



Directel Holdings Limited
直通電訊控股有限公司

DIRECTEL HOLDINGS LIMITED

直通電訊控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8337)

INTERIM REPORT

2022

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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

HIGHLIGHTS

- Revenue for the six months ended 30 June 2022 was approximately HK\$75,492,000, representing a decrease of approximately 11.7% as compared with the corresponding period in 2021.
- Loss attributable to shareholders of the Company for the six months ended 30 June 2022 was approximately HK\$7,545,000, representing an increase of approximately 3.6% as compared with the corresponding period in 2021.
- The Board does not recommend the payment of any dividend for the six months ended 30 June 2022.

UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2022

The board of Directors (the “Board”) of the Company hereby announces the unaudited consolidated financial statements of the Company and its subsidiaries (together referred to as the “Group”) for the three months and the six months ended 30 June 2022 together with the unaudited comparative figures for the respective corresponding period in 2021 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| | | For the three months ended 30 June | | For the six months ended 30 June | |
|--|------|---------------------------------------|-----------------|-------------------------------------|-----------------|
| | | 2022 | 2021 | 2022 | 2021 |
| | | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | | Note | (Unaudited) | (Unaudited) | (Unaudited) |
| Revenue | 5, 6 | 39,136 | 48,991 | 75,492 | 85,489 |
| Cost of sales | | <u>(38,678)</u> | <u>(48,726)</u> | <u>(74,582)</u> | <u>(84,654)</u> |
| Gross profit | | 458 | 265 | 910 | 835 |
| Other income | 7(a) | 202 | 9 | 213 | 19 |
| Other net (loss)/income | 7(b) | (383) | 49 | (335) | (113) |
| Administrative and other operating expenses | | <u>(3,179)</u> | <u>(3,960)</u> | <u>(8,406)</u> | <u>(8,115)</u> |
| Loss from operations | | (2,902) | (3,637) | (7,618) | (7,374) |
| Finance cost | 8(a) | <u>(14)</u> | <u>(15)</u> | <u>(30)</u> | <u>(33)</u> |
| Loss before taxation | 8 | (2,916) | (3,652) | (7,648) | (7,407) |
| Income tax credit | 9 | <u>40</u> | <u>64</u> | <u>103</u> | <u>127</u> |
| Loss for the period | | <u>(2,876)</u> | <u>(3,588)</u> | <u>(7,545)</u> | <u>(7,280)</u> |
| Loss attributable to: | | | | | |
| Equity shareholders of the Company | | <u>(2,875)</u> | (3,588) | <u>(7,543)</u> | (7,280) |
| Non-controlling interests | | <u>(1)</u> | – | <u>(2)</u> | – |
| | | <u>(2,876)</u> | <u>(3,588)</u> | <u>(7,545)</u> | <u>(7,280)</u> |
| Loss per share | 11 | | | | |
| – Basic and diluted (HK cents) | | <u>(1.56)</u> | <u>(1.94)</u> | <u>(4.08)</u> | <u>(3.94)</u> |

| | For the three months ended 30 June | | For the six months ended 30 June | |
|--|---------------------------------------|----------------|-------------------------------------|----------------|
| | 2022 | 2021 | 2022 | 2021 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| Loss for the period | (2,876) | (3,588) | (7,545) | (7,280) |
| Other comprehensive income for the period, net of income tax: | | | | |
| <i>Item that will not be reclassified subsequently to profit or loss:</i> | | | | |
| Equity securities at fair value through other comprehensive income – net movement in the fair value reserve (non-recycling) | (69) | (138) | (254) | 62 |
| <i>Item that may be reclassified subsequently to profit or loss:</i> | | | | |
| Exchange differences on translation of financial statements of subsidiaries outside Hong Kong | (861) | 268 | (698) | 194 |
| Total comprehensive income for the period | (3,806) | (3,458) | (8,497) | (7,024) |
| Total comprehensive income attributable to: | | | | |
| Equity shareholders of the Company | (3,805) | (3,458) | (8,495) | (7,024) |
| Non-controlling interests | (1) | – | (2) | – |
| | (3,806) | (3,458) | (8,497) | (7,024) |

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | | As at 30 June 2022 <i>HK\$'000</i> (Unaudited) | As at 31 December 2021 <i>HK\$'000</i> (Audited) |
|--|----|---|--|
| Non-current assets | | | |
| | 12 | 3,689 | 4,218 |
| Property, plant and equipment | | | |
| Other non-current financial assets | 13 | 1,304 | 1,558 |
| Total non-current assets | | 4,993 | 5,776 |
| Current assets | | | |
| Inventories | 14 | 823 | 871 |
| Trade receivables | 15 | 23,111 | 24,034 |
| Other receivables, deposits and prepayments | 15 | 12,263 | 3,581 |
| Pledged bank deposits | 16 | 200 | 200 |
| Cash and cash equivalents | 16 | 15,721 | 29,524 |
| Total current assets | | 52,118 | 58,210 |
| Current liabilities | | | |
| Payables and accruals and contract liabilities | 17 | 7,794 | 6,117 |
| Lease liabilities | | 716 | 719 |
| Taxation payable | | 9 | 19 |
| Total current liabilities | | 8,519 | 6,855 |
| Net current assets | | 43,599 | 51,355 |
| Total assets less current liabilities | | 48,592 | 57,131 |

| | | As at 30 June 2022 HK\$'000 (Unaudited) | As at 31 December 2021 HK\$'000 (Audited) |
|--|----|--|---|
| Non-current liabilities | | | |
| Lease liabilities | | 577 | 514 |
| Deferred tax liabilities | | 488 | 593 |
| | | <hr/> | <hr/> |
| Total non-current liabilities | | 1,065 | 1,107 |
| | | <hr/> | <hr/> |
| Net assets | | 47,527 | 56,024 |
| | | <hr/> | <hr/> |
| Capital and reserves | | | |
| Share capital | 18 | 36,975 | 36,975 |
| Share premium | | 74,517 | 74,517 |
| Exchange reserve | | (936) | (238) |
| Fair value reserve | | (713) | (459) |
| Accumulated losses | | (62,359) | (54,816) |
| | | <hr/> | <hr/> |
| Total equity attributable to equity shareholders of the Company | | 47,484 | 55,979 |
| Non-controlling interest | | 43 | 45 |
| | | <hr/> | <hr/> |
| Total equity | | 47,527 | 56,024 |
| | | <hr/> | <hr/> |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2022

| | Attributable to equity shareholders of the Company | | | | | | | Total Equity <i>HK\$'000</i> (Unaudited) |
|---|--|--|---|--|---|---|---|---|
| | Share capital <i>HK\$'000</i> (Unaudited) | Share premium <i>HK\$'000</i> (Unaudited) | Exchange reserve <i>HK\$'000</i> (Unaudited) | Fair value reserve (non- recycling) <i>HK\$'000</i> (Unaudited) | Accumulated losses <i>HK\$'000</i> (Unaudited) | Total <i>HK\$'000</i> (Unaudited) | Non- controlling interest <i>HK\$'000</i> (Unaudited) | |
| Balance at 1 January 2021 | 36,975 | 74,517 | (723) | (298) | (40,611) | 69,860 | - | 69,860 |
| Loss for the period | - | - | - | - | (7,280) | (7,280) | - | (7,280) |
| Other comprehensive income for the period | - | - | 194 | 62 | - | 256 | - | 256 |
| Total comprehensive income for the period | - | - | 194 | 62 | (7,280) | (7,024) | - | (7,024) |
| Balance at 30 June 2021 | <u>36,975</u> | <u>74,517</u> | <u>(529)</u> | <u>(236)</u> | <u>(47,891)</u> | <u>62,836</u> | <u>-</u> | <u>62,836</u> |
| Balance at 1 January 2022 | 36,975 | 74,517 | (238) | (459) | (54,816) | 55,979 | 45 | 56,024 |
| Loss for the period | - | - | - | - | (7,543) | (7,543) | (2) | (7,545) |
| Other comprehensive income for the period | - | - | (698) | (254) | - | (952) | - | (952) |
| Total comprehensive income for the period | - | - | (698) | (254) | (7,543) | (8,495) | (2) | (8,497) |
| Balance at 30 June 2022 | <u>36,975</u> | <u>74,517</u> | <u>(936)</u> | <u>(713)</u> | <u>(62,359)</u> | <u>47,484</u> | <u>43</u> | <u>47,527</u> |

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

| | | For the six months ended 30 June | |
|------|--|-------------------------------------|-----------------|
| | | 2022 | 2021 |
| | | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Note | | (Unaudited) | (Unaudited) |
| | Net cash used in operating activities | (12,635) | (8,531) |
| | Net cash generated from investing activities | 9 | 17 |
| | Net cash used in financing activities | (479) | (642) |
| | Net decrease in cash and cash equivalents | (13,105) | (9,156) |
| | Cash and cash equivalents at 1 January | 29,524 | 37,154 |
| | Effect of foreign exchange rate changes | (698) | 194 |
| | Cash and cash equivalents at 30 June | 15,721 | 28,192 |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

1. BACKGROUND OF THE COMPANY

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

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

2. BASIS OF PREPARATION

The interim financial report of the Group has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on GEM of the Stock Exchange, including compliance with International Accounting Standard (“IAS”) 34, *Interim Financial Reporting*, issued by the International Accounting Standards Board (“IASB”). It was authorised for issue on 9 August 2022.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2021 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2022 annual financial statements. Details of any changes in accounting policies are set out in note 3.

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

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2021 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRSs”).

2. BASIS OF PREPARATION *(continued)*

The interim financial report for the six months ended 30 June 2022 is unaudited, but has been reviewed by the Company's audit committee.

The financial information relating to the financial year ended 31 December 2021 that is included in the interim financial report as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. 2021 annual report is available at the Company's registered office. The Company's auditor has reported on those financial statements. The auditor's report was unqualified.

3. CHANGES IN ACCOUNTING POLICIES

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

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

4. SEGMENT REPORTING

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

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

5. REVENUE

The principal activities of the Group are the telecommunications services and distribution business. Further details regarding the Group's principal activities are disclosed in note 6.

Disaggregation of revenue

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

| | For the three months ended 30 June | | For the six months ended 30 June | |
|-----------------------------|---------------------------------------|---------------------------------|-------------------------------------|---------------------------------|
| | 2022 HK\$'000 (Unaudited) | 2021 HK\$'000 (Unaudited) | 2022 HK\$'000 (Unaudited) | 2021 HK\$'000 (Unaudited) |
| Telecommunications services | 331 | 4,701 | 818 | 8,677 |
| Distribution business | 38,805 | 44,290 | 74,674 | 76,812 |
| | <u>39,136</u> | <u>48,991</u> | <u>75,492</u> | <u>85,489</u> |

Disaggregation of revenue from contracts with customers by the timing of revenue recognition and by geographic markets is disclosed in notes 6(a) and 6(b) respectively.

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

| | For the three months ended 30 June | | For the six months ended 30 June | |
|------------------------------------|---------------------------------------|---------------------------------|-------------------------------------|---------------------------------|
| | 2022 HK\$'000 (Unaudited) | 2021 HK\$'000 (Unaudited) | 2022 HK\$'000 (Unaudited) | 2021 HK\$'000 (Unaudited) |
| Customer A – distribution business | 17,856 | 16,180 | 35,500 | 28,687 |
| Customer B – distribution business | 5,412 | 4,856 | 9,897 | 10,763 |
| Customer C – distribution business | – | 5,723 | – | 10,716 |
| Customer D – distribution business | 5,948 | – | 11,904 | – |
| Customer E – distribution business | 4,461 | – | 7,935 | – |
| | <u>4,461</u> | <u>–</u> | <u>7,935</u> | <u>–</u> |

6. SEGMENT INFORMATION

Operating segment is reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (“CODM”). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the key management team of the Company. The CODM reviews the Group’s internal reports in order to assess performance, allocate resources and determine the operating segments.

The CODM assesses the performance of the operating segments based on the results attributable to each reportable segment. Interest income and expense are not allocated to segment, as this type of activity is driven by the central treasury function, which manages the cash position of the Group.

The CODM has determined the operating segments based on these reports. The Group is organised into two business segments:

- (i) Telecommunications services: Provision of telecommunications services
- (ii) Distribution business: Distribution of mobile phones and electronic products and distribution of mobile and data top-up e-vouchers

No operating segments have been aggregated to form the reportable segments.

(a) Segment results

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

6. 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 purpose of resource allocation and assessment of segment performance for the six months ended 30 June 2022 and 2021 is set out below.

| | For the six months ended 30 June 2022 | | |
|--|--|--|---|
| | Telecommunications services <i>HK\$'000</i> (Unaudited) | Distribution business <i>HK\$'000</i> (Unaudited) | Total <i>HK\$'000</i> (Unaudited) |
| Disaggregated by timing of revenue recognition | | | |
| Point in time | – | 74,674 | 74,674 |
| Over time | 818 | – | 818 |
| | <hr/> | <hr/> | <hr/> |
| Revenue from external customers | 818 | 74,674 | 75,492 |
| | <hr/> | <hr/> | <hr/> |
| Reportable segment revenue and consolidated revenue | 818 | 74,674 | 75,492 |
| | <hr/> | <hr/> | <hr/> |
| Reportable segment (loss)/profit | (300) | 1,210 | 910 |
| Other income | | | 213 |
| Other net loss | | | (335) |
| Finance cost | | | (30) |
| Unallocated corporate expenses | | | (8,406) |
| | | | <hr/> |
| Consolidated loss before taxation | | | (7,648) |
| | | | <hr/> <hr/> |

6. SEGMENT INFORMATION *(continued)*

(a) Segment results *(continued)*

| | For the six months ended 30 June 2021 | | |
|--|--|--|---|
| | Telecommunications services <i>HK\$'000</i> (Unaudited) | Distribution business <i>HK\$'000</i> (Unaudited) | Total <i>HK\$'000</i> (Unaudited) |
| Disaggregated by timing of revenue recognition | | | |
| Point in time | – | 76,812 | 76,812 |
| Over time | 8,677 | – | 8,677 |
| | <hr/> | <hr/> | <hr/> |
| Revenue from external customers | 8,677 | 76,812 | 85,489 |
| | <hr/> | <hr/> | <hr/> |
| Reportable segment revenue and consolidated revenue | 8,677 | 76,812 | 85,489 |
| | <hr/> | <hr/> | <hr/> |
| Reportable segment (loss)/profit | (351) | 1,186 | 835 |
| Other income | | | 19 |
| Other net loss | | | (113) |
| Finance cost | | | (33) |
| Unallocated corporate expenses | | | (8,115) |
| | | | <hr/> |
| Consolidated loss before taxation | | | <u>(7,407)</u> |

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

6. SEGMENT INFORMATION *(continued)*

(b) Geographical information

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

| | Revenue from external customers | | Specified non-current assets | |
|----------------|-------------------------------------|-----------------|---------------------------------|----------------------|
| | For the six months ended 30 June | | As at 30 June | As at 31 December |
| | 2022 | 2021 | 2022 | 2021 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Audited) |
| Hong Kong | 38,324 | 47,535 | 3,689 | 4,218 |
| Mainland China | 2,279 | 9,267 | – | – |
| Singapore | 34,889 | 28,687 | – | – |
| | <u>75,492</u> | <u>85,489</u> | <u>3,689</u> | <u>4,218</u> |

7. OTHER INCOME AND OTHER NET (LOSS)/INCOME

| | For the three months ended 30 June | | For the six months ended 30 June | |
|---|---------------------------------------|-----------------|-------------------------------------|-----------------|
| | 2022 | 2021 | 2022 | 2021 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| (a) Other income | | | | |
| Interest income on financial assets measured at amortised cost | 5 | 8 | 10 | 17 |
| Sundry income | 197 | 1 | 203 | 2 |
| | <u>202</u> | <u>9</u> | <u>213</u> | <u>19</u> |
| (b) Other net (loss)/income | | | | |
| Net foreign exchange (loss)/gain | <u>(383)</u> | <u>49</u> | <u>(335)</u> | <u>(113)</u> |

8. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

| | For the three months ended 30 June | | For the six months ended 30 June | |
|---|---------------------------------------|---------------------------------|-------------------------------------|---------------------------------|
| | 2022 HK\$'000 (Unaudited) | 2021 HK\$'000 (Unaudited) | 2022 HK\$'000 (Unaudited) | 2021 HK\$'000 (Unaudited) |
| (a) Finance cost | | | | |
| Interest on lease liabilities | <u>14</u> | <u>15</u> | <u>30</u> | <u>33</u> |
| (b) Staff costs | | | | |
| Salaries, wages and other benefits | <u>1,049</u> | 1,216 | <u>2,188</u> | 2,428 |
| Contributions to retirement benefit schemes | <u>36</u> | <u>41</u> | <u>75</u> | <u>83</u> |
| | <u>1,085</u> | <u>1,257</u> | <u>2,263</u> | <u>2,511</u> |
| (c) Other items: | | | | |
| Depreciation | | | | |
| – Owned property, plant and equipment | <u>388</u> | 389 | <u>777</u> | 780 |
| – Right-of-use assets | <u>108</u> | 207 | <u>258</u> | 420 |
| Impairment losses on trade receivables | <u>(318)</u> | – | <u>1,184</u> | – |
| Expenses relating to short-term leases | | | | |
| – rental of properties | <u>279</u> | 267 | <u>567</u> | 534 |
| Auditors' remuneration | | | | |
| – audit services | <u>265</u> | 275 | <u>539</u> | 546 |
| – tax services | <u>5</u> | 5 | <u>5</u> | 5 |
| Cost of inventories | <u>38,155</u> | 43,851 | <u>73,490</u> | 75,660 |
| Licence charges | <u>191</u> | 206 | <u>476</u> | 514 |
| Repair and maintenance | <u>222</u> | 265 | <u>486</u> | 529 |
| Data processing and billing management fee | <u>150</u> | <u>150</u> | <u>300</u> | <u>300</u> |

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

| | For the three months ended 30 June | | For the six months ended 30 June | |
|--------------|---------------------------------------|---------------------------------|-------------------------------------|---------------------------------|
| | 2022 HK\$'000 (Unaudited) | 2021 HK\$'000 (Unaudited) | 2022 HK\$'000 (Unaudited) | 2021 HK\$'000 (Unaudited) |
| Deferred tax | <u>40</u> | <u>64</u> | <u>103</u> | <u>127</u> |

(i) Hong Kong Profits Tax

The Company's Hong Kong subsidiaries are subject to Hong Kong Profits Tax. In addition, whilst the Company and Elitel Limited, a direct wholly-owned subsidiary of the Company, are incorporated in the Cayman Islands, they are considered as having a presence in Hong Kong for tax purpose since they are primarily managed and controlled in Hong Kong. Accordingly, they are subject to tax on an entity basis on income arising in or derived from Hong Kong. The provision for Hong Kong Profits Tax for the three months and the six months ended 30 June 2022 is calculated at 16.5% (three months and six months ended 30 June 2021: 16.5%) of the estimated assessable profits for the period. No provision for Hong Kong Profits Tax has been made for the three months and the six months ended 30 June 2022 (2021: Nil) as the Group's operations in Hong Kong either had no assessable profit or had tax losses brought forward to offset estimated assessable profits for the period.

(ii) Tax outside Hong Kong

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

10. DIVIDENDS

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2022. No interim dividend was paid in respect of the six months ended 30 June 2021.

11. LOSS PER SHARE

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

| | For the three months ended 30 June | | For the six months ended 30 June | |
|---|---------------------------------------|-----------------|-------------------------------------|-----------------|
| | 2022 | 2021 | 2022 | 2021 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| Loss for the period attributable to the ordinary equity shareholders of the Company for the purpose of basic and diluted loss per share | <u>(2,876)</u> | <u>(3,588)</u> | <u>(7,545)</u> | <u>(7,280)</u> |

Weighted average number of ordinary shares (Basic and diluted)

| | For the three months ended 30 June | | For the six months ended 30 June | |
|---|---------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| | 2022 | 2021 | 2022 | 2021 |
| | <i>Number of shares '000</i> | <i>Number of shares '000</i> | <i>Number of shares '000</i> | <i>Number of shares '000</i> |
| Issued ordinary shares at 1 January and 30 June | <u>184,875</u> | <u>184,875</u> | <u>184,875</u> | <u>184,875</u> |
| Weighted average number of ordinary shares at 30 June | <u>184,875</u> | <u>184,875</u> | <u>184,875</u> | <u>184,875</u> |

Diluted loss per share was the same as basic loss per share for the three months and the six months ended 30 June 2022 and 2021 as there were no dilutive potential ordinary shares during these periods.

The weighted average number of ordinary shares for the purpose of basic and diluted loss per share has been adjusted for share consolidation on 20 January 2021. For further information, please refer to the Company's announcement dated 11 December 2020, the Company's circular dated 31 December 2020 and the Company's announcement date 18 January 2021.

12. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2022, the Group has not acquired items of property, plant and equipment (six months ended 30 June 2021: Nil).

During the six months ended 30 June 2022, the Group entered into a number of lease agreements for use of properties and transmission lines, and therefore recognised the additions to right-of-use assets of approximately HK\$509,000 (six months ended 30 June 2021: approximately HK\$345,000).

13. OTHER NON-CURRENT FINANCIAL ASSETS

| | As at 30 June 2022 HK\$'000 (Unaudited) | As at 31 December 2021 HK\$'000 (Audited) |
|---|--|--|
| Equity securities designated at FVOCI (non-recycling) | | |
| – Listed in Hong Kong | <u>1,304</u> | <u>1,558</u> |

The equity securities are shares in Hospital Corporation of China Limited, a listed equity securities (stock code: 3869) listed on the Stock Exchange of Hong Kong Limited, and mainly engaged in operation and management of privately owned hospitals in the People's Republic of China (the "PRC"). The Group designated the listed equity securities as measured in FVOCI (non-recycling), as the investments are held for strategic purposes. No dividends were received on these investments for the six months ended 30 June 2022 (2021: Nil).

14. INVENTORIES

| | As at 30 June 2022 HK\$'000 (Unaudited) | As at 31 December 2021 HK\$'000 (Audited) |
|--------------------------------------|--|--|
| SIM cards | 191 | 237 |
| Recharge and top-up vouchers | 7 | 9 |
| Mobile phone and electronic products | <u>625</u> | <u>625</u> |
| | <u>823</u> | <u>871</u> |

15. RECEIVABLES, DEPOSITS AND PREPAYMENTS

| | As at 30 June 2022 <i>HK\$'000</i> (Unaudited) | As at 31 December 2021 <i>HK\$'000</i> (Audited) |
|---|---|--|
| Trade receivables | | |
| – amounts due from third parties | 42,753 | 42,492 |
| Less: loss allowance | (19,642) | (18,458) |
| | <u>23,111</u> | <u>24,034</u> |
| Other receivables, deposits and prepayments | | |
| – amounts due from shareholders from non-controlling interest | 60 | 60 |
| – other receivables | 266 | 280 |
| – deposits and prepayments | 11,937 | 3,241 |
| | <u>12,263</u> | <u>3,581</u> |
| | <u>35,374</u> | <u>27,615</u> |

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

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

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

Ageing analysis

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

| | As at 30 June 2022 HK\$'000 (Unaudited) | As at 31 December 2021 HK\$'000 (Audited) |
|------------------------------------|--|--|
| Within 1 month | 12,900 | 13,263 |
| Over 1 month but within 3 months | 3,668 | 3,247 |
| Over 3 months but within 6 months | 248 | 1 |
| Over 6 months but within 12 months | 6,295 | 7,523 |
| | <hr/> 23,111 <hr/> | <hr/> 24,034 <hr/> |

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 (2021: three to six months) for certain customers with well-established trading and payment records on a case-by-case basis. Provision of telecommunications services to the Group's prepaid users are billed in advance, whereas postpaid users are made in an open account with credit terms up to 12 days after the date of invoice.

16. PLEDGED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

| | As at 30 June 2022 HK\$'000 (Unaudited) | As at 31 December 2021 HK\$'000 (Audited) |
|--|---|---|
| Deposits with banks | 222 | 6,224 |
| Cash at banks | 15,590 | 23,375 |
| Cash on hand | 109 | 125 |
| | <hr/> | <hr/> |
| | 15,921 | 29,724 |
| Less: pledged bank deposits (<i>note</i>) | (200) | (200) |
| | <hr/> | <hr/> |
| Cash and cash equivalents in the condensed consolidated statement of financial position and the condensed consolidated statement of cash flows | <u>15,721</u> | <u>29,524</u> |

Note: Bank deposits of HK\$200,000 (31 December 2021: HK\$200,000) were pledged for the issuance of a performance bond by a bank.

17. PAYABLES AND ACCRUALS AND CONTRACT LIABILITIES

| | As at 30 June 2022 HK\$'000 (Unaudited) | As at 31 December 2021 HK\$'000 (Audited) |
|------------------------------------|---|---|
| Trade payables | | |
| – amounts due to third parties | 3,400 | 3,079 |
| Other payables and accruals | | |
| – accrued charges and deposits | 4,058 | 2,886 |
| Contracts liabilities | | |
| Telecommunications services | | |
| – advance payments | 336 | 152 |
| | <hr/> | <hr/> |
| | <u>7,794</u> | <u>6,117</u> |

17. PAYABLES AND ACCRUALS AND CONTRACT LIABILITIES (continued)

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

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

| | As at 30 June 2022 HK\$'000 (Unaudited) | As at 31 December 2021 HK\$'000 (Audited) |
|------------------------------------|--|--|
| Within 1 month | 697 | 386 |
| Over 1 month but within 3 months | 130 | 75 |
| Over 3 months but within 12 months | 2,400 | 2,560 |
| Over 12 months | 173 | 58 |
| | <u>3,400</u> | <u>3,079</u> |

18. SHARE CAPITAL

| | As at 30 June 2022 | | As at 31 December 2021 | |
|---|------------------------------------|--|----------------------------------|--|
| | Number of shares (Unaudited) | Nominal value HK\$'000 (Unaudited) | Number of shares (Audited) | Nominal value HK\$'000 (Audited) |
| Authorised: | | | | |
| At the beginning of the reporting period/year | 500,000,000 | 100,000 | 10,000,000,000 | 100,000 |
| Share consolidation (note) | - | - | (9,500,000,000) | - |
| | <u>500,000,000</u> | <u>100,000</u> | <u>500,000,000</u> | <u>100,000</u> |
| Issued and fully paid: | | | | |
| At the beginning of the reporting period/year | 184,875,000 | 36,975 | 3,697,500,000 | 36,975 |
| Share consolidation (note) | - | - | (3,512,625,000) | - |
| | <u>184,875,000</u> | <u>36,975</u> | <u>184,875,000</u> | <u>36,975</u> |
| At the end of the reporting period/year | <u>184,875,000</u> | <u>36,975</u> | <u>184,875,000</u> | <u>36,975</u> |

18. SHARE CAPITAL *(continued)*

Note: 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.

19. FAIR VALUE MEASUREMENT

(i) Financial assets and liabilities measured at fair value

Fair value hierarchy

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

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

19. FAIR VALUE MEASUREMENT *(continued)*

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

Fair value hierarchy (continued)

| | Fair value at | Fair value measurements | | |
|--|---------------|-------------------------------------|-------------|-------------|
| | 30 June | as at 30 June 2022 categorised into | | |
| | 2022 | Level 1 | Level 2 | Level 3 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| Recurring fair value measurements | | | | |
| Assets: | | | | |
| Non-trading listed securities | 1,304 | 1,304 | - | - |
| | <u>1,304</u> | <u>1,304</u> | <u>-</u> | <u>-</u> |

| | Fair value at | Fair value measurements | | |
|--|---------------|---|-----------|-----------|
| | 31 December | as at 31 December 2021 categorised into | | |
| | 2021 | Level 1 | Level 2 | Level 3 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| | (Audited) | (Audited) | (Audited) | (Audited) |
| Recurring fair value measurements | | | | |
| Assets: | | | | |
| Non-trading listed securities | 1,558 | 1,558 | - | - |
| | <u>1,558</u> | <u>1,558</u> | <u>-</u> | <u>-</u> |

During the six months ended 30 June 2022 and the year ended 31 December 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.

Information about Level 3 fair value measurements

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

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

The carrying amounts of the Group's financial instruments carried at cost or amortised cost were not materially different from their fair values as at 30 June 2022 and 31 December 2021.

20. COMMITMENTS

As at 30 June 2022, the Group had no capital commitments contracted for but not provided in the interim financial report (31 December 2021: Nil).

21. MATERIAL RELATED PARTY TRANSACTIONS

(a) Relationship between the Group and related parties

(i) *Controlling shareholders of the Group*

- Li Kin Shing
- Kwok King Wa

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

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

(b) Transactions

The Group entered into the following material related party transactions:

| | For the three months ended 30 June | | For the six months ended 30 June | |
|---|---------------------------------------|-------------|-------------------------------------|-------------|
| | 2022 | 2021 | 2022 | 2021 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| Continuing after the Listing | | | | |
| Services rendered (<i>Note (i)</i>) | 195 | 195 | 390 | 390 |
| Rental of properties (<i>Note (ii)</i>) | 249 | 249 | 498 | 498 |

21. MATERIAL RELATED PARTY TRANSACTIONS (continued)

(b) Transactions (continued)

Notes:

- (i) Services rendered by related parties related to data processing and billing management services, and development and maintenance of the Company's website, on-line platform and mobile application.
- (ii) The Group has leased certain properties from a related party under operating leases at an aggregate monthly rental of HK\$83,000 for the period from 1 January 2022 to 31 December 2022.

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

(c) Key management personnel remuneration

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

| | For the three months ended 30 June | | For the six months ended 30 June | |
|--|---------------------------------------|---------------------------------|-------------------------------------|---------------------------------|
| | 2022 HK\$'000 (Unaudited) | 2021 HK\$'000 (Unaudited) | 2022 HK\$'000 (Unaudited) | 2021 HK\$'000 (Unaudited) |
| Short-term employee benefits | 545 | 545 | 1,090 | 1,091 |
| Contributions to retirement benefit schemes | 17 | 17 | 34 | 34 |
| | <u>562</u> | <u>562</u> | <u>1,124</u> | <u>1,125</u> |

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

22. CONTINGENT LIABILITIES

As at 30 June 2022, a performance bond of HK\$200,000 (31 December 2021: HK\$200,000) was given by a bank in favour of the Office of the Communications Authority as security for the due performance and observance of the Group's obligation under Services-Based Operator Licence. The Group has pledged bank deposits for the above performance bond. The Directors do not consider it probable that a claim will be made against the Group in this regard.

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 six months ended 30 June 2022 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 by approximately 0.8% to approximately HK\$788,000 for the six months ended 30 June 2022 compared to approximately HK\$794,000 for the last corresponding period.

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

The Group has diversified its business in Hong Kong to the distribution of mobile phones and electronic products which became one of the main revenue stream in Hong Kong. For the six months ended 30 June 2022, 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 19.7% to approximately HK\$37,536,000 when compared with approximately HK\$46,741,000 for the last corresponding period. The Group will continue to commit more resources and identify different suppliers to increase its offerings of mobile phones and electronic products, and to expand the source of revenue and enhance business performance.

Business in the PRC

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

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. 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. No revenue has been generated from the provision of mobile and data top-up services for the six months ended 30 June 2022, when compared with approximately HK\$7,851,000 for the corresponding period last year.

GZDT also engaged in the distribution of mobile phones and electronic products. For the six months ended 30 June 2022, the revenue generated from the distribution business which represents the sales proceeds of the mobile phones and electronic products, net of returns and discounts, increased by approximately 62.6% to approximately HK\$2,250,000 when compared with approximately HK\$1,384,000 for the corresponding period last year. The increase was mainly attributable to the increase in purchase of the mobile and electronic products by our customers.

* For identification only

GZDT will continue to leverage on its relationship established and connections with the telecommunications 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 six months ended 30 June 2022, the revenue derived from the distribution of mobile and data top-up business increased by approximately 21.6% to approximately HK\$34,889,000 when compared with approximately HK\$28,687,000 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

For the six months ended 30 June 2022, the revenue of the Group decreased to approximately HK\$75,492,000 compared to approximately HK\$85,489,000 for the corresponding period last year, representing a decrease of approximately 11.7%. Revenue from the provision of telecommunications services and distribution business accounted for approximately HK\$818,000 and HK\$74,674,000 respectively, representing approximately 1.1% and 98.9% of the Group's revenue for the six months ended 30 June 2022, respectively. The decrease was mainly attributable to the decrease in revenue generated from the provision of telecommunications services and the distribution business.

The Group's cost of sales decreased by approximately 11.9% to approximately HK\$74,582,000 for the six months ended 30 June 2022 compared to approximately HK\$84,654,000 for the corresponding period last year. The decrease in cost of sales was generally in line with the respective changes regarding the revenue derived from the provision of telecommunications services, the distribution of mobile phones and electronics products business and the distribution of mobile and data top-up business.

The Group's gross profit increased by approximately 9.0% to approximately HK\$910,000 for the six months ended 30 June 2022 compared to approximately HK\$835,000 for the corresponding period last year. The increase was mainly attributable to the improved gross profit margin of the distribution business in the PRC.

The Group's other income for the six months ended 30 June 2022 increased by approximately 10.2 times to approximately HK\$213,000 when compared with approximately HK\$19,000 for the corresponding period last year. The increase was mainly attributable to the increase of sundry income caused by the one-off wage subsidies provided by the HKSAR Government under the "Employment Support Scheme" in 2022.

The Group's other net loss for the six months ended 30 June 2022 increased by approximately 196.5% to approximately HK\$335,000 when compared with approximately HK\$113,000 for the corresponding period last year. The increase was mainly due to the increase of foreign exchange loss arising from the movements in the exchange rate between Hong Kong dollars, Renminbi and Singapore dollars during the period.

The Group's administrative and other operating expenses for the six months ended 30 June 2022 increased by approximately 3.6% to approximately HK\$8,406,000 when compared to approximately HK\$8,115,000 for the corresponding period last year. The increase was primarily due to no impairment losses on trade receivables has been made for the six months ended 30 June 2021 when compared with approximately HK\$1,184,000 for the six months ended 30 June 2022.

The Group's finance cost for the six months ended 30 June 2022 decreased by approximately 9.1% to approximately HK\$30,000 when compared with approximately HK\$33,000 for the corresponding period last year. The decrease was attributable to the decrease in interest on lease liabilities.

The Group's income tax credit for the six months ended 30 June 2022 decreased by approximately 18.9% to approximately HK\$103,000 when compared with approximately HK\$127,000 for the corresponding period last year. The income tax credit was attributable to the decrease of deferred tax liabilities provided for the property, plant and equipment of the Group.

The Group recorded a loss attributable to equity shareholders of the Company for the six months ended 30 June 2022 of approximately HK\$7,545,000, representing an increase of approximately 3.6% when compared with approximately HK\$7,280,000 for the corresponding period last year. The increase was mainly attributable to the significant increase in impairment losses on trade receivables for the six months ended 30 June 2022.

OTHER INFORMATION

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

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

The IPO Proceeds were approximately HK\$69.2 million which had been fully utilised up to 30 June 2022. As disclosed in the announcements of the Company dated 12 September 2018 and 20 December 2021 (the "Announcements"), the Directors had

resolved to change part of the use of the unutilised net proceeds from the Placing. Therefore, the breakdown of the Company's actual use of the IPO Proceeds up to 30 June 2022 is as follows:

| | Proposed use of the IPO Proceeds as disclosed in the prospectus of the Company dated 28 May 2010 (the "Prospectus") <i>HK\$ million</i> | Resolved change of use of the IPO Proceeds as disclosed in the announcement dated 12 September 2018 (the "Announcements") <i>HK\$ million</i> | Resolved change of use of the IPO Proceeds as disclosed in the announcement dated 20 December 2021 (the "Announcements") <i>HK\$ million</i> | Actual use of the IPO Proceeds from the date of listing to 30 June 2022 <i>HK\$ million</i> (unaudited) |
|---|--|--|---|---|
| Expansion of the business of mobile phone services in Macau, Taiwan and other Asia Pacific territories | 22.7 | 22.7 | 22.7 | 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 (<i>Note</i>) | – | 12.1 | 20.1 | 20.1 |
| Working capital | 6.8 | 9.3 | 9.3 | 9.3 |
| Total | 69.2 | 69.2 | 69.2 | 69.2 |

Note: As disclosed in the announcement 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 fully utilised in accordance with the intentions previously announced by the Company in the Prospectus and Announcements.

CAPITAL STRUCTURE

The Group adopts a sound financial policy and the cash surplus is deposited with the banks to facilitate extra expenditure or investment. As at 30 June 2022, the Group had no outstanding loan or borrowing, and the gearing ratio (being ratio of total long term borrowings to equity) was therefore inapplicable.

As at 30 June 2022, total equity attributable to equity holders of the Company amounted to approximately HK\$47,484,000 (31 December 2021: approximately HK\$55,979,000). As of 30 June 2022, the Company had an authorised share capital of HK\$100,000,000 divided into 500,000,000 shares of a par value of HK\$0.2 each (“Share”), 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 30 June 2022, the Group had net current assets of approximately HK\$43,599,000 (31 December 2021: approximately HK\$51,355,000), including cash and cash equivalents of approximately HK\$15,721,000 (31 December 2021: approximately HK\$29,524,000). The current ratio was 6.1 as at 30 June 2022, lower than 8.5 as at 31 December 2021.

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 arise. As at 30 June 2022, the Group did not have any derivatives for hedging against the exchange rate risk.

PLEDGE OF ASSETS

As at 30 June 2022, bank deposits of HK\$200,000 (31 December 2021: HK\$200,000) were pledged for the issuance of a performance bond by a bank to a subsidiary in the Group.

CONTINGENT LIABILITIES

As at the date of this report, a performance bond of HK\$200,000 was given by a bank in favour of the Office of the Communications Authority (“OFCA”) as security for the due performance and observance of the Group’s obligation under 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 in this regard.

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 period under review.

CAPITAL COMMITMENTS

As at 30 June 2022, the Group had no capital commitments contracted for but not provided in the consolidated financial statements (31 December 2021: Nil).

SEGMENT REPORTING

In accordance with IFRS 8, *Operating Segments*, operating segment is reported in a manner consistent with the internal reporting provided to the chief operating decision maker (“CODM”). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the key management team of the Company. The CODM reviews the Group’s internal reports in order to assess performance, allocate resources and determine the operating segments. The Group has identified two reportable segments which are telecommunications services and distribution business. Details of the segment reporting are set out in note 6 to the unaudited financial report.

STAFF AND REMUNERATION POLICY

As at 30 June 2022, the Group had 20 employees (31 December 2021: 21 employees). Among them, 9 employees worked in Hong Kong, 10 employees worked in the PRC and 1 employee worked in Singapore. Remuneration is determined with reference to market terms and the performance, qualification and experience of individual employee. Year-end bonus based on individual performance will be paid to employees as recognition of and reward for their contributions. The Group also offers various staff welfare, including medical insurance, share option scheme, housing fund and social insurance. It believes that employees are the most valuable assets of the Group.

DIVIDENDS

The Board does not recommend the payment of any dividend for the six months ended 30 June 2022 (six months ended 30 June 2021: Nil).

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

As at 30 June 2022, 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 30 June 2022, none of the Directors nor the chief executives of the Company had any interests or short positions in any shares, underlying shares and/or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest and/or short positions which were taken or deemed to have under such provisions of the SFO), or which were recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or which would have to be notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

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

As at 30 June 2022, 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 <i>(Note 1)</i> | 56.49% |
| | Interest of spouse | 5,062,500 <i>(Note 2)</i> | 2.74% |
| Golden Brand Holdings Limited | Beneficial owner | 16,500,000 | 8.92% |
| Mr. Bai Zhifeng | Interest of controlled corporation | 16,500,000 <i>(Note 3)</i> | 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 30 June 2022, so far as it is known to the Directors, there was no other person (other than the Directors or chief executive of the Company) with interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which would be recorded in the register of the Company required to be kept under section 336 of the SFO or who are directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

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

SHARE OPTION SCHEME

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

The maximum number of shares which may be issued upon exercise of all options granted and to be granted under the Share Option Scheme is 18,487,500 shares, representing 10% of the shares of the Company in issue as at 30 June 2022. The maximum number of shares issuable under share options granted to each eligible participant in the Share Option Scheme (including both exercised and outstanding options) within any 12-month period is limited to 1% of the shares of the Company in issue. Any grant or further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting. A grant of share options under the Share Option Scheme to a director, chief executive or substantial shareholder of the Company, or to any of their associates, is subject to approval in advance by the independent non-executive directors (excluding any independent non-executive director who is the grantee of the Option). In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, which would result in the shares issued and to be issued, upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding), to such person in the 12-month period up to and including the date of the grant in excess of 0.1% of the shares of the Company in issue and with an aggregate value (based on the closing price of the Company's shares at the date of grant) in excess of HK\$5 million, are subject to shareholders' approval in advance in a general meeting.

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

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

The Company did not grant or cancel any options under the Share Option Scheme any time during the six months ended 30 June 2022, and as at 30 June 2022, no option has been granted under the Share Option Scheme.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has committed to maintaining high standards of corporate governance to protect the interests of the shareholders of the Company. In the opinion of the Directors, the Company has complied with the code provisions as set out in the Corporate Governance Code contained in Appendix 15 to the GEM Listing Rules during the six months ended 30 June 2022.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

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

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

During the six months ended 30 June 2022, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any share of the Company.

COMPETING INTERESTS

During the six months ended 30 June 2022, save as disclosed below, none of the Directors or controlling shareholders of the Company nor their respective associates is considered to have interests in a business that competes or is likely to compete, either directly or indirectly, with the businesses of the Group other than those businesses where the Directors have been appointed or were appointed as directors to represent the interests of the Company and/or the Group.

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

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

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

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

AUDIT COMMITTEE

The Company has established an audit committee (“Audit Committee”) on 20 May 2010 with written terms of reference in compliance with the GEM Listing Rules. The primary duties of the Audit Committee are to review the Company’s annual report and consolidated financial statements, half-yearly report and quarterly reports and to provide advice and comment thereon to the Board. The Audit Committee (on behalf of the Board) oversees management in the design, implementation and monitoring of the financial reporting, risk management and internal control systems and the management has provided a confirmation to the Audit Committee (and the Board) on the effectiveness of these systems for the six months ended 30 June 2022. The Company has conducted review of its risk management and internal control systems periodically and has convened meeting periodically to discuss the financial, operational and risk management control. The Audit Committee is of the view that the risk management and internal control system implemented by the Group during the period under review had been valid and adequate.

The Audit Committee consists of the three independent non-executive Directors, namely, Ms. Lee Man Yee, Maggie, Mr. Chen Xue Dao and Mr. Liu Kejun. Ms. Lee Man Yee, Maggie is the chairman of the Audit Committee. The Group's unaudited results for the six months ended 30 June 2022 have been reviewed by the Audit Committee. The Audit Committee was of the opinion that such results complied with the applicable accounting standards and that adequate disclosures had been made.

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

Hong Kong, 9 August 2022

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