 5/5 |
| Mr. Liu Kejun（劉克鈞）(Independent Non-Executive Director) | 5/5 |

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 C.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 C.1.4 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 2021 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（胡鐵君） | ✓ |
| **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 C.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 Terms of Reference of the Audit Committee were revised and adopted by the Board on 31 December 2018. For details, please refer to the Terms of Reference of the Audit Committee published on the Company's website and the Stock Exchange website on 31 December 2018. The Audit Committee consists of the three independent non-executive Directors, namely, Ms. Lee Man Yee, Maggie, Mr. Chen Xue Dao and Mr. Liu Kejun. Ms. Lee Man Yee, Maggie is the chairman of the Audit Committee.

During the year under review, the audit committee held 4 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 2021, 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 2021 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 2021, the remuneration paid/payable to the external auditors in respect of audit services amounted to approximately HK$1,075,000 (2020: approximately HK$1,067,000), and non-audit services assignment amounted to approximately HK$15,000 (2020: approximately HK$15,000) which includes mainly remuneration paid/payable to KPMG for the provision of tax compliance 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 25 March 2022 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 Wang, Mr. Li Kin Shing 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 nomination committee and the Board consider that Mr. Chen 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 she 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 and knowledge in telecommunications technology, information industry and engineering science. As such, the nomination committee and the Board consider 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, gender 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, gender, 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 25 March 2022. 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 E.1.5 of the CG Code, the remuneration of the members of the senior management by band for the year ended 31 December 2021 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 2021. 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 49 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 extraordinary general meeting held on 18 January 2021 and the annual general meeting held on 13 May 2021 is as follows:

| Name of Directors | Attendance/Number of meetings held |
|---|---|
| Mr. Li Kin Shing（李健誠）(Chairman and Non-Executive Director) | 2/2 |
| Mr. Pang Kwok Chau（彭國洲）(Executive Director and Chief Executive Officer) | 2/2 |
| Mr. Li Wang（李宏）(Executive Director) | 2/2 |
| Mr. Wong Kin Wa（黃建華）(Non-Executive Director) | 2/2 |
| Mr. Hu Tiejun（胡鐵君）(Non-Executive Director) | 2/2 |
| Mr. Chen Xue Dao（陳學道）(Independent Non-Executive Director) | 2/2 |
| Ms. Lee Man Yee, Maggie（李敏怡）(Independent Non-Executive Director) | 2/2 |
| Mr. Liu Kejun（劉克鈞）(Independent Non-Executive Director) | 2/2 |

During the year ended 31 December 2021, 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 64, is the chairman and a non-executive Director. Mr. Li has over 32 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 104,437,500 shares of the Company representing 56.49% of the issued share capital of the Company. Mr. Li is also interested in 5,062,500 shares of the Company representing 2.74% of the issued share capital of the Company.

## EXECUTIVE DIRECTORS

Mr. Pang Kwok Chau（彭國洲）, aged 61, 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 27 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 51, is the executive Director. He is responsible for the overall management, corporate planning and business development of the Group. Mr. Li has over 18 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 54, is a non-executive Director. Mr. Wong obtained a diploma in auditing from Guangzhou Radio & TV University in 1988. Mr. Wong has over 21 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 and was further appointed as the chief executive officer of Global Link with effect from 27 November 2020. 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（胡鐵君）, aged 71, 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 industry-led, 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 79, 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 and has been an independent non-executive Director of IEL till 1 December 2019.

Ms. Lee Man Yee, Maggie（李敏怡）, aged 51, was appointed as an independent non-executive Director on 20 May 2010. Ms. Lee has over 21 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 67, 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 56, 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 13 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 48, 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 20 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.

# INDEPENDENT AUDITOR'S REPORT

KPMG

**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 117, which comprise the consolidated statement of financial position as at 31 December 2021, 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 2021 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.

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

## Impairment assessment of property, plant and equipment

*Refer to note 11 to the consolidated financial statements and the accounting policies in notes 2(g), 2(i) and 2(j)(ii).*

**The Key Audit Matter**

At 31 December 2021, the net book value of the Group's property, plant and equipment, including right-of-use assets relating to leased properties, amounted to HK$4,218,000, related to the Group's provision of telecommunications services in Hong Kong.

At the end of each reporting period, the items of property, plant and equipment are allocated to cash-generating units ("CGUs"). Where indicators of impairment of a CGU are identified, management performs an impairment assessment of each identifiable CGU by comparing its carrying value with its recoverable amount, which is the higher of fair value less costs of disposal and value in use based on discounted cash flow forecasts. Based on the impairment assessments performed by management, impairment losses of HK$1,835,000 were recognised for the year ended 31 December 2021.

We identified the assessment of impairment of property, plant and equipment as a key audit matter because of the significance of the carrying value of such assets to the consolidated financial statements and because the preparation of discounted cash flow forecasts for the purpose of impairment assessments involves estimating future revenue, future operating costs, growth rates for income and expenses and discount rates, which are subject to a significant degree of judgement and could be subject to management bias.

**How the matter was addressed in our audit**

Our audit procedures to assess the impairment of property, plant and equipment included the following:

- understanding and evaluating the design and implementation of key internal controls over the impairment assessment;
- evaluating management's identification of CGUs and the allocation of property, plant and equipment to each CGU with reference to the requirements of the prevailing accounting standards;
- assessing and challenging management's impairment assessment models, which included evaluating the impairment indicators identified by management and with the assistance of our internal valuation specialist, assessing the impairment assessment methodology adopted with reference to the requirements of the prevailing accounting standards;
- challenging the key assumptions and estimates adopted by management in the discounted cash flow forecasts by comparing the significant inputs, which included future revenue, future operating costs and the growth rate for income and expenses with historical performance, available industry information on market data including projected inflation rates published by external research institutes;
- with the assistance of our internal valuation specialist, assessing the discount rate applied in the discounted cash flow forecasts by benchmarking against those of other companies in the same industry;

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

| The Key Audit Matter | How the matter was addressed in our audit |
|---|---|
| | • comparing the key assumptions included in the discounted cash flows forecasts prepared by management in the prior year with the current year's performance to assess the accuracy of the prior year's forecast, making enquiries of management as to the reasons for any significant variations identified and whether these had been considered in the current year discounted cash flow forecasts and considering if there was any indication of management bias;<br><br>• obtaining from management a sensitivity analysis of key assumptions in the discounted cash flow forecasts and considering the resulting impact on the impairment charge for the year and whether there were any indicators of management bias; and<br><br>• assessing the reasonableness of the disclosures in the consolidated financial statements with reference to the requirements of the prevailing accounting standards. |

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

**Revenue recognition**

*Refer to notes 3, 4 and 19(b) to the consolidated financial statements and the accounting policies in notes 2(l) and 2(s).*

**The Key Audit Matter**

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.

The airtime usage and the corresponding call detail records ("CDR") are captured by information technology systems (the "Systems") maintained by an external organisation.

**How the matter was addressed in our audit**

Our audit procedures to assess the recognition of revenue included the following:

*Provision of telecommunications services*

- obtaining an understanding of and assessing the design, implementation and operating effectiveness of key internal controls over:
  - proceeds from sale of prepaid SIM cards and recharge vouchers; and
  - reconciliation of 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;

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**Independent auditor's report to the shareholders of Directel Holdings Limited**
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| The Key Audit Matter | How the matter was addressed in our audit |
| --- | --- |
| Proceeds from sale of prepaid SIM cards and recharge vouchers are initially deferred and recognised as contract liabilities. Revenue is recognised when telecommunications services are provided to end customers, which is the point in time when airtime is utilised by end customers, and the respective nominal amounts are deducted from the prepaid SIM cards or recharge vouchers.<br><br>Prepaid SIM cards and recharge vouchers are non-refundable and customers may not utilise all the airtime under their contracts within the service period. Such unutilised airtime is referred to as "breakage". An expected amount of breakage is estimated by management based on historical utilisation rate and is recognised as revenue in proportion to the utilisation pattern of telecommunications services.<br><br>Any residual contract liabilities at the end of the service period are fully recognised in the consolidated statement of profit or loss and other comprehensive income.<br><br>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. | • 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 airtime suppliers, to assess whether the related revenue has been appropriately recognised or deferred;<br><br>• analysing the Group's historical data on utilisation of prepaid SIM cards and recharge vouchers and revenue recognised for telecommunications services provided to determine an expected amount of breakage for the year; comparing our expectation with the actual figures recorded by the Group, and investigating significant or unusual variances and assessing whether there was any indication of management bias;<br><br>• assessing, on a sample basis, whether residual contract liabilities have been recognised in the consolidated statement of profit or loss and other comprehensive income at the end of the relevant service period with reference to the requirements of the prevailing accounting standards; and<br><br>• inspecting those manual journal entries relating to revenue and contract liabilities raised during the year, and the corresponding underlying documentation, which meet certain specified risk-based criteria. |

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

*(Incorporated in the Cayman Islands with limited liability)*

**The Key Audit Matter**

*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.

**How the matter was addressed in our audit**

*Distribution business*

- obtaining an understanding of and assessing the design, implementation and operating effectiveness of key internal controls over the recognition and measurement of 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, and 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 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;
- sending confirmations to major customers to confirm the revenue amount for the year, on a sample basis;

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**Independent auditor's report to the shareholders of Directel Holdings Limited**
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| The Key Audit Matter | How the matter was addressed in our audit |
| --- | --- |
| | • 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 customers' acknowledgement of goods acceptance and invoices to determine whether the related revenue has been recognised in the appropriate financial year; and<br><br>• inspecting those manual journal entries relating to revenue raised during the year, and the corresponding underlying documentation, which meet 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.

## 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.

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**Independent auditor's report to the shareholders of Directel Holdings Limited**
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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, actions taken to eliminate threats or safeguards applied.

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.

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

The engagement partner on the audit resulting in this independent auditor's report is Chan Tak Kei.

**KPMG**
*Certified Public Accountants*

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
25 March 2022

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2021

| | Note | 2021 *HK$'000* | 2020 *HK$'000* |
|---|---|---|---|
| **Revenue** | 3, 4 | **150,271** | 213,786 |
| Cost of sales | | **(147,203)** | (211,892) |
| **Gross profit** | | **3,068** | 1,894 |
| Other income | 5(a) | **199** | 800 |
| Other net (loss)/income | 5(b) | **(74)** | 36,405 |
| Administrative and other operating expenses | | **(17,845)** | (38,799) |
| **(Loss)/profit from operations** | | **(14,652)** | 300 |
| Finance cost | 6(a) | **(62)** | (80) |
| **(Loss)/profit before taxation** | 6 | **(14,714)** | 220 |
| Income tax credit/(expense) | 7(a) | **494** | (888) |
| **Loss for the year** | | **(14,220)** | (668) |
| **Loss attributable to:** | | | |
| Equity shareholders of the Company | | **(14,205)** | (668) |
| Non-controlling interests | | **(15)** | – |
| | | **(14,220)** | (668) |
| **Loss per share** | 10 | | |
| – Basic and diluted | | **(7.68) cents** | (0.36) cents |
| Loss for the year | | **(14,220)** | (668) |
| **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) | | **(161)** | (153) |
| *Item that may be reclassified subsequently to profit or loss:* | | | |
| Exchange differences on translation of financial statements of subsidiaries outside Hong Kong | | **485** | 1,079 |
| **Total comprehensive income for the year** | | **(13,896)** | 258 |
| **Total comprehensive income attributable to:** | | | |
| Equity shareholders of the Company | | **(13,881)** | 258 |
| Non-controlling interests | | **(15)** | – |
| | | **(13,896)** | 258 |

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

The notes on pages 64 to 117 form part of these financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

| | Note | 2021 HK$'000 | 2020 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 11 | 4,218 | 7,444 |
| Other non-current financial assets | 15 | 1,558 | 1,719 |
| **Total non-current assets** | | 5,776 | 9,163 |
| **Current assets** | | | |
| Inventories | 16(a) | 871 | 297 |
| Trade receivables | 17 | 24,034 | 24,973 |
| Other receivables, deposits and prepayments | 17 | 3,581 | 4,557 |
| Pledged bank deposits | 18(a) | 200 | 200 |
| Cash and cash equivalents | 18(a) | 29,524 | 37,154 |
| **Total current assets** | | 58,210 | 67,181 |
| **Current liabilities** | | | |
| Payables and accruals and contract liabilities | 19 | 6,117 | 3,944 |
| Lease liabilities | 20 | 719 | 968 |
| Taxation payable | 21(a) | 19 | 21 |
| **Total current liabilities** | | 6,855 | 4,933 |
| **Net current assets** | | 51,355 | 62,248 |
| **Total assets less current liabilities** | | 57,131 | 71,411 |
| **Non-current liabilities** | | | |
| Lease liabilities | 20 | 514 | 446 |
| Deferred tax liabilities | 21(b) | 593 | 1,105 |
| **Total non-current liabilities** | | 1,107 | 1,551 |
| **Net assets** | | 56,024 | 69,860 |
| **Capital and reserves** | 22 | | |
| Share capital | | 36,975 | 36,975 |
| Share premium | | 74,517 | 74,517 |
| Exchange reserve | | (238) | (723) |
| Fair value reserve | | (459) | (298) |
| Accumulated losses | | (54,816) | (40,611) |
| **Total equity attributable to equity shareholders of the Company** | | 55,979 | 69,860 |
| **Non-controlling interest** | | 45 | – |
| **Total equity** | | 56,024 | 69,860 |

Approved and authorised for issue by the board of directors on 25 March 2022.

**Mr. Pang Kwok Chau**
*Director*

**Mr. Li Wang**
*Director*

The notes on pages 64 to 117 form part of these financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

| | Attributable to equity shareholders of the Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Share capital *HK$'000* *Note 22(b)* | Share premium *HK$'000* *Note 22(c)(i)* | Exchange reserve *HK$'000* *Note 22(c)(iii)* | Fair value reserve (non-recycling) *HK$'000* *Note 22(c)(ii)* | Accumulated losses *HK$'000* | Total *HK$'000* | Non-controlling interest *HK$'000* | Total equity *HK$'000* |
| Balance at 1 January 2020 | 36,975 | 74,517 | (1,802) | (145) | (39,943) | 69,602 | – | 69,602 |
| Changes in equity for 2020: | | | | | | | | |
| Loss for the year | – | – | – | – | (668) | (668) | – | (668) |
| Other comprehensive income | – | – | 1,079 | (153) | – | 926 | – | 926 |
| Total comprehensive income | – | – | 1,079 | (153) | (668) | 258 | – | 258 |
| Balance at 31 December 2020 and 1 January 2021 | 36,975 | 74,517 | (723) | (298) | (40,611) | 69,860 | – | 69,860 |
| Changes in equity for 2021: | | | | | | | | |
| Loss for the year | – | – | – | – | (14,205) | (14,205) | (15) | (14,220) |
| Other comprehensive income | – | – | 485 | (161) | – | 324 | – | 324 |
| Total comprehensive income | – | – | 485 | (161) | (14,205) | (13,881) | (15) | (13,896) |
| Capital contribution from non-controlling interest of a subsidiary | – | – | – | – | – | – | 60 | 60 |
| Balance at 31 December 2021 | 36,975 | 74,517 | (238) | (459) | (54,816) | 55,979 | 45 | 56,024 |

The notes on pages 64 to 117 form part of these financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

| | Note | 2021<br>*HK$'000* | 2020<br>*HK$'000* |
|---|---|---|---|
| **Operating activities** | | | |
| (Loss)/profit before taxation | | (14,714) | 220 |
| Adjustments for: | | | |
| Depreciation | 11 | 2,359 | 3,002 |
| Write-down of inventories | 16(b) | 96 | 2,100 |
| Impairment losses on trade receivables | 6(c) | 96 | 14,597 |
| Impairment losses on other receivables and prepayments | 6(c) | – | 1,159 |
| Impairment losses on property, plant and equipment | 11 | 1,835 | 262 |
| Impairment losses on goodwill | 14 | – | 5,942 |
| Finance cost | 6(a) | 62 | 80 |
| Interest income | 5(a) | (29) | (252) |
| Fair value change on contingent consideration | 5(b) | – | (917) |
| Gain on extinguishment of contingent consideration | 5(b) | – | (35,210) |
| Net foreign exchange loss/(gain) | | 278 | (154) |
| Changes in working capital: | | | |
| Change in inventories | | (662) | 223 |
| Change in trade receivables | | 821 | (10,832) |
| Change in other receivables, deposits and prepayments | | 1,076 | 4,305 |
| Change in payables and accruals and contract liabilities | | 2,146 | (3,557) |
| Cash used in operations | | (6,636) | (19,032) |
| Overseas tax paid | | (22) | (8) |
| **Net cash used in operating activities** | | (6,658) | (19,040) |
| **Investing activities** | | | |
| Interest received | | 29 | 252 |
| Payment for the purchase of property, plant and equipment | | (6) | (50) |
| **Net cash generated from investing activities** | | 23 | 202 |
| **Financing activities** | | | |
| Capital element of lease rentals paid | 18(b) | (1,143) | (975) |
| Interest element of lease rentals paid | 18(b) | (62) | (80) |
| **Net cash used in financing activities** | | (1,205) | (1,055) |
| **Net decrease in cash and cash equivalents** | | (7,840) | (19,893) |
| **Cash and cash equivalents at beginning of the year** | 18(a) | 37,154 | 56,625 |
| **Effect of foreign exchange rate changes** | | 210 | 422 |
| **Cash and cash equivalents at end of the year** | 18(a) | 29,524 | 37,154 |

The notes on pages 64 to 117 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 Windward 3, Regatta Office Park, PO Box 1350, Grand Cayman KY1-1108, Cayman Islands.

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

## 2 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 amendments to 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 accounting period reflected in these financial statements.

### (b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2021 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:

– 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 26.

### (c) Changes in accounting policies

The IASB has issued a number of amendments to IFRSs that are first effective for the current accounting period of the Group and the Company.

None of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

### (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.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the company, and in respect of which the group has not agreed any additional terms with the holders of those interests which would result in the group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the company. Non-controlling interests in the results of the group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the company.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (d) Subsidiaries *(Continued)*

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)).

### (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.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (e) Business combination and goodwill *(Continued)*

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.

### (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 fair value through profit or loss ("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.

*(i) 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)*

*(ii) 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).

### (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:

| | |
|---|---|
| • Properties leased for own use | Over the unexpired periods of the leases |
| • Leasehold improvements | 5 years or the remaining lease term whichever is shorter |
| • Furniture and fixtures | 5 years |
| • Facilities equipment | 5 to 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.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (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.

### (i) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

*As a lessee*

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (i) Leased assets *(Continued)*

*As a lessee (Continued)*

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

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see notes 2(g) and 2(j)(ii)).

The initial fair value of refundable rental deposits is accounted for separately from the right-of-use assets in accordance with the accounting policy applicable to investments in debt securities carried at amortised cost (see notes 2(f)(i), 2(j)(i) and 2(s)(iii)). Any difference between the initial fair value and the nominal value of the deposits is accounted for as additional lease payments made and is included in the cost of right-of-use assets.

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

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification.

In the consolidated statement of financial position, the current portion of long-term lease liabilities is determined as the present value of contractual payments that are due to be settled within twelve months after the reporting period.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (j) Credit losses and impairment of assets

*(i) Credit losses from financial instruments*

The Group recognises a loss allowance for expected credit losses ("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 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; and

– 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.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (j) Credit losses and impairment of assets *(Continued)*

*(i) Credit losses from financial instruments (Continued)*

Measurement of ECLs *(Continued)*

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.

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.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (j) Credit losses and impairment of assets *(Continued)*

#### *(i) Credit losses from financial instruments (Continued)*

Significant increases in credit risk *(Continued)*

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.

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 past due event;

– 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.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (j) Credit losses and impairment of assets *(Continued)*

#### *(i) Credit losses from financial instruments (Continued)*

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.

#### *(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, including right-of-use assets;
- intangible assets;
- goodwill; and
- investments in subsidiaries in the Company's statement of financial position.

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).

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (j) Credit losses and impairment of assets *(Continued)*

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

– 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.

### (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.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (l) Contract liabilities

A contract liability is recognised when the customer pays non-refundable 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 non-refundable 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.

### (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.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (q) Income tax *(Continued)*

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.

### (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.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (s) Revenue and other income *(Continued)*

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.

(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.

(v) Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred.

## 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.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (u) Related parties *(Continued)*

(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.

(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:

| | 2021<br>*HK$'000* | 2020<br>*HK$'000* |
|---|---|---|
| Telecommunications services | 11,096 | 36,292 |
| Distribution business | 139,175 | 177,494 |
| | 150,271 | 213,786 |

Disaggregation of revenue from contracts with customers within the scope of IFRS 15 by the timing of revenue recognition and by geographic markets is disclosed in notes 4(a) and 4(b) respectively.

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

| | 2021<br>*HK$'000* | 2020<br>*HK$'000* |
|---|---|---|
| Customer A – distribution business | 42,886 | 69,045 |
| Customer B – distribution business | 20,974 | – |
| Customer C – distribution business | – | 43,407 |
| Customer D – distribution business | 17,365 | – |
| Customer E – distribution business | 16,371 | – |
| Customer F – distribution business | 15,989 | – |

### (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.

### (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, unallocated corporate expenses and finance cost.

## 4 SEGMENT INFORMATION *(Continued)*

### (a) Segment results *(Continued)*

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 2021 and 2020 is set out below.

| | 2021 | | |
|---|---|---|---|
| | Telecommunications services *HK$'000* | Distribution business *HK$'000* | Total *HK$'000* |
| Disaggregated by timing of revenue recognition | | | |
| Point in time | – | 139,175 | 139,175 |
| Over time | 11,096 | – | 11,096 |
| Revenue from external customers | 11,096 | 139,175 | 150,271 |
| Reportable segment revenue and consolidated revenue | 11,096 | 139,175 | 150,271 |
| Reportable segment profit | 827 | 2,241 | 3,068 |
| Other income | | | 199 |
| Other net loss | | | (74) |
| Unallocated corporate expenses | | | (17,845) |
| Finance cost | | | (62) |
| Consolidated loss before taxation | | | (14,714) |

## 4 SEGMENT INFORMATION *(Continued)*

### (a) Segment results *(Continued)*

| | 2020 | | |
|---|---|---|---|
| | Telecommunications services | Distribution business | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Disaggregated by timing of revenue recognition | | | |
| Point in time | – | 177,494 | 177,494 |
| Over time | 36,292 | – | 36,292 |
| Revenue from external customers | 36,292 | 177,494 | 213,786 |
| Reportable segment revenue and consolidated revenue | 36,292 | 177,494 | 213,786 |
| Reportable segment profit | (874) | 2,768 | 1,894 |
| Other income | | | 800 |
| Other net income | | | 36,405 |
| Unallocated corporate expenses | | | (38,799) |
| Finance cost | | | (80) |
| Consolidated profit before taxation | | | 220 |

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

### (b) Geographical information

The following table sets out information about the geographical locations of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment ("specified non-current assets"). The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of the specified non-current assets is based on the location of the operation to which they are allocated.

| | Revenue from external customers | | Specified non-current assets | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Hong Kong | 96,789 | 108,193 | 4,218 | 7,444 |
| Mainland China | 10,596 | 36,548 | – | – |
| Singapore | 42,886 | 69,045 | – | – |
| | 150,271 | 213,786 | 4,218 | 7,444 |

## 5 OTHER INCOME AND OTHER NET (LOSS)/INCOME

| | 2021<br>*HK$'000* | 2020<br>*HK$'000* |
|---|---|---|
| **(a) Other income** | | |
| Interest income on financial assets measured at amortised cost | 29 | 252 |
| Government grants *(note)* | – | 538 |
| Sundry income | 170 | 10 |
| | 199 | 800 |

*Note:* In 2020, the Group successfully applied for funding support from the Employment Support Scheme under the Anti-epidemic Fund, set up by the Hong Kong SAR Government. The purpose of the funding is to provide financial support to enterprises to retain their employees who would otherwise be made redundant. Under the terms of the grant, the Group is required not to make redundancies during the subsidy period and to spend all the funding on paying wages to the employees.

| | 2021<br>*HK$'000* | 2020<br>*HK$'000* |
|---|---|---|
| **(b) Other net (loss)/income** | | |
| Net foreign exchange (loss)/gain | (74) | 278 |
| Fair value change on contingent consideration | – | 917 |
| Gain on extinguishment of contingent consideration *(note 13(a))* | – | 35,210 |
| | (74) | 36,405 |

## 6 (LOSS)/PROFIT BEFORE TAXATION

(Loss)/profit before taxation is arrived at after charging:

### (a) Finance cost

| | 2021<br>*HK$'000* | 2020<br>*HK$'000* |
|---|---|---|
| Interest on lease liabilities *(Note 18(b))* | 62 | 80 |

### (b) Staff costs*

| | 2021<br>*HK$'000* | 2020<br>*HK$'000* |
|---|---|---|
| Salaries, wages and other benefits | 4,783 | 4,468 |
| Contributions to retirement benefit schemes | 175 | 164 |
| | 4,958 | 4,632 |

Staff costs include directors' emoluments (note 8).

### (c) Other items

| | *Note* | 2021<br>*HK$'000* | 2020<br>*HK$'000* |
|---|---|---|---|
| Depreciation* | 11 | | |
| – owned property, plant and equipment | | 1,547 | 2,156 |
| – right-of-use assets | | 812 | 846 |
| Impairment losses on trade receivables* | 23(a) | 96 | 14,597 |
| Impairment losses on other receivables and prepayments* | | – | 1,159 |
| Impairment losses on property plant and equipment* | 11 | 1,835 | 262 |
| Impairment losses on goodwill* | 14 | – | 5,942 |
| Operating lease expense* | | 1,193 | 1,363 |
| Auditors' remuneration* | | | |
| – audit services | | 1,075 | 1,067 |
| – tax services | | 10 | 10 |
| – other services | | 5 | 5 |
| Cost of inventories | 16(b) | 137,229 | 176,267 |
| Licence charges* | | 899 | 922 |
| Repair and maintenance* | | 1,072 | 1,259 |
| Data processing and billing management fee* | | 600 | 600 |
| Legal and professional fee* | | 1,367 | 1,421 |

* These items are included in "administrative and other operating expenses" in the consolidated statement of profit or loss and other comprehensive income.

## 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:**

| | 2021<br>*HK$'000* | 2020<br>*HK$'000* |
|---|---|---|
| **Current tax – Outside Hong Kong** | | |
| Provision for the year | 17 | 21 |
| Under-provision/(over-provision) in respect of prior year | 1 | (3) |
| | 18 | 18 |
| **Deferred tax** | | |
| Reversal of prior years' tax losses recognised | – | 1,142 |
| Reversal of other temporary differences | (512) | (272) |
| | (512) | 870 |
| | (494) | 888 |

*(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 2021 is calculated at 16.5% (2020: 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 2021 (2020: Nil) as the Group's operations in Hong Kong sustained a loss for taxation purpose during the year.

*(ii) Tax outside Hong Kong*

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

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

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

| | 2021<br>*HK$'000* | 2020<br>*HK$'000* |
|---|---|---|
| (Loss)/profit before taxation | (14,714) | 220 |
| Notional tax on (loss)/profit before taxation, calculated at the rates applicable to assessable loss in the jurisdictions concerned | (2,561) | (6,577) |
| Tax effect of non-deductible expenses | 146 | 1,083 |
| Tax effect of non-taxable income | (28) | (100) |
| Tax effect of unused tax losses not recognised | 1,955 | 2,561 |
| Tax effect of other deductible temporary differences not recognised | (7) | 2,782 |
| Tax effect of reversal of tax losses previously recognised | – | 1,142 |
| Under-provision/(over-provision) in respect of prior year | 1 | (3) |
| Actual tax (credit)/expense | (494) | 888 |

## 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<br>*HK$'000* | Salaries, allowances and benefits in kind<br>*HK$'000* | Contributions to retirement benefit plan<br>*HK$'000* | Bonuses<br>*HK$'000* | 2021 Total<br>*HK$'000* |
|---|---|---|---|---|---|
| **Executive Directors** | | | | | |
| Pang Kwok Chau | 80 | 492 | 26 | 40 | 638 |
| Li Wang | 80 | 251 | 13 | 20 | 364 |
| | 160 | 743 | 39 | 60 | 1,002 |
| **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 | 743 | 39 | 60 | 1,482 |

## 8 DIRECTORS' EMOLUMENTS *(Continued)*

| | Directors' fees HK$'000 | Salaries, allowances and benefits in kind HK$'000 | Contributions to retirement benefit plan HK$'000 | Bonuses HK$'000 | 2020 Total HK$'000 |
|---|---|---|---|---|---|
| **Executive Directors** | | | | | |
| Pang Kwok Chau | 80 | 492 | 26 | 40 | 638 |
| Li Wang | 80 | 252 | 13 | 20 | 365 |
| | 160 | 744 | 39 | 60 | 1,003 |
| **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 | 744 | 39 | 60 | 1,483 |

During the years ended 31 December 2020 and 2021, 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 2020 and 2021.

## 9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2020: two) are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the other three (2020: three) individuals with highest emoluments are as follows:

| | 2021 HK$'000 | 2020 HK$'000 |
|---|---|---|
| Salaries and other emoluments | 1,028 | 993 |
| Contributions to retirement benefit schemes | 54 | 52 |
| Bonuses | 82 | 82 |
| | 1,164 | 1,127 |

## 9 INDIVIDUALS WITH HIGHEST EMOLUMENTS *(Continued)*

The emoluments of the three (2020: three) individuals with the highest emoluments are within the following band:

| | 2021<br>*Number of individuals* | 2020<br>*Number of individuals* |
|---|---|---|
| HK$Nil – HK$1,000,000 | 3 | 3 |

During the years ended 31 December 2020 and 2021, 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 2020 and 2021.

## 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:

| | 2021<br>*HK$'000* | 2020<br>*HK$'000* |
|---|---|---|
| Loss for the year attributable to the ordinary equity shareholders of the Company for the purpose of basic and diluted loss per share | (14,205) | (668) |

**Weighted average number of ordinary shares (Basic and diluted)**

| | 2021<br>*Number of shares* | 2020<br>*Number of shares* |
|---|---|---|
| Issued ordinary shares at 1 January | 184,875,000 | 184,875,000 |
| Weighted average number of ordinary shares at 31 December | 184,875,000 | 184,875,000 |

The calculation of the basic and diluted loss per share was based on the loss for the year attributable to the equity shareholders of the Company of approximately HK$14,205,000 (2020: approximately HK$668,000), and the weighted average number of 184,875,000 ordinary shares (2020: 184,875,000 ordinary shares) in issue during the year, to reflect the effect of the Share Consolidation as defined in note 22(b).

Diluted loss per share was the same as basic loss per share for the years ended 31 December 2021 and 2020 as there were no dilutive potential ordinary shares during these years.

## 11 PROPERTY, PLANT AND EQUIPMENT

| | Properties leased for own use *HK$'000* | Furniture and fixtures *HK$'000* | Leasehold improvements *HK$'000* | Facilities equipment *HK$'000* | Office equipment *HK$'000* | Motor vehicles *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|---|---|---|
| Cost: | | | | | | | |
| At 1 January 2020 | 718 | 402 | 1,860 | 33,623 | 650 | 2,637 | 39,890 |
| Additions | 309 | – | – | 865 | 11 | – | 1,185 |
| At 31 December 2020 and 1 January 2021 | 1,027 | 402 | 1,860 | 34,488 | 661 | 2,637 | 41,075 |
| Additions | 316 | – | – | 646 | 6 | – | 968 |
| At 31 December 2021 | 1,343 | 402 | 1,860 | 35,134 | 667 | 2,637 | 42,043 |
| Accumulated depreciation: | | | | | | | |
| At 1 January 2020 | 684 | 329 | 1,519 | 24,689 | 597 | 2,549 | 30,367 |
| Charge for the year | 100 | 73 | 341 | 2,365 | 35 | 88 | 3,002 |
| Impairment losses *(note 6(c))* | 243 | – | – | – | 19 | – | 262 |
| At 31 December 2020 and 1 January 2021 | 1,027 | 402 | 1,860 | 27,054 | 651 | 2,637 | 33,631 |
| Charge for the year | 54 | – | – | 2,292 | 13 | – | 2,359 |
| Impairment losses *(note 6(c))* | 262 | – | – | 1,573 | – | – | 1,835 |
| At 31 December 2021 | 1,343 | 402 | 1,860 | 30,919 | 664 | 2,637 | 37,825 |
| Net book value: | | | | | | | |
| At 31 December 2021 | – | – | – | 4,215 | 3 | – | 4,218 |
| At 31 December 2020 | – | – | – | 7,434 | 10 | – | 7,444 |

### Impairment loss

As at 31 December 2021, the Group's management identified a cash-generating unit, a subsidiary relating to the telecommunication segment in Hong Kong which has continued to underperform, and estimated the corresponding recoverable amount of its property, plant and equipment. Based on these estimates, an impairment loss of approximately HK$1,835,000 (2020: approximately HK$262,000) was recognised under other operating expenses to write down the carrying amounts of the related property, plant and equipment to its recoverable amount of approximately HK$4,218,000. The estimates of recoverable amount were based on the value-in-use model, in which the cash flows were discounted using a discount rate of 13% (2020: 13%). The discount rate used was pre-tax and reflected specific risks relating to the operation of the relevant subsidiary.

### Right-of-use assets

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

| | Notes | 2021 *HK$'000* | 2020 *HK$'000* |
|---|---|---|---|
| Properties leased for own use, carried at depreciated cost | (i) | – | – |
| Facilities equipment, carried at depreciated cost | (ii) | 595 | 707 |
| | | 595 | 707 |

## 11 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

### Right-of-use assets *(Continued)*

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

| | 2021<br>*HK$'000* | 2020<br>*HK$'000* |
|---|---|---|
| Depreciation charge of right-of-use assets by class of underlying asset: | | |
| – Properties leased for own use | 54 | 100 |
| – Facilities equipment | 758 | 746 |
| | 812 | 846 |
| Interest on lease liabilities *(note 6(a))* | 62 | 80 |
| Expense relating to short-term leases | | |
| – rental of properties | 1,193 | 1,363 |
| – rental of transmission lines | 17 | 156 |

During the year, additions to right-of-use assets were approximately HK$962,000 (2020: approximately HK$1,135,000). This amount primarily related to the capitalised lease payments payable under new agreements entered into during the year.

Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in notes 18(c) and 20, respectively.

*(i) Properties leased for own use*

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

*(ii) Facilities equipment*

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

## 12 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 | Proportion of ownership interest 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 of HK$1 each | – | 100% | Provision of telecommunications services |
| * Directel Communications Limited | Hong Kong | 5,000,000 shares of HK$1 each | – | 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 of HK$1 each | – | 100% | Investment holding |
| * Guangzhou Directel Telecommunications Limited# @ | The People's Republic of China (the "PRC") | HK$28,000,000 | – | 100% | Provision of telecommunications services and distribution business |
| * Asia Globe Investments Limited | Hong Kong | 1 share of HK$1 each | 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 of HK$1 each | – | 100% | Provision of distribution business |
| * Shenzhen Sky View Technology Trading Limited#@ | PRC | RMB2,000,000 | – | 100% | Provision of distribution business |
| * Directech Investments Limited | BVI | 1 share of US$1 each | 100% | – | Investment holding |
| * Directech Company Limited | Hong Kong | 100,000 shares of HK$1 each | – | 40% *(Note)* | Provision of telecommunications and solution services |

* 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.

@ Registered under the laws of the PRC as a foreign investment enterprise.

*Note:* The Company has the power to govern the financial and operating policies of Directech Company Limited pursuant to the terms as stipulated in the joint venture agreement. Accordingly, Directech Company Limited is treated as a subsidiary of the Company.

## 13 CONTINGENT CONSIDERATION PAYABLES

### (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 sale and purchase agreement, the consideration for acquiring the entire equity interests in Joint Top, amounting to HK$50,000,000, comprised cash consideration of HK$10,000,000 payable immediately and a further contingent amount to be settled in 2021 (if applicable) depending upon the fulfilment of certain pre-determined conditions.

In view of the lower-than-expected performance of Joint Top Group, on 24 December 2020, the Group and the vendor entered into a supplemental sale and purchase agreement. Pursuant to the supplemental agreement, clauses in relation to the fulfillment of certain pre-determined conditions were removed and the total consideration was revised to HK$10,000,000, which had already been settled in 2017. The contingent consideration recognised as a financial liability under "Contingent consideration payables" at fair value amounted to approximately HK$35,210,000 at 24 December 2020. Following the conclusion of the supplemental agreement, a "gain on extinguishment of contingent consideration payables" of approximately HK$35,210,000 was recognised in the consolidated statement of profit or loss and other comprehensive income during the year ended 31 December 2020 (see note 5(b)).

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

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

The 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 vendor in 2021 (if applicable) depending upon the fulfillment of certain pre-determined conditions. No contingent consideration receivable was recognised as a financial asset at 31 December 2020 and 2021.

## 14 GOODWILL

| | *HK$'000* |
|---|---|
| **Cost:** | |
| At 1 January 2020, 31 December 2020, 1 January 2021 and 31 December 2021 | 34,003 |
| **Accumulated impairment losses:** | |
| At 1 January 2020 | 28,061 |
| Impairment losses (note 6(c)) | 5,942 |
| At 31 December 2020, 1 January 2021 and 31 December 2021 | 34,003 |
| **Carrying amount:** | |
| At 31 December 2020 and 31 December 2021 | – |

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

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

### Impairment loss

During the year ended 31 December 2020, a subsidiary of the Group in Singapore was operating under a difficult market condition. This represented an indication that the non-financial assets of that subsidiary may be impaired. The Group assessed the recoverable amounts of the related CGU in Singapore to be HK$Nil and therefore recorded an impairment of HK$5,942,000 on the carrying amount of goodwill at 31 December 2020.

## 15 OTHER NON-CURRENT FINANCIAL ASSETS

| | 2021<br>*HK$'000* | 2020<br>*HK$'000* |
|---|---|---|
| Equity securities designated at FVOCI (non-recycling) *(Note)* | | |
| – Listed in Hong Kong | 1,558 | 1,719 |

*Note:* The equity securities are shares in Hospital Corporation of China Limited, a listed equity securities (stock code: 3869) listed on the Stock Exchange of Hong Kong Limited, and mainly engaged in operation and management of privately owned hospitals in Mainland China. 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 (2020: HK$Nil).

## 16 INVENTORIES

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

| | 2021<br>*HK$'000* | 2020<br>*HK$'000* |
|---|---|---|
| SIM cards | 237 | 93 |
| Recharge and top-up vouchers | 9 | 6 |
| Mobile phone and electronic products | 625 | 198 |
| | 871 | 297 |

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

| | 2021<br>*HK$'000* | 2020<br>*HK$'000* |
|---|---|---|
| Carrying amount of inventories sold | 137,133 | 174,167 |
| Write-down of inventories | 96 | 2,100 |
| | 137,229 | 176,267 |

## 17 RECEIVABLES, DEPOSITS AND PREPAYMENTS

| | 2021<br>*HK$'000* | 2020<br>*HK$'000* |
|---|---|---|
| **Trade receivables** | | |
| – amounts due from third parties | 42,492 | 43,335 |
| Less: loss allowance *(note 23(a))* | (18,458) | (18,362) |
| | 24,034 | 24,973 |
| **Other receivables, deposits and prepayments** | | |
| – amounts due from shareholders from non-controlling interests | 60 | – |
| – other receivables | 280 | 278 |
| – deposits and prepayments | 3,241 | 4,279 |
| | 3,581 | 4,557 |
| | 27,615 | 29,530 |

All of the receivables, deposits and prepayments are expected to be recovered or recognised as expense within one year.

The amounts due from shareholders from non-controlling interests are unsecured, interest-free and repayable on demand.

### 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:

| | 2021<br>*HK$'000* | 2020<br>*HK$'000* |
|---|---|---|
| Within 1 month | 13,263 | 12,132 |
| Over 1 month but within 3 months | 3,247 | 9,999 |
| Over 3 months but within 6 months | 1 | 597 |
| Over 6 months but within 12 months | 7,523 | 2,245 |
| | 24,034 | 24,973 |

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 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).

## 18 PLEDGED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

### (a) Cash and cash equivalents comprise:

| | 2021<br>*HK$'000* | 2020<br>*HK$'000* |
|---|---|---|
| Deposits with banks | 6,224 | 16,718 |
| Cash at banks | 23,375 | 20,478 |
| Cash on hand | 125 | 158 |
| | 29,724 | 37,354 |
| Less: pledged bank deposits *(note)* | (200) | (200) |
| Cash and cash equivalents in the consolidated statement of financial position and the consolidated cash flow statement | 29,524 | 37,154 |

*Note:* Bank deposits of HK$200,000 (2020: HK$200,000) were pledged for the issuance of a performance bond by a bank (note 24).

### (b) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

| | Lease liabilities *(note 20)* | |
|---|---|---|
| | 2021<br>*HK$'000* | 2020<br>*HK$'000* |
| **At 1 January** | 1,414 | 1,254 |
| **Changes from financing cash flows:** | | |
| Capital element of lease rentals paid | (1,143) | (975) |
| Interest element of lease rentals paid | (62) | (80) |
| Total changes from financing cash flows | (1,205) | (1,055) |
| **Other changes:** | | |
| Increase in lease liabilities from entering into new leases during the year | 962 | 1,135 |
| Interest expenses *(note 6(a))* | 62 | 80 |
| Total other changes | 1,024 | 1,215 |
| **At 31 December** | 1,233 | 1,414 |

## 18 PLEDGED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS *(Continued)*

### (c) Total cash outflow of leases

Amounts included in the consolidated cash flow statement for leases comprise the following:

| | 2021<br>*HK$'000* | 2020<br>*HK$'000* |
|---|---|---|
| Within operating cash flows | 1,210 | 1,519 |
| Within financing cash flows | 1,205 | 1,055 |
| | 2,415 | 2,574 |

These amounts relate to the following:

| | 2021<br>*HK$'000* | 2020<br>*HK$'000* |
|---|---|---|
| Lease rentals paid | 2,415 | 2,574 |

## 19 PAYABLES AND ACCRUALS AND CONTRACT LIABILITIES

| | 2021<br>*HK$'000* | 2020<br>*HK$'000* |
|---|---|---|
| **Trade payables** | | |
| – amounts due to third parties | 3,079 | 360 |
| **Other payables and accruals** | | |
| – accrued charges and deposits | 2,886 | 2,993 |
| **Contract liabilities** | | |
| Telecommunications services | | |
| – advance payments | 152 | 591 |
| | 6,117 | 3,944 |

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

## 19 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:

| | 2021<br>*HK$'000* | 2020<br>*HK$'000* |
|---|---|---|
| Within 1 month | 386 | 170 |
| Over 1 month but within 3 months | 75 | 141 |
| Over 3 months but within 12 months | 2,560 | 32 |
| Over 12 months | 58 | 17 |
| | 3,079 | 360 |

### (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*

| | 2021<br>*HK$'000* | 2020<br>*HK$'000* |
|---|---|---|
| Balance at 1 January | 591 | 1,261 |
| Decrease due to the recognition of revenue for contract liabilities at the beginning of the year | (591) | (1,261) |
| Increase due to cash received during the year | 1,454 | 1,375 |
| Decrease due to the recognition of revenue for cash received during the year | (1,302) | (784) |
| Balance at 31 December | 152 | 591 |

## 20 LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities:

| | 2021 | | 2020 | |
|---|---|---|---|---|
| | Present value of the minimum lease payments *HK$'000* | Total minimum lease payments *HK$'000* | Present value of the minimum lease payments *HK$'000* | Total minimum lease payments *HK$'000* |
| Within 1 year | 719 | 765 | 968 | 1,016 |
| After 1 year but within 2 years | 284 | 304 | 138 | 158 |
| After 2 years but within 5 years | 230 | 247 | 258 | 290 |
| After 5 years | – | – | 50 | 51 |
| | 514 | 551 | 446 | 499 |
| | 1,233 | 1,316 | 1,414 | 1,515 |
| Less: total future interest expenses | | (83) | | (101) |
| Present value of lease liabilities | | 1,233 | | 1,414 |

## 21 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

| | 2021 *HK$'000* | 2020 *HK$'000* |
|---|---|---|
| Overseas tax payable | 19 | 21 |

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

### (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 2020 | (1,377) | 1,142 | (235) |
| Credited/(charged) to profit or loss *(note 7(a))* | 272 | (1,142) | (870) |
| At 31 December 2020 and 1 January 2021 | (1,105) | – | (1,105) |
| Credited to profit or loss *(note 7(a))* | 512 | – | 512 |
| At 31 December 2021 | (593) | – | (593) |

*(ii) Reconciliation to the consolidated statement of financial position*

| | 2021 *HK$'000* | 2020 *HK$'000* |
|---|---|---|
| Net deferred tax liabilities recognised in the consolidated statement of financial position | (593) | (1,105) |

### (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 approximately HK$118,910,000 (2020: HK$106,943,000) sustained by the operations of the Group and deductible temporary differences of approximately HK$15,546,000 (2020: HK$15,602,000) as it is not probable that future taxable profits against which the losses can be utilised will be available.

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

### (c) Deferred tax assets not recognised: *(Continued)*

Included in unrecognised tax losses are (i) losses of approximately HK$106,735,000 (2020: HK$96,355,000) from Hong Kong operations that can be carried forward indefinitely, and (ii) losses of approximately HK$12,407,000 (2020: HK$10,588,000) from Mainland China 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 | Share premium | Fair value reserve (non-recycling) | Accumulated losses | Total equity |
|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| | *Note 22(b)* | *Note 22(c)(i)* | *Note 22(c)(ii)* | | |
| Balance at 1 January 2020 | 36,975 | 74,517 | (145) | (20,393) | 90,954 |
| Changes in equity for 2020: | | | | | |
| Loss for the year | – | – | – | (628) | (628) |
| Other comprehensive income | – | – | (153) | – | (153) |
| Total comprehensive income | – | – | (153) | (628) | (781) |
| Balance at 31 December 2020 and 1 January 2021 | 36,975 | 74,517 | (298) | (21,021) | 90,173 |
| Changes in equity for 2021: | | | | | |
| Loss for the year | – | – | – | (69,337) | (69,337) |
| Other comprehensive income | – | – | (161) | – | (161) |
| Total comprehensive income | – | – | (161) | (69,337) | (69,498) |
| Balance at 31 December 2021 | 36,975 | 74,517 | (459) | (90,358) | 20,675 |

## 22 CAPITAL AND RESERVES *(Continued)*

### (b) Share capital

| | 2021 | | 2020 | |
|---|---|---|---|---|
| | Number of shares | Nominal value *HK$'000* | Number of shares | Nominal value *HK$'000* |
| **Authorised:** | | | | |
| At 1 January | 10,000,000,000 | 100,000 | 10,000,000,000 | 100,000 |
| Share consolidation | (9,500,000,000) | – | – | – |
| At 31 December | 500,000,000 | 100,000 | 10,000,000,000 | 100,000 |
| **Issued and fully paid:** | | | | |
| At 1 January | 3,697,500,000 | 36,975 | 3,697,500,000 | 36,975 |
| Share consolidation | (3,512,625,000) | – | – | – |
| At 31 December | 184,875,000 | 36,975 | 3,697,500,000 | 36,975 |

Pursuant to an ordinary resolution passed at the extraordinary general meeting of the Company on 18 January 2021, every twenty issued and unissued ordinary shares of HK$0.01 each in the share capital of the Company were consolidated into one ordinary share of HK$0.2 each in the share capital of the Company which became effective on 20 January 2021 (the "Share Consolidation"). As a result of the Share Consolidation, the number of authorised ordinary shares was reduced from 10,000,000,000 of HK$0.01 each to 500,000,000 of HK$0.2 each while the number of issued and fully paid ordinary shares was reduced from 3,697,500,000 of HK$0.01 each to 184,875,000 of HK$0.2 each.

Further details of the Share Consolidation are set out in an announcement and circular of the Company dated 11 December 2020 and 31 December 2020 respectively.

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.

## 22 CAPITAL AND RESERVES *(Continued)*

### (c) 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) 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)).

*(iii) Exchange reserve*

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

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

### (d) Distributability of reserves

At 31 December 2021, the aggregate amount of reserves available for distribution to the equity shareholders of the Company was HK$Nil (2020: approximately HK$53,496,000).

## 22 CAPITAL AND RESERVES *(Continued)*

### (e) 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 institutions 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, approximately 20.0% (2020: 20.0%) and approximately 69.8% (2020: 55.8%) of the total trade 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.

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

### (a) Credit risk *(Continued)*

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:

| | 2021 | | | | |
|---|---|---|---|---|---|
| | Gross carrying amount | Provision on individual basis | Expected loss rate | Loss allowance | Net carrying amount |
| | *HK$'000* | *HK$'000* | *%* | *HK$'000* | *HK$'000* |
| Current (not past due) | 14,856 | – | 0.4 | (60) | 14,796 |
| 1 to 30 days past due | 2,681 | – | 1.9 | (51) | 2,630 |
| 31 to 90 days past due | 26 | – | 8.1 | (2) | 24 |
| 91 to 360 days past due | 9,872 | (2,652) | 8.8 | (636) | 6,584 |
| More than 360 days past due | 15,057 | – | 100 | (15,057) | – |
| | 42,492 | (2,652) | | (15,806) | 24,034 |

| | 2020 | | | |
|---|---|---|---|---|
| | Gross carrying amount | Expected loss rate | Loss allowance | Net carrying amount |
| | *HK$'000* | *%* | *HK$'000* | *HK$'000* |
| Current (not past due) | 22,220 | 2.0 | (445) | 21,775 |
| 1 to 30 days past due | 3,420 | 13.1 | (448) | 2,972 |
| 31 to 90 days past due | 341 | 69.5 | (237) | 104 |
| 91 to 360 days past due | 4,404 | 97.2 | (4,282) | 122 |
| More than 360 days past due | 12,950 | 100 | (12,950) | – |
| | 43,335 | | (18,362) | 24,973 |

## 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.

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

| | 2021<br>*HK$'000* | 2020<br>*HK$'000* |
|---|---|---|
| Balance at 1 January | 18,362 | 3,765 |
| Impairment losses recognised during the year, net *(note 6(c))* | 96 | 14,597 |
| Balance at 31 December | 18,458 | 18,362 |

The origination of new trade receivables net of those settled resulted in an increase in loss allowance during the years ended 31 December 2021 and 2020.

### (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:

| | 2021<br>Contractual undiscounted cash flow | | | |
|---|---|---|---|---|
| | Within 1 year or on demand<br>*HK$'000* | More than 1 year but less than 5 years<br>*HK$'000* | Total<br>*HK$'000* | Carrying amount at 31 December<br>*HK$'000* |
| Payables and accruals | 5,965 | – | 5,965 | 5,965 |
| Lease liabilities | 765 | 551 | 1,316 | 1,233 |
| | 6,730 | 551 | 7,281 | 7,198 |

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

### (b) Liquidity risk *(Continued)*

| | 2020 Contractual undiscounted cash flow | | | | |
|---|---|---|---|---|---|
| | Within 1 year or on demand | More than 1 year but less than 5 years | More than 5 years | Total | Carrying amount at 31 December |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Payables and accruals | 3,353 | – | – | 3,353 | 3,353 |
| Lease liabilities | 1,016 | 448 | 51 | 1,515 | 1,414 |
| | 4,369 | 448 | 51 | 4,868 | 4,767 |

### (c) Interest rate risk

The Group has no significant exposure to interest rate risk.

### (d) Currency risk

The Group has no significant exposure to currency risk as substantially all the Group's transactions are denominated in a functional currency of the operations to which the transactions relate.

### (e) Equity price risk

The Group is exposed to equity price changes arising from equity securities held for non-trading proposes (see note 15).

The Group's 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.

At 31 December 2021, it is estimated that an increase/decrease of 5% (2020: 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 approximately HK$78,000 (2020: approximately HK$86,000).

The sensitivity analysis indicates the instantaneous change in the Group's loss after tax and accumulated losses 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 2020.

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

### (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

| | | Fair value measurements as at 31 December 2021 categorised into | | |
|---|---|---|---|---|
| | Fair value at 31 December 2021 | Level 1 | Level 2 | Level 3 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Recurring fair value measurements** | | | | |
| *Assets:* | | | | |
| Non-trading listed securities | **1,558** | **1,558** | **–** | **–** |

| | | Fair value measurements as at 31 December 2020 categorised into | | |
|---|---|---|---|---|
| | Fair value at 31 December 2020 | Level 1 | Level 2 | Level 3 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Recurring fair value measurements** | | | | |
| *Assets:* | | | | |
| Non-trading listed securities | 1,719 | 1,719 | – | – |

## 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)*

During the years ended 31 December 2020 and 2021, 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.

*(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 2020 and 2021.

## 24 CONTINGENT LIABILITY

As at 31 December 2021, performance bond of HK$200,000 (2020: HK$200,000) was given by a bank in favour of the Office of the Communications Authority as security for due performance and observance of the Group's obligation under the Services-Based Operator Licence. The Group has pledged bank deposits for the above performance bond (note 18(a)). At the end of the reporting period, the directors do not consider it probable that a claim will be made against the Group in this regard.

## 25 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
- 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

## 25 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* | 2021 *HK$'000* | 2020 *HK$'000* |
|---|---|---|---|
| China Elite Information Technology Ltd. | | | |
| – Data processing and billing management* | (i) | 600 | 600 |
| 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 | 180 |

* 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 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 (2020: HK$83,000) for the year ended 31 December 2021.

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.

### (c) 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:

| | 2021 *HK$'000* | 2020 *HK$'000* |
|---|---|---|
| Short-term employee benefits | 2,184 | 2,150 |
| Contributions to defined contribution retirement plan | 75 | 73 |
| | 2,259 | 2,223 |

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

## 26 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) 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.

### (b) Impairment of trade receivables

Trade receivables are reviewed periodically to assess for impairment. The Group estimates allowances for expected credit losses based on historical loss experience and the current and forecast economic conditions for debtors with similar credit risk ageing of the receivables and customer credit worthiness. If the financial conditions of customers were to deteriorate, actual allowance for expected credit losses would be higher than expected. The methodology and assumptions used are reviewed regularly to reduce any difference between the loss estimates and actual amounts.

## 27 IMMEDIATE AND ULTIMATE CONTROLLING PARTIES

At 31 December 2021, 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 25(a)(i). None of these parties produces financial statements available for public use.

## 28 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

| | Note | 2021<br>*HK$'000* | 2020<br>*HK$'000* |
|---|---|---|---|
| **Non-current assets** | | | |
| Investments in subsidiaries | 12 | –* | –* |
| Property, plant and equipment | | 4 | 6 |
| Other non-current financial assets | | 1,558 | 1,719 |
| **Total non-current assets** | | 1,562 | 1,725 |
| **Current assets** | | | |
| Amounts due from subsidiaries | | 12,711 | 72,009 |
| Receivables, deposits and prepayments | | 261 | 272 |
| Cash and cash equivalents | | 7,393 | 17,489 |
| **Total current assets** | | 20,365 | 89,770 |
| **Current liabilities** | | | |
| Payables and accruals | | 1,252 | 1,322 |
| **Total current liabilities** | | 1,252 | 1,322 |
| **Net current assets** | | 19,113 | 88,448 |
| **Total assets less current liabilities** | | 20,675 | 90,173 |
| **Net assets** | | 20,675 | 90,173 |
| **Capital and reserves** | 22(a) | | |
| Share capital | | 36,975 | 36,975 |
| Share premium | | 74,517 | 74,517 |
| Fair value reserve | | (459) | (298) |
| Accumulated losses | | (90,358) | (21,021) |
| **Total equity** | | 20,675 | 90,173 |

Approved and authorised for issue by the board of directors on 25 March 2022.

**Mr. Pang Kwok Chau**
*Director*

**Mr. Li Wang**
*Director*

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

## 29 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2021

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and a new standard which are not yet effective for the year ended 31 December 2021 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

| | **Effective for accounting periods beginning on or after** |
|---|---|
| Amendments to IFRS 3, *Reference to the Conceptual Framework* | 1 January 2022 |
| Amendments to IAS 16, *Property, Plant and Equipment: Proceeds before Intended Use* | 1 January 2022 |
| Amendments to IAS 37, *Onerous Contracts – Cost of Fulfilling a Contract* | 1 January 2022 |
| Annual Improvements to IFRSs 2018-2020 Cycle | 1 January 2022 |
| Amendments to IAS 1, *Classification of Liabilities as Current or Non-current* | 1 January 2023 |
| Amendments to IAS 1 and IFRS Practice Statement 2, *Disclosure of accounting policies* | 1 January 2023 |
| Amendments to IAS 8, *Definition of accounting estimates* | 1 January 2023 |
| Amendments to IAS 12, *Deferred tax related to assets and liabilities arising from a single transaction* | 1 January 2023 |

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

# FIVE-YEAR SUMMARY

(Expressed in Hong Kong dollars)

| | For the years ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2021 | 2020 | 2019 | 2018 | 2017 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Results** | | | | | |
| Revenue | 150,271 | 213,786 | 244,823 | 256,279 | 59,096 |
| Cost of sales | (147,203) | (211,892) | (243,584) | (235,009) | (54,208) |
| Gross profit | 3,068 | 1,894 | 1,239 | 21,270 | 4,888 |
| Other income | 199 | 800 | 406 | 374 | 984 |
| Other net (loss)/income | (74) | 36,405 | (2,626) | (4,285) | 944 |
| Administrative and other operating expenses | (17,845) | (38,799) | (57,784) | (19,294) | (13,775) |
| (Loss)/profit from operations | (14,652) | 300 | (58,765) | (1,935) | (6,959) |
| Finance cost | (62) | (80) | (51) | – | – |
| (Loss)/profit before taxation | (14,714) | 220 | (58,816) | (1,935) | (6,959) |
| Income tax credit/(expense) | 494 | (888) | (260) | 157 | 737 |
| Loss for the year | (14,220) | (668) | (59,076) | (1,778) | (6,222) |
| Attributable to: | | | | | |
| Equity shareholders of the Company | (14,205) | (668) | (59,076) | (1,778) | (6,222) |
| Non-controlling interest | (15) | – | – | – | – |
| | (14,220) | (668) | (59,076) | (1,778) | (6,222) |

| | At 31 December | | | | |
|---|---|---|---|---|---|
| | 2021 | 2020 | 2019 | 2018 | 2017 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Assets and Liabilities** | | | | | |
| Total assets | 63,986 | 76,344 | 115,814 | 144,233 | 142,577 |
| Total liabilities | (7,962) | (6,484) | (46,212) | (46,174) | (41,955) |
| | 56,024 | 69,860 | 69,602 | 98,059 | 100,622 |
| Equity attributable to equity shareholders of the Company | 55,979 | 69,860 | 69,602 | 98,059 | 100,622 |
| Non-controlling interests | 45 | – | – | – | – |
| | 56,024 | 69,860 | 69,602 | 98,059 | 100,622 |