WEB PROOF INFORMATION PACK of

DIRECTEL HOLDINGS LIMITED
直通電訊控股有限公司

(incorporated in the Cayman Islands with limited liability)

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This Web Proof Information Pack contains the following information in relation to Directel Holdings Limited extracted from the Post Hearing proof of the draft document:

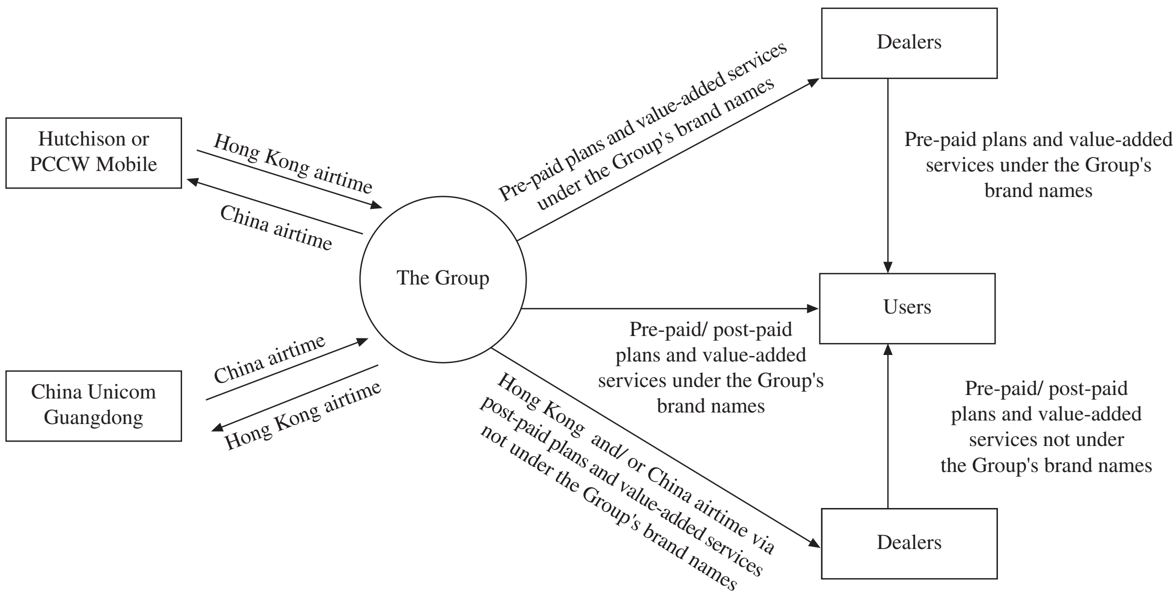
YOU SHOULD READ THE SECTION HEADED "WARNING" ON THE COVER OF THIS WEB PROOF INFORMATION PACK.

SUMMARY

OVERVIEW

The Group is a mobile virtual network operator ("MVNO") which is principally engaged in the provision of mobile phone services. The Group does not have its own telecommunications network infrastructure and its business mainly involves the trading of the airtime sourced from two mobile network operators ("MNOs") in Hong Kong, namely Hutchison and PCCW Mobile, and one MNO in the PRC, namely China Unicom Guangdong, and subsequently sold the airtime through different channels and in various forms to users, dealers or MNOs.

The following diagram illustrates the relationship among the Group, MNOs, its dealers and users:



To reduce its operating costs, the Group has outsourced many of its business operations and administrative work, including its data processing, billing management, telesales dealership services and customer services to third parties (including some connected persons) while maintains by itself the telecommunications system for the provision of its mobile phone services and resale of airtime to MNOs.

The following table sets forth the breakdown of the simultaneous purchase and sale of Hong Kong and China airtime by the Group during the Track Record Period:-

	For the year ended 31 December					
	2007		**2008**		**2009**	
	minutes '000	*%*	*minutes '000*	*%*	*minutes '000*	*%*
Hong Kong airtime	22,100	47.9	22,822	55.6	83,603	81.9
China airtime	24,026	52.1	18,254	44.4	18,434	18.1
Total *(Notes 1 and 2)*	46,126	100.0	41,076	100.0	102,037	100.0
Revenue *(HK$'000)* *(Note 3)*	40,161		32,993		45,555	
Revenue per minute of airtime sold	HK$0.87		HK$0.80		HK$0.45	

Notes:

(1) The volume of the airtime purchased and sold are the same as sales is recognised only when the mobile phone service has been rendered (i.e. when the airtime is actually used by users after activating their SIM cards based on the call detail record from MNOs). For example, when a user of the Group consumes airtime under either the Group's pre-paid plan/post-paid plan services offered by the Group, such sales will be recognised when the mobile phone service is rendered and will constitute a sale of airtime of the Group. At the same time, such consumption by the user will be recorded in the relevant MNO's call detail record and will constitute a purchase of airtime by the Group. Therefore, the transactions of sale and purchase of airtime by the Group are concluded simultaneously.

(2) The volume of Taiwan airtime purchased and sold during the Track Record Period was less than 50,000 minutes for each of the respective year and is not included in the above table.

(3) The revenue includes the Group's revenue derived from "One Card Multiple Number" service, Hong Kong local mobile phone services and resale of airtime to MNOs.

The volume of the Group's airtime sold decreased from approximately 46.1 million minutes in 2007 to approximately 41.1 million minutes in 2008. The Group's revenue and revenue per minute of airtime sold both decreased in 2008 compared to those in 2007. The decrease was mainly due to the decline in total China and Hong Kong airtime consumed by its users as a result of the global economic crisis in 2008.

Despite the significant increase in the volume of the Group's airtime sold in 2009 when compared to that in 2008, the revenue generated from each minute of the airtime sold during the Track Record Period experienced a decreasing trend. Such decreasing trend was mainly attributable to (i) the fierce competition in the telecommunications industry in Hong Kong which had driven down the mobile phone service charges as a whole; (ii) the continuous decrease in the number of post-paid users of the "One Card Multiple Number" service which had a relatively higher ARPU; (iii) the relatively lower ARPU of most newly activated mobile phone numbers which belong to pre-paid plans, while almost 50% of which were not recharged at all after activation in 2009; and (iv) the increase in the number of pre-paid plan users of the "One Card Multiple Number" service who consumed more Hong Kong airtime when staying in Hong Kong in 2009, of which the charge of Hong Kong airtime is lower than the China airtime. Accordingly, though there was a relatively large increase in the number of activated mobile phone numbers and the volume of airtime sold during the Track Record Period, the Group recorded a decrease in revenue from 2007 to 2008 and the Group's revenue growth was at a much slower rate resulting in the decrease in the revenue per minute sold during such period.

The following table sets forth the breakdown of the simultaneous purchase and sale of Hong Kong and China airtime by the Group for each quarter of 2009 and the first quarter of 2010:-

	For the 1st quarter of 2009		**For the 2nd quarter of 2009**		**For the 3rd quarter of 2009**		**For the 4th quarter of 2009**		**For the 1st quarter of 2010**	
	minutes ’000	**%**	**minutes ’000**	**%**	**minutes ’000**	**%**	**minutes ’000**	**%**	**minutes ’000**	**%**
Hong Kong airtime	9,205	69.0	18,585	79.4	24,456	83.9	31,357	86.8	32,159	87.0
China airtime	4,137	31.0	4,835	20.6	4,696	16.1	4,766	13.2	4,824	13.0
Total *(Notes 1 and 2)*	13,342	100.0	23,420	100.0	29,152	100.0	36,123	100.0	36,983	100.0
Revenue *(HK$’000)* *(Note 3)*	8,989		10,524		12,106		13,936		12,679	
Revenue per minute of airtime sold	HK$0.67		HK$0.45		HK$0.42		HK$0.39		HK$0.34	

Notes:

(1) The volume of the airtime purchased and sold are the same as sales is recognised only when the mobile phone service has been rendered (i.e. when the airtime is actually used by users after activating their SIM cards based on the call detail record from MNOs). For example, when a user of the Group consumes airtime under either the Group's pre-paid plan/post-paid plan services offered by the Group, such sales will be recognised when the mobile phone service is rendered and will constitute a sale of airtime of the Group. At the same time, such consumption by the user will be recorded in the relevant MNO's call detail record and will constitute a purchase of airtime by the Group. Therefore, the transactions of sale and purchase of airtime by the Group are concluded simultaneously.

(2) The volume of Taiwan airtime purchased and sold in each quarter of 2009 and the first quarter of 2010 was less than 50,000 minutes for each of the respective period and is not included in the above table.

(3) The revenue includes the Group's revenue derived from "One Card Multiple Number" service, Hong Kong local mobile phone services and resale of airtime to MNOs. The revenue for the first quarter of 2010 is based on the Group's management account which is unaudited.

The volume of the Group's airtime sold increased steadily from approximately 13.3 million minutes for the first quarter of 2009 to approximately 36.1 million minutes for the fourth quarter of 2009; while the revenue derived from "One Card Multiple Number" service, Hong Kong local mobile phone services and resale of airtime to MNOs also increased steadily from approximately HK$9.0 million to approximately HK$13.9 million during the same period. Despite such steady increase, the Group's revenue per minute of airtime sold showed a decreasing trend and decreased from approximately HK$0.67 for the first quarter of 2009 to approximately HK$0.39 for the fourth quarter in 2009. Such decreasing trend was mainly attributable to (i) the fierce competition in the telecommunications industry in Hong Kong which had driven down the mobile phone service charges as a whole; (ii) the continuous decrease in the number of post-paid plan users of the "One Card Multiple Number" service which had a relatively higher ARPU; (iii) the relatively lower ARPU of most newly activated mobile phone numbers which belong to pre-paid plans; and (iv) the increase in the number of pre-paid plan users of the "One Card Multiple Number" service who consumed more Hong Kong airtime when staying in Hong Kong in 2009, of which the charge of Hong Kong airtime is lower than the China airtime. Accordingly, though there was a steady increase in the number of activated mobile phone numbers and the volume of airtime sold in 2009, the Group's revenue growth was at a relatively slower rate, resulting in the decrease in the revenue per minute of airtime sold during such period.

The volume of the Group's airtime sold increased from approximately 36.1 million minutes for the fourth quarter of 2009 to approximately 37.0 million minutes for the first quarter of 2010; while the revenue derived from "One Card Multiple Number" service, Hong Kong local mobile phone services and resale of airtime to MNOs decreased from approximately HK$13.9 million to approximately HK$12.7 million during the same period. The Group's revenue per minute of airtime sold decreased from approximately HK$0.39 for the fourth quarter of 2009 to approximately HK$0.34 for the first quarter of 2010. Such decrease was mainly attributable to the cancellation of domestic roaming fees when making international long distance calls in the PRC since 1 January 2010 under the rules and regulations promulgated by the relevant authorities of the PRC in December 2009 (the "Policy"). The Policy was applicable to all MNOs in the PRC. Pursuant to the Policy, commencing from 1 January 2010, mobile phone calls made from the PRC to other countries, Taiwan, Hong Kong and Macau will only be charged for long distance call fees but not domestic roaming fees, whereas mobile phone calls made in the PRC to and/or from different provinces in the PRC other than the mobile phone number registered province will still be charged at the reduced domestic roaming fee in accordance with the relevant policy promulgated by the PRC government in May 2008. Only post-paid plans and plans of local dealers not under the Group's brand name in "One Card Multiple Number" service and resale of China airtime to Hong Kong MNOs have been affected by the Policy since 1 January 2010. Therefore, the implementation of the Policy caused the decrease in the revenue derived from the post-paid plans and plans of local dealers not under the Group's brand names in "One Card Multiple Number" service and resale of China airtime to Hong Kong MNOs in the first quarter of 2010. The Directors believe that such cancellation of domestic roaming fee pursuant to the Policy may also lower the Group's ARPU in the future when compared with prior periods. Though there was an increase in both the number of activated mobile phone numbers and the volume of airtime sold in the first quarter of 2010 compared to those of the fourth quarter of 2009, the decrease in the Group's revenue caused the decrease in the revenue per minute of airtime sold in the first quarter of 2010 when compared with the corresponding figure for the fourth quarter of 2009.

Two of the MNOs which the Group purchased airtime from adopted minimum monthly airtime purchase policies against the Group during the Track Record Period. The policies set out the minimum monthly airtime purchase amount of service fees that the Group has to pay to such MNOs. In the event that the aggregate amount payable for the services acquired or consumed by the Group in any month is less than such minimum monthly airtime purchase amount under the relevant policies, the Group will still have to pay the minimum monthly fees. For the three years ended 31 December 2009, (i) the

Group was unable to satisfy the minimum monthly airtime purchase amount imposed by one of the MNOs (which commenced in February 2008) for twenty one calender months and was required to pay to such MNO the minimum monthly airtime purchase amount; and (ii) the Group was unable to satisfy the minimum monthly airtime purchase amount adopted by the other MNO for twenty three calendar months over the Track Record Period and was required to pay to such MNO the minimum monthly fees. However, notwithstanding the minimum monthly fees were paid by the Group to these two MNOs during the Track Record Period, no additional minutes of airtime had been provided to the Group for the payment of the shortfall of the minimum monthly fees. The number of minutes provided by these two MNOs was the actual number of minutes consumed by the Group's users, which was recorded in the relevant MNOs' call detail record. Therefore, the Group did not maintain any stock of airtime during the Track Record Period.

Since 2003, the Group has been principally engaged in the provision of "One Card Multiple Number" service under the brand names of "China-HK Telecom/中港通" and "Directel/直通". During the Track Record Period, the Group sold most of the purchased airtime through the provision of "One Card Multiple Number" service and the revenue from the provision of such service contributed over 50% of the Group's total revenue throughout the Track Record Period. Through such service, users can dial and receive long-distance phone calls between Hong Kong and Guangdong Province of the PRC at a lower cost than the traditional roaming service. The following table compares the service charges for the Group's "One Card Multiple Number" pre-paid plan service and roaming services of the five MNOs in Hong Kong within Guangdong Province and calls dialed/received between Hong Kong and Guangdong Province as obtained from the websites of the five MNOs in Hong Kong as at the Latest Practicable Date:-

	Service charge for the Group's "One Card Multiple Number" pre-paid plan service	**Roaming service charges of the five MNOs in Hong Kong**$^{(Note\ 1)}$
	HK$/minute	HK$/minute
Outgoing calls dialed from Guangdong Province to Hong Kong	2.55	4.95-7.76
Outgoing calls dialed from Guangdong Province to Guangdong Province *(Note 2)*	0.55	3.0-3.6
Incoming calls received in Guangdong Province	0.40	6.48-8.30

Notes:

(1) Information obtained from the websites of the respective MNOs.

(2) Service charge for the Group's "One Card Multiple Number" pre-paid plan service for outgoing calls dialed from Guangdong Province to all areas in China is also charged at HK$0.55/minute. However, roaming service charges for such services of the five MNOs in Hong Kong are not publicly available and hence no comparison could be made herein.

In addition to the "One Card Multiple Number" service, the Group has also been offering Hong Kong local mobile phone services since 2007 and reselling Hong Kong airtime to China Unicom Guangdong and China airtime to Hutchison and PCCW Mobile through its "One Card Multiple Number" system. Apart from that, the Group is also engaged in the provision of telesales dealership services to two MNOs in Hong Kong.

Business model of the Group

"One Card Multiple Number" service

The Group, as a MVNO, does not own nor operate its mobile network as it does not possess the required capital and technical expertise to build and operate the entire mobile network infrastructure as those established MNOs have. In order to provide mobile phone services, the Group has to rely on MNOs for their continuous provision of airtime. The Group sources Hong Kong airtime from PCCW Mobile and Hutchison and sources China airtime from China Unicom Guangdong to provide mobile phone services through its equipment and system to its users/dealers either under the Group's brand names or not under the Group's brand names.

The following table sets forth the breakdown of the Group's revenue derived from and the volume of airtime sold under the "One Card Multiple Number" service during the Track Record Period:

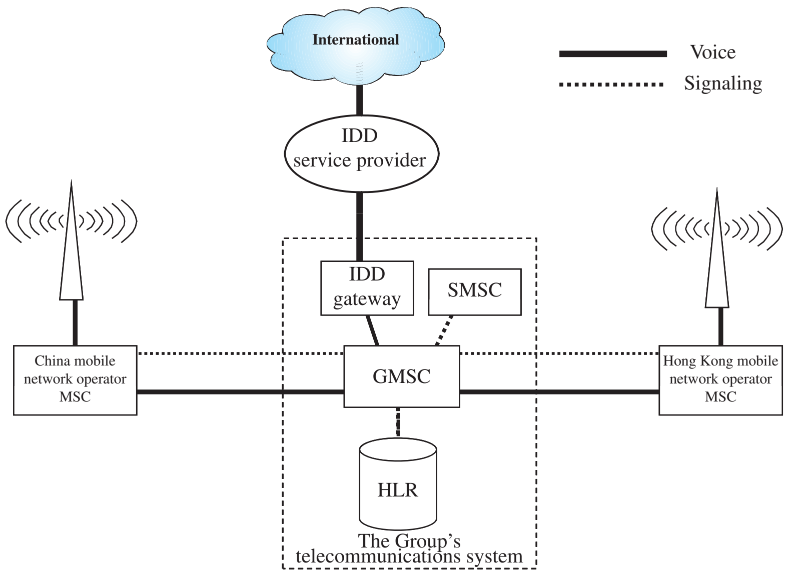
	For the year ended 31 December					
	2007		2008		2009	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
"One Card Multiple Number" Service						
i. Under the Group's brand names						
- pre-paid plans	15,732	52.9	14,568	60.8	15,780	52.1
- post-paid plans	10,855	36.5	7,386	30.8	5,019	16.6
ii. Not under the Group's brand names						
- local dealers	3,133	10.6	2,020	8.4	9,474	31.3
Total	29,720	100.0	23,974	100.0	30,273	100.0
Volume of airtime sold (minutes '000)	34,078		28,984		53,338	
Revenue per minute of airtime sold	HK$0.87		HK$0.83		HK$0.57	

In order to provide the "One Card Multiple Number" service, the Group has engaged a third party telecommunications equipment manufacturer to design and manufacture certain equipment and system according to the specifications and requirements of the Group. Such system is able to maintain more than one phone number for each SIM card, track and update the location of each individual user, activate a specific phone number of the user according to his/her location and perform call routing to the relevant phone number. Through the Group's system, users could simultaneously maintain mobile phone numbers of different designated territories, including those of China, Hong Kong and Taiwan, in one single SIM card and economically dial and receive long-distance phone calls between Hong Kong, Guangdong Province and Taiwan at a lower cost than traditional roaming service.

In addition, callers in designated territories could reach the users by dialing the users' local numbers in designated territories to avoid paying IDD charges wherever the users are. Further, users can also avoid switching between different SIM cards when travelling between different designated territories or relying on the call-forwarding services.

Operating mechanism

The following diagram illustrates the connection of the Group's "One Card Multiple Number" system and those of MNOs':



Basically, where a caller in Hong Kong dials the Hong Kong local mobile number of one of the Group's "One Card Multiple Number" service users, signals containing the user's Hong Kong phone number would be sent to the Group's home location register ("HLR") through the Group's telecommunications service provider in Hong Kong. Under the "One Card Multiple Number" service, the SIM card of the user contains a Hong Kong phone number and phone numbers from other designated territories whereas such data and information are stored in the HLR. As the HLR keeps updating the current location of the user, when the signals reach the HLR, it is able to locate the current position of the user (position tracking function). If the HLR confirms that the user is currently located in one of the other designated territories, such as Guangdong Province, the HLR will sort out the China phone number of the user's SIM card and signals will be sent to the user's mobile phone accordingly (phone number activating and call routing functions). The operating mechanism regarding the user in China or other designated territories dialing a phone number of Hong Kong is basically the same as the above illustration. The HLR connects to the gateway mobile switching centre ("GMSC"), which performs the functions of call exchange and call transfer, to get connected with the networks operated by other MNOs in Hong Kong and China. Through the GMSC, the Group could also provide other services such as IDD services and SMS services by connecting with the networks of other IDD service providers and MNOs through the Group's IDD gateway and the SMS center ("SMSC").

The operating mechanism of the Group's "One Card Multiple Number" service is only one of the few mechanisms to provide services of similar kind. The Directors are of the view that the technology or mechanism currently employed by the Group is not of unique nor advanced one as there are other service providers in the market offering similar services whose technology or equipment may be more advanced. The Group has not applied for any patent in Hong Kong in connection with the operating mechanism of its "One Card Multiple Number" service.

For the three years ended 31 December 2009, revenue derived from the provision of "One Card Multiple Number" service accounted for approximately 54.4%, 51.9% and 58.3% of the total revenue of the Group respectively.

Hong Kong local mobile phone services

In addition to "One Card Multiple Number" service, the Group also offers Hong Kong local mobile phone services to its users. The airtime required for the provision of these services is sourced from PCCW Mobile and Hutchison, and is then used in the provision of Hong Kong local mobile phone services to the Group's users either under the Group's brand names or not under the Group's brand names.

The following table sets forth the breakdown of the Group's revenue derived from and the volume of airtime sold under Hong Kong local mobile phone services during the Track Record Period:

	For the year ended 31 December					
	2007		2008		2009	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Hong Kong local mobile phone services						
i. Under the Group's brand names						
- pre-paid plans	—	—	1,054	54.6	3,872	37.8
ii. Not under the Group's brand names						
- local dealers	343	100.0	878	45.4	6,360	62.2
Total	343	100.0	1,932	100.0	10,232	100.0
Volume of airtime sold (minutes '000)	1,022		4,450		43,806	
Revenue per minute of airtime sold	HK$0.34		HK$0.43		HK$0.23	

The significant increase in the revenue derived from the provision of Hong Kong local mobile phone services in 2009 compared to that in 2007 and 2008 was mainly attributable to the two newly secured dealers which purchased Hong Kong airtime from the Group for the provision of Hong Kong local mobile phone services during such period. The mobile phone services provided by such two dealers to users are not under the Group's brand names. The two dealers were incorporated in 2005 and 2006 respectively. According to the information provided by these dealers, one of the dealers is principally engaged in the retail and wholesale of mobile phones and accessories, SIM cards and related products and is an agent of the MNOs in the PRC to provide various telecommunication services and products; whereas the other dealer is principally engaged in the sale of telecommunications products and services in Hong Kong.

For the three years ended 31 December 2009, revenue derived from the provision of Hong Kong local mobile phone services accounted for approximately 0.6%, 4.2% and 19.8% of the total revenue of the Group respectively.

Charging mechanism of the Group's mobile phone services

The Group's mobile phone services are offered to users through pre-paid plans and post-paid plans.

Pre-paid plans — each pre-paid SIM card has a fixed amount of stored value. When a pre-paid SIM card is activated and used by a user, its stored value would be deducted according to the user's airtime usage. For "One Card Multiple Number" service, as the service charges of Hong Kong airtime and China airtime are different, the SIM card's stored value would be deducted in accordance with their respective service charges according to the location of the user and the usage. For example, where a user in Guangdong Province (i) dials a call to Hong Kong, the stored value would be deducted based on the service charges in respect of the China airtime usage and long distance call (from China to Hong Kong) usage; (ii) dials a local call within China, the stored value would be deducted based on the service charges in respect of the China airtime only; and (iii) receives a call from a caller located in anywhere, the stored value would be deducted based on the service charges in respect of the China airtime. Such service charge mechanism applies to users in Hong Kong who dial phone calls to China and local calls in Hong Kong as well. For a user in Hong Kong to receive calls from a caller in China who dials his China mobile number, the stored value of the Hong Kong user's pre-paid SIM card would be deducted based on the service charges in respect of the Hong Kong airtime plus a fee charged for receiving a call from territories outside Hong Kong. When all the stored value of a pre-paid SIM card is used up, the user will no longer be able to use the Group's mobile phone services unless the user recharges the SIM card by purchasing and using the Group's recharge coupons. Generally, the expiration date of an activated pre-paid SIM card is three to six months from the date of activation depending on the stored value of the pre-paid SIM card. After a pre-paid SIM card has expired or its stored value has been used up, such phone number would cease to be counted as an activated phone number of the Group, unless it is reactivated by the user using the Group's recharge coupon.

Post-paid plans — a user would be charged in accordance with his monthly service plan and any extra airtime usage beyond the limit of the plan.

Other value-added services to mobile phone services

The Group also provides IDD and/or other value-added services to its users. Such services include built-in-secretarial services (the "BIS services"), SMS and customer support.

Resale of airtime to MNOs

The Group resells Hong Kong airtime to China Unicom Guangdong and China airtime to PCCW Mobile and Hutchison, through the Group's "One Card Multiple Number" system. Where a user of either PCCW Mobile or Hutchison (who is not regarded as the Group's user) demands for the "One Card Multiple Number" service, the Group's system and equipment could provide a platform for such user to simultaneously possess two mobile phone numbers in one SIM card and consume both Hong Kong and China airtime through the Group's platform. In this regard, the China airtime involved is provided by the Group whereas the Hong Kong airtime involved is provided by either PCCW Mobile or Hutchison. This mechanism applies to users of China Unicom Guangdong as well, in which the China airtime involved is provided by China Unicom Guangdong, whereas the Hong Kong airtime involved is provided by the Group. Such business is conducted in the form of resale of airtime between the Group and the aforesaid MNOs by making use of the data storing, position tracking, phone number activating and call routing functions of the Group's "One Card Multiple Number" system. For the three years ended 31 December 2009, revenue derived from such resale of airtime to MNOs amounted to approximately HK$10.1 million, HK$7.1 million and HK$5.1 million respectively and accounted for approximately 18.5%, 15.4% and 9.7% of the total revenue of the Group respectively.

Telesales dealership services

Further, the Group provides telesales dealership services to two major MNOs in Hong Kong for maintaining strategic relationships with such operators for the current and potential future development of the Group's business, which accounted for approximately 18.5%, 19.8% and 11.2% of the Group's total revenue for the three years ended 31 December 2009 respectively.

Other services

The Group, during the Track Record Period, also offered: (i) code division multiple access ("CDMA") network maintenance services; and (ii) personal ring back tone services. The Group's CDMA network maintenance services accounted for approximately 5.5%, 4.9% and 0.0% of the total revenue of the Group respectively whereas the Group's personal ring back tone services accounted for approximately 2.5%, 3.8% and 1.0% of the total revenue of the Group for the three years ended 31 December 2009 respectively. The Group has ceased to offer CDMA network maintenance services and personal ring back tone services since November 2008 and April 2009 respectively. Please refer to "Business — Services — Other Services" of this document for further details.

Sales and distribution channels

The sales and distribution of the Group's mobile phone services are mainly conducted through wholesale to dealers whereas a small amount are conducted through retail sales to end-users. Since the Directors consider that wholesale to dealers is more cost effective than retail sales, the Group had almost ceased its retail sales activities of mobile phone services as at the Latest Practicable Date. The Group's resale of airtime to MNOs are conducted through wholesale only.

Wholesale to dealers

The Group wholesale a substantial amount of pre-paid SIM cards and recharge coupons to its dealers, in which each of them contains a fixed amount of stored value for airtime usage of either its "One Card Multiple Number" service or Hong Kong local mobile phone services under the Group's brand names of "China-HK Telecom/中港通" and "Directel/直通", which accounted for approximately 52.3%, 60.3% and 48.5% of the Group's revenue derived from its provision of mobile phone services for the three years ended 31 December 2009 respectively. The sales network of such dealers widely cover various shops and stores in Hong Kong including convenience stores and mobile phone shops, which can be easily accessed by existing and potential users. The Directors are of the view that such sales network could benefit the sales of the Group's pre-paid services as the pre-paid SIM cards and recharge coupons of the Group could receive more exposure to its existing and potential users.

The Group also wholesale a certain amount of airtime to dealers who would resell the airtime to users not under the Group's brand names. These sales accounted for approximately 11.6%, 11.2% and 39.1% of the Group's revenue derived from its provision of mobile phone services for the three years ended 31 December 2009 respectively.

As at the Latest Practicable Date, the Group had a total of seven dealers purchasing the Group's airtime. Among these seven dealers, (i) one of them contracted with the Group to wholesale the Group's airtime through pre-paid SIM cards and recharge coupons under the Group's brand names as well as resale the Group's airtime not under the Group's brand names; (ii) one of them contracted with the Group to wholesale the Group's airtime through pre-paid SIM cards and recharge coupons under the Group's brand names; and (iii) the remaining five dealers contracted with the Group to further resell the Group's airtime not under the Group's brand names. As at the Latest Practicable Date, the respective contractual relationships between the Group and its dealers with regard to the wholesale of the Group's airtime through pre-paid SIM cards and recharge coupons under the Group's brand names ranged from approximately one to two years whereas the respective contractual relationships between the Group and its dealers which further resell the Group's airtime not under the Group's brand names ranged from approximately one to seven years.

In order to provide incentive to the dealers to promote the sales of the Group's products, certain discounts have been offered to the two dealers who sell pre-paid SIM cards and recharge coupons under the Group's brand names during the Track Record Period. The discount offered by the Group is based on the length of business relationship with the respective dealers and the quantities of pre-paid SIM cards and recharge coupons purchased by these two dealers.

Retail sales through post-paid plans

In addition, a portion of the Group's airtime is sold through its post-paid service plans directly to its users comprising individual and corporate users, which accounted for approximately 36.1%, 28.5% and 12.4% of the revenue derived from its provision of mobile phone services for the three years ended 31 December 2009 respectively. Prior to the Track Record Period, a significant amount of the Group's revenue was generated from its retail sales of mobile phone services. In recent years, the Group's revenue generated from wholesale to dealers has become more significant than the revenue generated from its retail sales. Since the Directors consider that wholesale to dealers is more cost effective than retail sales, the Group has almost ceased its retail sales activities of mobile phone services as at the Latest Practicable Date. Currently, the Group does not operate any retail stores for its mobile phone services and minimal retail sales activities are conducted through its headquarter in Hong Kong. However, the Group still has post-paid plan users who have subscribed their services through the Group's past retail sales activities and such post-paid users are still using the Group's mobile phone services. Accordingly, the Group still recorded revenue generated from its retail sales during the Track Record Period, despite such revenue has kept shrinking.

Wholesale of airtime to MNOs

The Group's resale of airtime to MNOs are conducted through wholesale only. The Group sells a significant amount of its airtime through wholesale to major MNOs in Hong Kong and China, including PCCW Mobile, Hutchison and China Unicom Guangdong through the Group's "One Card

Multiple Number" system, and the airtime to be used by end users is sold under the brand names of such operators. These end users are not customers of the Group and such phone numbers and related revenue are not included for calculating the Group's monthly average number of activated phone numbers and the ARPU for the purpose of this document. Revenue derived from the wholesale of airtime to MNOs accounted for approximately 18.5%, 15.4% and 9.7% of the total revenue for the three years ended 31 December 2009 respectively.

Revenue recognition in respect of sales to dealers

Sales of pre-paid plans through local dealers under the Group's brand names

For the sales of pre-paid plans of the Group's "One Card Multiple Number" service through a local dealer under the Group's brand names, cash receipts from users through the said dealer are collected by the Group and remitted to China Unicom Guangdong for further execution of the pre-paid plans, revenue is only recognised when the actual airtime is used during the period from activation to expiration of the pre-paid SIM card. Where the stored value of a pre-paid SIM card has not been used up after its expiration, the remaining stored value would automatically be recognised as the Group's revenue. The payment of the Group's "One Card Multiple Number" pre-paid plan services has to be settled by China Unicom Guangdong to the Group based on the actual amount of airtime used by the users. Such payment could be settled by cheques, telegraphic transfer or bank deposits.

For the sales of pre-paid plans of the Group's Hong Kong local mobile phone services through a local dealer under the Group's brand names, the local dealer has to settle fully on a cash on delivery basis. Deferred income will be recognised upon cash receipts of the payment of pre-paid SIM cards and such deferred income will be recognised as revenue when users use the services after the pre-paid SIM cards are activated, i.e. revenue is deferred and recognised over the period during which the airtime is actually used by pre-paid plan users from the activation of the SIM cards to expiration. Where the stored value of a pre-paid SIM card has not been used up after its expiration, the remaining stored value would automatically be recognised as the Group's revenue.

Sales of pre-paid or post-paid plans through local dealers not under the Group's brand names

Revenue from pre-paid or post-paid plans of the Group's "One Card Multiple Number" service and Hong Kong local mobile phone services through local dealers not under the Group's brand names are recognised when the services have been rendered, i.e. when the airtime is actually used by the users. The Group's local dealers are generally granted credit terms of up to 30 days after the date of the monthly invoice, which could be settled by cheques, telegraphic transfer or bank deposits. Subject to negotiations, credit terms could be extended from two months to four months for certain dealers with well-established trading and payment records with the Group on a case-by-case basis.

Competition faced by the Group

The Group encounters intense competition in the Hong Kong mobile telecommunications market, which has one of the world's highest penetration rates for customers of mobile telecommunications services. The Group's mobile phone services, including voice services and value-added services, encounter competition from both local and international network operators. Locally, the Group's services encounter intense competition from the five MNOs as of April 2010 and the other eight MVNO licensees in Hong Kong as at 5 March 2010. As the Group's mobile phone services cover areas other than Hong Kong, its services also encounter competition from network operators in other designated territories, including China and Taiwan. Some of the Group's competitors are also its mobile telecommunications service providers as well as its major customers (e.g. Hutchison, PCCW Mobile and China Unicom Guangdong). Basically, the Group competes on pricing, scope of geographical network coverage, service plan varieties, usage convenience as well as other ancillary value-added services. The Group's "One Card Multiple Number" service encounters competitions from roaming services and IDD services. In particular, this service of the Group encounters direct competition from similar services offered by other MNOs (e.g. China Unicom which is offering similar service in Hong Kong while China Unicom Guangdong at the same time is the sole provider of China airtime to the Group). As the Group intends to upgrade its telecommunications equipment to be compatible with the 3G mobile networks operated by the Group's service operators in Hong Kong and China, its services may also encounter competitions from the current four 3G network operators in Hong Kong and other 3G network operators in other designated territories, including China and Taiwan. Please refer to "Business — Competition" of this document for further details.

Revenue and ARPU analysis

The following table sets forth the breakdown of the Group's revenue during the Track Record Period:

	For the year ended 31 December					
	2007		**2008**		**2009**	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
"One Card Multiple Number" service	29,720	54.4	23,974	51.9	30,273	58.3
Hong Kong local mobile phone services	343	0.6	1,932	4.2	10,232	19.8
Total of mobile phone services	30,063	55.0	25,906	56.1	40,505	78.1
Resale of airtime to MNOs	10,098	18.5	7,087	15.4	5,050	9.7
Telesales dealership services	10,135	18.5	9,162	19.8	5,817	11.2
Other services	4,354	8.0	4,009	8.7	503	1.0
Total	54,650	100.0	46,164	100.0	51,875	100.0

The following table sets forth the breakdown of the Group's revenue, monthly average number of activated phone numbers and ARPU of its mobile phone services during the Track Record Period:

	For the year ended 31 December 2007			For the year ended 31 December 2008			For the year ended 31 December 2009		
	Revenue *HK$'000*	**Monthly average number of activated phone numbers (Notes 1, 2 and 3)**	**ARPU (Note 4)** *HK$*	**Revenue** *HK$'000*	**Monthly average number of activated phone numbers (Notes 1, 2 and 3)**	**ARPU (Note 4)** *HK$*	**Revenue** *HK$'000*	**Monthly average number of activated phone numbers (Notes 1, 2 and 3)**	**ARPU (Note 4)** *HK$*
"One Card Multiple Number" service									
i. Under the Group's brand names									
- pre-paid plans	15,732	24,503	53.5	14,568	46,113	26.3	15,780	57,140	23.0
- post-paid plans	10,855	2,975	304.1	7,386	2,315	265.9	5,019	1,910	219.0
ii. Not under the Group's brand names									
- local dealers (Note 5)	3,133	1,634	159.8	2,020	1,236	136.2	9,474	16,622	47.5
Subtotal	29,720	29,112	85.1	23,974	49,664	40.2	30,273	75,672	33.3
Hong Kong local mobile phone services									
i. Under the Group's brand names									
- pre-paid plans	—	—	—	1,054	1,194	73.6	3,872	13,268	24.3
ii. Not under the Group's brand names									
- local dealers (Note 5)	343	1,729	16.5	878	8,010	9.1	6,360	20,813	25.5
Subtotal	343	1,729	16.5	1,932	9,204	17.5	10,232	34,081	25.0
Total of mobile phone services	30,063	30,841	81.2	25,906	58,868	36.7	40,505	109,753	30.8

Notes:

(1) The monthly average number of activated phone numbers equals to the sum of the number of activated phone numbers as at the month-ends divided by 12 for the computation of each of the three years ended 31 December 2009.

(2) Once the Group's pre-paid SIM card is activated, such activated pre-paid SIM card would be counted as an activated pre-paid phone number of the Group upon the time of activation. Activated pre-paid SIM cards are those pre-paid SIM cards which have been sold, not expired and have been used at least once or activated by customers.

(3) The number of pre-paid SIM cards excludes both airtime and/or value of expired cards and cards kept in stock by dealers.

(4) ARPU is calculated by the respective service revenue under mobile phone services during the year divided by 12, divided by the monthly average number of activated phone numbers in that year, on a twelve-month basis.

(5) Activated phone numbers sold by local dealers not under the Group's brand names are regarded as activated phone numbers of the Group as (i) the relevant Hong Kong phone number is owned and assigned by the Group; (ii) the requisite licence fee payable to OFTA for these Hong Kong phone numbers are borne by the Group; and/or (iii) the bundling of the China airtime and Hong Kong airtime is provided by the Group's telecommunications system.

Owing to the fierce competition in the mobile services industry in Hong Kong and the greater popularity of mobile phone usage, the competitiveness of the Group's business has been adversely affected and the ARPU of the Group and the revenue per minute of airtime sold had showed a decreasing trend, whereas the ARPU of the Group was approximately HK$81.2, HK$36.7 and HK$30.8 for the three years ended 31 December 2009 respectively.

The competitiveness of the Group's service has been adversely affected by the downward adjustment of the roaming fees charged by other MNOs, which increases the competition encountered by the Group's "One Card Multiple Number" service. The Directors are of the view that the market of post-paid mobile services in Hong Kong is very keen and the Group may not have sufficient resources to increase its market shares in this regard. Accordingly, the Directors consider that the Group shall focus on the market of pre-paid mobile phone service as it is relatively less difficult for the Group to increase its market shares in such market taking into account its existing resources and scale of business.

Generally, the ARPU derived from post-paid plans is relatively higher than pre-paid plans, owing to the following reasons:-

- No limit is imposed on the monthly airtime usage by post-paid plan users during the subscription period as such users could still dial and receive phone calls after the airtime usage limits of their respective post-paid plans have been exceeded. Accordingly, in addition to the revenue generated from the fixed monthly service charge from the post-paid plan users, revenue could also be generated from the extra airtime usage beyond the post-paid plan limits.

- Other than airtime usage, the Group could generate revenue from the provision of other value-added services to post-paid plan users.

- Each pre-paid SIM card has a limit on its user's airtime usage based on the stored value during the period between activation and expiration or suspension of a SIM card. Owing to the airtime usage limit, the revenue derived from each pre-paid plan user is technically fixed at the stored value, unless the user recharges the pre-paid SIM card by purchasing the Group's recharge coupons.

- Contrary to post-paid plans, the monthly revenue generated from pre-paid plans varies as the Group only records revenue when the airtime included in pre-paid plans has been consumed. As such, unlike the minimum amount of monthly revenue generated from post-paid plans, the revenue recorded from one pre-paid SIM card could be spread over several months lowering the revenue derived from each pre-paid card user.

Since the monthly airtime usage of each post-paid plan user is generally higher than that of each pre-paid plan user and the revenue base for post-paid plan users is generally wider, the ARPU derived from post-paid plans was higher than pre-paid plans during the Track Record Period. However, both monthly average number of activated phone numbers and ARPU for the post-paid plans of the Group's "One Card Multiple Number" service decreased during the Track Record Period.

As it is the present intention of the Directors to focus on the market of pre-paid mobile phone services, the Group's ARPU may further decrease in the future.

Year ended 31 December 2008 compared to the year ended 31 December 2007

The revenue derived from the Group's provision of mobile phone services decreased by approximately 14.0% from approximately HK$30.1 million in 2007 to approximately HK$25.9 million in 2008. The decrease was primarily due to the decrease in ARPU of the Group from approximately HK$81.2 in 2007 to approximately HK$36.7 in 2008, although the monthly average number of activated phone numbers increased from approximately 30,841 during 2007 to approximately 58,868 during 2008.

The total monthly average number of activated phone numbers of mobile phone services increased from approximately 30,841 in 2007 to approximately 58,868 in 2008 mainly due to the increase in activation of pre-paid plans for "One Card Multiple Number" service.

The decrease in the Group's ARPU in 2008 compared to that in 2007 was primarily due to the reduction in the domestic roaming fees imposed on users by the Group since 1 May 2008 following the promulgation of the relevant policy by the PRC government during such period. In addition, the total China and Hong Kong airtime consumed by its users decreased from approximately 46.1 million minutes for the year ended 31 December 2007 to approximately 41.1 million minutes for the year ended 31 December 2008 as a result of the global economic crisis. Also, newly activated mobile phone numbers during 2008 were mainly belonged to pre-paid plans for "One Card Multiple Number" service which were of much lower ARPU than those activated mobile phone numbers during 2007.

Year ended 31 December 2009 compared to the year ended 31 December 2008

The revenue derived from the Group's provision of mobile phone services increased by approximately 56.4% from approximately HK$25.9 million in 2008 to approximately HK$40.5 million in 2009 in which the "One Card Multiple Number" service increased by approximately 26.3% from approximately HK$24.0 million to approximately HK$30.3 million and the Hong Kong local mobile phone services increased by approximately 436.8% from approximately HK$1.9 million to approximately HK$10.2 million. Such increase was mainly due to the increase in the monthly average number of activated phone numbers which overweighed the decrease in the Group's ARPU.

The total monthly average number of activated phone numbers increased by approximately 86.4% from approximately 58,868 in 2008 to approximately 109,753 in 2009. The increase was primarily due to (i) the Group's commencement of offering pre-paid plans for Hong Kong local mobile phone services under the Group's brand names since May 2008, which had attracted a number of new users for Hong Kong airtime to the Group; and (ii) the Group's success in securing three new dealers for the sales of Hong Kong and China airtime in the first half of 2009 (among the three new dealers, two of them purchased Hong Kong airtime only from the Group for the provision of Hong Kong local mobile phone services, whereas the other dealer purchased both Hong Kong and China airtime from the Group for the provision of "One Card Multiple Number" service), which had brought in a number of new users to the Group.

The Group's ARPU decreased from approximately HK$36.7 in 2008 to approximately HK$30.8 in 2009. The decrease in the Group's ARPU was primarily due to the larger discounts offered by the Group to its dealers for the Group's China and Hong Kong airtime resulting in lower ARPU for these new users which eventually led to the decrease in the ARPU, though the Group recorded an increase in the sales volume of its total China and Hong Kong airtime from approximately 41.1 million minutes in 2008 to approximately 102.0 million minutes in 2009. In addition, the sales price of China airtime offered by the Group to its users in 2009 was lower than that in 2008 as the Group reduced its China domestic roaming fees in May 2008. Also, the Group's newly activated mobile phone numbers in 2009 were mainly for pre-paid plans of "One Card Multiple Number" service and Hong Kong local mobile phone services which were of much lower ARPU than the activated phone numbers in 2008.

The following table sets forth the breakdown of the Group's revenue, monthly average number of activated phone numbers and ARPU of its mobile phone services for each quarter of 2009 and the first quarter of 2010:

	For the 1st quarter of 2009			For the 2nd quarter of 2009			For the 3rd quarter of 2009			For the 4th quarter of 2009			For the 1st quarter of 2010		
	Revenue *HK$'000*	Monthly average number of activated phone numbers (Notes 1, 2 and 3)	ARPU (Note 4) *HK$*	Revenue *HK$'000*	Monthly average number of activated phone numbers (Notes 1, 2 and 3)	ARPU (Note 4) *HK$*	Revenue *HK$'000*	Monthly average number of activated phone numbers (Notes 1, 2 and 3)	ARPU (Note 4) *HK$*	Revenue *HK$'000*	Monthly average number of activated phone numbers (Notes 1, 2 and 3)	ARPU (Note 4) *HK$*	Revenue *HK$'000* *(unaudited)*	Monthly average number of activated phone numbers (Notes 1, 2 and 3)	ARPU (Note 4) *HK$*
"One Card Multiple Number" service															
i. Under the Group's brand names															
- pre-paid plans	3,525	55,333	21.2	3,814	56,668	22.4	4,166	57,815	24.0	4,275	58,741	24.3	4,187	64,096	21.8
- post-paid plans	1,203	2,078	193.0	1,223	1,957	208.3	1,218	1,842	220.4	1,375	1,762	260.1	962	1,673	191.7
ii. Not under the Group's brand names															
- local dealers (Note 5)	1,990	12,056	55.0	1,627	17,882	30.3	2,557	18,160	46.9	3,300	18,388	59.8	3,044	18,218	55.7
Subtotal	6,718	69,467	32.2	6,664	76,507	29.0	7,941	77,817	34.0	8,950	78,891	37.8	8,193	83,987	32.5
Hong Kong local mobile phone services															
i. Under the Group's brand names															
- pre-paid plans	590	5,944	33.1	816	9,732	27.9	1,082	14,281	25.3	1,384	23,113	20.0	1,504	35,331	14.2
ii. Not under the Group's brand names															
- local dealers (Note 5)	401	8,135	16.4	1,681	18,699	30.0	1,858	25,136	24.6	2,420	31,282	25.8	2,229	34,411	21.6
Subtotal	991	14,079	23.5	2,497	28,431	29.3	2,940	39,417	24.9	3,804	54,395	23.3	3,733	69,742	17.8
Total of mobile phone services	7,709	83,546	30.8	9,161	104,938	29.1	10,881	117,234	30.9	12,754	133,286	31.9	11,926	153,729	25.9

Notes:

(1) The monthly average number of activated phone numbers equals to the sum of the number of activated phone numbers as at the month-ends divided by three for the computation of each quarter of 2009 and the first quarter of 2010.

(2) Once the Group's pre-paid SIM card is activated, such activated pre-paid SIM card would be counted as an activated pre-paid phone number of the Group upon the time of activation. Activated pre-paid SIM cards are those pre-paid SIM cards which have been sold, not expired and have been used at least once or activated by customers.

(3) The number of pre-paid SIM cards excludes both airtime and/or value of expired cards and cards kept in stock by dealers.

(4) ARPU is calculated by the respective service revenue under mobile phone services during the period divided by 3, divided by the monthly average number of activated phone numbers in that period, on a three-month basis.

(5) Activated phone numbers sold by local dealers not under the Group's brand names are regarded as activated phone numbers of the Group as (i) the relevant Hong Kong phone number is owned and assigned by the Group; (ii) the requisite licence fee payable to OFTA for these Hong Kong phone numbers are borne by the Group; and/or (iii) the bundling of the China airtime and Hong Kong airtime is provided by the Group's telecommunications system.

The revenue derived from the Group's mobile phone services increased steadily from approximately HK$7.7 million for the first quarter of 2009 to approximately HK$12.8 million for the fourth quarter of 2009; while its total monthly average number of activated phone numbers also increased steadily from approximately 83,546 to approximately 133,286 and the Group's ARPU increased from HK$30.8 to HK$31.9 during the same period. Since the Group's dealers expanded their sales network in 2009, the Group was able to benefit from their expansion and its total monthly average number of activated phone numbers and the revenue derived from its mobile phone services experienced an increasing trend in each quarter of 2009.

The fluctuation in the Group's ARPU among each quarter of 2009 was relatively small as it ranged from approximately HK$29.1 to HK$31.9. The Group's ARPU showed a slight increasing trend from approximately HK$30.8 for the first quarter of 2009 to approximately HK$31.9 for the fourth quarter of 2009. However, the ARPU of the second quarter of 2009 recorded a slight decrease compared to the first quarter of the same year from approximately HK$30.8 to approximately HK$29.1. Such decrease was primarily due to the additional users with lower ARPU acquired from the two new dealers of the Group in the second quarter of 2009, causing the percentage increase in the total monthly average number of activated phone numbers (approximately 25.6%) outweighed the percentage increase in the revenue derived from the Group's mobile phone services (approximately 18.8%).

The revenue derived from the Group's mobile phone services decreased from approximately HK$12.8 million for the fourth quarter of 2009 to approximately HK$11.9 million for the first quarter of 2010; while its total monthly average number of activated phone numbers also increased from approximately 133,286 to approximately 153,729 and the Group's ARPU decreased from approximately HK$31.9 to HK$25.9 during the same period.

The total monthly average number of activated phone numbers of mobile phone services increased from approximately 133,286 for the fourth quarter of 2009 to approximately 153,729 for the first quarter of 2010 was mainly due to the increase in the activation of pre-paid plans for "One Card Multiple Number" service.

The Group's ARPU decreased from approximately HK$31.9 for the fourth quarter of 2009 to approximately HK$25.9 for the first quarter of 2010. The decrease was primarily due to cancellation of domestic roaming fees when making international long distance calls in the PRC since 1 January 2010 under the rules and regulations promulgated by the relevant authorities of the PRC in December 2009 which lowered the Group's revenue of the first quarter in 2010. The Directors believe that such cancellation of domestic roaming fees may also lower the Group's ARPU in the future when compared with prior periods.

The following table sets forth the recharge frequency of the Group's pre-paid activated phone numbers during the Track Record Period:

	For the year ended 31 December		
	2007	**2008**	**2009**
	%	%	%
0 time	39.0	44.1	49.7
1-5 time(s)	44.5	45.3	41.4
6-10 times	8.4	5.9	5.1
11-20 times	5.2	3.2	2.6
over 20 times	2.9	1.5	1.2
Total percentage	100.0	100.0	100.0

Analysis on number of major customers

The following table sets forth the breakdown of the number of customers of the Group's resale of airtime to MNOs, telesales dealership services and other services as at 31 December 2007, 2008 and 2009:

	As at 31 December		
	2007	**2008**	**2009**
Resale of Airtime to MNOs	3	3	3
Telesales Dealership Services	2	2	2
Other Services	2	1	—

Note: The dealers, including those selling airtime under the Group's brand names and those not under the Group's brand names, are not counted as the Group's customers for the purpose of the presentation in the above table as they simply act as the Group's sales and distribution channels. Furthermore, activated phone numbers sold by local dealers not under the Group's brand names are regarded as activated phone numbers of the Group as: (i) the relevant Hong Kong phone number is owned and assigned by the Group; (ii) the requisite licence fee payable to OFTA for these Hong Kong phone numbers are borne by the Group; and/or (iii) the bundling of the China airtime and Hong Kong airtime is provided by the Group's telecommunications system.

The Group's top five customers during the Track Record Period included MNOs in Hong Kong and China as well as mobile service dealers in Hong Kong. For the three years ended 31 December 2009, sales to the Group's top five customers accounted for approximately 49.4%, 46.2% and 50.0% of the Group's total revenue respectively; whereas sales to the Group's largest customer accounted for approximately 17.9%, 20.5% and 15.9% of the Group's total revenue during the same period respectively.

Risks relating to the Group's business model as a MVNO, its outsourcing of operations and sustainability of its future ARPU, turnover and net profit

The Group, similar to other MVNOs, has to rely heavily on MNOs for the continuous provision of mobile airtime and is exposed to the risk of failure to source airtime from MNOs. Such risk might adversely affect the Group's operations or even the sustainability of its mobile phone business. Currently, the Group sources its Hong Kong airtime from two MNOs in Hong Kong, namely PCCW Mobile and Hutchison, and China airtime from a MNO in the PRC, namely China Unicom Guangdong, by entering into written agreements with them. The service agreements with PCCW Mobile and Hutchison are subject to either monthly or annual renewal while the agreement with China Unicom Guangdong will expire on 31 December 2011. For further details of these agreements, please refer to "Business — Service providers" of this document.

The Group has been purchasing airtime from most of these MNOs for over six years and has maintained a stable relationship with them. In the event that any of the Group's telecommunications service providers terminates its contractual relationships with the Group or cannot provide services to the Group due to any reasons and the Group fails to timely contract with other replacements of the same tier in terms of scale, quality and cost, or the cost of purchasing the services provided by the Group's telecommunications service providers increases significantly, its operation and financial performance would be materially and adversely affected. In particular, in the event that China Unicom Guangdong, the Group's sole telecommunications service provider in the PRC, terminates its contractual relationship with the Group or cannot provide services to the Group or the Group fails to enter into the extension agreement with China Unicom Guangdong or China Unicom Guangdong increases significantly the airtime charges payable by the Group upon the expiry of the existing agreement, the Group may encounter significant difficulties or not be able to sustain its "One Card Multiple Number" service and resale of airtime to MNOs, which accounted for approximately 68.0% of the total revenue of the Group in 2009 and would have material adverse effects on its operation and financial performance. It should be noted that the Group has a relatively weaker bargaining power against China Unicom Guangdong with regard to their business negotiations, which may adversely affect the Group's position in the terms and conditions concluded in the aforesaid extension agreement as well as the timing of settlement of receivables from it. For further elaboration on the risk in relation to the Group being a MVNO, please refer to "Risk factors — Risks relating to the Group — The Group's operation substantially relies on services provided by several third party telecommunications service providers and any termination or discontinuation of services would materially and adversely affect the Group's operation and financial performance" and "— Any suspension or termination of services or faulty services provided by the service providers of the Group could materially and adversely affect the Group's operation and financial performance" of this document.

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. There is no guarantee that these service providers can maintain quality services or ensure no failure or dissatisfaction in their provision of services. In the event that these service providers terminate their contractual relationships with the Group or cannot provide services to the Group due to any reasons and the Group fails to timely contract with other replacements of the same tier as the Group's existing service providers in terms of scale, quality and cost, or the cost of purchasing the services increases significantly, the Group's operation and financial performance would be materially and adversely affected. Please refer to "Risk Factors — Risks relating to the Group — The Group has outsourced a significant portion of its operation to service providers and therefore does not have full control over these services", "— The Group's business relies on sophisticated billing and credit control systems of a service provider and any problems with these systems could interrupt the Group's operations" and "— The Group's provision of telesales dealership services substantially relies on the services provided by its connected person" of this document for the risks arising from such outsourcing of services.

The Group's ARPU for the three years ended 31 December 2009 was approximately HK$81.2, HK$36.7 and HK$30.8 respectively. The revenue per minute of airtime sold from the "One Card Multiple Number" service, Hong Kong local mobile phone services and resale of airtime to MNOs for the three years ended 31 December 2009 was HK$0.87, HK$0.80 and HK$0.45 respectively. For the three years ended 31 December 2009, the Group recorded revenue of approximately HK$54.7 million, HK$46.2 million and HK$51.9 million respectively and net profit of approximately HK$10.7 million, HK$8.8 million and HK$10.1 million respectively. The sustainability of the Group's ARPU, turnover and net profit depends on the ability of the Group to obtain continuous provision of Hong Kong and China airtime from service providers, maintain its competitiveness in the market to provide high quality services and to keep updated in technologies advancement. There is no guarantee that the Group will be able to sustain its future ARPU, turnover and profit in coming years. In the event that the Group fails to maintain its competitiveness in the market, maintain its low-cost strategy or provide quality services, or it fails to keep up-to-date with the technology changes in the telecommunications industry, its financial performance may be materially and adversely affected.

COMPETITIVE STRENGTHS

The Directors believe that the success of the Group is attributable to the following competitive strengths:

- The Group's well-established "One Card Multiple Number" service in Hong Kong enables its users to economically dial and receive long-distance phone calls at a lower cost than traditional roaming service

- Being the [exclusive licensee of RF-SIM Intellectual Property Rights] in Hong Kong and Macau, the Group has the potential to offer more value-added services to its users, notwithstanding no revenue was generated from the intended RF-SIM business of the Group during the Track Record Period and up to the Latest Practicable Date

- The Group's long-term and stable relationships with its telecommunications service providers can help the Group secure stable provision of telecommunications services for its business operation

- Experienced management team of the Group could effectively maintain and enhance the Group's goodwill and reputation

BUSINESS OBJECTIVES

The Group aims at becoming one of the leading "One Card Multiple Number" service providers and it aspires to achieve the following business objectives:

- expanding the geographical coverage of mobile phone services provided by the Group through development and expansion of such services in Asia Pacific; and

- providing a wider variety of value-added services for its users to increase the revenue derived from users' airtime usage through (i) upgrading the Group's telecommunications equipment to be compatible with the 3G mobile networks operated by the Group's service operators in Hong Kong and the PRC as a MVNO enabling its users to enjoy 3G mobile data services; and (ii) introducing RF-SIM in Hong Kong and Macau to broaden the customer base of the Group.

The Company may also consider other potential business opportunities to further expand its mobile business as well as to diversify its risk of relying on a limited number of telecommunications service providers. The Company or any of its Directors currently has no intention to have any material changes with the Company's business and/or to enter into any material arrangements for potential acquisition of assets for the Company's non-core business or disposal of assets relating to the Company's core businesses.

BUSINESS STRATEGIES

The Group intends to implement key strategic initiatives to achieve the above business objectives in accordance with the schedule set forth in "Business Objectives and Strategies — Implementation Plan" of this document. The followings set forth the key strategic initiatives which the Group plans to implement in the future. Though the Group has entered into service agreements with a telecommunication provider in Macau for providing mobile phone services in Macau (the "Macau Agreements"), as at the Latest Practicable Date, the Group had not launched its "One Card Multiple Number" service in Macau. Save as the Macau Agreements, as at the Latest Practicable Date, the Group had not entered into any legally binding agreement with respect to the business strategies mentioned herein below.

Developing the business of mobile phone services in other Asia Pacific territories

Apart from travelling between Hong Kong and China, there is a significant number of mobile phone users frequently travelling between Hong Kong and the Asia Pacific territories including Taiwan and Macau. In addition to the territories of Hong Kong and China, the Group has developed its mobile phone services in Taiwan since 2003 by extending the Group's telecommunications networks to there. After such development has become mature, the Group intends to further develop its services in one or two additional territories in the Asia Pacific region, which the Group is still evaluating, from 2011 onwards. It is intended to be achieved through (i) cooperating with licensed MNOs in such territories; (ii) investing in additional telecommunications equipment to ensure proper network connectivity between the Group's telecommunications system and those of its business partners (approximately HK$[●] million); (iii) promoting the Group's services in these territories (approximately HK$[●] million); and (iv) recruiting appropriate staff to cope with such expansions (approximately HK$[●] million). Currently, the Group intends to spend approximately [●]% of the net [●], or approximately HK$[●] million, for such expansion. In particular, approximately HK$[●] million will be spent in relation to the expansion of the Group's "One Card Multiple Number" service in Macau, approximately HK$[●] million for Taiwan and approximately HK$[●] million for the additional one or two territories in the Asia Pacific region. The Group has entered into service agreements with the telecommunications service providers in Macau and a cooperation platform has been established for the Group to expand its mobile phone services in Macau. It has been the business strategy of the Group to concentrate on the Hong Kong market taking into consideration of its existing resources. The Group will expand its mobile phone services in the Macau market. As at the Latest Practicable Date, the Group was conducting the relevant research and was discussing with suppliers for purchasing equipment to support the "One Card Multiple Number" service as well as 3G data service in Macau. The Directors are of the view that the expansion of the Group's businesses in territories other than China could enlarge its market shares in the telecommunications market and enhance its long-term financial performance. Upon completion of the above expansion, the Group's "One Card Multiple Number" users will be able to be connected to the mobile network in Hong Kong, Macau, Taiwan and one to two additional territories in the Asia Pacific region.

Upgrading the Group's telecommunications equipment to be compatible with the 3G mobile networks in Hong Kong and China for the provision of 3G data services as a MVNO

Provision of mobile data services through 3G network

Similar to 2G, 3G is a wireless communications technology which allows simultaneous use of voice and data services. Nonetheless, the data transmission rates, in terms of megabyte per second, of 3G are higher than that of 2G. Thus, 3G networks enable network operators to offer users a wider range of more advanced services while achieving greater network capacity through improved spectral efficiency. Technically, the qualities of voice services provided via 2G or 3G are the same. Due to the higher data transmission rates of 3G, the mobile data services provided via 3G networks are of higher quality than those provided via 2G networks, particularly in email checking, web browsing, video and music streaming, game downloading, etc.

Reasons for the upgrade

Currently, the Group's telecommunications equipment for the provision of "One Card Multiple Number" service is unable to support the 3G networks nor to provide mobile data services in Hong Kong and China. Users of the Group's "One Card Multiple Number" service can only use the voice services and SMS services through 2G networks. According to the statistics published by OFTA, the mobile data usage in Hong Kong increased by approximately 1,253.1% from approximately 54.0 million megabytes per month in May 2008 to approximately 730.7 million megabytes per month in January 2010. The average mobile data usage per 2.5G/3G customer also increased by approximately 714.7% from approximately 17.0 megabytes to approximately 138.5 megabytes during the same period. As at the Latest Practicable Date, four of the five MNOs in Hong Kong and all three MNOs in China offered mobile services, including voice and data services, through their respective 3G networks.

Accordingly, the Directors are of the view that since the acceptance and usage of 3G mobile data services (including email checking, web browsing, video and music streaming, as well as game downloading) have become increasingly popular, in order to broaden its source of revenue and to follow the market trend, the Group intends to upgrade its telecommunications equipment to be compatible with the 3G mobile networks for the provision of 3G data services as a MVNO in Hong

Kong and China. Since most of the market players in the telecommunications industry in Hong Kong and China are offering 3G data services, the Directors consider that it is essential for the Group to upgrade its telecommunications equipment to catch up with other market players and enhance its competitiveness in the market.

In addition, the popularity of using smart phones has increased significantly in the past few years. The majority of smart phones in the market are compatible with 3G mobile data services and are able to support email checking, web browsing, video and music streaming, as well as game downloading. The Directors are of the view that such increasing popularity of smart phone usage is one of the reasons for the considerable increase of mobile data usage in the past years. Many advanced functions of smart phones involve mobile data usage, which makes mobile data usage more common. As a result, the Directors consider that it is necessary for the Group to upgrade its telecommunications equipment to catch up with the market development and to ensure the mobile phone services offered by the Group will not cause any limitations in using the advanced functions of smart phones.

Potential benefits to be enjoyed by the Group from the upgrade

When the Group is able to offer 3G mobile data services to its users upon completion of the upgrade in 2011, the Directors expect that the Group will be able to:-

- generate additional revenue from mobile data services other than voice services;
- widen its user base by capturing users who demand for mobile data services;
- retain the existing users by offering them additional value-added services;
- enhance the Group's competitiveness in the market; and
- increase the Group's ARPU and profitability.

In addition to the potential economic benefits, upon completion of the upgrade, the Directors believe that the Group will be able to meet the requirements set out in the "Guidelines for the Application of Services-Based Operator Licence" issued by OFTA and be qualified for the TA's regulatory support on its access to the MNOs' 3G mobile network in Hong Kong which are obliged to open 30% of their 3G network capacity to MVNOs which are not affiliated to any 3G MNOs. The Directors consider that such guideline and regulatory support could help mitigating the risk of the Group failing to source Hong Kong airtime through Hong Kong MNOs. Please refer to "Regulations — Open network requirements for 3G MNOs" of this document for further details.

Implementation plans

The Group intends to spend approximately HK$[●] million to upgrade its "One Card Multiple Number" system. The upgrade will be conducted through the incorporation of a more advanced HLR data base system and a roaming gateway into the Group's existing system. Such HLR data base system and roaming gateway have similar functions as the Group's existing HLR data base system and roaming gateway, which are mainly for location updates and call routings. The main reason for purchasing the new equipment is to enable the Group's system to be compatible with the 3G networks in Hong Kong and China to offer 3G mobile data services as its existing equipment was purchased many years ago and not compatible with 3G networks in Hong Kong and China.

The Directors believe that there are at least two telecommunications equipment manufacturers in China could provide the equipment required for the upgrade of the Group's system, and the Group has liaised with two telecommunications equipment manufacturers in relation to the system upgrade. According to the information provided by such manufacturers, one of which is a telecommunications solutions provider which has served major telecommunications operators while the other manufacturer is an international telecommunications equipment provider and a listed company in Hong Kong. Both manufacturers are the manufacturers of the Group's existing telecommunications equipment and are Independent Third Parties. For the proposal of the upgrade, the Group has obtained quotation in respect of the equipment from one of the manufacturers. As such, the Directors are of the view that there is no material obstacle in sourcing the equipment required. The Group intends to purchase the aforesaid equipment from one of the manufacturers, and the equipment will be designed and manufactured according to the Group's requirements and specifications. It is expected that the upgrade, which would be divided into two phases (approximately HK$[●] million for the first phase and approximately HK$[●] million for the second phase), would be completed before 30 June 2011.

Feasibility studies

According to the product specifications provided by the aforesaid two telecommunications equipment manufacturers and upon the review of such product specifications by the technical staff of the Group, the equipment intended to be purchased will be compatible with the 3G networks operated by MNOs in Hong Kong and China. In light of the above and the fact that the design of the equipment is based on the Group's existing system and requirements, the Directors believe that the equipment intended to be purchased will be compatible with the 3G networks operated by telecommunications service providers of the Group. In addition, the Group also intends to enter into purchase agreements with MNOs in Hong Kong and China for the supply of 3G mobile airtime and data volume. Upon completion of the equipment upgrade plan and the entering into of the purchase agreements, the Group will be able to provide 3G mobile data services in Hong Kong.

Business and revenue model

Similar to the provision of voice services of the "One Card Multiple Number" service, the Group, as a MVNO, has to rely on MNOs for their continuous provision of 3G mobile data transmission. The Group intends to source Hong Kong and China mobile data from its existing mobile service providers in Hong Kong and China respectively to provide mobile data services through its equipment and system to its users/dealers either under the Group's brand names or not under the Group's brand names.

Basically, the Group intends to charge its users for the mobile data usage on a per megabyte or kilobyte basis, which is similar to the charging methods of other MNOs in Hong Kong and China as at the Latest Practicable Date according to the best knowledge and belief of the Directors. After the upgrade, the Directors expect that the airtime charges in respect of voice services would not be materially affected since the purchase price of 2G or 3G airtime offered to the Group by its service providers are substantially the same.

The Group's mobile data services would be incorporated into the existing mobile phone services.

Pre-paid plans — each pre-paid SIM card will have a fixed amount of stored value. After the upgrade, each pre-paid SIM card could provide voice and mobile data services. When a pre-paid SIM card is activated and used by a user, its stored value would be deducted according to the user's airtime and mobile data usage. In general, for the "One Card Multiple Number" service, mobile data usage in Hong Kong would be subject to Hong Kong local charges, and mobile data usage in China would be subject to China local charges instead of roaming charges. For Hong Kong local mobile phone services, mobile data usage in Hong Kong would also be subject to Hong Kong local charges. When all the stored value of a pre-paid SIM card is used up, the user will no longer be able to use the Group's mobile phone services unless such user recharges the SIM card by purchasing and using the Group's recharge coupons.

Post-paid plans — users would be charged in accordance with his/her respective monthly service plans and agreed charges of any extra mobile data usage beyond the limit.

Other than the difference in price levels, the Directors believe that the above charging mechanism is commonly adopted by the MNOs in Hong Kong and China.

Given that the provision of the mobile data services is merely one of the value-added services to the existing mobile phone services provided by the Group, the Directors expect that the revenue collection mechanism of the mobile data services will be in line with that of the mobile phone services currently adopted by the Group.

The Directors estimate that the costs incurred in the upgrade could be breakeven within approximately 2.5 years from the commencement of the implementation plan. Such estimation is arrived after taking into account that the new telecommunications equipment will be depreciated on a seven-year basis with annual depreciation of approximately HK$[●] million and the revenue expected to be derived from the existing users of the "One Card Multiple Number" service and Hong Kong local mobile phone services who will switch to the Group's 3G mobile phone services will increase gradually. However, there may be a risk that the 3G plan may not be breakeven within the aforesaid timeframe. Please see "Risk Factors — Risk relating to the Group — The Group may fail to sustain its future ARPU, revenue per minute of airtime sold, turnover and net profit and may fail to achieve breakeven in respect of the Group's 3G plan and RF-SIM plan within the expected timeframe" of this document for further details.

Market potential

According to OFTA, the number of 3G customers in Hong Kong increased by approximately 561.4% from approximately 635,000 in December 2005 to approximately 4.2 million in January 2010; while the mobile data usage in Hong Kong increased by approximately 1,253.1% from approximately 54.0 million megabytes per month in May 2008 to approximately 730.7 million megabytes per month in January 2010. With the increasing popularity of smart phones and improved technologies, the Directors are of the view that the demand for mobile data usage in the market would continue to increase and also there is an increasing trend for the demand for 3G networks.

Competition

Upon the completion of the upgrade of the Group's telecommunications equipment, the Directors expect that in addition to voice services, the Group will be able to include 3G mobile data services in its "One Card Multiple Number" service and Hong Kong local mobile phone services. As at the Latest Practicable Date, four of the five MNOs in Hong Kong and all three MNOs in China were offering mobile services, including voice and data services, through their respective 3G networks. Accordingly, the Directors consider that these MNOs are the Group's competitors in the market and such competition is fierce. In general, the Directors expect that the Group will compete on pricing, scope of geographical network coverage, service plan quality and stability, usage convenience as well as other ancillary valued-added services.

The Directors expect that the pricing of its 3G mobile voice and data services would be an advantage of the Group to compete in the market. Through the Group's upgraded "One Card Multiple Number" system, the Directors believe that users could economically use 3G mobile voice and data services, such as email checking and web browsing, in China by paying local mobile data service charges to avoid paying the relatively higher data roaming fees. The Directors expect that the charges of 3G mobile data services offered by the Group will be determined based on factors such as the then prevailing market price and the cost of procuring such services by the Group. In addition, as the Directors view 3G mobile data services as one of the value-added services mainly to retain the existing users and widen the potential user base of the Group, the Group will still focus on its existing "One Card Multiple Number" business upon [●].

The following table compares the expected 3G voice service charges of the "One Card Multiple Number" per-paid plan offered by the Group and the roaming services offered by five MNOs in Hong Kong as at the Latest Practicable Date:-

	Expected 3G voice service charges for Group's "One Card Multiple Number" pre-paid plan service	**Roaming service charges of the five MNOs in Hong Kong** *(Note 1)*
	HK$/minute	HK$/minute
Outgoing calls dialed from Guangdong Province to Hong Kong	2.55	4.95-7.76
Outgoing calls dialed from Guangdong Province to Guangdong Province *(Note 2)*	0.55	3.0-3.6
Incoming calls received in Guangdong Province	0.40	6.48-8.30

Notes:

(1) Information obtained from the websites of the respective MNOs.

(2) Voice service charge for the Group's "One Card Multiple Number" pre-paid plan service for outgoing calls dialed from Guangdong Province to all areas in China is also expected to be charged at HK$0.55/minute. However, roaming service charges for such services of the five MNOs in Hong Kong are not publicly available and hence no comparison could be made herein.

The Directors will make reference to the then service plans or schemes offered by the MNOs when the 3G mobile data services are launched in determining the charging mechanism of the Group's services.

Repair and maintenance

The Group intends to contract with the manufacturer of the Group's equipment for repair and maintenance services to ensure there will be regular checking and maintenance for the proper functioning of the equipment and stability of the services provided by the Group and to have technical assistance from the manufacturer in case there are any malfunctions in the equipment.

Introducing RF-SIM into the Group's business in Hong Kong and Macau

Technical specification of RF-SIM

RF-SIM is a combination of ordinary mobile phone SIM card and contactless smartcard which operates at 2.4GHz frequency band. Such technologies were developed by Xiamen Elite, which received a patent certificate issued by the State Intellectual Property Office of the PRC on 23 April 2008 and registered the Hong Kong Patents on 7 September 2009. Pursuant to the deed of assignment entered into between Xiamen Elite and Directel Limited and dated 24 May 2010, Xiamen Elite assigned to Directel Limited the Xiamen Elite's RF-SIM Intellectual Property Rights in Hong Kong and Macau, including the Hong Kong Patents. According to the UC Report prepared by Unified Communications, a provider of telecommunications products and customised solutions and an Independent Third Party, in addition to the usual functions of an ordinary SIM card, RF-SIM comprises other additional functions such as identification, electronic couponing and access control and is compatible with the majority of mobile phones in the market today and mobile phone modification is not necessary.

Reasons for introducing RF-SIM into the Group's business

The Group's mobile phone services, including the "One Card Multiple Number" service and Hong Kong local mobile phone services and resale of airtime to MNOs, are its core business and major source of revenue. However, the Directors are of the view that in light of the fierce competitions in the telecommunications industry, it is necessary for the Group to introduce services with a wider variety of value-added functions to enhance its competitiveness and to capture a larger share of the market. The Directors believe that the introduction of RF-SIM into the Group's existing business could assist the Group to achieve such goal.

The essence for the introduction of RF-SIM is to indirectly increase the Group's revenue through the increase in the number of the Group's users so as to increase their airtime usage. Given that RF-SIM comprises other additional functions, the Group will be able to generate additional revenue from offering RF-SIM to customers and users. However, such revenue is expected to be minimal in the near future. Despite that, the Directors are of the view that the introduction of RF-SIM can be viewed as a marketing tool for the Group to attract new users and to retain its existing users.

According to the UC Report, since RF-SIM incorporates the functions of identification, electronic couponing and access control into a mobile phone, the Directors believe that the convenience given by RF-SIM could attract a group of users to use such product. Each user of RF-SIM would automatically become a user of the Group's mobile phone services as such user would be able to make phone calls and send SMSs after the RF-SIM has been inserted into his/her cell phone. Accordingly, it is expected that the Group's revenue generated from the users' airtime usage would increase corresponding to the increase in the number of the Group's RF-SIM and mobile phone service users.

Benefits to be received by the Group from the introduction of RF-SIM

When the Group is able to offer RF-SIM to its users, the Directors expect that the Group will be able to:-

- increase its user base of the "One Card Multiple Number" service and Hong Kong local mobile phone services by capturing users who demand for the functions of RF-SIM;
- retain its existing users by offering value-added services through RF-SIM;

- increase the Group's revenue from additional airtime usage and value-added services income derived from the introduction of RF-SIM;
- strengthen the Group's competitiveness in the market by offering new value-added services through the application of RF-SIM

The implementation plan

To launch RF-SIM into the market, the Group intends to, among others, (i) invest in building RF-SIM application systems (including BOSS system, servers, RF-SIM card and RF-SIM card readers) and provide payment for technical fees for the system installation (approximately HK$[●] million); (ii) promote the Group's RF-SIM services to housing estates, car parks, major chain convenience stores and shopping malls (approximately HK$[●] million); and (iii) recruit appropriate marketing and technical staff to implement such plans in Hong Kong and Macau (approximately HK$[●] million). The Group intends to spend approximately [●]% of the net [●], or approximately HK$[●] million, for the provision of RF-SIM with the Group's mobile phone services in Hong Kong and Macau. In particular, approximately HK$[●] million and HK$[●] million will be spent for implementing the development plans in Hong Kong and Macau respectively. The Directors intend to replace the SIM cards of its existing users and new users free of charge or at a preferential price.

The Directors believe that there are at least two equipment manufacturers which could provide the specialised equipment and at least two other manufacturers could provide the specialised SIM cards required to launch the RF-SIM. The Group has liaised with these four manufacturers, being (i) a supplier of smart card products and a listed company in the PRC; (ii) an enterprise engaged in the research and development, production and sales of smart cards equipment; (iii) a supplier of smart cards system; and (iv) a smart card provider, according to the information provided by such manufacturers. All of these manufacturers are Independent Third Parties, and the Group has obtained quotations in respect of the equipment and SIM cards from these manufacturers. The Directors are of the view that there is no material obstacle in sourcing the specialised SIM cards and equipment required.

Feasibility studies

According to the UC Report regarding the applications and functions of RF-SIM, various detailed feasibility tests and trials on the access control and promotion couponing functions of RF-SIM were performed. The tests and trials performed were simulations of the practical applications of the access control and promotion couponing functions, and the results were satisfactory. Based on the result of the tests and trials, Unified Communications concluded that RF-SIM technology is ready to be deployed and commercialised, and there is no major technical or operational barrier for RF-SIM to be implemented in Hong Kong and Macau. The Directors have also performed tests and trials for some of these applications themselves. Therefore, the Directors are of the view that there is no major technical or operational obstacles for RF-SIM to be implemented and launched in Hong Kong and Macau.

Business and revenue model

The Group intends to launch two value-added services using the RF-SIM, which are the access control services ("E-Access") and promotion services for commercial customers ("E-Promotion").

i. E-Access

The Group expects to introduce the application of RF-SIM on access control in housing estates and car parks in Hong Kong in the second quarter of 2010.

According to the UC Report, at the time when a user possessing a RF-SIM handset approaches a RF-SIM sensor device, the RF-SIM card delivers the physical identification to the door access controller through the sensor device. The door access controller then compares the physical identification from the RF-SIM card with the stored data on the sensor device, authenticates the user authority, and further controls the door's status. Meanwhile, the door access controller transfers the information stored in the RF-SIM card and timed control information, etc. to the server platform. The server then saves the information in the database for record.

The Group does not expect to generate any direct or significant income from this service, but will leverage the partnership with those property management companies to attract car park users and real-estate tenants to join the Group's mobile phone services and improve the revenue generated from airtime usage. The service charge will be waived for the first year to widen the customer base of the Group. After the first year, the Directors will review its charging policy and may charge the management companies of housing estates and/or car parks an annual fee for the service and such annual fee will be determined based on the relevant operational cost including depreciation and maintenance expenses.

After entering into contracts with the property and/or car park management companies, the Group will provide the relevant equipment and system required for access control and the cost relating to the equipment and system is expected to be shared by the Group and the relevant companies in accordance with the contracts. The Group may bill the companies and collect the annual service charges at the beginning of each year (except for the first year).

ii. E-Promotion

The Group intends to attract and acquire more customers by using RF-SIM as a mobile e-commerce platform to enable its potential commercial customers from various business sectors to launch precision guide advertising such as product or service coupons, bonus points, the commercial customers' addresses and websites. According to the UC Report, RF-SIM card readers are capable to transmit advertisements and information of products, shopping, food and beverages coupons to any RF-SIM within 100 meters, so that the Group's potential commercial customers can deliver effective advertisements in a more targeted and well-defined manner based on the location of the mobile phone user. RF-SIM users can select the advertisements which they are interested and download e-coupons to make consumption with the Group's commercial customers to receive more discounts and it can therefore improve the Group's commercial customers' ultimate advertising reach. The Group's RF-SIM mobile e-commerce platform represents a transaction bridge for users and commercial customers that revolutionises the traditional advertising models through all-the-way tracking of the target audiences' consumption process to deliver a complete shopping guide for goods or services.

Revenue from E-Promotion is expected to be generated based on two charging schemes offered to commercial customers:-

a. typical charging scheme: including charges for the cost of production and broadcast of the advertisements and the number of advertisements downloaded (e.g. HK$1/download) and redeemed (e.g. HK$2/download) by users; or

b. fixed rate charging scheme: a monthly package fee which includes a certain number of advertisements which could be downloaded and redeemed by users.

The rate and terms will be subject to annual renewal with reference to the market price and conditions in the advertisement industry. The aforesaid service charges would only be applied to commercial customers, and no charges would be applied to users in E-Promotion.

Regarding the revenue collection mechanism for the typical charging scheme, when users receive advertising coupons from or redeem the coupons at the Group's RF-SIM card readers, as such RF-SIM card readers are connected to the Group's server, the record of receiving and redemption would be sent to the Group's server. The Group will then issue monthly invoices to the commercial customers according to the number of coupons received and redeemed.

Since the Group's principal intention of introducing RF-SIM is to widen the Group's user base which in return increases the airtime usage, the Directors expect that the investment in the introduction of RF-SIM will take no less than approximately 5 years from the commencement of the implementation plan to breakeven after taking into account the income expected to be generated directly from the value-added services of RF-SIM only. However, there may be a risk that the RF-SIM plan may not be breakeven within the aforesaid timeframe. Please see "Risk Factors — Risks relating to the Group — The Group may fail to sustain its future ARPU, revenue per minute of airtime sold, turnover and net profit and may fail to achieve breakeven in respect of the Group's 3G plan and RF-SIM plan within the expected timeframe" of this document for further details.

As at the Latest Practicable Date, the Directors, to the best of their knowledge and belief, were not aware of any MNOs or MVNOs in Hong Kong or Macau which were providing value-added services in relation to RF-SIM to their users. Therefore, information with regard to how and what similar service providers were charging their services in relation to RF-SIM in Hong Kong and Macau was not available to the Directors.

Market potential

The Group engaged GIA, an international strategic market intelligence and advisory group and an Independent Third Party, to prepare the GIA Report for the purpose of analysing the market opportunity and competitive landscape of RF-SIM in Hong Kong and Macau as well as the potential market for RF-SIM from the perspective of mobile operators, merchants and property developers.

According to the GIA Report, GIA was of the view that (1) from the mobile operators' perspective, the key opportunities for RF-SIM are electronic membership, electronic payments, electronic access and electronic promotions; (2) from the merchants' perspective, the key opportunities for RF-SIM are the penetration into the retail segments (including food and beverages, fashion, cosmetics, department stores, supermarkets and cinema) as well as services for customers (including electronic promotion, electronic wallet, loyalty programs and electronic access); and (3) from the property developers' perspective, the key opportunities for RF-SIM are the penetration into new property developments and the differentiation of RF-SIM as a more secure technology.

The GIA Report also stated a number of challenges which might be encountered by the Group in launching RF-SIM. Please see "Risk Factors — Risks relating to the Group — The Group may encounter a number of challenges in implementing the business plan in respect of RF-SIM, which may affect the future financial performance of the Group" of this document for details.

Competition

In the light of the fact that the RF-SIM has been granted short-term patents protection in Hong Kong and the Group, being the [exclusive licensee of the RF-SIM Intellectual Property Rights operation rights] in Hong Kong and Macau, has not officially launched the RF-SIM in Hong Kong and Macau. The Group is not aware of any direct competition encountered by the Group in Hong Kong and Macau as at the Latest Practicable Date. Nevertheless, the E-Access and E-Promotion services of RF-SIM might separately encounter competitions from similar services in the market.

i. E-Access

According to the GIA Report, the electronic access service offered by Octopus covered over 200 buildings in Hong Kong as of the date of the GIA Report. GIA considered that the electronic access service is a relatively new area for Octopus and Octopus would have a less competitive dominance over the Group's E-Access in this regard. However, the Directors are of the view that due to the high market share and penetration rate of Octopus in Hong Kong, the Group's E-Access service would still encounter a very keen competition in the market in Hong Kong.

ii. E-Promotion

The Directors are of the view that the E-Promotion service to be offered by the Group would encounter competitions from similar promotion means including SMS broadcasting. To the best knowledge and belief of the Directors, SMS broadcasting allows users to passively receive advertising SMSs in a specific location, such as shopping malls, and users may redeem souvenirs or discounts at specific shops or restaurants inside the mall by showing the SMSs stored in their mobile phones. The Directors are of the view that the mechanism of SMS broadcasting is similar to the traditional leaflet distributions, which users are unable to choose the types of promotion SMSs they would like to receive or when the promotion SMSs to be received.

On the other hand, E-Promotion service enables users to actively choose the types of coupons to be received and when such coupons to be received through their mobile phones. Users may then redeem the coupons by tapping their mobile phones on the card readers installed in shops or restaurants. The Directors are of the view that the E-Promotion service offered by the Group could provide a more convenient platform and a better user-experience in receiving electronic coupons since users would be less likely to be annoyed by junk promotion coupons. The Directors are also of the view that from the merchants' perceptive, E-Promotion service would be a more effective and efficient means to gather statistical information of their promotion campaigns from their potential and target customers over SMS broadcasting since all coupon receipt and redemption statistics are processed through computers which enables merchants to conveniently access the statistics regarding their promotion campaigns and use such statistics to improve their future promotion campaigns.

FINANCIAL INFORMATION

The following is a summary of the consolidated results of the Group for the periods indicated, which has been derived from, and should be read in conjunction with, the audited financial statements included in the Accountants' Report set out in Appendix I to this document. These financial statements have been prepared in accordance with the IFRSs.

	For the year ended 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	54,650	46,164	51,875
Cost of sales	(30,921)	(24,738)	(25,594)
Gross Profit	23,729	21,426	26,281
Other revenue	310	97	2
Administrative expenses	(10,822)	(11,948)	(18,020)
Profit from operations	13,217	9,575	8,263
Finance income	130	16	2,786
Finance costs	(1,545)	(1,159)	—
Net finance (costs)/income	(1,415)	(1,143)	2,786
Profit before taxation	11,802	8,432	11,049
Income tax	(1,138)	361	(910)
Profit for the year attributable to equity shareholders of the Company	10,664	8,793	10,139
Earnings per share			
Basic and diluted earnings per share	HK$0.014	HK$0.012	HK$0.014

The Group's net profit decreased by approximately 17.8% from approximately HK$10.7 million in 2007 to approximately HK$8.8 million in 2008, and recorded an increase by approximately 14.8% from approximately HK$8.8 million in 2008 to approximately HK$10.1 million in 2009.

SHARE OPTION SCHEME

The Company has conditionally adopted the Share Option Scheme on 20 May 2010, the purpose of which is to provide individuals or parties working for the interests of the Group with an opportunity to obtain an equity interest in the Company, thus linking their interest with the interests of the Group and thereby providing them an incentive to perform better for the interests of the Group. The principal terms of the Share Option Scheme are summarised in "Appendix V — Share Option Scheme" to this document.

RISK FACTORS

The Group's business is subject to a number of risk factors, the details of which are set out in "Risk Factors" of this document. These risk factors can be categorised into (1) risks relating to the Group; (2) risks relating to the industry; and (3) risks relating to statements made in this document. A summary of these risks is as follows:

Risks relating to the Group

- The Group may fail to sustain its future ARPU, revenue per minute of airtime sold, turnover and net profit and may fail to achieve breakeven in respect of the Group's 3G plan and RF-SIM plan within the expected timeframe
- The Group's operation substantially relies on services provided by several third party telecommunications service providers and any termination or discontinuation of services would materially and adversely affect the Group's operation and financial performance
- Any suspension or termination of services or faulty services provided by the service providers of the Group could materially and adversely affect the Group's operation and financial performance
- The Group's services encounter intense competition in the Hong Kong mobile telecommunications market which could materially and adversely affect its financial performance
- Any disruption or failure of the Group's telecommunications system may materially and adversely affect its operation and financial performance
- The Group has outsourced a significant portion of its operation to service providers and therefore does not have full control over these services
- The Group's business relies on sophisticated billing and credit control systems of a service provider and any problems with these systems could interrupt the Group's operations
- The Group's provision of telesales dealership services substantially relies on the services provided by its connected person

- IRD may penalise Elitel for its failure to notify the IRD of its chargeability to Hong Kong profits tax within the prescribed time limit for the years from 2002 to 2008 which may adversely affect the financial condition and results of the Group's operations

- Elitel may be subject to penalties imposed by the Companies Registry with regard to Elitel's registration under Part XI of the Companies Ordinance

- The Group's insurance coverage may not be adequate to cover all losses which the Group may suffer

- Sales of the Group's products are conducted by dealers over whom the Group has no direct control

- A substantial amount of the Group's revenue is derived from its major customers

- The Group may not be able to implement all or any of its business plans successfully

- The Group may not be able to implement the business plan in respect of the intended introduction of RF-SIM to the Group's telecommunications services in Hong Kong and Macau

- The Group may encounter a number of challenges in implementing the business plan in respect of RF-SIM, which may affect the future financial performance of the Group

- The Group's intended introduction of RF-SIM to the Group's mobile phone services and the operation of such business in Hong Kong and Macau substantially rely on the licensed operation rights of RF-SIM in Hong Kong and Macau granted by Directel Limited

- The Group's failure to collect its trade receivables could materially and adversely affect its financial performance

- The Group may fail to obtain or renew the licences and permits required for its operation in the future

- The Group's [exclusive licence of the RF-SIM Intellectual Property Rights] in Hong Kong and Macau may not be fully protected by the intellectual property rights law in Hong Kong and Macau, and any unauthorised use, infringement or misappropriation of such rights by third parties may materially and adversely affect the Group's business

- The Group's operation may potentially infringe intellectual property rights of other third parties which may materially and adversely affect the Group's business operations and future plans

- The Group's operation could be materially and adversely affected by departure of members of its management team and failure to recruit and retain competent employees

- The Group's past dividend policy may not be indicative of the Group's dividend policy in the future

- The interests of the Controlling Shareholders may differ from other Shareholders

- Changes in foreign exchange regulations and future movements in the exchange rate of Renminbi may adversely affect the financial condition and results of the Group's operations as well as its ability to pay dividends

- The Group's business may be adversely affected by the recent global economic crisis and other events affecting Hong Kong and the PRC

- The Group may encounter risks relating to health epidemics and other outbreaks

Risks relating to the industry

- The Group may fail to adapt the rapid technology changes in the telecommunications industry and this would materially and adversely affect its operation and financial performance

- Any unfavorable changes in the regulatory environment may materially and adversely affect its operation and financial performance

Risks relating to the statements made in this document

- Statistics and facts may be inaccurate

- Forward-looking statements may be inaccurate

DEFINITIONS

In this document, unless the context otherwise requires, the following expressions have the following meanings:

"Articles"	the amended and restated articles of association of the Company adopted by resolutions of the Shareholders on 20 May 2010, and as amended from time to time, a summary of the current version of which is set out in Appendix IV to this document
"associate(s)"	has the meaning ascribed thereto under the GEM Listing Rules
"BMIS"	the Billing and Metering Integrity Scheme proposed by OFTA to ensure accuracy and integrity of the metering and billing systems of operators in the telecommunications industry
"Board"	the board of Directors
"BRO"	Business Registration Ordinance (Chapter 310 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"business day"	a day (other than a Saturday or Sunday) on which banks in Hong Kong are generally open for normal banking business
"BVI"	the British Virgin Islands
"CEDB"	the Communications and Technology Branch of the Commerce and Economic Development Bureau of Hong Kong
"China", "PRC" or "Mainland"	the People's Republic of China, but for the purposes of this document and unless otherwise indicated, excludes Hong Kong, Macau and Taiwan
"China Elite Information"	China Elite Information Technology Ltd. (廣州盛華信息技術有限公司), a company incorporated in the PRC on 18 November 2003, which is principally engaged in the business of computer messaging system development, system integration, computer software development and technology services, which is indirectly held as to 50% by Mr. Li Kin Shing and 50% by Ms. Kwok King Wa respectively, and therefore a connected person of the Company

DEFINITIONS

"China Unicom"	China Unicom (Hong Kong) Limited (中國聯合網絡通信(香港)股份有限公司), formerly known as China Unicom Limited (中國聯通股份有限公司), a company incorporated on 8 February 2000 in Hong Kong with limited liability, the shares of which are listed on the Main Board (stock code: 0762) and the New York Stock Exchange (stock code: CHU), being a telecommunications service provider and an Independent Third Party
"China Unicom Guangdong"	China Unicom Limited — Guangdong Branch (中國聯合網絡通信有限公司廣東省分公司) (formerly known as China Unicom Limited — Guangdong Branch (中國聯通有限公司廣東省分公司)), a branch company of China Unicom Limited (中國聯合網絡通信有限公司) established in the PRC and an Independent Third Party
"China-HK Telecom"	China-Hongkong Telecom Limited (中港通電訊有限公司), a company incorporated in Hong Kong on 5 September 2001 under the Companies Ordinance with limited liability, which is principally engaged in the business of provision of "One Card Multiple Number" service and an indirect wholly-owned subsidiary of the Company
"Company"	Directel Holdings Limited (直通電訊控股有限公司), a company incorporated in the Cayman Islands on 28 July 2009 under the Companies Law with limited liability
"Companies Law"	the Companies Law (2009 Revision) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time
"Companies Ordinance"	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Companies Registry"	Companies Registry of Hong Kong
"connected person(s)"	has the meaning ascribed thereto under the GEM Listing Rules
"Controlling Shareholder(s)"	has the meaning ascribed to it under the GEM Listing Rules, being New Everich, Mr. Li Kin Shing and Ms. Kwok King Wa

DEFINITIONS

"Directel HK"	Directel Communications Limited (直通電訊有限公司), a company incorporated in Hong Kong on 20 April 1995 under the Companies Ordinance with limited liability, which is principally engaged in the provision of telecommunications services and an indirect wholly-owned subsidiary of the Company
"Directel Limited"	Directel Limited (直通電訊有限公司), a company incorporated in the Cayman Islands on 30 August 2001 under the Companies Law with limited liability, which is principally engaged in the business of RF-SIM licensing, and is held as to 50% and 50% by Mr. Li Kin Shing and Ms. Kwok King Wa respectively, and therefore a connected person of the Company
"Director(s)"	the director(s) of the Company
"Elitel"	Elitel Limited (盛華電訊有限公司), a company incorporated in the Cayman Islands on 30 August 2001 under the Companies Law with limited liability, which is principally engaged in the provision of telecommunications services and an wholly-owned subsidiary of the Company
"Ever Prosper"	Ever Prosper International Limited, a company incorporated in the BVI on 29 November 1994 under the laws of the BVI with limited liability, an investment holding company, and is held as to 50%, 46.5% and 3.5% by Mr. Li Kin Shing, Ms. Kwok King Wa and Ms. Li Yin respectively, and therefore a connected person of the Company
"GDP"	gross domestic product
"GEM"	the Growth Enterprise Market operated by the Stock Exchange
"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM
"GEM website"	http://www.hkgem.com, being the internet website operated by the Stock Exchange for GEM
"GIA"	Global Intelligence Alliance, a strategic market intelligence and advisory group having a global network of industry specialists across various industry groups, including telecommunications, technology and media, and an Independent Third Party

DEFINITIONS

"GIA Report"	a market research report prepared by GIA titled "Hong Kong and Macau RF-SIM Card Market Opportunity and Competitive Landscape" dated 27 April 2010 and the preparation of the report was commissioned by the Group with a fee of approximately HK$120,000
"Group"	the Company and its subsidiaries, or where the context so requires in respect of the period prior to the Company becoming the holding company of its present subsidiaries, such subsidiaries for the time being
"Hong Kong" or "HK" or "HKSAR"	the Hong Kong Special Administrative Region of the PRC
"HK$" or "HK dollars" and "cents"	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
"Hong Kong Patents"	the two Hong Kong short term patents in respect of RF-SIM (Patent number: HK1130998 and HK1130999)
"Hutchison"	Hutchison Telecommunications and/or Hutchison Telephone (as the case may be)
"Hutchison Telecommunications"	Hutchison Telecommunications (Hong Kong) Limited (和記電訊(香港)有限公司) , a company incorporated in Hong Kong on 1 August 1995 under the Companies Ordinance with limited liability and an Independent Third Party
"Hutchison Telephone"	Hutchison Telephone Company Limited (和記電話有限公司) , a company incorporated in Hong Kong on 2 September 1983 under the Companies Ordinance with limited liability and an Independent Third Party, and a non wholly-owned subsidiary of Hutchison Telecommunications
"IEL"	International Elite Ltd. (精英國際有限公司), a company incorporated in the Cayman Islands on 18 September 2000 under the Companies Law with limited liability, the shares of which are listed on the Main Board (stock code: 1328), which is principally engaged in the provision of customer relationship management outsourcing services, and are controlled by Mr. Li Kin Shing and Ms. Kwok King Wa, and therefore a connected person of the Company
"IEL Group"	the group comprising IEL and its subsidiaries, a connected person, details of which are set out in "Relationship with the Controlling Shareholders, Non-competition Undertakings and Connected Transactions" of this document

DEFINITIONS

"IFRSs"	International Financial Reporting Standards
"Independent Third Party(ies)"	a person(s) or entity(ies) who/which is/are independent of and not connected with any Directors, chief executive, significant shareholders or substantial shareholders (both as defined in the GEM Listing Rules) of the Company or any of its subsidiaries and their respective associates
"IRD"	Inland Revenue Department of Hong Kong
"IRO"	Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Latest Practicable Date"	20 May 2010, being the latest practicable date for ascertaining certain information contained in this document prior to the printing of this document
"Macau"	the Macau Special Administrative Region of the PRC
"Main Board"	the securities market operated by the Stock Exchange under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (excluding the options market) other than GEM, which stock market continues to be operated in parallel with GEM
"Management Shareholder"	has the meaning ascribed thereto under the GEM Listing Rules, being New Everich, Mr. Li Kin Shing and Ms. Kwok King Wa
"MOP"	Macau dollars and cents respectively, the lawful currency of Macau
"New Everich"	New Everich Holdings Limited, a company incorporated in the BVI on 23 April 2009 under the laws of the BVI with limited liability, an investment holding company, and is held as to 54% and 46% by Mr. Li Kin Shing and Ms. Kwok King Wa respectively, and is one of the Controlling Shareholders and Management Shareholders
"New World Telecom"	New World Telecommunications Limited (新世界電訊有限公司), a company incorporated in Hong Kong on 14 January 1992 under the Companies Ordinance with limited liability and an Independent Third Party
"OFTA"	the Office of the Telecommunications Authority of Hong Kong, the executive arm of the TA

DEFINITIONS

"One Card Multiple Number"	one of the mobile phone services offered by the Group and details of which are set forth in "Business — Services — Mobile Phone Services — I. "One Card Multiple Number" service" of this document
"PacificNet Communications"	PacificNet Communications Limited — Macao Commercial Offshore (太平洋商通電訊有限公司 — 澳門離岸商業服務), a company incorporated in Macau on 6 February 2003 under the laws of Macau as a private company, which is principally engaged in the provision of customer support to customer relationship management outsourcing services, and a member of the IEL Group, and therefore a connected person of the Company
"PBOC"	People's Bank of China, the central bank of the PRC
"PCCW Mobile"	PCCW Mobile HK Limited, formerly known as SUNDAY, a company incorporated in Hong Kong on 24 November 1994 under the Companies Ordinance with limited liability, providing services under the brand name of PCCW Mobile, one of the Group's service providers and customers and an Independent Third Party
"Reorganisation"	the reorganisation of the Group, details of which are set out in "History and Development" and Appendix V to this document
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"SBCVC"	SBCVC Company Limited (欣創投資有限公司), a company incorporated on 27 June 2007 in Hong Kong with limited liability
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Share Option Scheme"	the share option scheme conditionally adopted by the Company on 20 May 2010, the principal terms of which are summarised in "Appendix V — Statutory and General Information — Share Option Scheme" to this document
"Shares"	ordinary shares of HK$0.01 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Shares

DEFINITIONS

"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary" or "subsidiaries"	has the meaning ascribed to it in Section 2 of the Companies Ordinance
"SUNDAY"	SUNDAY o/b Mandarin Communications Limited, a company incorporated in Hong Kong under the Companies Ordinance with limited liability and an Independent Third Party. Mandarin Communications Limited changed its name to PCCW Mobile after it became an indirect wholly-owned subsidiary of PCCW Limited
"TA" or "Telecommunications Authority"	the Telecommunications Authority of Hong Kong, the regulator of the telecommunications sector in Hong Kong
"Talent Information"	Talent Information Engineering Co. Limited (天龍信息工程有限公司), a company incorporated in Hong Kong, which is a property holding company and is indirectly held as to 100% by Ms. Kwok King Wa
"Tax Adviser"	KPMG Tax Limited, an independent tax adviser to the Group
"Telecommunications Ordinance"	the Telecommunications Ordinance (Chapter 106 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Telecommunications Regulations"	Telecommunications Regulations (Chapter 106A of the Laws of Hong Kong), as amended supplemented or otherwise modified from time to time
"Track Record Period"	the period comprising each of the three years ended 31 December 2009
"Unified Communications"	Unified Communications Limited, a limited liability company incorporated in Hong Kong and a subsidiary of Unified Communications Holdings Limited (a company listed on Singapore Exchange Securities Trading Limited), a provider of telecommunications products and customised solutions, an Independent Third Party
"UC Report"	a feasibility report prepared Unified Communications and the preparation of the report was commissioned by the Group with a fee of approximately US$2,000
"US" or "United States"	the United States of America
"US$" or "US dollars"	US dollars, the lawful currency of the United States

DEFINITIONS

"Xiamen Elite"	Xiamen Elite Electric Co., Ltd. (厦門盛華電子科技有限公司), a company established in the PRC with limited liability on 24 August 2004, which is principally engaged in the business of network communications product and software design, including the research and development of RF-SIM, and is indirectly held as to 50% and 50% by Mr. Li Kin Shing and Ms. Kwok King Wa respectively
"%"	per cent

All dates and times in this document refer to Hong Kong time unless otherwise stated.

Unless otherwise specified in this document, amounts denominated in US$ and RMB have been converted, for the purposes of illustration only, into HK$ at the rate of HK$7.8 = US$1.0 = RMB6.8 respectively.

The exchange rates above are for reference only. No representation is made by the Group that any amounts in RMB, US$ or HK$ could have been or could be converted at the above rates or at any other rates or at all.

In this document, the names of persons, entities or enterprises in the PRC have been included in this document in both the Chinese and English languages and the English names of these persons, entities or enterprises are only English translation of their respective official Chinese names. In the event of any inconsistency between the Chinese name and its English translation, the Chinese name shall prevail.

Certain amounts and percentage figures included in this document have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

GLOSSARY OF TECHNICAL TERMS

This glossary contains explanations of certain terms used in this document in connection with the Company and its business. The terminologies and their meanings may not correspond to standard industry meanings or usage of those terms.

"2G"	a type of wireless communications technology, based on digital technology, including GSM and CDMA technology, which was developed primarily for voice applications and, where the context requires, references to 2G
"3G"	a wireless communications technology being capable of data transmission speeds of 144 Kbps or higher
"ARPU"	average revenue per user, which is calculated by the total service revenues under mobile phone services during the period divided by 3 or 12, on a quarterly basis or on a twelve-month basis, divided by the monthly average number of activated customers in that period
"BIS service(s)"	built-in-secretarial services, a personalised message taking service
"BOSS"	back office support system
"CDMA"	code division multiple access, a wireless communications technology that uses spread-spectrum techniques
"ETS"	external telecoms services, telecoms services which are regulated and licensed in Hong Kong by OFTA for external telecoms services over international private leased circuits, which is the point-to-point private lines used by various organisations to communicate between offices that are geographically dispensed all over the world
"FAX"	facsimile, a telecommunications technology used to transfer copies of documents, especially using affordable devices operating over the telephone network
"FTNS"	fixed telecommunications network services which are regulated and licensed in Hong Kong by the TA for internal and external telecommunications services between fixed points
"fulfillment services"	the implementation of telesales order by performing credit check on the users, preparing the service agreement between the telecommunications service provider and the user in addition to other documents, explaining the terms of the service agreement to the users before signing and providing the SIM card to the user

GLOSSARY OF TECHNICAL TERMS

"GHz"	gigahertz, a unit of frequency
"GPRS"	general packet radio services, a packet-based wireless communication service which promises data rates from 8.8 up to 171.2 Kbps and continuous connection to the Internet for mobile phone and computer users
"GSM"	global system for mobile communications, a standard digital cellular phone service and used worldwide by mobile operators
"GMSC"	gateway mobile switching centre, a primary service delivery node for GSM and is responsible for handling voice calls, SMS services and other services
"HLR"	home location register, a database within a GSM network that stores details of all the user data
"IDD"	international direct dial, an international telephone call dialed by the caller rather than going via an operator
"IMSI"	international mobile subscriber identity, a unique number associated with all GSM and network mobile phone users
"Internet"	a global network of networks accessed by users with a computer and a modem
"international roaming"	roaming in a country other than the country of the mobile telecommunications network to which a user subscribes for telecommunications services
"ISR"	international simple resale, a mechanism enabling operators which are licensed to provide external telecoms services which enable IDD calls using the external telecoms facilities of fixed telecoms network services operators which are licensed to provide them
"Kbps"	kilobits per second, which is a measurement of speed for digital signal transmission expressed in thousands of bits per second
"Mbps"	megabits per second, which is a measurement of speed for digital signal transmission expressed in millions of bits per second
"MHz"	megahertz, a unit of frequency
"MNO"	mobile network operator, a mobile operator that owns its mobile radio network

GLOSSARY OF TECHNICAL TERMS

"MSC"	mobile switching centre, the primary service delivery node for GSM, responsible for handling voice calls and SMS as well as other services such as conference calls, FAX and circuit switched data
"MSISDN"	mobile subscriber integrated services digital network Number, a number uniquely identifying a subscription in a GSM or UMTS mobile network
"MVNO"	mobile virtual network operator, a mobile operator that does not own mobile radio networks but rather purchases wholesale capacity from a MNO
"Octopus"	a rechargeable contactless stored value smart cards used in Hong Kong
"PNETS"	public non-exclusive telecommunications services, which are regulated and licensed in Hong Kong by OFTA for services such as ETS and MVNO services
"post-paid"	mobile telecommunications service usage paid for by the user upon receipt of the MNO's invoice
"pre-paid"	mobile telecommunications service usage paid in advance by the user
"RF-SIM"	radio frequency subscriber identity module and its details are set forth in "Business Objectives and Strategies — Business Strategies" of this document
["RF-SIM Intellectual Property Rights"]	[all Xiamen Elite's right existing at the date of the deed of assignment for use in relation to the inventions respectively defined in and expressed by the claims of the Hong Kong Patents and the Hong Kong Patents for the purpose of putting them into commercial effect, including: (i) rights in designs (whether registered or unregistered); (ii) rights in information; and (iii) the copyrights in and to all artwork, drawings, diagrams and all related literary works (the "RF-SIM Intellectual Property Rights")]
"roam" or 'roaming"	mobile telecommunications use which involves passing from the local service area of one MNO to that of another with a compatible network technology

GLOSSARY OF TECHNICAL TERMS

"SBO"	service-based operator, which are regulated and licensed in Hong Kong by OFTA whilst services which may be authorised under the service-based operator Class 3 licence including, inter alia, ETS and MVNO services
"SIM card"	subscriber identity module card, securely stores the service-user key used to identify a user or mobile telephony devices
"SMS"	short messaging service, a service available on most digital mobile phones that permits the sending of short messages between mobile phones, other handheld devices and even landline telephones
"SMSC"	short message service centre, the centre supporting the sending of text messages
"UMTS"	universal mobile telecommunications system, one of the 3G mobile telecommunications technologies

RISKS RELATING TO THE GROUP

The Group may fail to sustain its future ARPU, revenue per minute of airtime sold, turnover and net profit and may fail to achieve breakeven in respect of the Group's 3G plan and RF-SIM plan within the expected timeframe

The Group's ARPU of mobile phone services for the three years ended 31 December 2009 was approximately HK$81.2, HK$36.7 and HK$30.8 respectively. The revenue per minute of airtime sold from the "One Card Multiple Number" service, Hong Kong local mobile phone services and resale of airtime to MNOs for the three years ended 31 December 2009 was HK$0.87, HK$0.80 and HK$0.45 respectively. For the three years ended 31 December 2009, the Group recorded revenue of approximately HK$54.7 million, HK$46.2 million and HK$51.9 million respectively and net profit of approximately HK$10.7 million, HK$8.8 million and HK$10.1 million respectively. The sustainability of the Group's ARPU, revenue per minute of airtime sold, turnover and net profit will depend upon the ability of the Group to maintain its competitiveness in the market to provide high quality services and to keep updated in technologies advancement. There is no guarantee that the Group will be able to sustain its future ARPU, revenue per minute of airtime sold, turnover and net profit in coming years. In the event that the Group fails to maintain its competitiveness in the market, maintain its low-cost strategy or provide quality services, or it fails to keep up-to-date with the technology changes in the telecommunications industry, its financial performance may be materially and adversely affected. Moreover, the Directors also believe that the cancellation of domestic roaming fees when making international long distance calls in the PRC since 1 January 2010 under the rules and regulations promulgated by the relevant authorities of the PRC in December 2009 and was applicable to all MNOs in the PRC may lower the Group's ARPU in the future when compared with prior periods.

Two of the MNOs which the Group purchased airtime from adopted minimum monthly airtime purchase policies against the Group during the Track Record Period. The policies set out the minimum monthly amount of service fees that the Group has to pay to such MNOs. In the event that the aggregate amount payable for the services acquired or consumed by the Group in a certain month is less than such minimum monthly fees under the relevant policies, the Group will still have to pay the minimum monthly fees. For the three years ended 31 December 2009, (i) the Group was unable to satisfy the monthly minimum airtime purchase amount imposed by one of the MNOs (which commenced in February 2008) for twenty one calendar months and was required to pay to such MNO the shortfall of minimum monthly fees; and (ii) the Group was unable to satisfy the monthly minimum airtime purchase policy adopted by the other MNO for twenty three calendar months over the Track Record Period and was required to pay to such MNO the minimum monthly fees. As a result, the cost of each minute of the airtime sold was relatively higher for the months with shortfall, which led to a decrease in the profit generated from each minute of the airtime sold during such months which in return led to a decrease in the net profit. There is no guarantee that the Group will be able to satisfy such minimum airtime purchase policies in each of the future months. In the event that the Group is unable to satisfy such minimum airtime purchase policies in each of the future months, the Group's profit generated from each minute of the airtime sold would decrease and the Group's financial performance may be materially and adversely affected accordingly.

In addition, the Group intends to upgrade its telecommunications equipment for being compatible with the 3G mobile networks operated by the Group's service operators as a MVNO in Hong Kong (the "3G Plan") and the PRC and to introduce RF-SIM to the Group's business in Hong Kong and Macau (the "RF-SIM Plan"). Though the Directors expect that the 3G Plan will be breakeven within approximately 2.5 years and the RF-SIM Plan will not be breakeven within approximately 5 years from the commencement of the implementation plans, there is no guarantee that such plans will be breakeven within such timeframe. In the event that the 3G Plan and RF-SIM Plan cannot be breakeven within the aforesaid timeframe, the financial performance of the Group may be adversely and materially affected.

The Group's operation substantially relies on services provided by several third party telecommunications service providers and any termination or discontinuation of services would materially and adversely affect the Group's operation and financial performance

The Group is a MVNO which provides mobile telecommunications services but does not have its own licensed frequency allocation of radio spectrum or the entire infrastructure required to provide mobile telecommunications services. In fact, the Group simply purchases airtime or leases bandwidth from various service providers through entering into written agreements with them. As such, the Group's operation relies heavily on these service providers. During the Track Record Period, the Group relied entirely on two telecommunications service providers in Hong Kong, namely Hutchison and PCCW Mobile, and one telecommunications service provider in the PRC, namely China Unicom Guangdong, with regard to its mobile phone services and resale of airtime to MNOs which accounted for over 60% of the total revenue derived by the Group during the Track Record Period.

The following table sets forth the percentage of Hong Kong airtime purchased from each of its service providers in Hong Kong out of the total Hong Kong airtime purchased by the Group during the Track Record Period:-

	For the year ended 31 December		
	2007	**2008**	**2009**
	%	%	%
PCCW Mobile	68.8	60.4	35.1
Hutchison	31.2	39.6	64.9
Total	100.0	100.0	100.0

For the three years ended 31 December 2009, purchases from the aforesaid three telecommunications service providers in Hong Kong and the PRC amounted to approximately HK$16.3 million, HK$12.5 million and HK$14.9 million respectively. The Group also works with three telecommunications service providers for its IDD services.

As disclosed in "Business — Service Providers" of this document, the Group's agreement with China Unicom Guangdong for the provision of China airtime will expire on 31 December 2011 and the relevant extension agreement has not been entered into as at the Latest Practicable Date. The Group received a non-legally binding business cooperation certificate issued by China Unicom

Guangdong dated 27 July 2009, in which China Unicom Guangdong stated that the extension of the existing service agreement between the Group and itself would be sincerely considered. If both parties agreed to extend the contractual relationship, a service extension agreement would be executed at a reasonable time before 31 December 2011. Since the indication from China Unicom Guangdong is non-legally binding, any disputes thereof can only be solved by negotiations between China Unicom Guangdong and the Group. Furthermore, the Group's agreement with PCCW Mobile and Hutchison for the provision of Hong Kong airtime is renewable on an annual or monthly basis. The Group's continuous contractual relationships with these MNOs are critical to the sustainability of the Group's "One Card Multiple Number" service. In the event that any of the Group's telecommunications service providers terminates its contractual relationships with the Group or cannot provide services to the Group due to any reasons, including but not limited to failures to obtain or renew any material licenses required for operation by these service providers, and the Group fails to timely contract with other replacements of the same tier in terms of scale, quality and cost, or the cost of purchasing the services provided by the Group's telecommunications service providers increases significantly, its operation and financial performance would be materially and adversely affected. In addition, in the event that the Group's sole service provider in the PRC, i.e. China Unicom Guangdong terminates its contractual relationships with the Group or cannot provide services to the Group or the Group fails to enter into the extension agreement with China Unicom Guangdong or China Unicom Guangdong increases significantly the airtime charges payable by the Group upon the expiry of the existing agreement, the Group may encounter significant difficulties or may not be able to sustain its "One Card Multiple Number" service and resale of airtime to MNOs, which accounted for approximately 68.0% of the total revenue of the Group in 2009 and would have material adverse effects on its operation and financial performance. It should be noted that the Group has a relatively weaker bargaining power against such service provider in the PRC with regard to their business negotiations, which may adversely affect the Group's position in the terms and conditions concluded in the aforesaid extension agreement.

In addition, in the event that the Group's service providers in Taiwan and/or Macau terminates its contractual relationships with the Group or cannot provide services to the Group, the Group's "One Card Multiple Number" service may be adversely affected which in turn would have adverse effects on the Group's operation and financial performance or its future expansion to the Taiwan market and/or the intended development in the Macau market.

Any suspension or termination of services or faulty services provided by the service providers of the Group could materially and adversely affect the Group's operation and financial performance

As the Group does not own nor control its own mobile telecommunications infrastructure and has to rely on the services provided by 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 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. There is no guarantee that the Group's telecommunications service providers can maintain quality services or ensure no disconnection or failure in their operating systems.

The Group's services encounter intense competition in the Hong Kong mobile telecommunications market which could materially and adversely affect its financial performance

The Group's services encounter intense competition in the Hong Kong mobile telecommunications market, with one of the world's highest penetration rates for customers of mobile telecommunications services. The Group's consolidated SBO Class 3 licence allows the Group to provide MVNO and ETS services in Hong Kong. According to OFTA, there were 9 MVNO licensees as at 5 March 2010 and 266 ETS licensees as at 30 April 2010 and 5 MNOs as of April 2010 in Hong Kong. The Group may also encounter competitions from new entrants of the market from time to time.

The Group's phone services, including voice services and value-added services, encounter competitions from both local and international network operators. Locally, the services of the Group encounter intense competitions from the 5 MNOs and the other 8 MVNO licensees in Hong Kong. As the Group's mobile phone services cover areas other than Hong Kong, its services also encounter competitions from network operators in other designated territories, namely China and Taiwan. The Group's "One Card Multiple Number" service encounters competitions from roaming services and IDD services. In particular, the Group's "One Card Multiple Number" service encounters competition from similar services of having more than one mobile phone number in one SIM card offered by other MNOs. As at the Latest Practicable Date, to the best knowledge and belief of the Directors, there were approximately 14 service providers, including the Group, which have the capabilities to offer similar service in the market.

Basically, the Group competes on price, scope of geographical network coverage, service plan varieties, usage convenience as well as other ancillary value-added services. In addition, the Group's ability to compete successfully in the market attributes to factors partially outside of the Group's control, including general political, economic and social conditions. Any failure by the Group to compete effectively could have a material adverse effect on the Group's business, financial condition and operation results.

In addition, some of the Group's mobile service providers, which are its major customers as well, are its competitors in the mobile telecommunications market offering similar services as the Group's services. As these service providers are MNOs whereas the Group is merely a MVNO, the Directors consider that the unbalanced bargaining power could be unfavorable to the Group. In the event that these service providers significantly lower the selling price of their services offered to their users or increase the selling price of their services offered to the Group, these would materially and adversely affect the Group's competitiveness as well as its operation and financial performance.

Any disruption or failure of the Group's telecommunications system may materially and adversely affect its operation and financial performance

The stability of the Group's services depends upon its ability to protect its telecommunications system and equipment against damage from human error, fire, earthquakes, floods, power loss, telecommunications failure, sabotage, hackers and similar events. During the Track Record Period, the Group had experienced several minor failures in its telecommunications system and equipment which temporarily suspended part of the Group's mobile telecommunications services for approximately 0.39% of the total usable hours. There is no guarantee that the Group will not suffer any damage or failure in its telecommunications system and equipment. Any damage to or failure of the Group's telecommunications system and equipment could result in interruptions in, or termination of the services provided by the Group to its customers, which could have a material adverse effect on the Group's business, operation results and financial conditions. The Directors confirm that the Group had no material loss of revenue incurred, claims or damages paid as a result of the failure of its telecommunications system and equipment during the Track Record Period. In addition, the Group's reputation could be materially and adversely affected as well.

Under certain circumstances, the Group's repair and maintenance team may not have sufficient resources or skills to restore its telecommunications system and to repair its telecommunications equipment from certain failures and repair services from the manufacturers of the faulty components are required.

The Group has outsourced a significant portion of its operation to service providers and therefore does not have full control over these services

The Group has outsourced a significant portion of its operation to service providers, certain of which are also connected persons of the Company. In particular, the Group has been outsourcing its data processing and billing management services to China Elite Information and its telesales dealership services, BIS and customer hotline services to PacificNet Communications, both being connected persons of the Group. For the three years ended 31 December 2009, services rendered by these connected persons amounted to approximately HK$11.4 million, HK$10.8 million and HK$6.9 million respectively, which accounted for approximately 27.3%, 29.4% and 15.8% of the Group's expenditures (which comprised cost of sales and administrative expenses) respectively. Though certain service providers of the Group are the Company's connected persons, the Group does not have any direct control over them nor over the services provided by these service providers. 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. There is no guarantee that these service providers can maintain quality services or ensure no failure or dissatisfaction in their provision of services.

In the event that these service providers terminate their contractual relationships with the Group or cannot provide services to the Group due to any reasons and the Group fails to timely contract with other replacements of the same tier as the Group's existing service providers in terms of scale, quality and cost, or the cost of purchasing the services increases significantly, the Group's operation and financial performance would be materially and adversely affected.

The Group's business relies on sophisticated billing and credit control systems of a service provider and any problems with these systems could interrupt the Group's operations

Sophisticated billing and credit control systems are critical to the Group's ability to increase revenue streams, avoid revenue losses, monitor costs and potential credit problems and bill its customers properly and in a timely manner. The Group has contracted with China Elite Information, a connected person of the Company which the Group has no direct control over, to provide the Group's billing management services. Any damage or interruptions in operation or failure of the service provider's servers used for billing and credit control systems could result in an interruption in the Group's operations, which could materially and adversely affect the Group's financial performance, results of operations and prospects.

The Group's provision of telesales dealership services substantially relies on the services provided by its connected person

The Group offers telesales dealership services for two major MNOs in Hong Kong. In this respect, the Group enters into dealership agreement with each of these MNOs and is provided with lists of potential customers. It then outsources the telesales task to PacificNet Communications, a connected person of the Company which the Group has no direct control over, for making unsolicited phone calls to these potential customers and promoting the mobile telecommunications services of the respective MNOs. During the Track Record Period, revenue generated from the Group's provision of telesales dealership services accounted for approximately 18.5%, 19.8% and 11.2% of the Group's total revenue respectively. The Group's telesales dealership services rely substantially on the services provided by PacificNet Communications. In the event that PacificNet Communications terminates its contractual relationship with the Group or cannot provide services to the Group due to any reason and the Group fails to timely contract with other replacements of the same tier in terms of scale, quality and cost, or the cost of procuring the services provided by PacificNet Communications increases significantly, its operation and financial performance would be materially and adversely affected.

IRD may penalise Elitel for its failure to notify the IRD of its chargeability to Hong Kong profits tax within the prescribed time limit for the years from 2002 to 2008 which may adversely affect the financial condition and results of the Group's operations

Elitel had not notified the IRD of its chargeability to Hong Kong profits tax for the years from 2002 to 2008 within the prescribed time limit under section 51(2) of the IRO. For details, please refer to " Business — Legal Compliance and Proceedings — Failure to inform the IRD of its chargeability to Hong Kong profits tax for the years from 2002 to 2008" of this document.

According to section 80(2) of the IRO, any person who without reasonable excuse fails to comply with the requirements of a notice given to him under section 51(2) of the IRO shall be guilty of an offence subject to a fine of HK$10,000 and treble the amount of the tax undercharged. As advised by the Tax Adviser, given that the IRD has tightened its stance on tax compliance, it is likely that the IRD would seek to impose a penalty on Elitel for the failure to notify the IRD of its chargeability to tax. Should Elitel not be prosecuted under section 80(2) of the IRO as stated above, it is likely to be penalised under section 82A of the IRO. As advised by the Tax Adviser, while Elitel could be penalised under section 80(2) of the IRO, the IRD usually seeks to impose an administrative penalty under section 82A of the IRO under similar situation which does not involve any wilful intent to evade tax. Based on the experience of the Tax Adviser, the chance of the IRD applying Section 80(2) or Section 82 of the IRO is considered remote under similar situation. According to the penalty policy published by the IRD in its official website http://www.ird.gov.hk/eng/pol/ppo.htm#E, it is specifically indicated that the level of penalty for the first offence under section 82A of the IRO is 10% of the tax undercharged. Based on the Tax Adviser's calculation, Elitel's total Hong Kong profits tax liabilities should amount to approximately HK$5.0 million, which are made up as follows:

HK$	**Financial year ended 31 December**							
	2002	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**Total**
Assessable profits/ (Adjusted loss)	(704,108)	(6,291,005)	9,048,569	9,607,544	6,010,400	6,505,384	4,685,964	
Loss brought forward	0	(704,108)	(6,995,113)	0	0	0	0	
Net assessable profits/(loss carried forward)	(704,108)	(6,995,113)	2,053,456	9,607,544	6,010,400	6,505,384	4,685,964	
Tax rate	16.0%	17.5%	17.5%	17.5%	17.5%	17.5%	16.5%	
Tax payable	0	0	359,354	1,681,320	1,051,820	1,138,442	773,184	
Tax reduction	0	0	0	0	0	(25,000)	0	
Net tax payable	0	0	359,354	1,681,320	1,051,820	1,113,442	773,184	**4,979,120**

Accordingly, Elitel's Hong Kong profits tax liabilities for all the years up to 31 December 2008 should amount to approximately HK$5.0 million. The above calculation is in line with the tax assessment issued by IRD in January 2010. Based on its experience, the Tax Adviser considers it is likely that the IRD would impose a penalty on Elitel for the above-mentioned failure (if it were to do so) at 10% or less of the tax underchanged for the relevant years. Accordingly, the estimated potential tax penalty under section 82A of the IRO, being 10% of the tax undercharged, amount to approximately HK$0.5 million.

The Group has made provision for Hong Kong profits tax liabilities for all the years up to 31 December 2008 of approximately HK$5.0 million and for the estimated potential tax penalty of approximately HK$0.5 million in relation to Elitel's tax position for the years from 2002 to 2008 in its audited consolidated financial statements.

Despite Elitel has notified the IRD of its chargeability to Hong Kong profits tax for the years from 2002 to 2008, such notification was not done within the prescribed time limit under the IRO. The tax assessment of Elitel for the years from 2004 to 2008 was issued by the IRD on 19 January 2010 but with no mention of any claims made or to be made against Elitel for its late notification for the years from 2002 to 2008. There is no assurance that the IRD will not make a claim against Elitel in the future nor there is any assurance that the amount of claims made by the IRD would not exceed the amount provided by the Group or even reach the maximum amount of approximately HK$15.0 million. The amount of approximately HK$15.0 million is calculated by HK$10,000 plus three times the tax payable for the relevant years, being approximately HK$5.0 million x 3 = approximately HK$15.0 million. In such events, the Group's financial condition and results will be adversely affected.

Elitel may be subject to penalties imposed by the Companies Registry with regard to Elitel's registration under Part XI of the Companies Ordinance

Elitel failed to register as a non-Hong Kong company within the prescribed time limit under Part XI of the Companies Ordinance, which shall be within one month from 8 November 2002. For details, please refer to "Business — Legal Compliance and Proceedings — Failure to register under Part XI of the Companies Ordinance" of this document.

Under schedule 12 of the Companies Ordinance, the aforesaid fine for the late filing is a level 5 punishment, which is a fixed amount of HK$50,000 under the Criminal Procedure Ordinance (Chapter 221 of the Laws of Hong Kong) ("CPO"), plus HK$700 per each late filing day via summary prosecution. The amount of fine is determined by the Magistrate presiding at the prosecution hearing, having regard to the maximum penalty laid down in schedule 12 of the Companies Ordinance. The estimated maximum penalty in respect of Elitel's late filing under the calculation of the above provision would be approximately HK$1.8 million. The estimated maximum penalty of approximately HK$1.8 million was calculated in accordance with the Companies Ordinance and the CPO whereas such estimation is the summation of: the daily default fine (HK$700) times the approximate number of late filing days between the supposed proper filing date, 8 November 2002, and the date of notification to the Companies Registry (365 days times 7 years) plus the level 5 punishment (HK$50,000). Please refer to "Financial Information — Contingent Liabilities" and Note 23 of the Accountants' Report set out in Appendix I to this document for details. There is no assurance on the amount of penalty ultimately made by the Companies Registry. In the event that any penalty is imposed on the Group for such late filing, the Group's operation and business performance may be materially and adversely affected.

The Group's insurance coverage may not be adequate to cover all losses which the Group may suffer

The Group maintains comprehensive property insurance against loss or damages of the Group's properties, including its telecommunications equipment, machinery and facilities. The Group also maintains insurance for its staff against any personal injuries caused by accidents. However, the Group does not have any insurance coverage in respect of product liability, damage to software or data loss or other losses. In the event that a loss suffered by the Group exceeds the amount of insurance coverage or a loss is not covered in the insurance policy purchased by the Group, there may be a material and adverse effect on the Group's operation and financial performance.

Sales of the Group's products are conducted by dealers over whom the Group has no direct control

For the three years ended 31 December 2009, approximately 52.3%, 60.3% and 48.5% of the revenue of the Group's mobile phone services was attributable to the wholesale of the airtime to dealers under the Group's brand names, which in turn re-sold such airtime to end-customers.

Under this business model, the Group has limited control over the dealers and the ability of the Group to ensure the dealers' compliance with the contractual terms of their agreements with the Group and adherence to the Group's policies, such as operational requirements, customer service and pricing, is limited. The failure of the Group's dealers to comply with the policies of the Group or the breach of their obligations under their agreements with the Group, could result in a decrease in the market value of the Group's brand and an unfavourable public perception about the quality of the Group's products, thereby resulting in a material adverse effect on the Group's business, financial condition, results of operations and prospects.

A substantial amount of the Group's revenue is derived from its major customers

A substantial amount of the revenue of the Group is derived from its provision of mobile phone services to its major customers. For the three years ended 31 December 2009, approximately 49.4%, 46.2% and 50.0% of the Group's total revenue was contributed by its five largest customers whereas sales to the Group's largest customer accounted for approximately 17.9%, 20.5% and 15.9% of the Group's total revenue during the same period respectively. While the Group had not experienced any loss of the majority of its major customers during the Track Record Period, the Group's revenue could be materially and adversely affected if any of its major customers significantly reduces the amount of purchases or ceases to procure services provided by the Group. There is no guarantee that the Group's major customers will continue to procure services provided by the Group at levels and prices comparing to those during the Track Record Period or at all.

The Group may not be able to implement all or any of its business plans successfully

The Group intends to expand and develop its mobile phone services in other territories in Asia Pacific and develop 3G mobile data services and other value-added services through RF-SIM to its customers to enhance its market share and improve its financial performance. There is no assurance that these new investments could result in higher revenue or profits to the Group. Moreover, these business plans may involve substantial time, costs, cash outflows and market uncertainties. In particular, as at the Latest Practicable Date, the Group has not entered into any legally binding agreement with respect to expand and develop its mobile phone services in other territories in Asia Pacific, the upgrade of the Group's telecommunications equipment for being compatible with the 3G mobile networks and the introduction of RF-SIM to the Group's mobile phone services in Hong Kong and Macau. In the event that the Group encounters problems or delays in implementing all or any of these plans, the operations, financial results and prospects of the Group could be materially and adversely affected.

The Group may not be able to implement the business plan in respect of the intended introduction of RF-SIM to the Group's telecommunications services in Hong Kong and Macau

The Group intends to introduce RF-SIM to the Group's telecommunications services in Hong Kong and Macau to enhance its market share and improve its financial performance. There are no certainties that all functions as stated in "Business Objectives and Strategies — Business Strategies — Introducing RF-SIM to the Group's mobile phone services in Hong Kong and Macau" of this document can be performed without any premature errors or defects. In the event that certain of the aforesaid functions have premature errors or defects, the Group may not be able to introduce such functions in Hong Kong and Macau, which may materially and adversely affect the Group's operations and financial performance.

Except for functions involving storage of money in the RF-SIM, as at the Latest Practicable Date, the Group was not required to obtain any licences or approvals for the Group's intended operation of RF-SIM in Hong Kong and there were no specific rules and regulations in Hong Kong governing such RF-SIM operation. If functions involving storage of money in the RF-SIM are offered by the Group to users in Hong Kong, the Group will be subject to the relevant rules and regulations stipulated by the Hong Kong Monetary Authority. Though the operation of RF-SIM can be extended to transactions involving storage of money in the RF-SIM, it is the present intention of the Group to concentrate the RF-SIM operation on transactions other than those involving storage of money in the RF-SIM. In view of such potential operation of the RF-SIM, the Group is in the process of consulting with the Hong Kong Monetary Authority for the relevant licences required and/or waivers for applying functions involving storage of money in the RF-SIM in case the Group intends to introduce the aforesaid functions of the RF-SIM to the market in the future. However, there are no certainties that the RF-SIM can be implemented successfully in Hong Kong or the Group is able to obtain the relevant licences required and/or waivers for applying functions involving storage of money in the RF-SIM from the Hong Kong Monetary Authority in the event that the Group intends to introduce the aforesaid functions of the market in the future.

In addition, according to the Group's Macau legal adviser, Rui Afonso Lawyers' Office, (a) if the operation of RF-SIM in Macau is in connection to private activities which does not relate to functions involving storage of money or its similarities (including credit card, debit card) or other functions in relation to any title or rights granted by the government (including passport and driving licence) in the RF-SIM (including door keys, staff identity cards and members identity as set out in "Business Objectives and Strategies — Business Strategies — Introducing RF-SIM to the Group's mobile phone services in Hong Kong and Macau" of this document), the Group is not required to obtain any approval or licence in Macau; and (b) if the operation of RF-SIM in Macau relates to telecommunications industry (if any), it will be subject to administrative licensing governed by relevant legislations of Macau, namely Law No. 14/2001 (Telecommunication Basic Law) and Administrative Regulation no. 7/2002 (Regulation on the operation of public telecommunication networks and the provision of public mobile telecommunication services). As required by the mentioned legislations, in order for the Group to carry out such business by means of MVNO in Macau, it has to obtain an approval and the respective licence from the government. In Macau, the regulatory authority of telecommunications industry is Bureau of Telecommunications Regulation of Macau; and if the operation of RF-SIM in Macau involves monetary transactions, it will be related to electronic money and is governed by the relevant financial legislation, namely Macau Financial System Act approved by Decree-Law no. 32/93/M, 5 July 1993, pursuant to which a separate and independent approval has to be obtained from the regulatory authority of monetary in Macau. There are no certainties that the RF-SIM can be implemented successfully in Macau or the Group is able to obtain the necessary approvals and licences for the implementation of the RF-SIM operations.

As at the Latest Practicable Date, the Directors intended to introduce the RF-SIM application to Macau in the first half of 2011. It is the current intention of the Group to concentrate on the operation of RF-SIM in such areas which do not require any approvals and licences in Macau. As to those activities requiring approvals and/or licences, the Group will obtain such licences and/or approvals to comply with the relevant rules and regulations before launching the RF-SIM in Macau. However, if the Group is unable to obtain such licences and/or approvals for whatever reasons, the Group will seek opportunity to cooperate with companies possessing such licences and/or approvals to introduce

RF-SIM for such activities in Macau and it is confirmed by the Group's Macau legal adviser, Rui Afonso Lawyers' Office that it is not prohibited by the applicable Macau legislations for the Group to cooperate with such licensed companies to launch the RF-SIM in Macau. As another alternative, if the Group is unable to introduce RF-SIM to Macau for whatever reasons, the Group will concentrate the resources in RF-SIM development in Hong Kong. As such, the Group's expansion plan regarding the RF-SIM operation in Macau will be modified accordingly, which may adversely affect the future financial performance of the Group.

The Group may encounter a number of challenges in implementing the business plan in respect of RF-SIM, which may affect the future financial performance of the Group

According to the GIA Report, a number of challenges may be faced by the Group in implementing the RF-SIM business plan, including but not limited to, (i) there may be difficulties for RF-SIM to achieve critical mass and momentum successfully; (ii) it takes time for the interested operators to swap from regular SIM cards to RF-SIM as most of them have large inventories of spare SIM cards; (iii) E-Promotion and E-Access services may not be sufficient for a robust adoption among customers; (iv) it is necessary to create sufficient marketing or media attention from the simultaneous influence from operators, government, developers and merchants; (v) it is a critical hurdle for RF-SIM to compete with the overwhelming monopoly of Octopus in Hong Kong; and (vi) Macau is expected to trail behind Hong Kong for the adoption of new technology.

As such, the aforesaid challenges may adversely and materially affect the implementation of the RF-SIM business plan as well as its degree of success, which may adversely and materially affect the future financial performance of the Group.

The Group's intended introduction of RF-SIM to the Group's mobile phone services and the operation of such business in Hong Kong and Macau substantially rely on the licensed operation rights of RF-SIM in Hong Kong and Macau granted by Directel Limited

The Group's intended introduction of RF-SIM to the Group's mobile phone services and the operation of such business in Hong Kong and Macau substantially rely on the [exclusive licence of the RF-SIM Intellectual Property Rights operation rights] in Hong Kong and Macau granted by Directel Limited. Directel Limited obtained Xiamen Elite's RF-SIM Intellectual Property Rights in Hong Kong and Macau pursuant to a deed of assignment entered into between Xiamen Elite and Directel Limited dated 24 May 2010. In the event Directel Limited terminates its licence right granted to the Group or the Group fails to renew on expiry such licence on terms and conditions that are acceptable to the Group, the Group's operation and financial performance may be materially and adversely affected.

The Group's failure to collect its trade receivables could materially and adversely affect its financial performance

The Group may encounter certain risks in collecting its trade receivables. As at 31 December 2007, 2008 and 2009, the trade receivables of the Group amounted to approximately HK$13.4 million, HK$9.4 million and HK$19.5 million respectively. In the event that the Group is unable to collect trade receivables from its customers for the services rendered, the Group's financial conditions and operation results may be materially and adversely affected.

The Group may fail to obtain or renew the licences and permits required for its operation in the future

The Group operates its business under a consolidated SBO Class 3 licence, which allows the Group to provide MVNO and ETS services. The general licensing criteria for the application of such licence is set out in "Regulations — Licensing requirements in Hong Kong" of this document. The licence is subject to review, interpretation, modification or termination by the relevant authorities. There is no guarantee that the future policies promulgated by relevant authorities will not materially and adversely affect the operation of the Group or the Group's licences will be renewed or any renewal on new terms will be commercially acceptable to the Group. In the event that the Group fails to obtain or renew its licences required for its operation, the Group may have to cease operation of the affected business.

The Group's exclusive licence of the RF-SIM in Hong Kong and Macau may not be fully protected by the intellectual property rights law in Hong Kong and Macau, and any unauthorised use, infringement or misappropriation of such rights by third parties may materially and adversely affect the Group's business

Under the laws of Hong Kong, copyright arises without the need of its owner to register his copyright first, intellectual property rights such as patents and trademarks must be registered with the relevant government authority in Hong Kong before a person entity can become its registered owner, and hence be protected by the relevant intellectual property laws. The registration of trademarks and domain names is necessary before the Group can enforce its intellectual property rights against unauthorised use, infringement or misappropriation of such rights. The absence of registration for the intellectual property rights that the Group may have over its trademarks exposes the Group to the possible unauthorised use, infringement or misappropriation of its marks to which the Group cannot effectively enforce its rights. This may result in the revenue-generating intellectual property rights being used and developed by the third parties for their own business purposes and the Group's business may therefore be adversely affected.

Xiamen Elite applied for a patent in respect of RF-SIM in the PRC on 12 November 2004. Such patent is valid for 20 years from the date of application. Xiamen Elite successfully registered two short-term patents for RF-SIM with the Intellectual Property Department of Hong Kong (the "Hong Kong Patents") on 7 September 2009, which are valid for 4 years and their validation could be extended to another 4 years subject to an interim renewal. Pursuant to a deed of assignment entered into between Xiamen Elite and Directel Limited dated 24 May 2010, Xiamen Elite assigned, inter alia, the Hong Kong Patents to Directel Limited. The Hong Kong Patents may be exposed to the risk of being challenged by any third parties in Hong Kong. There is no guarantee that the Hong Kong Patents will not be challenged in courts by any third parties in Hong Kong. In the event that the validity of the Hong Kong Patents is successfully challenged, Xiamen Elite and/or Directel Limited may be unable to effectively enforce its rights against future unauthorised use or infringement of applications of RF-SIM. Accordingly, although the Group is the [exclusive licensee of the operation rights of RF-SIM Intellectual Property Rights] in Hong Kong, the Group may not have the [exclusive right of the operation of RF-SIM Intellectual Property Rights] in Hong Kong if such Hong Kong Patents are successfully challenged, which may materially and adversely affect its business operations, financial performance and future prospect. Details of which are set out in "Relationship with the Controlling Shareholders, Non-competition Undertakings and Connected Transactions — Connected Transactions — Exempt Continuing Connected Transactions — B. China-HK Telecom RF-SIM Licence Agreement" of this document.

In addition, according to an agreement namely The Cooperation Agreement in Intellectual Property Rights between the State Intellectual Property Rights Office of the People's Republic of China and the Economic Bureau of the Macau Special Administrative Region of the PRC (國家知識產權局與澳門特別行政區經濟局關於在知識產權領域合作協議) and the Industrial Property Code of Macau, in term of patent extension, a patent can only be registered within three months immediately after the date of issuance of the patent certificate in the PRC, which is 23 April 2008 in the present case. However, Xiamen Elite did not apply for the patent extension within such limitation period. Accordingly, since Xiamen Elite has not re-registered the patent of RF-SIM in Macau, it does not have any patent protection rights against any unauthorised use, infringement or misappropriation of the application of RF-SIM in Macau. As a result, although the Group is the [exclusive licensee of the operation rights of RF-SIM Intellectual Property Rights] in Macau, it will not be able to receive any patent protection rights against any unauthorised use, infringement or misappropriation of the operation of RF-SIM in Macau.

The Group's operation may potentially infringe intellectual property rights of other third parties which may materially and adversely affect the Group's business operations and future plans

The operation of the Group's business and its future plans involves various intellectual property rights, such as trademarks, copyrights and patents. However, holders of certain intellectual property rights, including copyrights and unregistered trademarks, can enforce their respective intellectual property rights without registering with the relevant authorities and the information of such enforceable rights cannot be found in the public domains. Further, third parties, including the Group's competitors, may be of the view that one or more of the Group's products infringe their intellectual property rights and initiate legal proceedings against the Group. As a result, there is no guarantee that all the intellectual property rights involved in the Group's business and future plans do not infringe intellectual property rights of other third parties. In the event that the Group's operation infringes other third parties' intellectual property rights, the Group may be subject to civil liabilities and its business operations, future plans and financial performance may be materially and adversely affected.

The Group's operation could be materially and adversely affected by departure of members of its management team and failure to recruit and retain competent employees

The Group's success is attributable to the experience, expertise and the continuous services of the Group's executive Directors, namely, Mr. Pang Kwok Chau and Mr. Li Wang. For details in relation to the executive Directors, please refer to "Directors, Senior Management and Staff" of this document.

The Group's performance depends on its ability to retain and motivate its key officers and employees as named in "Directors, Senior Management and Staff — Senior Management" of this document. However, there is no assurance that the Group will be able to retain the continuous services of the executive Directors and the members of the senior management. Any departure of the members of the Group's management team could materially and adversely interrupt its business if the Group is unable to recruit the replacement personnel with equivalent qualifications timely.

The Directors believe that the Group's ability to recruit and retain employees who are contributory and proficient in the services that the Group provides is crucial to its operation. In particular, the Group must hire and retain employees with the expertise and knowledge of the industry to maintain and continue to develop the Group's operations. There can be no guarantee that the Group will be able to recruit and/or retain suitable and competent employees in the future.

The Group's past dividend policy may not be indicative of the Group's dividend policy in the future

No dividends have been paid or declared by the Group during the Track Record Period. Whilst the Group intends to declare dividends in the future, the amount of dividends to be declared will be subject to, among other things, the full discretion of the Directors, taking into consideration the amount of earnings, financial position, cash requirements and availability, the provisions of applicable laws and regulations and other relevant factors. The dividend payout record during the Track Record Period may not be used as reference or basis to determine the level of dividends that may be declared by the Group in the future.

The interests of the Controlling Shareholders may differ from other Shareholders

Immediately following the [●], the Controlling Shareholders collectively will beneficially own approximately [●]% of the Shares (assuming no exercise of the [●] and taking into no account of any Shares which may be issued upon the exercise of the options which may be granted under the Share Option Scheme). The interests of the Controlling Shareholders may differ from the interests of other Shareholders.

The Controlling Shareholders could have significant influence in determining the outcome of any corporate transaction or other matters submitted to the Shareholders for approval, including mergers, consolidations and the sale of all or substantially all of the assets, election of Directors and other significant corporate actions. In cases where their interests are aligned and they vote together, the Controlling Shareholders will also have the power to prevent or cause a change in control. Without the consent of some or all of the Controlling Shareholders, the Company may be prevented from entering into transactions that could be beneficial to the Company. In addition, such Controlling Shareholders are also the controlling shareholders and senior executive officers of certain other companies that are outside the Group. There is no assurance that the Controlling Shareholders will act completely in the interests of the Group or that conflicts of interest will be resolved in favour of the Group.

Changes in foreign exchange regulations and future movements in the exchange rate of Renminbi may adversely affect the financial condition and results of the Group's operations as well as its ability to pay dividends

The Group is exposed to foreign exchange rate risk as the Group's operating expenditures are principally denominated in RMB and HK dollars but sales are principally conducted in HK dollars and RMB. Currently, the Group has not made any arrangements to hedge against the exchange rate risk involved in the Group's operation. Accordingly, exchange rate fluctuations in the trading currencies of the Group's sales and purchases may have a material adverse impact on the business, financial condition, profitability and operations of the Group.

Since 1994, the conversion of Renminbi into foreign currencies, including HK dollars and US dollars, has been based on exchange rates set by the PBOC. The PBOC sets the exchange rates daily based on the previous day's interbank foreign exchange market rates in the PRC and the current exchange rates in the financial markets. Since then, the official exchange rate for the conversion of Renminbi to US dollars has generally been stable as it is pegged against the US dollars. On 21 July 2005, China changed its currency policy. China abandoned the peg of Renminbi against US dollars in favour of a managed float of the Renminbi based on market demand and supply with reference to a basket of currencies and their weightings. As a result, the Renminbi appreciated slightly following this change in currency policy. As the exchange rate of Renminbi is allowed to move in a managed way, there can be no assurance that the Renminbi will not further appreciate or that other measures will not be introduced to address the concerns of China's trading partners. There is also no assurance that such exchange rate will continue to remain stable in the future. Since a substantial amount of the Group's expenditures are denominated in Renminbi, any appreciation of Renminbi may subject the Group to increased costs, and any devaluation of Renminbi may materially and adversely affect the value of its net assets, earnings and the value of dividends, if any, payable on the Shares in HK dollars.

The Group's business may be adversely affected by the global economic crisis in 2008 and other events affecting Hong Kong and the PRC

The global economic crisis in 2008 has adversely affected the US and the world economies. The Group's business of providing "One Card Multiple Number" service principally concerns Hong Kong and the PRC, which is also suffering from the recent global economic crisis in 2008. The Group's business may be materially and adversely affected in such worsening circumstances as there may be a decrease in the number of cross-border visitors and tourists in Hong Kong and the PRC, and a decrease in the demand for the Group's "One Card Multiple Number" service or other products and services. If the economic downturn continues, the business, results of operations and financial conditions of the Group could be materially and adversely affected.

In addition, political development, adverse weather conditions, earthquakes, fires, power loss, telecommunications failures, breakage of land or submarine transmission cables, military or terrorist activity or similar events in Hong Kong and/or the PRC may cause significant disruption to the Group's business operations.

The Group may encounter risks relating to health epidemics and other outbreaks

The outbreak of any severe communicable disease in Hong Kong and/or the PRC could have a material adverse effect on the overall business sentiment and environment in Hong Kong and/or the PRC. This situation in turn may have a material adverse effect on domestic consumption and, possibly, the overall GDP growth of Hong Kong and/or the PRC. As substantially all of the Group's revenue is currently derived from Hong Kong and the PRC, any contraction or slowdown in the growth of domestic consumption or slowdown in the GDP growth of Hong Kong and/or the PRC may materially and adversely affect the business, prospects, financial condition and results of operations of the Group. In addition, if the employees of the Group are affected by any severe communicable disease, the Group may be required to close the facilities or implement other measures to prevent the spread of the disease, which may materially and adversely affect or disrupt its production. The spread of any severe communicable disease in Hong Kong and/or the PRC may also affect the operations of the Group's customers and suppliers, which may in turn have a material adverse effect on the business and profitability of the Group.

The recent outbreak of Influenza A (H1N1), also widely known as "swine influenza" has caused deaths worldwide. Countries and territories including Hong Kong and the PRC have officially reported cases of Influenza A (H1N1) infection. The increasing number of Influenza A (H1N1) infected cases in certain Asian countries and territories could indicate a possible full-blown pandemic, which would in turn undermine human lives and the local and cross-border business activities and threaten the prospects of economic recovery in those areas. It is unclear whether the epidemic will become more aggressive or will wane in the near future. Any prolonged outbreak of Influenza A (H1N1) or other severe communicable disease in Hong Kong and/or the PRC could have a material adverse effect on the business, prospects, financial condition or result of operations of the Group.

RISKS RELATING TO THE INDUSTRY

The Group may fail to adapt the rapid technology changes in the telecommunications industry and this would materially and adversely affect its operation and financial performance

The industry in which the Group operates is subject to rapid changes in technology. There is no assurance that the Group will necessarily be able to offer the latest technology or services to its customers, nor develop the expertise, experience and resources to offer the latest technology or services required by customers on a timely and competitive basis. The Group may incur significant expenses in developing services and expertise in order to closely follow the latest technology.

If the Group is not able to keep abreast of technological developments in its industry and provide its customers with the latest technological services, there may be a material adverse effect on demand for its services, its results of operations and financial condition.

Any unfavorable changes in the regulatory environment may materially and adversely affect its operation and financial performance

The telecommunications industry is a highly regulated industry in which regulators' decisions may materially and adversely affect the financial condition and results of operations of the Group. The Group is subject to government regulations regarding licences and permits. There is no assurance that the Group's business, financial condition and the results of operations will not be materially and adversely affected by any government-mandated regulatory reforms or changes in law, regulations or government policies in the future.

RISKS RELATING TO STATEMENTS MADE IN THIS DOCUMENT

Statistics and facts may be inaccurate

The statistics relating to the economy of Hong Kong, the PRC, Taiwan and Macau and the telecommunications industry and the related facts set out in "Industry Overview" of this document have been extracted from various government official sources. Although reasonable care has been taken to ensure that such statistics and facts extracted are accurate, the Group has not carried out any independent verification on such statistics and facts. Accordingly, the Group makes no representation as to the completeness or accuracy of such statistics and facts. Due to different collection methods and other reasons, the statistics and facts extracted from various government official sources contained in this document may be inaccurate and should not be unduly relied upon.

In all cases, investors should consider the weight or importance they should place on all such facts and statistics that are set out in "Industry Overview" of this document.

Forward-looking statements may be inaccurate

This document contains certain forward-looking statements relating to the Group's plans, objectives, expectations and intentions. Such forward-looking statements involve known and unknown risks, uncertainties, and other factors which may cause the actual performance or achievements of the Group to be materially different from the anticipated performance or achievements expressed or implied by the forward-looking statements in this document. Such forward-looking statements are based on numerous assumptions as to the Group's present and future business strategies and the environment in which the Group will operate in the future. The Group's actual performance or achievements may differ materially from those discussed in this document.

FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements that state the Group's intentions, beliefs, expectations or predictions for the future, in particular under "Industry Overview", "Business", and "Financial Information" that are, by their nature, subject to significant risks and uncertainties.

These forward-looking statements include, without limitation, statements relating to:

- future development in the "One Card Multiple Number" market in Hong Kong;
- the industry regulatory environment as well as the industry outlook in general;
- the amount and nature of, and potential for, future development of the Group's business;
- the Group's business strategy and future plans including its 3G plans and RF-SIM plans;
- the Group's capital expenditure plans;
- the Group's operations and business prospects; and
- the Group's projects under planning.

In some cases, the Group uses words such as "believe", "seek", "intend", "anticipate", "estimate", "project", "plan", "potential", "will", "may", "should", "expect" and similar expressions to identify forward-looking statements. All statements other than statements of historical facts included in this document, including statements regarding the Group's strategy, plans and objectives of management for future operations, are forward-looking statements. Although the Group believes that the expectations reflected in those forward-looking statements based on currently available information are reasonable, the Group can give no assurance that those expectations will prove to be correct, and the investors are cautioned not to place undue reliance on such statements. Important factors that could cause actual results to differ materially from the Group's expectations are disclosed under "Risk Factors" and elsewhere in this document. The Group undertakes no obligation to publicly update or revise any forward-looking statements contained in this document, whether as a result of new information, future events or otherwise, except as required by law and the GEM Listing Rules. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this document might not occur in the way the Group expects. All forward-looking statements contained in this document are qualified by reference to this cautionary statement.

DIRECTORS AND PARTIES INVOLVED

Directors

Name	Residential Address	Nationality
Chairman and Non-executive Director		
Li Kin Shing (李健誠)	Penthouse, Flat A, Block 2 1 Po Shan Road Hong Kong	Chinese
Executive Directors		
Pang Kwok Chau (彭國洲)	Flat A, 5/F, Block 3 Beverley Heights 56 Cloud View Road North Point Hong Kong	Chinese
Li Wang (李宏)	Penthouse, Flat A, Block 2 1 Po Shan Road Hong Kong	Chinese
Non-executive Director		
Wong Kin Wa (黃建華)	Flat G, 35/F, Kennedy Town Centre 38 Praya Kennedy Town Hong Kong	Chinese
Independent non-executive Directors		
Chen Xuedao (陳學道)	Room 3006 No. 201 Long Kou Zhong Road Tianhe District Guangzhou City China	Chinese
Chu, Howard Ho Hwa (朱賀華)	Flat A, 28/F Garden Terrace Two 8A Old Peak Road Mid-Levels Hong Kong	American
Lee Man Yee, Maggie (李敏怡)	Flat F, 31/F, Block 11 Hoi Ming Mansion Riviera Garden Tsuen Wan New Territories Hong Kong	Chinese

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Legal advisers to the Company	*As to Hong Kong Law:* Li & Partners 22nd Floor World Wide House Central Hong Kong *As to PRC Law:* Li & Partners Attorneys at Law 15th Floor West Tower, Baihuo Plaza No. 3022 Shennan East Road Luohu District Shenzhen PRC *As to Cayman Islands Law:* Appleby 8th Floor Bank of America Tower 12 Harcourt Road Central Hong Kong
Auditors and reporting accountants	KPMG Certified Public Accountants 8th Floor Prince's Building 10 Charter Road Central Hong Kong
Property valuer	Jones Lang LaSalle Sallmanns Limited 17/F Dorset House Taikoo Place 979 King's Road Quarry Bay Hong Kong

CORPORATE INFORMATION

Registered office	Clifton House 75 Fort Street PO Box 1350 Grand Cayman KY1-1108 Cayman Islands
Headquarter and principal place of business registered under Part XI of the Companies Ordinance	Office Nos. 1, 2, 14 and 15 37th Floor Hong Kong Plaza No. 188 Connaught Road West Hong Kong
Company's website	www.directel.hk *(information contained in this website does not form part of this document)*
Company secretary	Chan Wai Ching, CPA
Compliance officer	Pang Kwok Chau
Audit committee	Lee Man Yee, Maggie (Chairman) Chen Xue Dao Chu, Howard Ho Hwa
Remuneration committee	Li Kin Shing (Chairman) Chen Xue Dao Lee Man Yee, Maggie
Nomination committee	Pang Kwok Chau (Chairman) Lee Man Yee, Maggie Chen Xue Dao
Authorised representatives	Pang Kwok Chau Flat A, 5/F, Block 3 Beverley Heights 56 Cloud View Road North Point Hong Kong Chan Wai Ching Flat RA, 27/F, Tower 2 The Capitol of Lohas Park Tseung Kwan O New Territories Hong Kong

CORPORATE INFORMATION

Principal bankers	Bank of China (Hong Kong) Limited Gilman Street Branch 136 Des Voeux Road Central Hong Kong
	Citibank N.A. 18th Floor, Three Exchange Square 8 Connaught Place Central Hong Kong

OVERVIEW OF HONG KONG TELECOMMUNICATIONS INDUSTRY

Hong Kong has one of the most sophisticated and successful telecommunications markets in the world. This has been an important factor in the development of Hong Kong as a leading business and financial centre. In 2007, the gross output of the telecommunications sector was approximately HK$52.5 billion, an increase of approximately 7.4% over that of 2006. All sectors of the telecommunications industry in Hong Kong have been liberalised with no foreign ownership restrictions. The regulatory regime of the telecommunications industry in Hong Kong is pro-competition and pro-consumer. The objectives are to provide a level playing field in the telecommunications market and ensure that consumers receive the best services available in terms of capacity, quality, speed and price.

OFTA is the executive arm of TA, which is the statutory body responsible for regulating the telecommunications industry in Hong Kong. Generally, the telecommunications industry in Hong Kong comprises local fixed carrier services, broadband services, external telecommunications services, external telecommunications facilities and mobile services.

OVERVIEW OF MOBILE SERVICES IN HONG KONG

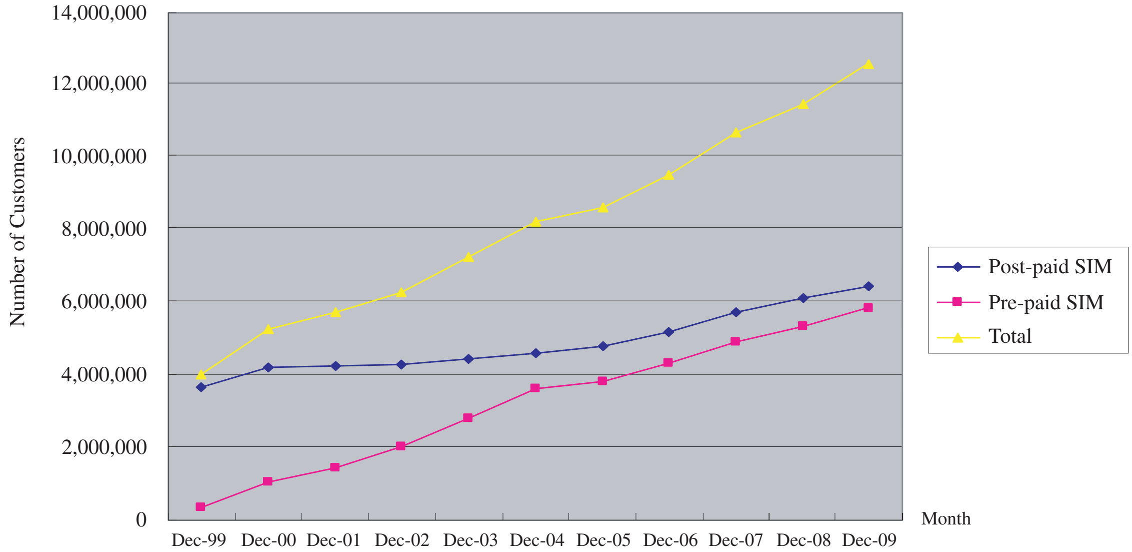
Competition in public mobile services is vibrant. According to OFTA, as of September 2009, there were 14 digital networks operating in the 800/900 MHz bands (4 networks), 1,700-1,900 MHz bands (6 networks) and UMTS bands (4 networks), and 5 MNOs, namely, China Mobile Hong Kong Company Limited, CSL Limited, PCCW-HKT Telephone Limited & Hong Kong Telecommunications (HKT) Limited, Hutchison and SmarTone Mobile Communications Limited & SmarTone 3G Limited. The availability of mobile number portability service since 1 March 1999 has contributed to promoting effective competition among the MNOs as it allows customers to retain their telephone numbers when they switch to another MNO.

Other than basic voice services, data services such as short messaging, mobile Internet services, all sorts of download services, multimedia services, video call services and mobile TV services are commonly available anywhere, anytime and are very popular among consumers.

Increasing Trend of the Number of Public Mobile Customers

According to OFTA, in December 2009, the number of mobile service users was boosted to approximately 12.2 million, representing one of the highest penetration rates in the world at approximately 173.7%. Among these 12.2 million users, approximately 6.4 million were post-paid SIM card customers and approximately 5.8 million were pre-paid SIM card customers. The following chart sets forth the trend of the number of public mobile customers from December 1999 to December 2009:

Number of Public Mobile Customers in Hong Kong from December 1999 to December 2009



Source: OFTA

The total number of public mobile customers in Hong Kong increased by approximately 205.0% from approximately 4.0 million in December 1999 to approximately 12.2 million in December 2009. The number of pre-paid SIM card customers increased by more than 18 times from approximately 0.3 million in December 1999 to approximately 5.8 million in December 2009, whereas the number of post-paid SIM card customers increased by approximately 73.0% from approximately 3.7 million in December 1999 to approximately 6.4 million in December 2009.

MVNOs

MVNO, i.e. mobile virtual network operator is an entity that provides mobile telecommunications services which does not have its own licensed frequency allocation of radio spectrum or the entire infrastructure required to provide mobile telecommunications services. As at 5 March 2010, there were 9 MVNO licensees in Hong Kong. The following table sets forth the details regarding the MVNO licensees in Hong Kong:

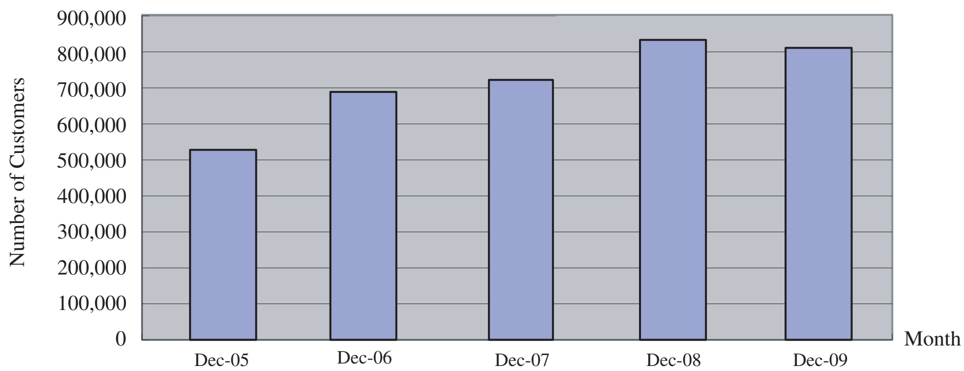
MVNO licensees in Hong Kong as at 5 March 2010

Name of Licensee	
China Motion Telecom (HK) Ltd.	
China Unicom (HK)	
China-HK Telecom (a member of the Group)	
CITIC Telecom 1616 Limited	
Telecom Digital Mobile Ltd.	
IMC Networks Limited	
Technical Data Limited New World Mobility Limited	
GTNT Hong Kong Limited	
Total number of licences:	**9**

Source: OFTA

The number of MVNO customers in Hong Kong increased by approximately 51.1% from approximately 530,000 in December 2005 to approximately 801,000 in December 2009. The following chart sets forth the trend of the number of MVNO customers in Hong Kong from December 2005 to December 2009:

Number of MVNO customers in Hong Kong from December 2005 to December 2009



Source: OFTA

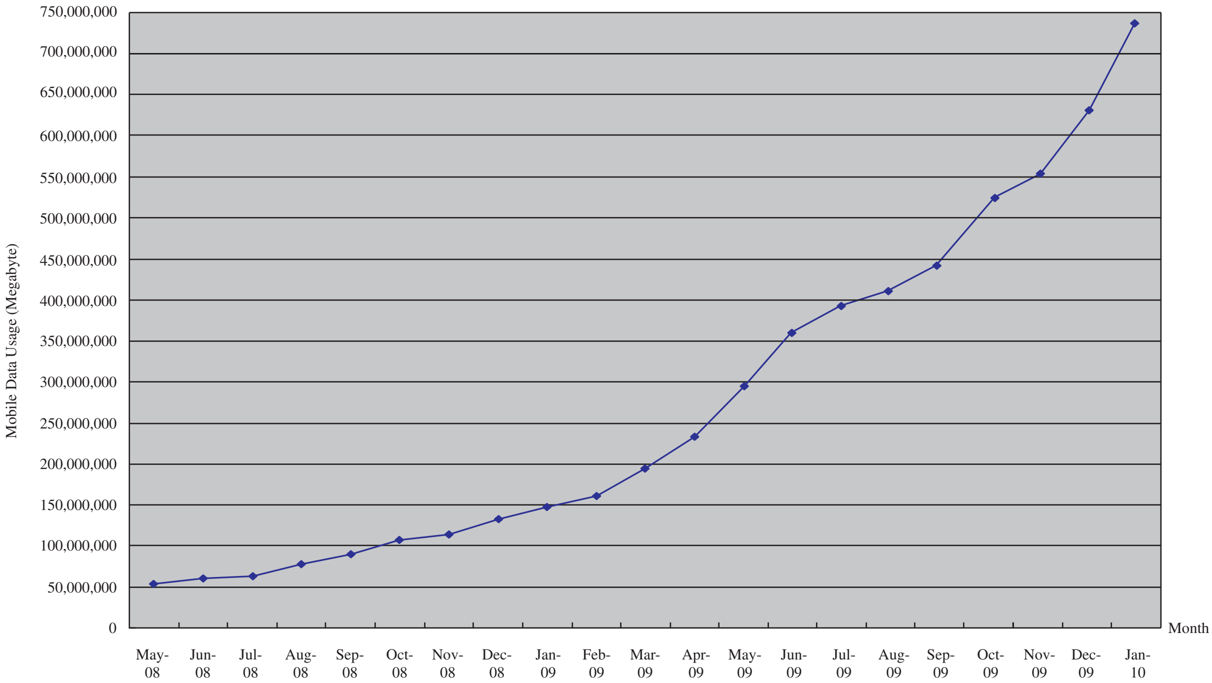
3G mobile services

Currently, there are four 3G MNOs in Hong Kong, namely CSL Limited, PCCW-HKT Telephone Limited & Hong Kong Telecommunications (HKT) Limited, Hutchison and SmarTone Mobile Communications Limited & SmarTone 3G Limited. All four 3G operators have deployed 3.5G services utilising High Speed Downlink Packet Access technology which supports download at a speed up to 14.4 Mbps. Subscribers can now download and upload large files including email attachments via the Internet, enjoy faster and better quality video-streaming and downloading, as well as experience high-speed web-browsing on mobile devices. In March 2009, one of the 3G operators implemented the new Evolved High Speed Packet Access technology in Hong Kong. Subscribers are able to enjoy even faster mobile data services at a speed up to 21Mbps.

According to OFTA, the number of 3G customers in Hong Kong increased by approximately 561.4% from approximately 635,000 in December 2005 to approximately 4.2 million in January 2010.

The following graph sets forth the mobile data usage between May 2008 and January 2010 in Hong Kong:-

Mobile Data Usage between May 2008 and January 2010 in Hong Kong



Source: OFTA

Accordingly, the mobile data usage in Hong Kong increased from approximately 54.0 million megabytes in May 2008 to approximately 730.7 million megabytes in January 2010. Such usage substantially increased by approximately 1,253.1% during such period. The average mobile data usage per 2.5G and 3G customers also increased by approximately 714.7% from approximately 17.0 megabytes to approximately 138.5 megabytes during the same period.

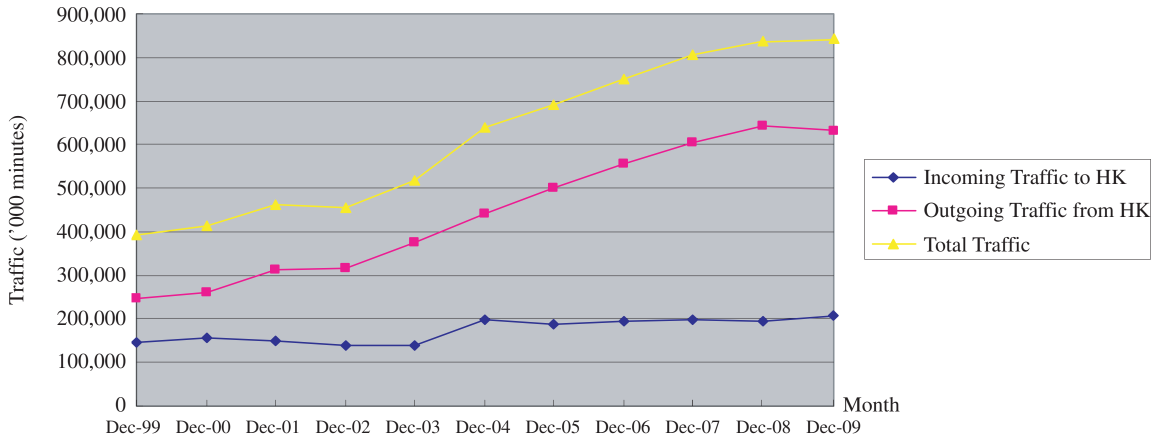
OVERVIEW OF EXTERNAL TELECOMMUNICATIONS SERVICES IN HONG KONG

The ETS in Hong Kong mainly comprise IDD type of services for voice, facsimile, and data operated using ISR, Internet telephony or other techniques. According to OFTA, as at 30 April 2010, there were 266 ETS licensees in Hong Kong.

Trend of External Traffic

The following graph sets forth the total traffic of Hong Kong ETS from December 1999 to December 2009:

Total Traffic of Hong Kong ETS from December 1999 to December 2009



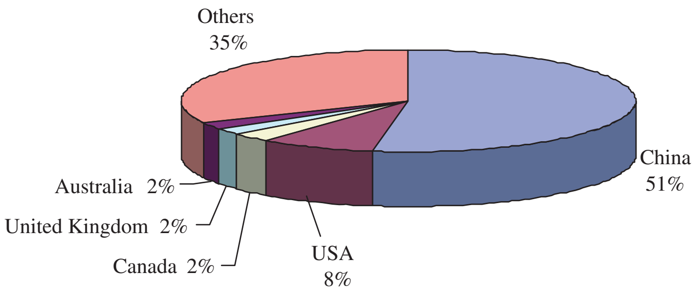
Source: OFTA

The total traffic of Hong Kong ETS increased by approximately 114.3% from approximately 393.5 million minutes in December 1999 to approximately 843.1 million minutes in December 2009. The outgoing traffic from Hong Kong increased by approximately 157.1% from approximately 247.7 million minutes in December 1999 to approximately 636.9 million minutes in December 2009. The incoming traffic to Hong Kong increased by approximately 41.5% from approximately 145.8 million minutes in December 1999 to approximately 206.3 million minutes in December 2009.

Substantial Cross-border Usage

According to OFTA, in 2009, the incoming and outgoing traffic of ETS between Hong Kong and China was approximately 5.1 billion minutes, which accounted for approximately 51% of the total traffic of Hong Kong ETS of the same year. The following chart sets forth the distribution of the total traffic of Hong Kong ETS in 2009:

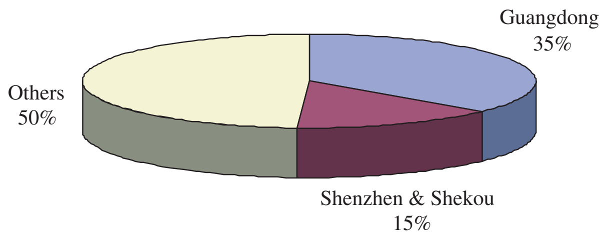
Distribution of Total Traffic of Hong Kong ETS in 2009



Source: OFTA

The following graph sets forth the distribution of incoming and outgoing traffic of ETS between Hong Kong and China in 2009:-

Distribution of Incoming and Outgoing Traffic of ETS between Hong Kong and China in 2009



Source: OFTA

Accordingly, the incoming and outgoing traffic between Hong Kong and areas of Guangdong, Shenzhen and Shekou contributed approximately 50% of the total traffic between Hong Kong and China in 2009.

According to the Census and Statistics Department of Hong Kong, there were approximately 82.0 million Hong Kong residents departed from Hong Kong in 2009, in which approximately 36.3 million and 12.8 million Hong Kong residents departed from Hong Kong to China through Lo Wu Control Point and Lok Ma Chau Control Point respectively, representing approximately 59.9% of the total number of Hong Kong residents departures in the same year. The following table sets forth the breakdown on the number of departures through control point by Hong Kong residents in 2003 and 2009:

Departures via Control Points by Hong Kong Residents in 2003 and 2009

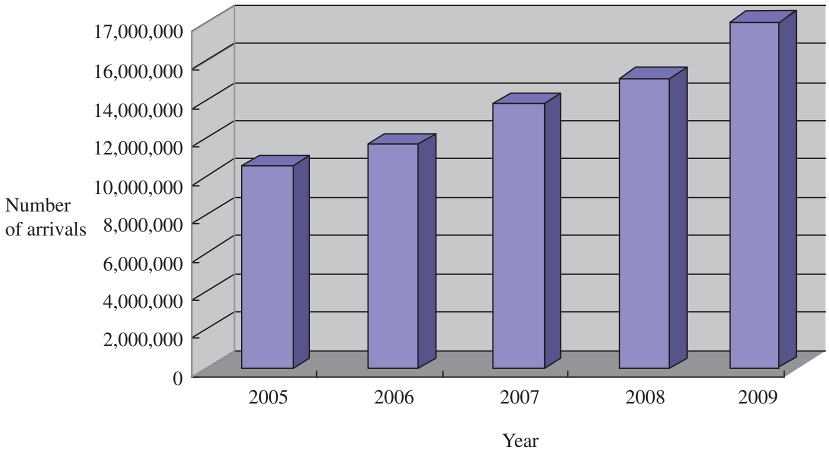
Control Point	**2003**	**2009**
	'000	*'000*
Airport	4,530	6,322
Lo Wu Control Point	36,879	36,290
Lok Ma Chau Spur Line Control Point	—	10,295
Lok Ma Chau Control Point	10,380	12,833
Shenzhen Bay Control Point	—	5,561
Macao Ferry Terminal	3,553	5,540
China Ferry Terminal	3,001	2,366
Others	2,593	2,751
Total	60,936	81,958

Source: Census and Statistics Department of Hong Kong

The number of departures from Hong Kong by Hong Kong residents increased from approximately 60.9 million in 2003 to approximately 82.0 million in 2009. The increase was mainly attributable to the increased number of departures through Shenzhen Bay Control Point, Lok Ma Chau Spur Line Control Point, which commenced operations in July and August 2007 respectively, and Lok Ma Chau Control Point.

The following chart sets forth the number of arrivals to Guangdong province by Hong Kong citizens between 2005 and 2009:

Arrivals to Guangdong Province by Hong Kong Citizens between 2005 and 2009



Source: National Tourism Administration of the People's Republic of China

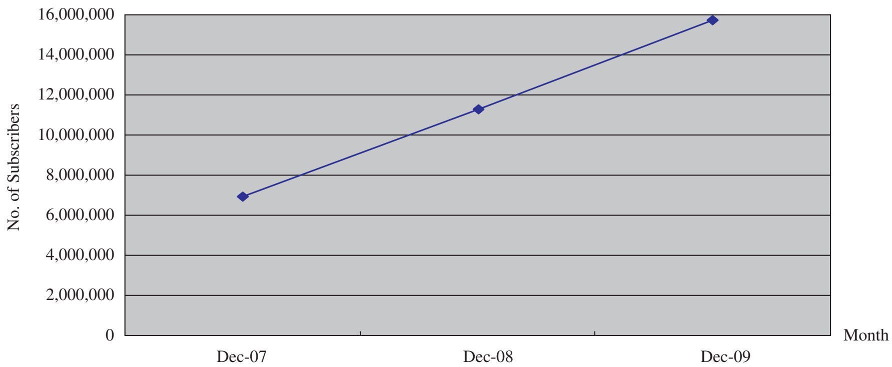
According to the National Tourism Administration of the People's Republic of China, the number of arrivals to Guangdong Province by Hong Kong citizens increased by approximately 56.6% from approximately 10.6 million in 2005 to approximately 16.6 million in 2009.

OVERVIEW OF MOBILE SERVICES IN TAIWAN

According to the National Communications Commission of Taiwan, there were three 2G MNOs and five 3G MNOs in Taiwan as of December 2009, whereas, the number of 2G mobile phone users in Taiwan decreased from approximately 15.9 million in December 2007 to approximately 9.8 million in December 2009.

The following graph sets forth the number of 3G mobile users in Taiwan between December 2007 and December 2009:

Number of 3G Mobile Users in Taiwan between December 2007 and December 2009



Source: National Communications Commission of Taiwan

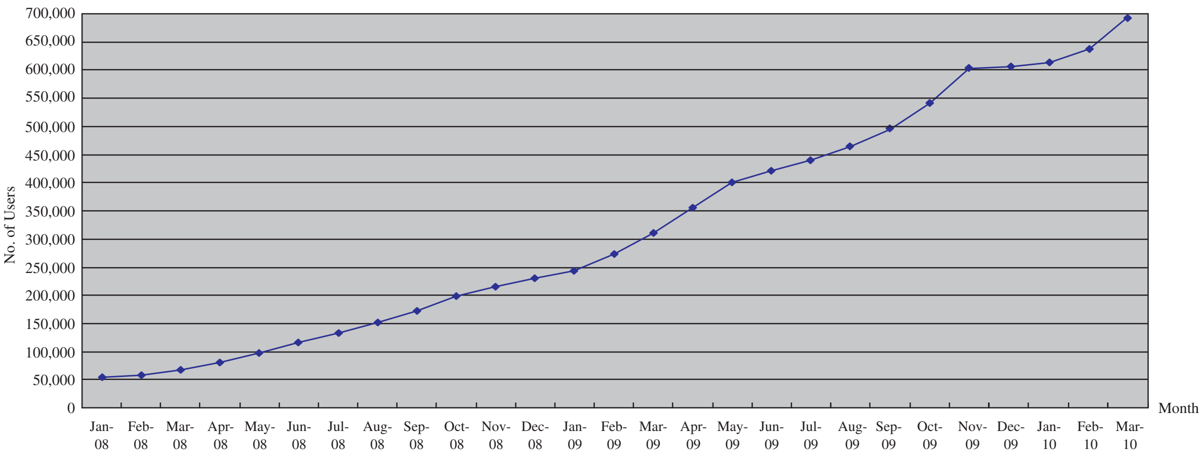
The number of 3G mobile users in Taiwan increased by approximately 129.0% from approximately 6.9 million in December 2007 to approximately 15.8 million in December 2009.

OVERVIEW OF MOBILE SERVICES IN MACAU

According to the Bureau of Telecommunications Regulation of Macau, there were four 2G MNOs and four 3G MNOs (three of which have launched to serives) in operation in Macau as of March 2010, whereas the number of mobile phone users in Macau increased by approximately 37.5% from approximately 0.8 million in January 2008 to approximately 1.1 million in March 2010.

The following graph sets forth the number of 3G mobile users in Macau between January 2008 and March 2010:

Number of 3G Mobile Users in Macau between January 2008 and March 2010



Source: Bureau of Telecommunications Regulation of Macau

The number of 3G mobile users in Macau increased significantly by approximately 1,159.3% from approximately 54,000 in January 2008 to approximately 680,000 in March 2010.

SOURCE OF INFORMATION

The information presented in this section has been derived from various government official sources. No research reports were commissioned by the Company or its connected persons and/or the [●].

OVERVIEW

The Telecommunications Ordinance and its subsidiary legislation such as the Telecommunications Regulations and various statements, guidelines and codes of practice issued by the TA, operate to form the overall regulatory framework of Hong Kong's telecommunications industry. The TA is the statutory body responsible for regulating the telecommunications industry in Hong Kong. OFTA, the executive arm of the TA, was established as an independent government department in 1993. OFTA oversees the regulation of the telecommunications industry in Hong Kong and administers the ordinances and subsidiary legislation governing the establishment and operation of telecommunications services.

The TA from time to time issues guidance notes and statements outlining the implementation or interpretation of new policy initiatives, which are formulated by the CEDB. The CEDB is responsible for:

- formulating policies on the development of telecommunications industry, including policy options to promote competition and to respond to technological changes and convergence;
- monitoring the regulatory regime in the telecommunications industry to develop it further in keeping with an open and competitive telecommunications industry market;
- formulating policies to tackle the problem of unsolicited electronic message; and
- house-keeping for OFTA.

All sectors of Hong Kong's telecommunications market have been liberalised with no foreign ownership restrictions. The Government's telecommunications policy aims to facilitate the development of the telecommunications industry and enhance Hong Kong's position as an international telecommunications hub. Broadly speaking, the government's policies emphasise:

- a technology neutral approach to licensing and regulation;
- an open licensing policy (with few exceptions);
- the promotion and mandating, if necessary, of interconnection across all networks and services; and
- a comprehensive system of competition principles and regulation.

LICENSING REQUIREMENTS IN HONG KONG

The licensing framework

The Telecommunications Ordinance sets out the overall licensing framework for the Hong Kong telecommunications market. Essentially, no person may establish or maintain any means of telecommunications in Hong Kong without an appropriate licence. The Telecommunications Ordinance introduced a new licensing regime. As at the Latest Practicable Date, the major types of licences in Hong Kong are:

- ***Carrier licence***

  A "carrier licence" authorises the operation of telecommunications facilities and the provision of telecommunications services to the public, and allows the licensee to operate telecommunications transmission facilities across unleased government land.

- ***Exclusive licence***

  A licence issued on an exclusive basis for operation or provision of telecommunications networks, systems, installations or services is referred to as "exclusive licence". The Telecommunications Ordinance provides that the Chief Executive in Council may determine the conditions of the licence including the period of validity, the payment of fees and royalty, the frequency of any payments, and grant the licence.

- ***Other Licences***

  "Other licences" are those licences that are not carrier licences or exclusive licences. An example of licence falling into this category is the Public Non-Exclusive Telecom Services (PNETS) licence. The licence currently held by the China-HK Telecom belongs to this class of licence.

The PNETS licence

A PNETS licence is required for the provision of public telecommunications services using the transmission facilities provided by licensed carriers or establishing or maintaining transmission facilities which does not cross public streets or unleased government land, that is, confined within the boundary of a building or property.

There are a variety of public telecommunications services licensed under the PNETS licence. The PNETS licences include, for instance, PNETS licence for External Telecommunications Services (ETS) operators and PNETS licence for mobile virtual network operator (MVNO) licensees.

The general licensing criteria for the application for a PNETS licence is that the service proposed in the application must be technically sound and compatible with the local environment and if interconnection with other public telecommunications networks/services is required, the equipment of the proposed service must meet the technical specification for interconnection with such networks/services as specified by the TA. In addition, applicants must provide a detailed description of the service, including (1) any operational features available; (2) the implementation programme, which is particularly important if it is proposed to introduce the service in stages; and (3) a description of the system to be installed, including system configuration, architecture and operation and if appropriate, how the system is interconnected with other public telecommunications networks/services. Save for the above, there is no specific prerequisite for applying a PNETS licence required by the TA and the TA has the ultimate discretions on approvals of the applications. All applications will be evaluated by the TA on their merits having regard to the information submitted to the TA.

There is no additional regulatory requirement for the current PNETS licence holders to provide systems and/or infrastructure for 3G mobile data services in Hong Kong through their respective 3G mobile network or through the 3G mobile network of any 3G licensees.

— ***PNETS licence for ETS***

Following the early termination of the exclusive licence of Hong Kong Telecoms International Limited, or HKTIL, further liberalisation of the market for the provision of ETS was introduced on 1 January 1999. ETS had to be operated over the external facilities of HKTIL in 1999.

However, ETS may be operated over the facilities of any one of the fixed telecommunications network services (FTNS) licensees which provide external FTNS as at 1 January 2000.

Under the PNETS (ETS) licence, the service to be licensed is an external public communications service (which may be voice, facsimile, data or any combination of them) operated over external leased circuits supplied by an FTNS licensee or over other external switched telecommunications services lawfully operated in Hong Kong.

The technology used for the external telecommunications service is not restricted. The service may be operated through ISR of external leased circuits, internet services, call-back services, other ISR services, or other public switched data communication services, provided that these services are operated in compliance with their licence conditions.

Under the PNETS (ETS) licence, "external" means communications with places outside Hong Kong. The service does not include the provision to customers of a telecommunications circuit between a point in Hong Kong (including, without limitation, a radiocommunications facility or cable termination facility) and one or more points outside Hong Kong, and any means of telecommunications capable of facilitating such a circuit.

The above restriction means that the operator may not establish and maintain physical facilities, such as earth stations, or cables to and from Hong Kong for the supply of external circuits to customers. However, resale of bandwidth or circuits provided by licensed facilities operators, that is, the external carriers, is permitted under the PNETS (ETS) licence.

Customers at the Hong Kong end and/or at the distant end may be connected to the service facilities through any public switched telecommunications network or dedicated circuit. The operation of such public switched telecommunications networks or dedicated circuits must be in compliance with the relevant licences. For example, a public switched telecommunications network operated under a mobile carrier licence may not be used for the connection of fixed line customers to the facilities for the service.

The licensee is required to provide to the TA, at such intervals and on or before such deadlines as may be specified by the TA from time to time, with statistics of the volume of incoming and outgoing traffic handled by the licensee under the PNETS (ETS) licence, with such breakdown on a route-by-route basis or other classification methods as may be specified by the TA.

There are some requirements imposed on the ETS licensee of the PNETS (ETS) licence in relation to local access charge, interconnection charge and delivery fee.

Value-added facsimile and data communication services have traditionally been licensed as International Value-Added Network Services (IVANS). The scope of the IVANS licence does not cover the provision of real-time telephonic or real-time facsimile services. Therefore, licensees authorised for the provision of IVANS have to apply for the PNETS (ETS) licence if they wish to provide external telecommunications services for real-time voice and facsimile transmission.

If an Internet service provider, or ISP, wishes to provide an external gateway for customers using ordinary customer premises equipment designed for operation over the public switched telephone network to gain access to the external telecommunications services, they have to obtain the PNETS (ETS) licence and be regulated on an equal basis as the other licensees for external telecommunications services. However, if the ISP is merely offering a licensed internet access service which is a data communication service based on the internet protocol, and provided that the service operates within the permitted IVANS scope and the ISP is not in a position to screen the real-time voice and facsimile messages from the data messages to or from the customers, the ISP will not be considered as providing external telecommunications services which are required to be licensed under the PNETS (ETS) licence.

— ***PNETS licence for MVNO services***

A mobile virtual network operator, or MVNO is an operator who provides a public radio communications service to customers through interconnection with, and access to, the radio communications infrastructure of an operator licensed under a public mobile radio telephone services (PMRS) licence, a personal communications services (PCS) licence or a mobile carrier licence and assigned with the radio spectrum through which the public radiocommunications service is provided.

The conditions of the PNETS (MVNO) licence mirror those under a PMRS licence, a PCS licence or a mobile carrier licence, with the exception that the MVNO will not be assigned radio spectrum under the PNETS licence and will therefore not be allowed to operate any radio station under that licence.

Under the PNETS (MVNO) licence, the MVNO shall fulfill the following general obligations:

(a) the MVNO shall provide customer statistics to the TA;

(b) the MVNO shall be subject to payment of licence fees; and

(c) the MVNO will be required to pay the same interconnection charges as a MNO, for direct interconnection with fixed networks.

OFTA licences held by China-HK Telecom

China-HK Telecom has been granted with two types of licences by OFTA during the Track Record Period until such licences were consolidated into a Service-Based Operator Class 3 licence as set out in "Service-Based Operator Licence" in this section:

OFTA licences	**Scope of services covered by the OFTA licences**
Public Non-Exclusive Telecommunications Service Licence — Mobile Virtual Network Operator Services (MVNO) issued on 29 April 2002 (Licence No. 951), renewable annually on 1 May	— carriage of telephonic and non-telephonic messages; voice, facsimile, voice mail, email and short message services and the provision of electronic mailbox or storage facilities; dealing and selling apparatus, facility, equipment, handset, device, accessory, material, case and packaging item for radiocommunications
Public Non-Exclusive Telecommunications Service Licence — External Telecommunications Service (ETS) issued on 6 February 2002 (Licence No. 929), renewable annually on 1 March	— provide external public telecommunications service operated over external leased circuits supplied by an FTNS licensee authorised to supply such circuits at the Hong Kong end or over other external switched telecommunications services lawfully operated in Hong Kong at the Hong Kong end; and

OFTA licences	Scope of services covered by the OFTA licences
	— deal in and demonstrate with a view to sale in the course of trade or business, such apparatus or material for radiocommunications as may be necessary to supply customers of the service.

Note: The OFTA licences for the operations of China-HK Telecom are set out above. Revocation or non-renewal of such licences may affect the continued provisions of the corresponding services. China-HK Telecom has not encountered any difficulties in renewing the licences in the past and does not anticipate any difficulties in seeking renewal when they expire in 2010.

All the licences are renewable on an annual basis, subject to compliance of the terms and conditions of the licences, at the discretion of the TA. The licensee shall pay the fees applicable to PNETS licence as determined and published by the TA from time to time. At present, the annual licence fee for the PNETS licence is HK$750 and shall be payable on the issue or renewal of the licence. The industry itself also plays a role in the development of the regulatory regime. OFTA regularly issues consultation papers to solicit the views of the public in respect of proposed guidelines and regulations.

Service-Based Operator Licence

On 19 October 2009, the TA announced that the current PNETS licences would be replaced by a modified Services-Based Operator ("SBO") Class 3 licence. The licence fee for such Class 3 licence is basically the same as that of the PNETS licences. With the implementation of the modified SBO licence, the TA will no longer issue or renew any PNETS licences. All existing PNETS licences issued by the TA will remain valid until their next annual renewal dates and they shall be replaced by the modified SBO licence if licensees wish to continue operation of the concerned services. As the modified SBO licence allows licensees to provide multiple services under a single licence, the TA would like to encourage telecommunications operators to take the opportunity to consolidate the multiple service-based licences which they may presently hold into a single licence. The licence fee payable under the new SBO licence is basically at the same level as the existing PNETS licences for the equivalent type of service, which is HK$750 for each type of Class 3 services authorised under the SBO licence.

Class 3 services which may be authorised under the SBO licence include the following seven categories of services:

(a) external telecommunications service ("ETS");

(b) international value-added network service ("IVANS")/Internet Service;

(c) mobile virtual network operator ("MVNO") service;

(d) private payphone service;

(e) public radio communications relay service ("Radio Relay");

(f) security and fire alarm signals transmission service ("Security & Alarm"); and

(g) teleconferencing service.

The Group had renewed its ETS licence under the SBO Class 3 licence and such licence was issued by OFTA on 6 February 2010. With regard to the replacement of the MVNO licence under PNETS licence, according to the instructions sent by OFTA to the Group, the Group may choose to merge the two existing ETS and MVNO licences into one SBO licence during the licence replacement process. In April 2010, the Group has notified OFTA for its decision to replace and consolidate the two existing ETS and MVNO licences and its acceptance of the terms and conditions specified in the new SBO licence. As confirmed by OFTA, the consolidated SBO licence has become effective on 29 April 2010 and the original copy of the same will be delivered to the Group by mid-June 2010.

Open Network Requirements for 3G MNOs

Under the "Guidelines for the Application of Service-Based Operator ("SBO") Licence" issued by OFTA on 30 October 2009, in accordance with the licence conditions of the unified carrier licence for a MNO operating in the 1.9-2.2 GHz band for 3G services, the MNO is obliged to open 30% of its network capacity to MVNOs who are not affiliated to any MNOs. In order for a MVNO to be qualified for the TA's regulatory support on its access to the MNO's network, the MVNO is required to meet the requirements similar to those for obtaining a MVNO licence together with the below criteria set out by OFTA:-

In the event that a non-affiliated MVNO and a MNO cannot agree with each other on the terms of interconnection, either of them may call upon the TA to intervene in the dispute and to determine the terms of interconnection. If a MVNO makes a request for a determination under special condition 12 of the mobile carrier licence or special condition 37 of the unified carrier licence, the TA is unlikely to intervene if:-

(a) the MVNO is affiliated[*(Note)*] to the MNO or to any other MNO;

(b) the MVNO already has access to the network capacity of any other MNO's network (as defined in the mobile carrier licence) equivalent to 30% or more of the network capacity of the network to which the MVNO is seeking access. If the TA receives a request for access to a network from a MVNO that already has access to another network, the TA will take into account the extent to which the MVNO already benefits from the open network access framework and such other factors as he may consider relevant such as the market position of the MVNO;

Note: An affiliated company means a company that is a subsidiary of the licensee's holding company.

(c) the MVNO does not satisfy the minimum infrastructure requirements set out in paragraph 2.36 of these guidelines; or

(d) the relevant MNO has reached its 30% open network access requirement.

MVNOs may also request a determination from the TA under section 36A of the Telecommunications Ordinance. The TA shall consider whether to accept the request for determination after taking into account factors under section 36A(10) of the Telecommunications Ordinance as well as other relevant factors including but not be limited to:

(i) the extent to which the applicant already benefits from the open network access framework; and

(ii) the extent to which the relevant MNO is satisfying its obligation under the open network access framework.

Under section 36A(3B) of the Telecommunications Ordinance, the charges in a determination shall be based on the relevant reasonable costs attributable to interconnection and, in determining the level, or method of calculation, of the relevant reasonable costs attributable to interconnection, the TA may select from among alternative costing methods which he considers to be fair and reasonable.

According to the plans set out in "Business Objectives and Strategies - Implementation Plan" of this document, the Group intends to upgrade its telecommunications system and equipment to support the 3G data services via purchasing the required equipment. When such plan is implemented, the Group will be able to satisfy the requirements set out by OFTA and be qualified for the TA's regulatory support. In the event that the Group itself is unable to source airtime from MNOs in Hong Kong, which the Directors consider such risk is minimal, the Group will still be able to seek the regulatory support for sourcing airtime from such operators at reasonable prices.

LICENSING REQUIREMENT IN THE PRC

As advised by the Group's PRC legal advisers, the Group's mobile telecommunications service provider in China is a telecommunications operator in China approved by the Ministry of Industry and Information Technology of the PRC, and the Group's business operation does not require any licence or permit from the authorities in China. In addition, the Group has no operation in China, and therefore the Group is not subject to the laws of China.

LICENSING REQUIREMENT IN MACAU

As advised by the Group's Macau legal advisers, (i) it is not necessary for the Group to obtain any approvals, licences, permits or certificates in Macau to perform and carry out its obligations and operations under the agreements of which the Group is a party (the "Macau Agreements") and the Group's intended introduction of 3G mobile data services via cooperation with a MNO which has obtained a 3G licence in Macau; and (ii) it is not necessary for the Group to comply with the applicable laws and regulations in Macau in relation to its performance of the Macau Agreements, and such performance is not subject to any tax obligations in Macau. As at the Latest Practicable Date, the Group had no operation in Macau.

Although the Group has entered into the Macau Agreements for providing mobile phone services in Macau, as at the Latest Practicable Date, the Group had not yet launched its "One Card Multiple Number" service in Macau. Such services are tentatively to be launched in Macau in the first half of 2011. Please refer to "Business Objectives and Strategies — Implementation Plan" of this document for further details.

With regard to the intended introduction of RF-SIM in Macau, according to the Group's Macau legal adviser, Rui Afonso Lawyers' Office, (a) if the application of RF-SIM in Macau is in connection to private activities which does not relate to functions involving storage of money or its similarities (including credit card, debit card) or other functions in relation to any title or rights granted by the government (including passport and driving licence) in the RF-SIM (including door keys, staff identity cards and members identity as set out in "Business Objectives and Strategies — Business Strategies — Introducing RF-SIM to the Group's mobile phone services in Hong Kong and Macau" of this document), the Group is not required to obtain any approval or licence in Macau; (b) if the application of RF-SIM in Macau relates to telecommunications industry (if any), it will be subject to administrative licensing governed by relevant legislations of Macau, namely Law No. 14/2001 (Telecommunication Basic Law) and Administrative Regulation no. 7/2002 (Regulation on the operation of public telecommunication networks and the provision of public mobile telecommunication services). As required by the aforesaid legislations, in order for the Group to carry out such business by means of MVNO in Macau, it has to obtain an approval and the respective licence from the government. In Macau, the regulatory authority of telecommunications industry is Bureau of Telecommunications Regulation of Macau (澳門電信管理局); and (c) if the application of the RF-SIM in Macau involves monetary transactions, it will be related to electronic money and is governed by the relevant financial legislation, namely Macau Financial System Act approved by Decree-Law no. 32/93/M, 5 July 1993, pursuant to which a separate and independent approval has to be obtained from the regulatory authority of monetary in Macau.

LICENSING REQUIREMENT IN TAIWAN

As advised by the Group's Taiwan legal advisers, (i) the Group will not be subject to the telecommunications laws and its regulations and any other relevant laws and regulations of Taiwan since the transactions contemplated under the agreement and related documents entered into between the Group and its mobile telecommunications service provider in Taiwan will not cause the Group to be considered as conducting or operating telecommunications services and business within the territory of Taiwan and the obligations under such agreement and the related documents will not subject it to the said laws and regulations of Taiwan; and (ii) it is not necessary for the Group to obtain any approvals, licences, permits and/or certificates set forth in the said laws and regulations in order to carry out its obligations under such agreement and the related documents and the Group's intended introduction of 3G mobile data services in Taiwan through its cooperation partner(s) in Taiwan.

HISTORY AND DEVELOPMENT

CORPORATE HISTORY

The Company

On 28 July 2009, the Company was incorporated as an exempted company in the Cayman Islands with authorised share capital of HK$50,000 divided into 5,000,000 shares of HK$0.01 each, and 100 shares of HK$0.01 each were allotted and issued at par to New Everich.

On 7 September 2009, the Company, Mr. Li Kin Shing, Ms. Kwok King Wa and Elitel entered into a share swap agreement (the "Share Swap Agreement") comprising of a share adjustment provision (the "Adjustment Provision") whereas as a matter of family arrangement, the ultimate beneficial shareholding ratio of Mr. Li Kin Shing and Ms. Kwok King Wa in the Company immediately after the completion of the Share Swap Agreement shall be adjusted from 50% and 50% to 54% and 46%. Pursuant to the Share Swap Agreement, Mr. Li Kin Shing and Ms. Kwok King Wa together transferred 100% equity interest in Elitel to the Company in consideration and exchange of the Company issuing and allotting 100 Shares at par to New Everich credited as fully paid by two instruments of transfer both dated 7 September 2009, pursuant to which Mr. Li Kin Shing and Ms. Kwok King Wa each transferred their 50% equity interest in Elitel to the Company in consideration of and exchange of the Company issuing and alloting an aggregate of 100 Shares at par to New Everich under the directions of Mr. Li Kin Shing and Ms. Kwok King Wa respectively and pursuant to the Adjustment Provision.

By a share purchase agreement dated 10 September 2009, New Everich transferred 9 Shares to SBCVC in consideration of US$750,000. Such consideration is based on arm's length negotiation between New Everich and SBCVC with reference to the net asset value and the profitability of the Company. SBCVC is an investment holding company and is wholly-owned by SBCVC Fund II, L.P., a Cayman Islands limited partnership. SBCVC purchased the Shares as it considered (i) the business of the Group's "One Card Multiple Member" service is stable; and (ii) the intended introduction of "RF-SIM" will add value to the Group's existing business. Pursuant to the said share purchase agreement, SBCVC enjoys certain rights, among others, (i) a tag-along right which allows SBCVC to sell the Shares together with New Everich on the same terms and conditions to the same purchaser if New Everich proposes to sell any Shares prior to the [●] to any person not an affiliate of New Everich and upon completion of such sale, New Everich will beneficially own 50% or less of the Company; and (ii) a put option, exercisable one time only, to require New Everich to repurchase or procure others to purchase from SBCVC all or portion of the Shares held by it in consideration of an aggregate US$750,000 on a pro rata basis in accordance with the portion of the Shares to be sold if the Company has not completed its [●] within six months from the date of the said share purchase agreement. All SBCVC's rights thereof will terminate upon the [●]. Upon completion of the said share transfer, New Everich and SBCVC held 95.5% and 4.5% of the issued share capital of the Company respectively.

SBCVC also undertakes not to and shall procure its beneficial owner(s) not to, offer, pledge, charge, sell, lend, mortgage, assign, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any of the share capital, debt capital or any securities of the Company or any interest therein held by it as at the closing of the [●] or enter into any swap, derivative, repurchase, lending, pledge or other arrangement that transfer to another, in whole or in part, any of the economic consequences of ownership of such share capital, debt capital or securities or any interest therein, whether any of the foregoing transactions is to be settled by delivery of share capital, debt capital or such other securities, in cash or otherwise, or offer to or agree to do, or publicly disclose that it will or may enter into any of the foregoing transactions at any time during the period commencing from the closing of the [●] and ending on the date which is six months from the [●] as requested by the Stock Exchange and/or the [●].

By the written resolutions of the Shareholders passed on 20 May 2010, the authorised share capital of the Company was increased by HK$39,950,000 by the creation of 3,995,000,000 Shares of HK$0.01 each.

By the written resolutions of the shareholders passed on 20 May 2010, the Company conditionally adopted the Share Option Scheme.

The Subsidiaries

As at the Latest Practicable Date, the Company has three directly and indirectly wholly-owned subsidiaries incorporated in the Cayman Islands and Hong Kong respectively. Details of each subsidiary are set forth as follows:

1. *Elitel*

On 30 August 2001, Elitel was incorporated under the name of Elitel Limited (盛華電訊有限公司) as an exempted company in the Cayman Islands with authorised share capital of US$50,000 divided into 50,000 shares of US$1.00 each. As at the date of incorporation, each of Mr. Li Kin Shing and Ms. Kwok King Wa held one share of Elitel, which in aggregation represent the entire issued share capital of Elitel.

On 2 August 2002, Mr. Li Kin Shing and Ms. Kwok King Wa transferred the two shares they held in Elitel to Directel Limited in consideration of US$1.00 per share respectively to change the holding of the operating subsidiary by a company instead of individuals. Upon completion of the share transfer, Elitel was 100% held by Directel Limited.

On 22 November 2002, Directel Limited transferred the two shares it held in Elitel to Ever Prosper in total consideration of US$1.00 as Mr. Li Kin Shing and Ms. Kwok King Wa intended to reorganise their investments in customer relationship management (the "CRM") outsourcing service and "One Card Multiple Number" service under one company. Accordingly, the equity interest in Elitel was transferred from Directel Limited to Ever Prosper, a holding Company of IEL Group which was principally engaged in the provision of CRM outsourcing service. Upon completion of the share transfer, Elitel was 100% held by Ever Prosper.

On 10 March 2004, recognising the different business nature of the CRM outsourcing service and "One Card Multiple Number" service, Mr. Li Kin Shing and Ms. Kwok King Wa decided to segregate the business of "One Card Multiple Number" service from IEL Group and hence the share transfer in November 2002 was reversed, pursuant to which Ever Prosper transferred the two shares it held in Elitel to Directel Limited in total consideration of US$1.00. Upon completion of the share transfer, Elitel was 100% held by Directel Limited.

On 15 November 2005, Elitel changed its name to Sunward Telecom Limited (盛華電訊有限公司) to further reflect the segregation of business.

In 2006, Mr. Li Kin Shing and Ms. Kwok King Wa identified the business opportunities of RF-SIM. The operations of Directel Limited and its subsidiaries were diversified to the operation of RF-SIM. In light of the diversification, Mr. Li Kin Shing and Ms. Kwok King Wa wished to keep Directel Limited and its subsidiaries for the development of RF-SIM while Elitel and its subsidiaries for the development of the "One Card Multiple Number" service operation. As such on 23 January 2006, Directel Limited transferred the two shares it held in Elitel to Mr. Li Kin Shing and Ms. Kwok King Wa in consideration of US$1.00 per share respectively. Thereafter, Elitel ceased to be a subsidiary of Directel Limited and has concentrated on the development of the "One Card Multiple Number" service operation. Upon completion of the share transfer, Elitel was held as to 50% by Mr. Li Kin Shing and 50% by Ms. Kwok King Wa, respectively. Due to the same reason, the English name of Elitel was changed back to Elitel Limited on 10 January 2006 while the Chinese name of Elitel remained unchanged as 盛華電訊有限公司.

On 11 August 2009, Elitel was registered as a non-Hong Kong Company under Part XI of the Companies Ordinance.

On 7 September 2009, by the Share Swap Agreement, Mr. Li Kin Shing and Ms. Kwok King Wa together transferred 100% equity interest in Elitel to the Company in consideration and exchange of the Company issuing and allotting 100 Shares at par to New Everich. Elitel was 100% held by the Company thereafter.

2. *China-HK Telecom*

China-HK Telecom was incorporated in Hong Kong as a limited liability company on 5 September 2001 with authorised share capital of HK$10,000 divided into 10,000 shares of HK$1.00 each. On the same date, each of Mr. Li Kin Shing and Ms. Kwok King Wa subscribed one share in the capital of China-HK Telecom at nominal value of HK$1.00 respectively.

On 18 January 2002, Ms. Kwok King Wa transferred the one share she held in China-HK Telecom to Elitel in consideration of HK$1.00. On the same date, China-HK Telecom allotted 98 shares of HK$1.00 each at par to Elitel. Pursuant to a declaration of trust dated the same day, Mr. Li Kin Shing held the one share in the capital of China-HK Telecom as trustee on behalf of Elitel.

On 16 April 2007, Mr. Li Kin Shing transferred the one share he held in China-HK Telecom to Elitel in nil consideration. Upon completion of the said share transfer, China-HK Telecom was 100% held by Elitel.

3. *Directel HK*

Directel HK was incorporated in Hong Kong as a limited liability company under the name of Whale Way Limited (和煒有限公司) on 20 April 1995 with authorised share capital of HK$10,000 divided into 10,000 shares of HK$1.00 each, 2 of which were allotted to the initial subscriber.

On 30 May 1995, the authorised share capital of Directel HK was increased by HK$4,990,000 by the creation of 4,990,000 shares of HK$1.00 each. On the same date, Directel HK allotted 3,999,999 and 999,999 shares of HK$1.00 each at par to Mr. Li Wang and Wealth Management Limited (華富管理有限公司) ("Wealth Management") respectively. On 31 May 1995, the 2 shares held by the initial subscriber were transferred to Mr. Li Wang and Wealth Management one share each in consideration of HK$1.00 respectively. On 5 September 1995, Wealth Management transferred the 1,000,000 shares it held in Directel HK to Ms. Kwok King Wa in consideration of HK$1,000,000. Upon completion of the aforesaid, Directel HK was held as to 80% by Mr. Li Wang and 20% by Ms. Kwok King Wa, respectively.

On 22 March 2002, Mr. Li Wang transferred the 4,000,000 shares he held in Directel HK to Mr. Li Kin Shing in consideration of HK$1.00. Upon completion of the said share transfer, Directel HK was held as to 80% by Mr. Li Kin Shing and 20% by Ms. Kwok King Wa, respectively.

On 27 June 1995, 23 June 2000 and 19 July 2002, Directel HK changed its name to Grandlink Paging Services Limited (廣通傳訊有限公司), China Opticom Telecommunications Limited (中國光通電訊有限公司) and Directel Communications Limited (直通電訊有限公司) respectively.

On 5 August 2002, Mr. Li Kin Shing and Ms. Kwok King Wa transferred the 3,999,999 and 1,000,000 shares they respectively held in Directel HK to Directel Limited in consideration of HK$1.00 and HK$1.00 respectively. Pursuant to a declaration of trust dated the same day, Mr. Li Kin Shing held the one share in the capital of Directel HK as trustee on behalf of Directel Limited.

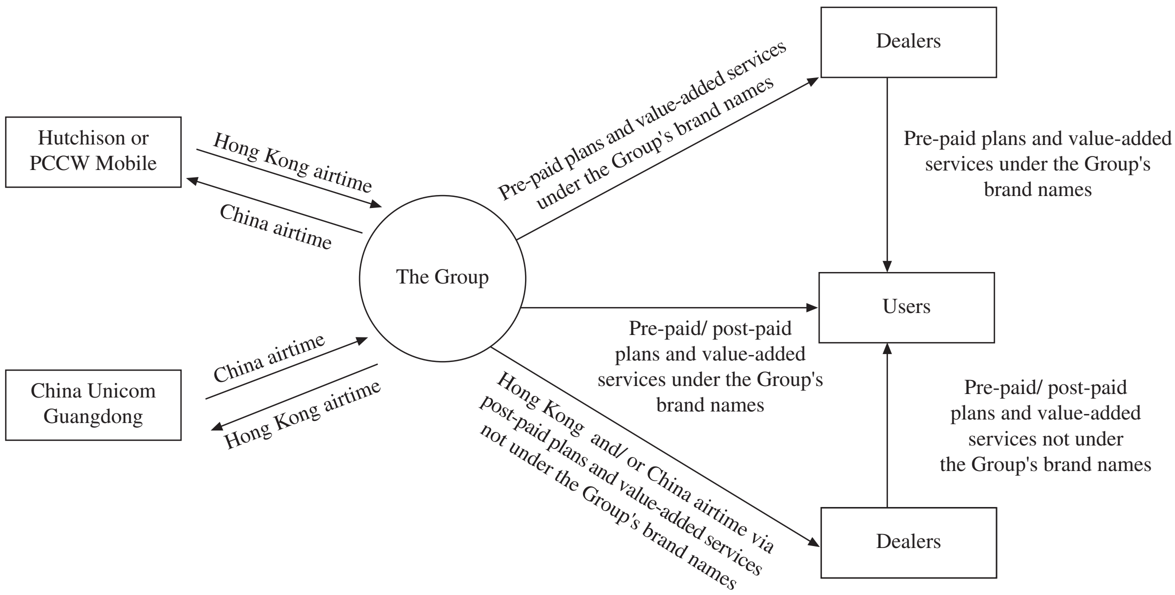
On 22 November 2002, Directel Limited transferred the 4,999,999 shares it held in Directel HK to China-HK Telecom in consideration of HK$1.00. Pursuant to a declaration of trust dated the same day, Mr. Li Kin Shing held the one share in the capital of Directel HK as trustee on behalf of China-HK Telecom.

On 16 April 2007, Mr. Li Kin Shing transferred the one share he held in Directel HK to China-HK Telecom at nil consideration. Upon completion of the share transfer, Directel HK was 100% held by China-HK Telecom.

OVERVIEW

The Group is a MVNO which is principally engaged in the provision of mobile phone services. The Group does not have its own telecommunications network infrastructure and its business mainly involves the trading of the airtime sourced from two MNOs in Hong Kong, namely Hutchison and PCCW Mobile, and one MNO in the PRC, namely China Unicom Guangdong, and subsequently sold the airtime through different channels and in various forms to users, dealers or MNOs.

The following diagram illustrates the relationship among the Group, MNOs, its dealers and users:



To reduce its operating costs, the Group has outsourced many of its business operations and administrative work, including its data processing, billing management, telesales dealership services and customer services to third parties (including some connected persons) while maintains by itself the telecommunications system for the provision of its mobile phone services and resale of airtime to MNOs.

The following table sets forth the breakdown of the simultaneous purchase and sale of Hong Kong and China airtime by the Group during the Track Record Period:-

	For the year ended 31 December					
	2007		2008		2009	
	minutes '000	*%*	*minutes '000*	*%*	*minutes '000*	*%*
Hong Kong airtime	22,100	47.9	22,822	55.6	83,603	81.9
China airtime	24,026	52.1	18,254	44.4	18,434	18.1
Total *(Notes 1 and 2)*	46,126	100.0	41,076	100.0	102,037	100.0
Revenue *(HK$'000)* *(Note 3)*	40,161		32,993		45,555	
Revenue per minute of airtime sold	HK$0.87		HK$0.80		HK$0.45	

Notes:

(1) The volume of the airtime purchased and sold are the same as sales is recognised only when the mobile phone service has been rendered (i.e. when the airtime is actually used by users after activating their SIM cards based on the call detail record from MNOs). For example, when a user of the Group consumes airtime under either the Group's pre-paid plan/post-paid plan services offered by the Group, such sales will be recognised when the mobile phone service is rendered and will constitute a sale of airtime of the Group. At the same time, such consumption by the user will be recorded in the relevant MNO's call detail record and will constitute a purchase of airtime by the Group. Therefore, the transactions of sale and purchase of airtime by the Group are concluded simultaneously.

(2) The volume of Taiwan airtime purchased and sold during the Track Record Period was less than 50,000 minutes for each of the respective year and is not included in the above table.

(3) The revenue includes the Group's revenue derived from "One Card Multiple Number" service, Hong Kong local mobile phone services and resale of airtime to MNOs.

The sales volume of the Group's airtime sold decreased from approximately 46.1 million minutes in 2007 to approximately 41.1 million minutes in 2008. Accordingly, the Group's revenue and revenue per minute of airtime sold both decreased in 2008 compared to those in 2007. The decrease was mainly due to the decline in total China and Hong Kong airtime consumed by its users as a result of the global economic crisis in 2008.

Despite the significant increase in the volume of the Group's airtime sold in 2009 when compared to that in 2008, the revenue generated from each minute of the airtime sold during the Track Record Period experienced a decreasing trend. Such decreasing trend was mainly attributable to (i) the fierce competition in the telecommunications industry in Hong Kong which had driven down the mobile phone service charges as a whole; (ii) the continuous decrease in the number of post-paid users of the "One Card Multiple Number" service which had a relatively higher ARPU; (iii) the relatively lower ARPU of most mobile phone numbers which belong to pre-paid plans, while almost 50% of which were not recharged at all after activation in 2009; and (iv) the increase in the number of pre-paid plan users of the "One Card Multiple Number" service who consumed more Hong Kong airtime when staying in Hong Kong in 2009, of which the charge of Hong Kong airtime is lower than the China airtime. Accordingly, though there was a relatively large increase in the number of activated mobile phone numbers and the volume of airtime sold during the Track Record Period, the Group still recorded decrease in revenue from 2007 to 2008 and the Group's revenue growth was at a much slower rate resulting in the decrease in the revenue per minute sold during such period.

The following table sets forth the breakdown of the simultaneous purchase and sale of Hong Kong and China airtime by the Group for each quarter of 2009 and the first quarter of 2010:-

	For the 1st quarter of 2009		For the 2nd quarter of 2009		For the 3rd quarter of 2009		For the 4th quarter of 2009		For the 1st quarter of 2010	
	minutes '000	%	minutes '000	%	minutes '000	%	minutes '000	%	minutes '000	%
Hong Kong airtime	9,205	69.0	18,585	79.4	24,456	83.9	31,357	86.8	32,159	87.0
China airtime	4,137	31.0	4,835	20.6	4,696	16.1	4,766	13.2	4,824	13.0
Total *(Notes 1 and 2)*	13,342	100.0	23,420	100.0	29,152	100.0	36,123	100.0	36,983	100.0
Revenue *(HK$'000)* *(Note 3)*	8,989		10,524		12,106		13,936		12,679	
Revenue per minute of airtime sold	HK$0.67		HK$0.45		HK$0.42		HK$0.39		HK$0.34	

Notes:

(1) The volume of the airtime purchased and sold are the same as sales is recognised only when the mobile phone service has been rendered (i.e. when the airtime is actually used by users after activating their SIM cards based on the call detail record from MNOs). For example, when a user of the Group consumes airtime under either the Group's pre-paid plan/post-paid plan services offered by the Group, such sales will be recognised when the mobile phone service is rendered and will constitute a sale of airtime of the Group. At the same time, such consumption by the user will be recorded in the relevant MNO's call detail record and will constitute a purchase of airtime by the Group. Therefore, the transactions of sale and purchase of airtime by the Group are concluded simultaneously.

(2) The volume of Taiwan airtime purchased and sold in each quarter of 2009 and the first quarter of 2010 was less than 50,000 minutes for each of the respective period and is not included in the above table.

(3) The revenue includes the Group's revenue derived from "One Card Multiple Number" service, Hong Kong local mobile phone services and resale of airtime to MNOs. The revenue for the first quarter of 2010 is based on the Group's management account which is unaudited.

The volume of the Group's airtime sold increased steadily from approximately 13.3 million minutes for the first quarter of 2009 to approximately 36.1 million minutes for the fourth quarter of 2009; while the revenue derived from "One Card Multiple Number" service, Hong Kong local mobile phone services and resale of airtime to MNOs also increased steadily from approximately HK$9.0 million to approximately HK$13.9 million during the same period. Despite such steady increase, the Group's revenue per minute of airtime sold showed a decreasing trend and decreased from approximately HK$0.67 for the first quarter of 2009 to approximately HK$0.39 for the fourth quarter in 2009. Such decreasing trend was mainly attributable to (i) the fierce competition in the telecommunications industry in Hong Kong which had driven down the mobile service charges as a whole; (ii) the continuous decrease in the number of post-paid plan users of the "One Card Multiple Number" service which had a relatively higher ARPU; (iii) the relatively lower ARPU of most newly activated mobile phone numbers which belong to pre-paid plans; and (iv) the increase in the number of pre-paid plan users of the "One Card Multiple Number" service who consumed more Hong Kong airtime when staying in Hong Kong in 2009, of which the charge of Hong Kong airtime is lower than the China airtime. Accordingly, though there was a steady increase in the number of activated mobile phone numbers and the volume of airtime sold in 2009, the Group's revenue growth was at a relatively slower rate, resulting in the decrease in the revenue per minute of airtime sold during such period.

The volume of the Group's airtime sold increased from approximately 36.1 million minutes for the fourth quarter of 2009 to approximately 37.0 million minutes for the first quarter of 2010; while the revenue derived from "One Card Multiple Number" service, Hong Kong local mobile phone services and resale of airtime to MNOs decreased from approximately HK$13.9 million to approximately HK$12.7 million during the same period. The Group's revenue per minute of airtime sold decreased from approximately HK$0.39 for the fourth quarter of 2009 to approximately HK$0.34 for the first quarter of 2010. Such decrease was mainly attributable to the cancellation of domestic roaming fees when making international long distance calls in the PRC since 1 January 2010 under the rules and regulations promulgated by the relevant authorities of the PRC in December 2009 (the "Policy"). The Policy was applicable to all MNOs in the PRC. Pursuant to the Policy, commencing from 1 January 2010, mobile phone calls made from the PRC to other countries, Taiwan, Hong Kong and Macau will only be charged for long distance call fees but not domestic roaming fees, whereas, mobile phone calls made in the PRC to and/or from different provinces in the PRC other than the mobile phone number registered province will still be charged at the reduced domestic roaming fee in accordance with the relevant policy promulgated by the PRC government in 2008. Only post-paid plans and plans of local dealers not under the Group's brand names in "One Card Multiple Number" service and resale of China airtime to Hong Kong MNOs have been affected by the Policy since 1 January 2010. Therefore, the implementation of the Policy caused the decrease in the revenue derived from the post-paid plans and plans of local dealers not under the Group's brand names in "One Card Multiple Number" Service and resale of China airtime to Hong Kong MNOs in the first quarter of 2010. The Directors believe that such cancellation of domestic roaming fees pursuant to the Policy may also lower the Group's ARPU in the future when compared with prior periods. Though there was an increase in both the number of activated mobile phone numbers and the volume of airtime sold in the first quarter of 2010 compared to those of the fourth quarter of 2009, the decrease in the Group's revenue caused the decrease in the revenue per minute of airtime sold in the first quarter of 2010 when compared with the corresponding figure for the fourth quarter of 2009.

Two of the MNOs which the Group purchased airtime from adopted minimum monthly airtime purchase policies against the Group during the Track Record Period. The policies set out the minimum monthly airtime purchase amount of service fees that the Group has to pay to such MNOs. In the event that the aggregate amount payable for the services acquired or consumed by the Group in any month is less than such minimum monthly airtime purchase amount under the relevant policies, the Group will still have to pay the minimum monthly fees. For the three years ended 31 December 2009, (i) the Group was unable to satisfy the minimum monthly airtime purchase amount imposed by one of the MNOs (which commenced in February 2008) for twenty one calendar months and was required to pay to such MNO the shortfall of minimum monthly airtime purchase amount; and (ii) the Group was unable to satisfy the minimum monthly airtime purchase amount adopted by the other MNO for twenty three calendar months over the Track Record Period and was required to pay to such MNO the minimum monthly fees. However, notwithstanding the minimum monthly fees were paid by the Group to these two MNOs during the Track Record Period, no additional minutes of airtime had been provided to the Group for the payment of the shortfall of the minimum monthly fees. The number of minutes provided by these two MNOs was the actual number of minutes consumed by the Group's users, which was recorded in the relevant MNOs' call detail record. Therefore, the Group did not maintain any stock of airtime during the Track Record Period.

Since 2003, the Group has been principally engaged in the provision of "One Card Multiple Number" service under the brand names of "China-HK Telecom/中港通" and "Directel/直通". During the Track Record Period, the Group sold most of the purchased airtime through the provision of "One Card Multiple Number" service and the revenue from the provision of such service contributed over 50% of the Group's total revenue throughout the Track Record Period. Through such service, users can dial and receive long-distance phone calls between Hong Kong and Guangdong Province of the PRC at a lower cost than the traditional roaming service. The following table compares the service charges for the Group's "One Card Multiple Number" pre-paid plan service and roaming services of the five MNOs in Hong Kong within Guangdong Province and calls dialed/received between Hong Kong and Guangdong Province as obtained from the websites of the five MNOs in Hong Kong as at the Latest Practicable Date:-

	Service charge for the Group's "One Card Multiple Number" pre-paid plan service	**Roaming service charges of the five MNOs in Hong Kong***(Note 1)*
	HK$/minute	HK$/minute
Outgoing calls dialed from Guangdong Province to Hong Kong	2.55	4.95-7.76
Outgoing calls dialed from Guangdong Province to Guangdong Province *(Note 2)*	0.55	3.0-3.6
Incoming calls received in Guangdong Province	0.40	6.48-8.30

Notes:

(1) Information obtained from the websites of the respective MNOs.

(2) Service charge of the Group's "One Card Multiple Number" pre-paid plan service for outgoing calls dialed from Guangdong Province to all areas in China is also charged at HK$0.55/minute. However, roaming service charges for such services of the five MNOs in Hong Kong are not publicly available, therefore, no comparison could be made herein.

In addition to the "One Card Multiple Number" service, the Group has also been offering Hong Kong local mobile phone services since 2007 and reselling Hong Kong airtime to China Unicom Guangdong and China airtime to Hutchison and PCCW Mobile through its "One Card Multiple Number" system. Apart from that, the Group is also engaged in the provision of telesales dealership services to two MNOs in Hong Kong.

COMPETITIVE STRENGTHS

The Group's well-established "One Card Multiple Number" service in Hong Kong enables its users to economically dial and receive long-distance phone calls at a lower cost than traditional roaming service

The Group has been providing "One Card Multiple Number" service under the brand names of "China-HK Telecom/中港通" and "Directel/直通" in Hong Kong since 2003. This well-established service of the Group enables users to simultaneously possess mobile phone numbers of different designated territories, particularly those of China and Hong Kong, and to economically dial and receive phone calls from these designated territories at a lower cost than traditional roaming service, whereas local calls dialed and received by users in these designated territories are only subject to local telephone charges. The Directors are of the view that this service could save significant costs for people who frequently travel between Hong Kong and the designated territories as they can avoid paying high-priced roaming service fees. Users can also avoid the troublesome of switching SIM cards in different designated territories or relying on the call-forwarding services. In addition, people in the designated territories could reach the users by dialing the users' local numbers in the designated territories to avoid paying IDD charges wherever these users are.

Being the exclusive licensee of RF-SIM in Hong Kong and Macau, the Group has the potential to offer more value-added services to its users, notwithstanding no revenue was generated from the intended RF-SIM business of the Group during the Track Record Period and up to the Latest Practicable Date

RF-SIM is a combination of ordinary mobile phone SIM card and contactless smartcard with radio frequency transmission and reception capabilities. According to the technical report prepared by Directel Limited and the UC Report, in addition to the usual functions of an ordinary SIM card, RF-SIM is capable to provide other additional functions including identification and electronic couponing functions. The Group obtained the [exclusive licence of the operation rights of RF-SIM Intellectual Property Rights] in Hong Kong and Macau on 24 May 2010. The Group intends to introduce RF-SIM in Hong Kong and Macau to offer more value-added services to its users, such as access controlling in housing estates and car parks as well as receiving promotion and advertising coupons through mobile handsets. As at the Latest Practicable Date, the Group had no intention to introduce RF-SIM in Taiwan as its licence for application of RF-SIM is only restricted in Hong Kong and Macau.

The Directors believe that the intended introduction of RF-SIM in Hong Kong and Macau could enhance loyalties of the existing users and widen the user base of the Group. In addition, as all RF-SIM users would automatically become users of the Group's mobile phone services, the Directors are of the view that the intended introduction of RF-SIM in Hong Kong and Macau could coherently increase the number of the Group's users, which could also enlarge the Group's market shares in the mobile telecommunications industry and escalate its profitability in the future. The Group did not generate any revenue in respect of RF-SIM during the Track Record Period and up to the Latest Practicable Date.

The Group's long-term and stable relationships with its telecommunications service providers can help the Group secure stable provision of telecommunications services for its business operation

The Group has developed long-term and stable relationships with most of its telecommunications service providers ranging from approximately 3 to 6 years, which are the major telecommunications services operators in Hong Kong and China including PCCW Mobile, Hutchison, New World Telecom and China Unicom Guangdong. The Directors are of the view that such long-term business relationships can help secure stable provision of telecommunications services for its business operation. Details of major agreements entered into between the Group and its telecommunications service providers are set forth in "Business — Service Providers" of this document.

Experienced management team of the Group could effectively maintain and enhance the Group's goodwill and reputation

The Group's experienced management team consists of members having extensive experience in the telecommunications industry. The Group's management team is led by Mr. Pang Kwok Chau, the Company's chief executive officer and an executive Director, and Mr. Li Wang, an executive Director. Mr. Pang has over 16 years of solid experience in the telecommunications industry, whereas Mr. Li Wang has over 7 years of solid experience in the telecommunications industry. In 1995, Mr. Pang served as the manager of China-Hong Kong Telelink Company Limited. Mr. Pang joined the Group in 2001 and is responsible for the overall marketing strategic planning and direction of the Group. Mr. Li Wang worked as a manager and director of a PRC and a Hong Kong telecommunications company respectively from 1993 to 2000 and was responsible for the management and promotion of pager and mobile telecommunications services business. The experienced management team of the Group ensures the smooth and continual running of the Group's operations and gives the Group a competitive edge over its competitors by effectively maintaining and enhancing the Group's goodwill and reputation. The Directors believe that the established reputation of the Group and the management team will continue to attract new customers and retain the existing customers. Details of the Group's management team are set out in "Directors, Senior Management and Staff" of this document.

SERVICES

The Group is principally engaged in the provision of mobile phone services. The following table sets forth the breakdown of the Group's revenue during the Track Record Period:

	For the year ended 31 December					
	2007		2008		2009	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
"One Card Multiple Number" Service						
i. Under the Group's brand names						
- pre-paid plans	15,732	28.8	14,568	31.5	15,780	30.4
- post-paid plans	10,855	19.9	7,386	16.0	5,019	9.6
ii. Not under the Group's brand names						
- local dealers	3,133	5.7	2,020	4.4	9,474	18.3
Subtotal	29,720	54.4	23,974	51.9	30,273	58.3
Hong Kong Local Mobile Phone Services						
i. Under the Group's brand names						
- pre-paid plans	—	—	1,054	2.3	3,872	7.5
ii. Not under the Group's brand names						
- local dealers	343	0.6	878	1.9	6,360	12.3
Subtotal	343	0.6	1,932	4.2	10,232	19.8
Total of Mobile Phone Services	30,063	55.0	25,906	56.1	40,505	78.1
Resale of Airtime to MNOs	10,098	18.5	7,087	15.4	5,050	9.7
Telesales Dealership Services	10,135	18.5	9,162	19.8	5,817	11.2
Other Services	4,354	8.0	4,009	8.7	503	1.0
Total	54,650	100.0	46,164	100.0	51,875	100.0

Mobile Phone Services

The Group offers voice mobile phone services through its pre-paid and post-paid plans with different varieties of value-added services, including caller identification display, call waiting, call forwarding, call barring, Hong Kong ringtone and BIS services. In addition, the Group also offers SMS, IDD services, outbound roaming services and particularly "One Card Multiple Number" service. The ARPU of mobile phone services of the Group for the three years ended 31 December 2009 was approximately HK$81.2, HK$36.7 and HK$30.8 respectively.

The following table sets forth the breakdown of the Group's ARPU of mobile phone services *(Note)* for the three years ended 31 December 2009:

	For the year ended 31 December		
	2007	**2008**	**2009**
	HK$	*HK$*	*HK$*
"One Card Multiple Number" service			
i. Under the Group's brand names			
- pre-paid plans	53.5	26.3	23.0
- post-paid plans	304.0	265.9	219.0
ii. Not under the Group's brand names			
- local dealers	159.8	136.1	47.5
ARPU of "One Card Multiple Number" service	85.1	40.2	33.3
Hong Kong local mobile phone services			
i. Under the Group's brand names			
- pre-paid plans	—	73.6	24.3
ii. Not under the Group's brand names			
- local dealers	16.5	9.1	25.5
ARPU of Hong Kong local mobile phone services	16.5	17.5	25.0
ARPU of mobile phone services	81.2	36.7	30.8

Note: ARPU is calculated by the total service revenue under mobile phone services during the year divided by 12, divided by the monthly average number of activated phone numbers in that year.

Owing to the fierce competition in the mobile services industry in Hong Kong and the greater popularity of mobile phone usage, the competitiveness of the Group's business has been adversely affected and the ARPU of the Group and the revenue per minute of airtime sold showed a decreasing trend, which the ARPU of the Group was approximately HK$81.2, HK$36.7 and HK$30.8 for the three years ended 31 December 2009 respectively.

The competitiveness of the Group's service has been adversely affected by the downward adjustment of the roaming fees charged by other MNOs, which increases the competition encountered by the Group's "One Card Multiple Number" service. The Directors are of the view that the market of post-paid mobile services in Hong Kong is very keen and the Group may not have sufficient resources to increase its market shares in this regard. Accordingly, the Directors consider that the Group shall focus on the market of pre-paid mobile phone service as it is relatively less difficult for the Group to increase its market share taking into account its existing resources and scale of business.

Generally, the ARPU derived from post-paid plans is relatively higher than the ARPU derived from pre-paid plans, owing to the following reasons:-

- No limit is imposed on the monthly airtime usage by post-paid plan users during the subscription period as such users could still dial and receive phone calls after the airtime usage limits of their respective post-paid plans have been exceeded. Accordingly, in addition to the revenue generated from the fixed monthly service charge from the post-paid plan users, revenue could also be generated from the extra airtime usage beyond the post-paid plan limits.

- Other than airtime usage, the Group could generate revenue from providing other value-added services to post-paid plan users.

- Each pre-paid SIM card has a limit on its user's airtime usage based on stored value during the period between activation and expiration or suspension of a SIM card. Owing to the airtime usage limit, the revenue derived from each pre-paid plan user is technically fixed on a certain price level unless the user recharges the pre-paid SIM card by purchasing the Group's recharge coupons.

- Contrary to post-paid plans, the monthly revenue generated from pre-paid plans varies as the Group only records revenue when the airtime included in pre-paid plans has been consumed. As such, unlike the minimum amount of monthly revenue generated from post-paid plans, the revenue recorded from one pre-paid SIM card could be spread over several months, which accordingly lowers the monthly revenue derived from each pre-paid card user.

Since the monthly airtime usage consumed by each post-paid plan user is generally higher than each pre-paid plan user and the revenue base for post-paid plan users is generally wider, the ARPU derived from post-paid plans was higher than pre-paid plans during the Track Record Period. However, both the monthly average number of activated phone numbers and the ARPU for the post-paid plans of the Group's "One Card Multiple Number" service have been decreasing during the Track Record Period.

The decrease in the Group's ARPU in 2008 compared to that in 2007 was primarily due to the reduction in the domestic roaming fees imposed on users by the Group since 1 May 2008 following the promulgation of the relevant policy by the PRC government during such period. In addition, the total China and Hong Kong airtime consumed by its users decreased from approximately 46.1 million minutes for the year ended 31 December 2007 to approximately 41.1 million minutes for the year ended 31 December 2008 as a result of the global economic crisis. Also, new activation of mobile phone numbers during the year 2008 were mainly pre-paid plans for "One Card Multiple Number" service which were of much lower ARPU than the activated phone numbers of 2007.

The Group's ARPU decreased from approximately HK$36.7 for the year ended 31 December 2008 to approximately HK$30.8 for the year ended 31 December 2009. The decrease in the Group's ARPU was primarily due to the larger discounts offered by the Group to dealers for the Group's China and Hong Kong airtime and resulting in lower ARPU for these new users which eventually led to the decrease in the ARPU although the Group recorded an increase in the sales volume of its total China and Hong Kong airtime from approximately 41.1 million minutes for the year ended 31 December 2008 to approximately 102.0 million minutes for the year ended 31 December 2009. In addition, the sales price of China airtime offered by the Group to its users in 2009 was lower than that in 2008 as the Group reduced the China domestic roaming fees in May 2008. Also, the Group's newly activated mobile phone numbers in 2009 were mainly for pre-paid plans of "One Card Multiple Number" service and Hong Kong local mobile phone services which were of much lower ARPU than the activated phone numbers in 2008.

I. ***"One Card Multiple Number" service***

The Group has been providing "One Card Multiple Number" service under the brand names of "China-HK Telecom/中港通" and "Directel/直通" in Hong Kong since 2003 and such service can only be subscribed in Hong Kong. When this service is activated, the mobile handset of the users would automatically switch to a local mobile phone number of one of the designated territories, depending on the respective service plans and locations of the users. This service enables users to simultaneously possess mobile phone numbers of different designated territories, particularly those of China and Hong Kong in one single SIM card and to economically dial and receive phone calls from these designated territories at a lower cost than traditional roaming service, whereas local calls dialed and received by users in these territories are only subject to local telephone charges. In addition, people in the designated territories could reach the users by dialing the user's local numbers in the designated territories to avoid paying IDD charges services wherever these users are. Further, users can also avoid the troublesome of switching SIM cards in different designated territories or relying on the call-forwarding services. As at the Latest Practicable Date, the designated territories of the service of "One Card Multiple Number" included Hong Kong, China and Taiwan.

The "One Card Multiple Number" service is offered to the Group's users through pre-paid and post-paid plans.

Pre-paid plans

The Group's pre-paid SIM cards, which contain mobile phone numbers of China and Hong Kong with a fixed amount of stored value, are available to the market. These SIM cards are rechargeable and can be recharged through purchasing the Group's recharge coupons.

This plan is designed for people who frequently travel between Hong Kong and Guangdong Province. Therefore, as at the Latest Practicable Date, the network reception of these pre-paid plans only covers such territories and the mobile phone numbers of China attached to these plans are limited to those of Guangdong Province only.

Post-paid plans

The post-paid plans are designed for people who frequently travel between Hong Kong and other designated territories, particularly China. The basic network coverage of these plans includes the territories of Hong Kong, China and Taiwan. The charging scheme of these post-paid plans is based on different tariffs of each designated territories and is settled by monthly payments.

II. ***Hong Kong local mobile phone services***

The Group's Hong Kong local mobile phone services under the Group's brand names are offered with pre-paid plans. Each pre-paid SIM card contains a Hong Kong local mobile number with a fixed amount of stored value. Local call service within Hong Kong and IDD service from Hong Kong to other territories around the world are subject to competitive charges. These SIM cards are rechargeable and can be recharged through purchasing the Group's recharge coupons.

The Hong Kong local mobile phone services are designed for customers situated in Hong Kong including tourists travelling from China and other countries to Hong Kong who have no Hong Kong local phone numbers but need to frequently make IDD calls to China as well as local calls in Hong Kong. The services allow users to make IDD and Hong Kong local phone calls as well as to avoid going through the standard registration procedures or having any monthly tariff burden.

Resale of airtime to MNOs

The Group resells Hong Kong airtime to China Unicom Guangdong and China airtime to PCCW Mobile and Hutchison, through the Group's "One Card Multiple Number" system. Where a user of either PCCW Mobile or Hutchison (who is not regarded as the Group's user) demands for the "One Card Multiple Number" service, the Group's system and equipment could provide a platform for such user to simultaneously possess two mobile phone numbers in one SIM card and consume both Hong Kong and China airtime through the Group's platform. In this regard, the China airtime involved is provided by the Group whereas the Hong Kong airtime involved is provided by either PCCW Mobile or Hutchison. This mechanism applies to users of China Unicom Guangdong as well, in which the China airtime involved is provided by China Unicom Guangdong, whereas the Hong Kong airtime involved is provided by the Group. Such business is conducted in the form of resale of airtime between the Group and the aforesaid MNOs by making use of the data storing, position tracking, phone number activating and call routing functions of the Group's "One Card Multiple Number" system. For the three years ended 31 December 2009, revenue derived from such resale of airtime to MNOs amounted to approximately HK$10.1 million, HK$7.1 million and HK$5.1 million respectively and accounted for approximately 18.5%, 15.4% and 9.7% of the total revenue of the Group respectively.

Telesales Dealership Services

The Group provides telesales dealership services to two major MNOs in Hong Kong for maintaining strategic relationships with such operators for the current and potential future development of the Group's business, which accounted for approximately 18.5%, 19.8% and 11.2% respectively of the Group's total revenue for the three years ended 31 December 2009. In this respect, the Group enters into dealership agreements with such two MNOs and is provided with lists of potential customers. The Group then outsources the telesales function to IEL Group for making unsolicited phone calls (or "cold calls") to these potential customers and promoting the mobile telecommunications services of the respective MNOs. Immediately after securing a potential user through cold calling, the Group then arranges the fulfillment of the subscription procedures and bills the relevant MNO for selling commission.

A summary of the telesales dealership agreement entered into with one of the MNOs during the Track Record Period and as at the Latest Practicable Date is set out below:-

Name of customer	Services provided	Date of agreement	Duration terms
Hutchison Telephone	to sell products and services of Hutchison Telephone through telesales	1 August 2006	Effective until terminated by Hutchison Telephone by one month notice or either party in breach of the terms and conditions of the agreement and the defaulting party fails to remedy such breach within 30 days of a written notice

Details of the telesales agreement entered into between the Group and the IEL Group are set out in "Relationship with the Controlling Shareholders, Non-competition Undertakings and Connected Transactions — Connected Transactions — Non-exempt Continuing Connected Transactions China-HK Telecom Telesales Agreement" of this document.

Other Services

The other services offered by the Group during the Track Record Period were mainly (i) the CDMA network maintenance services; and (ii) the provision of personal ring back tone services. The Group has ceased to offer CDMA network maintenance services and personal ring back tone services since November 2008 and April 2009 respectively. For the three years ended 31 December 2009, the CDMA network maintenance services accounted for approximately 5.5%, 4.9% and 0.0% of the Group's total revenue respectively, whereas the personal ring back tone services accounted for approximately 2.5%, 3.8% and 1.0% of the Group's total revenue respectively. Given their insignificant attributions to the Group's revenue, the Directors are of the view that the cessation of providing such services has no material effect on the Group's operations.

CDMA network maintenance services

In June 2005, an agreement was entered into between the Group and Hutchison Telephone, the only then CDMA operator in Hong Kong, in which the Group undertook a certain amount of mobile traffic under the CDMA network from Hutchison Telephone. In September 2006, a member company of a major PRC mobile operator and the Group entered into an agreement in which such company would provide a service fee to the Group for its maintenance of the CDMA network with Hutchison Telephone. To the best knowledge and belief of the Directors, the CDMA licence of Hutchison Telephone expired in November 2008 and Hutchison Telephone had ceased the operation of CDMA network accordingly. Pursuant to the terms of the above mentioned agreement entered into between the Group and Hutchison Telephone, such contract was terminated following the expiration of the CDMA licence held by Hutchison Telephone. Accordingly, the Group and the member company of the major PRC mobile operator terminated the services under the related agreement between the Group and such company. As a result, the Group has ceased to provide such maintenance services since November 2008.

Personal ring back tone services

A major MNO in Hong Kong contracted with the Group for the Group's services of installing and operating the platform of personal ring back tone in April 2006 with an option granted to the MNO to purchase the personal ring back tone service platform. During the Track Record Period, the Group provided such services to the MNO until 9 April 2009 when the MNO exercised its option to purchase the platform from the Group and the Group has ceased to provide such services since then accordingly.

SALES AND DISTRIBUTION CHANNELS

The sales and distribution of the Group's mobile phone services are mainly conducted through wholesale to dealers whereas a small amount are conducted through retail sales to end-users. The sales and distribution channels of the Group's resale of airtime to MNOs are conducted through wholesale to MNOs only. The following table sets forth the breakdown of the Group's revenue in respect of its sales and distribution channels of the Group's mobile phone services during the Track Record Period:-

	For the year ended 31 December					
	2007		2008		2009	
	HK$'000	%	*HK$'000*	%	*HK$'000*	%
Wholesale to:-						
— Dealers (under the Group's brand names)	15,732	52.3	15,622	60.3	19,652	48.5
— Dealers (not under the Group's brand names)	3,476	11.6	2,898	11.2	15,834	39.1
Retail to users *(Note)*	10,855	36.1	7,386	28.5	5,019	12.4
Total of Mobile Phone Services	30,063	100.0	25,906	100.0	40,505	100.0

Note: This refers to the sale of airtime directly to users through post-paid service plans.

Wholesale to dealers

The Group wholesale a substantial amount of pre-paid SIM cards and recharge coupons to its dealers, in which each of pre-paid SIM cards and recharge coupons contains a fixed amount of stored value for mobile airtime usage of either its "One Card Multiple Number" service or Hong Kong local mobile phone services under the Group's brand names of "China-HK Telecom/中港通" and "Directel/直通", which accounted for approximately 52.3%, 60.3% and 48.5% of the Group's revenue derived from its provision of mobile phone services for the three years ended 31 December 2009 respectively. The sales network of such dealers widely cover various shops and stores in Hong Kong including convenience stores and mobile phone shops, which can be easily accessed by existing and potential users. The Directors are of the view that such sales network could benefit the sales of the Group's pre-paid services as the pre-paid SIM cards and recharge coupons of the Group could receive more exposure to its existing and potential users.

The Group also wholesale a certain amount of airtime to dealers and such dealers would resell the airtime to users not under the Group's brand names. These sales accounted for approximately 11.6%, 11.2% and 39.1% of the Group's revenue derived from its provision of mobile phone services for the three years ended 31 December 2009 respectively.

As at the Latest Practicable Date, the Group had a total of seven dealers purchasing the Group's airtime. Among these seven dealers, (i) one of them contracted with the Group to wholesale the Group's airtime through pre-paid SIM cards and recharge coupons under the Group's brand names as well as resale the Group's airtime not under the Group's brand names; (ii) one of them contracted with the Group to wholesale the Group's airtime through pre-paid SIM cards and recharge coupons under the Group's brand names; and (iii) the remaining five dealers contracted with the Group to further resell the Group's airtime not under the Group's brand names. As at the Latest Practicable Date, the respective contractual relationships between the Group and its dealers with regard to the wholesale of the Group's airtime through pre-paid SIM cards and recharge coupons under the Group's brand names ranged from approximately one to two years whereas the respective contractual relationships between the Group and its dealers which further resell the Group's airtime not under the Group's brand names ranged from approximately one to seven years.

To the best knowledge and belief of the Directors, the dealers are principally engaged in mobile services and no particular licence is required by OFTA or the relevant authorities for their mobile service business and operations. For the agreements entered into between the Group and the dealers regarding wholesale of the Group's airtime through pre-paid SIM cards and recharge coupons under the brand names of "China-HK Telecom/中港通" and "Directel/直通", such wholesale of airtime are non-exclusive and are limited to Hong Kong only. These agreements are generally valid for one year and are automatically renewable on same terms upon a written notice is served by either party one month prior to termination. Such airtime is sold to dealers at prices lower than the retail prices to users and the Group would reasonably provide marketing materials, including posters and brochures, to the dealers during the contractual period.

In general, for the agreements entered into between the Group and the dealers regarding the provision of mobile phone numbers and airtime not under the Group's brand names, such provision of mobile phone numbers and airtime is non-exclusive and the relevant agreements are generally valid for one year. Such dealers shall provide reasonable after-sales support and customer service at their own costs and expenses to their users. The sales price of airtime to the dealers would be lower when the amount of airtime purchased could reach certain levels as agreed by the parties. Termination of agreement occurs where either the Group or the respective dealers is in breach of the terms and conditions of their agreements and does not rectify within one month upon receipt of notice of such breach. Immediately after termination, such dealers shall cease to resell or distribute the Group's mobile phone services to the users.

For the sales of pre-paid plans of the Group's "One Card Multiple Number" service through a local dealer under the Group's brand names, cash receipts from users through the said dealer are collected by the Group and remitted to China Unicom Guangdong for further execution of the pre-paid plans, revenue is only recognised when the actual airtime is used during the period from activation to expiration of the pre-paid SIM cards. Where the stored value of a pre-paid SIM cards has not been used up after its expiration, the remaining stored value would automatically be recognised as the Group's revenue. The payment of the Group's "One Card Multiple Number" pre-paid plan services has to be settled by China Unicom Guangdong to the Group based on the actual amount of airtime used by the users. Such payment could be settled by cheques, telegraphic transfer or bank deposits.

For the sales of pre-paid plans of the Group's Hong Kong local mobile phone services through a local dealer under the Group's brand names, the local dealer has to settle fully on a cash on delivery basis. Deferred income will be recognised upon cash receipts of the payment of pre-paid SIM cards and such deferred income will be recognised as revenue when users use the services after the pre-paid SIM cards are activated, i.e. revenue is deferred and recognised over the period during which the airtime is actually used by pre-paid plan users from the activation of the SIM cards to expiration. Where the stored value of a pre-paid SIM cards has not been used up after its expiration, the remaining stored value would automatically be recognised as the Group's revenue.

Revenue from pre-paid or post-paid plans of the Group's "One Card Multiple Number" service and Hong Kong local mobile phone services through local dealers not under the Group's brand names are recognised when the services have been rendered, i.e. when the airtime is actually used by the users. The Group's local dealers are generally granted credit terms of up to 30 days after the date of the monthly invoice, which could be settled by cheques, telegraphic transfer or bank deposits. Subject to negotiations, credit terms could be extended from two months to four months for certain dealers with well-established trading and payment records with the Group on a case-by-case basis.

In order to provide incentive to the dealers to promote the sales of the Group's products, certain service discounts have been offered to the two dealers who sell pre-paid SIM cards and recharge coupons under the Group's brand names during the Track Record Period. The discount offered by the Group is based on the length of business relationship with the dealers and the quantities of pre-paid SIM cards and recharge coupons purchased by these two dealers.

Retail sales through post-paid plans

In addition, a portion of the Group's airtime is sold through its post-paid service plans directly to its users comprising individual and corporate users, which accounted for approximately 36.1%, 28.5% and 12.4% of the revenue derived from its provision of mobile phone services for the three years ended 31 December 2009 respectively. As at 31 December 2007, 2008 and 2009, the number of the Group's corporate users in this regard was 208, 137 and 116 respectively. The Group would design specific service tariffs for its corporate users, depending on their respective needs and demands. Prior to the Track Record Period, a significant amount of the Group's revenue was generated from its retail sales of mobile phone services. In recent years, the Group's revenue generated from wholesale to dealers has become more significant than the revenue generated from its retail sales. Since the Directors consider that wholesale to dealers is more cost effective than retail sales, the Group has almost ceased its retail sales activities of mobile phone services as at the Latest Practicable Date. Currently, the Group does not operate any retail stores for its mobile phone services and minimal retail sales activities are conducted through its headquarter in Hong Kong. However, the Group still has post-paid plan users who have subscribed their services through the Group's past retail sales activities and such post-paid users are still using the Group's mobile phone services. Accordingly, the Group still recorded revenue generated from its retail sales during the Track Record Period, despite such revenue had kept shrinking.

Wholesale of airtime to MNOs

The Group's resale of airtime to MNOs are conducted through wholesale only. The Group wholesale a significant amount of its airtime to major MNOs in Hong Kong and China, including PCCW Mobile, Hutchison and China Unicom Guangdong through the Group's "One Card Multiple Number" system, and the airtime to be used by end users is sold under the brand names of such operators. These end users are not customers of the Group and such phone numbers and related revenue are not included for calculating the Group's monthly average number of activated phone numbers and the ARPU for the purpose of this document. Revenue derived from the wholesale of airtime to MNOs accounted for approximately 18.5%, 15.4% and 9.7% of the total revenue for the three years ended 31 December 2009 respectively. A summary of the service agreements entered into with the major MNOs during the Track Record Period and as at the Latest Practicable Date is set out below:-

Name of customers	Services provided	Date of agreement	Duration terms
PCCW Mobile *(Note)*	Provision of mobile numbers of China and China airtime to PCCW Mobile	2 April 2007	Until 1 April 2011 and thereafter be renewed annually for another term of one year each
Hutchison Telecommunications	Provision of mobile numbers of China and China airtime to Hutchison Telecommunications	1 June 2007	Until 31 May 2010 and shall thereafter be automatically renewed for successive periods of one year each unless terminated by either party
China Unicom Guangdong	Provision of mobile numbers of Hong Kong and Hong Kong airtime to China Unicom Guangdong	1 September 2003, supplemented by a supplemental agreement dated 15 December 2004	Until 31 December 2011. Pursuant to a non-legally binding business cooperation certificate issued by China Unicom Guangdong dated 27 July 2009, extension of the existing service agreement would be sincerely considered, and if both parties agreed to extend the contractual relationship, a service extension agreement would be executed at a reasonable time before 31 December 2011

Note: The rights, benefits, interests, duties, obligations and liabilities under the agreement with PCCW mobile was transferred and novated to an affiliate of PCCW Mobile with effect from 2 April 2010.

MARKETING

The Group recognises the importance of the marketing and promotion of its "One Card Multiple Number" service in Hong Kong and the development of its brands of "China-HK Telecom/中港通" and "Directel/直通". The Group has been maintaining its low cost strategy for its marketing activities. Unlike many of the local MNOs which hire large number of sales staff and operate many retail stores, the Group's strategy is to leverage on the network and manpower of its dealers which promote and sell the airtime and/or recharge coupons of the Group to users. Such marketing expenses will be borne by the Group's dealers thus minimising the administrative expenses of the Group. The Group in return offers sales discounts to these dealers. The minimal marketing activities which the Group conducts is the provision of an informative website and poster advertisements for exhibition in various stores in Hong Kong such as chained convenience stores and mobile phone shops. The Directors are of the view that these marketing strategies could reduce the Group's overhead cost and thus increase its profitability. As the Group's marketing activities do not involve much manpower and the scale of such activities is of relatively small, the Directors consider that the current size of the Group's marketing department would suffice to carry out its marketing activities.

USERS AND CUSTOMERS

The Group has a wide customer base with regard to its provision of mobile phone services, ranging from corporate clients to individual customers. Generally, the customer base of the Group's mobile phone services can be divided into two categories, namely major customers and users. The Group's major customers in respect of its mobile phone services comprise well-known and major MNOs in Hong Kong and China, including China Unicom Guangdong, Hutchison and PCCW Mobile, of which the Group has established a long-term and stable relationship with most of them for over six years. In addition, the customers of the Group's telesales dealership services are two major MNOs in Hong Kong, including Hutchison Telephone. During the Track Record Period, the Group did not have any material disputes with its major customers.

Furthermore, the total number of the Group's activated phone numbers of mobile phone services increased by approximately 238.4% from approximately 42,406 as at 31 December 2007 to approximately 143,483 as at 31 December 2009.

The following table sets forth the breakdown of the monthly average number of activated phone numbers of mobile phone services of the Group for the three years ended 31 December 2009:

	For the year ended 31 December		
	2007	2008	2009
"One Card Multiple Number" service			
i. Under the Group's brand names			
- pre-paid plans	24,503	46,113	57,140
- post-paid plans	2,975	2,315	1,910
ii. Not under the Group's brand names			
- local dealers	1,634	1,236	16,622
Subtotal	29,112	49,664	75,672
Hong Kong local mobile phone services			
i. Under the Group's brand names			
- pre-paid plans	—	1,194	13,268
ii. Not Under the Group's brand names			
- local dealers	1,729	8,010	20,813
Subtotal	1,729	9,204	34,081
Total of mobile phone services	30,841	58,868	109,753

Notes:

(1) The monthly average number of activated phone numbers equals to the sum of the number of activated phone numbers at the month-ends divided by 12 for the computation of each of the three years ended 31 December 2009.

(2) Once the Group's pre-paid SIM card is activated, such activated pre-paid SIM card would be counted as an activated pre-paid user of the Group upon the time of activation. Activated pre-paid SIM cards are those pre-paid SIM cards which have been sold, not expired and have been used at least once or activated by customers.

(3) The number of pre-paid SIM cards excludes both time and/or value expired cards and cards kept in stock by operators.

The following table sets forth the breakdown of the number of customers of the Group's resale of airtime to MNOs, telesales dealership services and other services as at 31 December 2007, 2008 and 2009:

	As at 31 December		
	2007	**2008**	**2009**
Resale of Airtime to MNOs	3	3	3
Telesales Dealership Services	2	2	2
Other Services	2	1	—

Note: The dealers, including those sell under the Group's brand names and those not under the Group's brand names, are not counted as the Group's customers for the purpose of the presentation in the above table as they simply act as the Group's sales and distribution channels. Furthermore, activated phone numbers sold by local dealers not under the Group's brand names are regarded as activated phone numbers of the Group as: (i) the relevant Hong Kong phone number is owned and assigned by the Group; (ii) the requisite licence fee payable to OFTA for these Hong Kong phone numbers are borne by the Group; and/or (iii) the bundling of the China airtime and Hong Kong airtime is provided by the Group's telecommunications system.

The following table sets forth the recharge frequency of the Group's pre-paid activated phone numbers during the Track Record Period:-

	For the year ended 31 December		
	2007	**2008**	**2009**
	%	%	%
0 time	39.0	44.1	49.7
1-5 time(s)	44.5	45.3	41.4
6-10 times	8.4	5.9	5.1
11-20 times	5.2	3.2	2.6
over 20 times	2.9	1.5	1.2
Total percentage	100.0	100.0	100.0

The Group's top five customers during the Track Record Period included MNOs in Hong Kong and China as well as mobile service dealers in Hong Kong. For the three years ended 31 December 2009, sales to the Group's top five customers accounted for approximately 49.4%, 46.2% and 50.0% of the Group's total revenue respectively; whereas sales to the Group's largest customer accounted for approximately 17.9%, 20.5% and 15.9% of the Group's total revenue during the same period respectively.

None of the Directors, substantial Shareholders or Shareholders (who to the knowledge of the Directors own more than 5% of the issued share capital of the Company) immediately following the completion of [●] or their respective associates had any interest in any of the Group's top five customers during the Track Record Period.

Customer billing

In order to reduce its administrative costs, the Group has outsourced its customer billing process to China Elite Information, a connected person, which is principally engaged in the business of computer messaging system development, system integration, computer software development and technology services.

Internally, the Group has adopted certain internal control procedures in relation to the outsourced billing process, including site visits to office of China Elite Information for inspections and sample checking on the data and reports prepared by China Elite Information based on the call detail record from MNOs on a monthly basis to ensure their accuracy and correctness. Externally, the Group has voluntarily participated in the BMIS since 2003 to enhance the customer confidence in the accuracy and integrity of the metering and billing process. Under the BMIS, the Group is required to conduct self appraisals to verify the accuracy and integrity of their metering and billing systems against the procedures, specifications and standards prescribed by OFTA. The Group also engaged external auditors to conduct audits on the self appraisals and the findings of which are filed to OFTA in the form of periodic assurance reports. During the Track Record Period, the Group had complied with such scheme and there were no material misstatements in its billing process or recognition process.

While the Directors consider that outsourcing is an effective way to reduce the Group's operation costs and enables the Group to concentrate on its "One Card Multiple Number" service and to develop new products and services for its customers, 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. Please refer to "Risk Factors — Risks relating to the Group — The Group's business relies on sophisticated billing and credit control systems of a service provider and any problems with these systems could interrupt the Group's operations" and "— The Group has outsourced a significant portion of its operation to service providers and therefore does not have full control over these services" of this document for the risks arising from such outsourcing of services.

Terms of payment

Generally, provision of mobile phone services to the Group's major customers, including the major MNOs and its dealers, are made in an open account with credit terms up to 30 days after the date of invoice, which will be settled by cheques, telegraphic transfer or bank deposits. Subject to negotiations, credit terms could be extended to two to four months for certain customers with well-established trading and payment records on a case-by-case basis.

On the other hand, generally, provision of mobile phone services to the Group's pre-paid users are made in payment in advance which could be settled by cash, cheques, credit cards or bank deposits, whereas post-paid users are made in an open account with credit terms up to 12 days after the date of invoice, which could be settled by cheques, credit cards or bank deposits.

Generally, payments of provision of telesales dealership services are made in bullet payments within a few months after the date of services rendered, which could be settled by cheques.

SERVICE PROVIDERS

The Group is a MVNO, which is a company providing mobile phone service without having its own licensed frequency allocation of radio spectrum or the entire infrastructure required to provide mobile telephone services. As a result, the Group has to rely heavily on MNOs for the continuous provision of mobile airtime and is exposed to the risk of failure to source airtime from MNOs. Most of the Group's telecommunications service providers are major MNOs in Hong Kong, China and Taiwan. A summary of major service agreements entered into by the Group with its major service providers during the Track Record Period and up to the Latest Practicable Date is set out below:

Name of major service providers	Services provided	Date of agreement	Duration terms
China Unicom Guangdong	Provision of mobile phone numbers of China and China airtime for the Group's "One Card Multiple Number" service	1 September 2003 supplemented by a supplemental agreement dated 15 December 2004	Until 31 December 2011. Pursuant to a non-legally binding business cooperation certificate issued by China Unicom Guangdong dated 27 July 2009, extension of the existing service agreement would be sincerely considered, and if both parties agree to extend the contractual relationship, a service extension agreement would be executed at a reasonable time before 31 December 2011
Hutchison Telephone	Provision of Hong Kong airtime and Macau roaming services to the Group	12 January 2006	Annual renewal unless terminated by either party
PCCW Mobile	Provision of Hong Kong airtime and other value-added services	15 May 2006	Monthly renewal unless terminated by either party

During the Track Record Period, the Directors were not aware of the Group having any difficulty in sourcing telecommunications services for its operation or having any material disputes with its service providers, and the Directors confirm that there was no material change in the number of airtime suppliers or no interruption and/or termination of airtime supply.

For the three years ended 31 December 2009, purchases from the Group's top five suppliers accounted for approximately 87.7%, 92.7% and 85.8% of the Group's total purchases respectively; whereas purchases from the Group's largest supplier accounted for approximately 41.5%, 40.9% and 25.7% of the Group's total purchases during the same period respectively.

Save as disclosed in "Relationship with the Controlling Shareholders, Non-competition Undertakings and Connected Transactions — Connected Transactions" of this document, none of the Directors, substantial Shareholders or Shareholders (who to the knowledge of the Directors own more than 5% of the issued share capital of the Company) immediately following the completion of [●] or their respective associates had any interest in any of the Group's top five suppliers during the Track Record Period.

Terms of payment

Generally, purchases are made in an open account with credit terms ranging from 30 to 60 days, which could be settled by cheques or by telegraphic transfer.

CUSTOMER SERVICE

The Group recognises the importance of customer service as a key factor to retain its users. The Group has contracted with IEL Group for its provision of 24-hour hotline service to its users for any enquiries ranging from pre-service inquiries to general post-service inquiries and maintenance. The Group itself also offers other value-added services including online bill checking services through its website for its users.

Details of the agreement entered into between the Group and IEL Group are set out in "Relationship with the Controlling Shareholders, Non-competition Undertakings and Connected Transactions — Service Agreements" of this document.

TELECOMMUNICATIONS SYSTEM

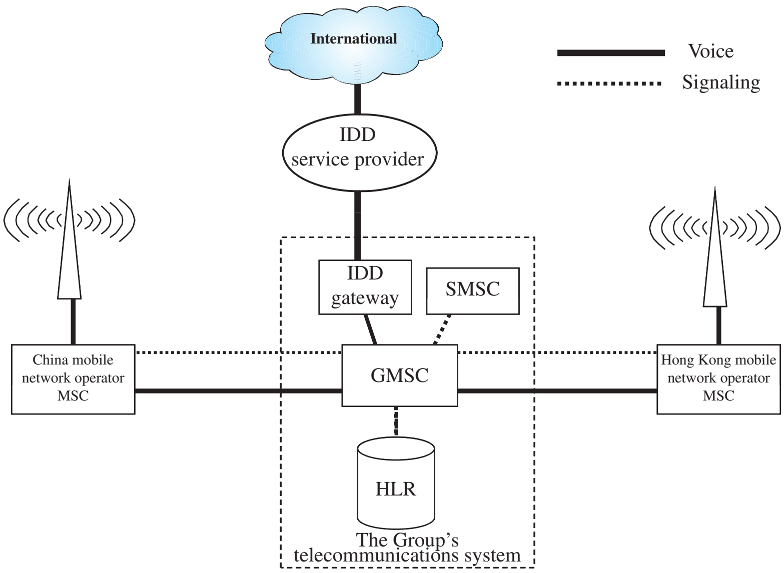
As a MVNO, the telecommunications equipment and operating system used by the Group is paramount to its business. The major component of the Group's telecommunications system is its HLR.

HLR is a central database that contains details of each mobile phone user authorised to use the GSM core network. HLR stores details of every SIM card issued by the Group (data storing function). Each SIM card has a unique identifier called IMSI, which is the primary key to each HLR record. The Group has been assigned the IMSI of "45411" by OFTA, which has 15 digits and enables the Group to offer mobile services up to 10 billion users simultaneously.

Other than IMSI, each phone number, which is also known as MSISDN, is a primary key to the HLR record as well. The primary phone number of a SIM card is used for making and receiving voice calls as well as SMS. Under the Group's telecommunications system, it is possible for a SIM card to have secondary phone numbers. The HLR data is stored as long as a user remains with the mobile phone operator network. The HLR also manages the mobility of users by means of updating their position in location areas.

Operating mechanism of "One Card Multiple Number" service

The following diagram illustrates the connection of the Group's "One Card Multiple Number" system and those of the MNO's:-



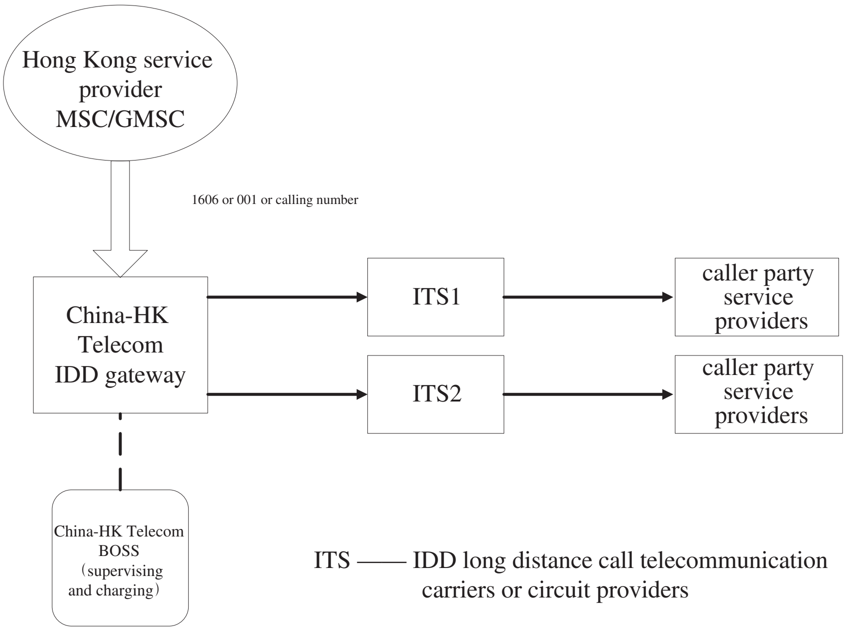
Basically, where a caller in Hong Kong dials the Hong Kong local mobile number of one of the Group's "One Card Multiple Number" service users, signals containing the user's Hong Kong phone number would be sent to the Group's home location register ("HLR") through the Group's telecommunications service provider in Hong Kong. Under the "One Card Multiple Number" service, the SIM card of the user contains a Hong Kong phone number and phone numbers from other designated territories whereas such data and information are stored in the HLR. As the HLR keeps updating the current location of the user, when the signals reach the HLR, it can locate the current position of the user (position tracking function). If the HLR confirms that the user is currently located in one of the other designated territories, such as Guangdong Province, the HLR will sort out the China phone number of the user's SIM card and signals will be sent to the user's mobile phone accordingly (phone number activating and call routing functions). The operating mechanism regarding the user in China or other designated territories dialing a phone number of Hong Kong is basically the same as the above illustration.

The HLR connects to the gateway mobile switching centre ("GMSC"), which performs the functions of call exchange and call transfer, to get connected with the networks operated by other MNOs in Hong Kong and China. Through the GMSC, the Group could also provide other services such as IDD services and SMS services by connecting with the networks of other IDD service providers and MNOs through the Group's IDD gateway and the SMS centre ("SMSC").

The operating mechanism of the Group's "One Card Multiple Number" service is only one of the few mechanisms to provide services of similar kind. The Directors are of the view that the technology or mechanism currently employed by the Group is not of unique nor advanced one as there are other service providers in the market offering similar services whose technology or equipment may be more advanced. The Group has not applied for any patent in Hong Kong in connection with the operating mechanism of its "One Card Multiple Number" service.

Operating mechanism of the Group's IDD services

The Group holds the ETS licence issued by OFTA. Through the linkages among different network operators, calls dialed by the Group's users can be routed to territories outside Hong Kong. The services offered by the Group include IDD, call back and international call forwarding services. Where a user dials a long distance call, the Group's IDD gateway would route such call to its IDD service providers for further connections until it reaches the receiver. The diagram below illustrates the process flow of the IDD services the Group offers:-



Charging mechanism of the Group's mobile phone services

The Group's mobile phone services are offered to users through pre-paid plans and post-paid plans.

Pre-paid plans — each pre-paid SIM card has a fixed amount of stored value. When a pre-paid SIM card is activated and used by a user, its stored value would be deducted according to the user's airtime usage. For "One Card Multiple Number" service, as the service charges of Hong Kong airtime and China airtime are different, the SIM card's stored value would be deducted in accordance with their respective service charges according to the location of the user and the usage. For example, where a user in Guangdong Province (i) dials a call to Hong Kong, the stored value would be deducted based on the service charges in respect of the China airtime usage and long distance call (from China to Hong Kong) usage; (ii) dials a local call within China, the stored value would be deducted based on the service charges in respect of the China airtime only; and (iii) receives a call from a caller located in anywhere, the stored value would be deducted based on the service charges in respect of the China airtime. Such service charge mechanism applies to users in Hong Kong who dial phone calls to China and local calls in Hong Kong as well. For a user in Hong Kong to receive calls from a caller in China who dials his China mobile number, the stored value of the Hong Kong user's pre-paid SIM card would be deducted based on the service charges in respect of the Hong Kong airtime plus a fee charged for receiving a call from territories outside Hong Kong. When all the stored value of a pre-paid SIM card is used up, the user will no longer be able to use the Group's mobile phone services unless such user recharges the SIM card by purchasing and using the Group's recharge coupons. Generally, the expiration date of an activated pre-paid SIM card is three to six months from the date of activation depending on the stored value of the pre-paid SIM card. After a pre-paid SIM card has expired or its stored value has been used up, such phone number would cease to be counted as an activated phone number of the Group, unless it is reactivated by the user using a recharge coupon.

Post-paid plans — a user would be charged in accordance with his monthly service plan and any extra airtime usage beyond the limit of the plan.

Repair and maintenance

The Group's repair and maintenance team conducts different levels of daily, weekly and monthly routine checkings and data backups on the Group's operating system to ensure smooth running of the Group's daily operation. The Group also contracted with certain manufacturers of the operating system's components for their repair and maintenance services. Where there are failures or errors in the operating system, the team will immediately inspect the system and resolves such failures or errors. In the event that the team is unable to restore the system into its normal condition, it will immediately contact the manufacturers of the faulty equipment or facilities for their further assistance.

As at the Latest Practicable Date, the Group's internal repair and maintenance team comprises 3 technicians.

PROPERTY

As at the Latest Practicable Date, the Group did not own any real property. The property which the Group occupies is its principal office in Hong Kong.

Principal office in Hong Kong

The principal office of the Group is approximately 410.26 sq. m., which is located at Office Nos. 1, 2, 14 and 15, 37th Floor, Hong Kong Plaza, No.188 Connaught Road West, Hong Kong. The office is under lease from Talent Information for a term commencing from 1 September 2009 to 31 December 2011 at an aggregate monthly rental of HK$44,000. Details of the tenancy agreement are set out in "Relationship with the Controlling Shareholders, Non-competition Undertakings and Connected Transactions — Connected Transactions — Exempt Continuing Connected Transactions HK Tenancy Agreement" of this document.

INSURANCE

The Group maintains comprehensive property insurance against loss or damages of the Group's properties, including its telecommunications equipment, machinery and facilities. The Group also maintains insurance for its staff against any personal injuries caused by accidents. However, the Group does not have any product liability insurance coverage. The Directors are of the view that the Group's insurance coverage is adequate for its operation. As at the Latest Practicable Date, the Directors were not aware of any material third party liability claim relating to the Group's business.

RESEARCH AND DEVELOPMENT

During the Track Record Period, the Group had no research and development department and did not participate in any research and development project. Accordingly, no expenses in relation to the Group's research and development were incurred. However, it continuously keeps updated on the latest technologies changes and development in the telecommunications industry and seeks opportunities to provide products and services based on technologies developed by other parties for the benefit of its customers and to meet customer needs and expectations.

INTELLECTUAL PROPERTY

The Group has obtained the [exclusive licence of the operation rights of RF-SIM Intellectual Property Rights] in Hong Kong and Macau from Directel Limited on 24 May 2010.

Xiamen Elite, the intellectual property right owner of the RF-SIM technology, is entitled to assign the intellectual property rights of RF-SIM and/or [license the operation rights of the RF-SIM Intellectual Property Rights] to other third parties including other network operators. Pursuant to a deed of assignment entered into between Xiamen Elite and Directel Limited dated 24 May 2010, Xiamen Elite assigned to Directel Limited Xiamen Elite's RF-SIM Intellectual Property Rights in Hong Kong and Macau, including the Hong Kong Patents.

Pursuant to the licence agreement entered into between the Group and Directel Limited dated 24 May 2010 (the "**China-HK Telecom RF-SIM Licence Agreement**"), Directel Limited granted to the Group the [exclusive licence of the operation rights of RF-SIM Intellectual Property Rights] in Hong Kong and Macau for an initial term from the date of the China-HK Telecom RF-SIM Licence Agreement to 31 December 2012. Upon the expiry of the initial term of the China-HK Telecom RF-SIM Licence Agreement, subject to the compliance of the relevant requirements of the GEM Listing Rules or the rules governing the listing of securities on the Stock Exchange (where appropriate), the China-HK Telecom RF-SIM Licence Agreement may be renewed at the sole discretion of the Group for another three years, and upon the expiry of such renewed term, be further renewed for a term until 7 September 2017, being the expiry date of the term of the Hong Kong Patents.

Directel Limited has undertaken to the Group that so long as the China-HK Telecom RF-SIM License Agreement remains effective, it will, among others, authorise any manufacturer located in Hong Kong or Macau which the Group designates for producing the required RF-SIM products at the price no less preferential than the prevailing market price which it will charge other third party manufacturers on the condition that the sales contracts shall specify that such products for the Group could only be sold to end-users in Hong Kong and Macau.

Pursuant to the China-HK Telecom RF-SIM Licence Agreement, Directel Limited and the Group shall not be entitled to terminate the China-HK Telecom RF-SIM Licence Agreement at any time before and upon the expiry of the initial term, first renewal term (if any) and further renewal term (if any) unless Directel Limited and the Group unanimously agree in writing to terminate such agreement. Any provision of the China-HK Telecom RF-SIM Licence Agreement may be amended or altered if, and only if, such amendment or alternation is in writing and signed by Directel Limited and the Group, and the party intends to amend or alter any provision of such agreement shall give not less than one month's prior written notice (or any shorter notice which may be agreed by the non-requesting party) to the other party.

As advised by the Group's Hong Kong legal advisers, Li & Partners, the China-HK Telecom RF-SIM Licence Agreement constitutes the valid, legally binding and enforceable obligations of the parties thereto in accordance with the terms thereof under the laws of Hong Kong.

The ultimate controlling shareholders of the owner of the Hong Kong Patents of RF-SIM prior to and immediately after the execution of the aforesaid deed of assignment entered into between Xiamen Elite and Directel Limited dated 24 May 2010 were/will be Mr. Li Kin Shing and Ms. Kwok King Wa and there will not be any change in the ultimate beneficial ownership of the RF-SIM Intellectual Property Rights in Hong Kong and Macau.

Each of Mr. Li Kin Shing and Ms. Kwok King Wa jointly and severally undertakes to the Company that (i) he or she will not change the ultimate beneficial ownership of the RF-SIM Intellectual Property Rights in Hong Kong and Macau; (ii) he or she will not change the ultimate beneficial ownership of Directel Limited; and (iii) Directel Limited will not become a listed company for the term of the China-HK Telecom RF-SIM Licence Agreement. Further, each of Mr. Li Kin Shing and Ms. Kwok King Wa will undertake not to, and will procure their associates, except for Xiamen Elite or its holding companies or subsidiaries from time to time, not to, among others, manufacture any RF-SIM products without the written consent of Xiamen Elite, provided that the Group may designate third party manufacturers in Hong Kong and Macau with authorisation from Directel Limited to manufacture RF-SIM products for the Group on the condition that the sales contracts shall specify such products could only be sold to end-users in Hong Kong and Macau.

The Group, merely being the licensee of [the operation rights of RF-SIM Intellectual Property Rights] in Hong Kong and Macau, does not have any right to register the patent in respect of RF-SIM in Hong Kong. Xiamen Elite, the patent holder of RF-SIM in the PRC and a non-member of the Group, had registered two short-term patents in respect of RF-SIM in Hong Kong on 7 September 2009, which are valid for 4 years and their validation could be extended to another 4 years subject to an interim renewal. Pursuant to a deed of assignment entered into between Xiamen Elite and Directel Limited dated 24 May 2010, Xiamen Elite assigned to Directel Limited Xiamen Elite's RF-SIM Intellectual Property Rights in Hong Kong and Macau, including the Hong Kong Patents. Although the Group does not have patent protection in respect of the exclusive operation rights of RF-SIM in Macau owing to the reason setting out in "Risk Factors — The Group's exclusive licence of the RF-SIM in Hong Kong and Macau may not be fully protected by the intellectual property rights law in Hong Kong and Macau, and any unauthorised use, infringement or misappropriation of such rights by third parties may materially and adversely affect the Group's business" of this document, the Directors are of the view that this would not have a material adverse effect on the Group's overall business and financial performance as (i) the estimated revenue to be generated from the business of RF-SIM in Macau is approximately 5% of the total revenue of the Group; (ii) the market of Macau is relatively smaller compared to the markets of Hong Kong due to its smaller population; and (iii) the services to be provided via RF-SIM are only value-added services of the Group's "One Card Multiple Number" service and the absence of patent protection of RF-SIM in Macau will not have any material effect on the Group's "One Card Multiple Number" service.

Details of the China HK Telecom RF-SIM Licence Agreement are set out in "Relationship with the Controlling Shareholders, Non-competition Undertakings and Connected Transactions — China-HK Telecom RF-SIM Licence Agreement" of this document.

Further information relating to the trademarks and patents of the Group is set forth in "Appendix V — Further Information about the Business of the Group — Intellectual Property Rights of the Group" to this document.

COMPETITION

The Group encounters intense competition in the Hong Kong mobile telecommunications market, which has one of the world's highest penetration rates for customers of mobile telecommunications services. The Group's consolidated SBO Class 3 licence, allows the Group to provide MVNO and ETS services in Hong Kong. According to the information published by OFTA on its website, there were 9 MVNO licensees as at 5 March 2010 and 266 ETS licensees as at 30 April 2010 and 5 MNOs as of April 2010 in Hong Kong. Although the Directors consider that the threshold of entering the business of providing mobile services in Hong Kong is relatively high, the Group may still encounter competitions from new entrants of the market.

The Group's mobile phone services, including voice services and value-added services, encounter competitions from both local and international network operators. Locally, the Group's services encounter intense competition from the 5 MNOs and the other 8 MVNO licensees in Hong Kong. As the Group's mobile phone services cover areas other than Hong Kong, its services also encounter competitions from network operators in other designated territories, including China and

Taiwan. Some of the Group's competitors are also its mobile telecommunications service providers as well as its major customers (e.g. Hutchison, PCCW Mobile and China Unicom Guangdong). Basically, the Group competes on pricing, quality, stability and variety of services provided as well as the ability to timely adapt the changes in market and needs of customers.

The Group's "One Card Multiple Number" service encounters competitions from roaming services and IDD services. In particular, this service of the Group encounters direct competition from similar services offered by other MNOs (e.g. China Unicom which is offering similar service in Hong Kong while China Unicom Guangdong at the same time is the sole service provider of China airtime to the Group). As at the Latest Practicable Date, according to the information available to the public and to the best knowledge and belief of the Directors, (i) there were approximately 14 service providers, including the Group, which have the capabilities to offer similar services in the market; and (ii) there were at least four service providers, including the Group, China Unicom, China Motion Telecom (HK) Ltd., and China Mobile Hong Kong Company Limited (under the brand name "Peoples") which offer similar services in the market. In addition, other network operators, including the Group's customers, may also offer similar services which may compete with the Group's business. In this regard, the Group primarily competes on pricing, scope of geographical network coverage, service plan varieties, usage convenience as well as other ancillary value-added services.

In particular, the services provided by the Group covers the territories of Hong Kong, China (for pre-paid plans, the service covers the territories of Guangdong Province only) and Taiwan. To the best knowledge and belief of the Directors, (i) the services provided by the aforesaid four service providers only cover the territories of Hong Kong and China; (ii) however, the aforesaid four service providers offer wider varieties of service plans than the Group does; and (iii) in terms of usage convenience, the mobile network of the Group and the aforesaid four service providers could all transfer to the designated territories automatically during border crossing where SIM card changing or call forwarding are unnecessary. Generally speaking, the Group and the aforesaid four service providers offer similar ancillary value-added services to their users.

As the Group intends to upgrade its telecommunications equipment for connection to the 3G mobile networks operated by the Group's service operators in Hong Kong and the PRC, its services may also encounter competitions from the current four 3G network operators in Hong Kong and other 3G network operators in other designated territories, including China and Taiwan.

Despite the intense competition, the Directors are of the view that the Group is able to maintain its competitive strengths and sustain its business in the market. The Directors consider that the Group's "One Card Multiple Number" service has been gradually expanding. Such expansion could be reflected from the Group's total number of activated phone numbers in respect of "One Card Multiple Number" service during the Track Record Period, as the monthly average number of the Group's activated phone numbers for the year ended 31 December 2007, 2008 and 2009 amounted to 30,841, 58,868 and 109,753 respectively. In addition, the Directors are of the view that the Group's "One Card Multiple Number" service could be offered to customers at more competitive prices than traditional roaming, which was one of the reasons for the recent expansion of the Group's business. The Directors believe that the expansion of its "One Card Multiple Number" services to Macau, Taiwan and other Asia Pacific territories would strengthen the Group's competive position in the market. The Directors also consider that the intended introduction of value-added services to the Group's users including the support for 3G mobile network and other ancillary services via RF-SIM could distinguish the Group's mobile phone services from its peers and widen its customer base. The Group's experienced management team could also enable the Group to maintain its competitiveness in the market. Please refer to "Business — Competitive Strengths" and "Directors, Senior Management and Staff" of this document for further details.

LICENCES, PERMITS AND REGULATIONS

The operation of the Group's business is subject to the Telecommunications Ordinance (Chapter 106 of the Laws of Hong Kong). As at the Latest Practicable Date, as confirmed by OFTA, the consolidated SBO licence of the Group has become effective on 29 April 2010 and the original copy of the same would be delivered to the Group by mid-June 2010. As advised by the Group's Hong Kong legal advisers, Li & Partners, as at the Latest Practicable Date, the Group had obtained all the necessary licences, permits and certificates for its operations in Hong Kong.

As advised by the Group's PRC legal advisers, Li & Partners Attorneys at Law, the Group's mobile telecommunications service provider in China is a telecommunications operator approved by the Ministry of Industry and Information Technology of the PRC, and the Group's business operation does not require any licence, permit or certificates from the authorities in China. In addition, the Group has no operation in China, and therefore the Group is not subject to the laws of China.

Save as disclosed in "Service Providers" in this section of this document, the Group has no other operations or business arrangements in Macau. As advised by the Group's Macau legal advisers, (i) it is not necessary for the Group to obtain any approvals, licences, permits or certificates in Macau to perform and carry out its obligations and operations under the agreements of which the Group is a party (the "Macau Agreements") relating to the Group's services provided in connection to Macau and the Group's intended introduction of "One Card Multiple Number" and 3G service plans via cooperation with licensed entity in Macau; and (ii) it is not necessary for the Group to comply with the applicable laws and regulations in Macau in relation to its performance of the Macau Agreements, and such performance is not subject to any tax obligations in Macau. As at the Latest Practicable Date, the Group had no operation in Macau.

It should be noted that although the Group has entered into the Macau Agreements for providing mobile phone services in Macau, as at the Latest Practicable Date, the Group had not yet launched its "One Card Multiple Number" service in Macau. Such services are tentatively to be launched in Macau in the first half of 2011. Please refer to "Business Objectives and Strategies — Implementation Plan" of this document for further details.

Save as disclosed in this section of this document, the Group has no other operations or business arrangements in Taiwan. As advised by the Group's Taiwan legal advisers, (i) the Group will not be subject to the telecommunications laws and its regulations and any other relevant laws and regulations of Taiwan since the transactions contemplated under the agreement and related documents entered into between the Group and its mobile telecommunications service provider in Taiwan will not cause the Group to be considered as conducting or operating telecommunications services and business within the territory of Taiwan and the obligations under such agreement and related documents will not subject it to the relevant laws and regulations of Taiwan; and (ii) it is not necessary for the Group to obtain any approvals, licences, permits and/or certificates set forth in the relevant laws and regulations in order to carry out its obligations under such agreement and the related documents and the Group's intended introduction of 3G data mobile phone services in Taiwan.

Further information relating to the licences, permits and regulations of the Group is set forth in "Regulations" of this document.

LEGAL COMPLIANCE AND PROCEEDINGS

Save as disclosed below, during the Track Record Period and as at the Latest Practicable Date, none of the members of the Group or the Directors was a party to any legal, arbitration or administrative proceedings, and no proceedings are known by any member of the Group or the Directors to be contemplated by government authorities or third parties, which, if adversely determined, would materially and adversely affect the Group.

Save as disclosed in this paragraph of this document, as advised by the Hong Kong legal adviser to the Group, Li & Partners, all prerequisite Hong Kong governmental authorisations, approvals, consents, filings and registrations under Hong Kong laws and regulations required for the registration and the carrying on of business, of which the details are set forth in "Business" of this document, by the Group and each of its members, have been issued, obtained and made and all such authorisations, approvals, consents, filings and registrations are currently in full force and effect, and the Group has not committed any offences, violations or breaches of laws or regulations in Hong Kong during the Track Record Period based on their due diligence work and the information provided by the Group.

The Directors also confirm that, save as disclosed in this paragraph of this document, the Group and each of its members has complied with all applicable rules and regulations in Hong Kong during the Track Record Period.

Background

Elitel was incorporated in the Cayman Islands with limited liability on 30 August 2001. As an overseas company, Elitel first entered into a business agreement in 2002. However, at that time, without seeking any tax and legal advice, the then directors of Elitel were of the view that Elitel did not carry on any business in Hong Kong and need not to apply for any business registration certificate, nor register as a non-Hong Kong company under Part XI of the Companies Ordinance and had not notified the IRD of its chargeability to Hong Kong profits tax. Only by the time the Group started to prepare for the [●] in July 2009, tax and legal advice were sought, which revealed that Elitel should have been subject to Hong Kong profits tax and should have been registered under Part XI of the Companies Ordinance and the BRO. As soon as the advice were obtained, the Directors have sought to rectify the situation and the details are set out below.

Failure to inform the IRD of its chargeability to Hong Kong profits tax for the years from 2002 to 2008

Pursuant to section 51(2) of the IRO, any person chargeable to tax for any year of assessment shall inform the Commissioner of the IRD in writing that he is so chargeable not later than 4 months after the end of the basis period for that year of assessment unless he has already been required to furnish a tax return within a reasonable time stated in a written notice given by an assessor of the IRD. According to section 80(2) of the IRO, any person who without reasonable excuse fails to comply with section 51(2) of the IRO shall be guilty of an offence subject to a fine of HK$10,000 and treble the amount of the tax undercharged.

Elitel had not notified the IRD of its chargeability to Hong Kong profits tax for the years from 2002 to 2008 within the prescribed time limit under section 51(2) of the IRO since the then directors of Elitel were initially of the view that its profits were offshore sourced. However, pursuant to the Group's consultation with the Tax Adviser, the Directors realised that Elitel should have been subject to Hong Kong profits tax and hence, might be subject to the penalty under section 80(2) of the IRO for such failure.

Pursuant to section 82 of the IRO, any person who wilfully with intent to evade or to assist any other person to evade tax omits from making a tax return under the IRO shall be guilty of an offence subject to a fine of HK$10,000 and a further fine of treble the amount of tax which as been undercharged and to imprisonment for 6 months, and on indictment subject to a fine of HK$50,000 and a further fine of treble the amount of tax so undercharged or which would have been so undercharged and to imprisonment for 3 years. These involve any of the following specified acts with the intention to evade tax (or assisting someone else to do so):

(a) omits from a return made under the IRO any sum which should be included; or

(b) makes any false statement or entry in any return made under the IRO; or

(c) makes any false statement in connection with a claim for any deduction or allowance under the IRO; or

(d) signs any statement or return furnished under the IRO without reasonable grounds for believing the same to be true; or

(e) gives any false answer whether verbally or in writing to any question or request for information asked or made in accordance with the provisions of the IRO; or

(f) prepares or maintains or authorises the preparation or maintenance of any false books of account or other records or falsifies or authorises the falsification of any books of account or records; or

(g) makes use of any fraud, art, or contrivance, whatsoever or authorises the use of any such fraud, art, or contrivance.

As advised by the Tax Adviser, given that Elitel's failure to notify the IRD of its chargeability to Hong Kong profits tax within the prescribed time limit does not fall into any of the acts specified in the above items (a) to (g), such failure should not constitute an offence under section 82 of the IRO.

In addition, pursuant to section 82A of the IRO, any person who without reasonable excuse fails to comply with section 51(2) of the IRO, shall, if no prosecution under section 80(2) or 82(1) has been instituted in respect of the same facts, be liable to be assessed under this section to additional tax of an amount not exceeding treble the amount of tax so undercharged.

As advised by the Tax Adviser, given that the IRD has tightened its stance on tax compliance, it is likely that the IRD would seek to impose a penalty on Elitel for the failure to notify the IRD of its chargeability of tax. While Elitel could be penalised under section 80(2) of the IRO, the IRD usually seeks to impose an administrative penalty under section 82A of the IRO under similar situation which does not involve any wilful intent to evade tax. Based on the experience of the Tax Adviser, the chance of the IRD applying Section 80(2) or Section 82 of the IRO is considered remote under similar situation. According to the penalty policy published by the IRD at its official website http://www.ird.gov.hk/eng/pol/ppo.htm#E, it is specifically indicated that the level of penalty for the first offence under section 82A of the IRO is 10% of the tax undercharged. Based on the Tax Adviser's calculation, Elitel's total Hong Kong profits tax liabilities should amount to approximately HK$5.0 million, which are made up as follows:

HK$	**Financial year ended 31 December**							
	2002	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**Total**
Assessable profits/ (Adjusted loss)	(704,108)	(6,291,005)	9,048,569	9,607,544	6,010,400	6,505,384	4,685,964	
Loss brought forward	0	(704,108)	(6,995,113)	0	0	0	0	
Net assessable profits/(loss carried forward)	(704,108)	(6,995,113)	2,053,456	9,607,544	6,010,400	6,505,384	4,685,964	
Tax rate	16.0%	17.5%	17.5%	17.5%	17.5%	17.5%	16.5%	
Tax payable	0	0	359,354	1,681,320	1,051,820	1,138,442	773,184	
Tax reduction	0	0	0	0	0	(25,000)	0	
Net tax payable	0	0	359,354	1,681,320	1,051,820	1,113,442	773,184	**4,979,120**

Accordingly, Elitel's Hong Kong profits tax liabilities for all the years up to 31 December 2008 should amount to approximately HK$5.0 million. The above calculation is in line with the tax assessment issued by the IRD in January 2010. Based on its experience, the Tax Adviser considers it is likely that the IRD would impose a penalty on Elitel for the above-mentioned failure (if it were to do so) at 10% or less of the tax underchanged for the relevant years. The estimated potential tax penalty under section 82A of the IRO, being 10% of the tax undercharged, amounts to approximately HK$0.5 million.

The Group has made provision for Hong Kong profits tax liabilities for all the years up to 31 December 2008 of approximately HK$5.0 million and for the estimated potential tax penalty of approximately HK$0.5 million in relation to Elitel's tax position for the years from 2002 to 2008 in its audited consolidated financial statements. Each of Mr. Li Kin Shing, Ms. Kwok King Wa and New

Everich has agreed to provide indemnities to cover any claims, penalties and liabilities which may be brought against the Group by the IRD in respect of Elitel's failure to notify the IRD of its chargeability to tax within the prescribed time limit for the years from 2002 up to the [●], including but not limited to the aggregate potential tax penalty at approximately HK$0.5 million.

Pursuant to Section 82A(7) of the IRO, a person who has been penalised under Section 82A of the IRO will not be liable to be charged on the same facts with an offence under Section 80(2) or Section 82(1) of the IRO. Therefore, should the IRD seek to impose a penalty under 82A of the IRO on Elitel for its failure to notify the chargeability to Profits Tax, no further action could be taken by the IRD against Elitel under Section 80(2) or Section 82(1) of the IRO.

Elitel filed its profits tax returns for the years from 2003 to 2008 to the IRD in November 2009. As advised by the Tax Adviser, since the IRD has been time-barred from raising assessment for 2002/03, no profits tax return could be issued and no penal action could be taken by the IRD for such year. The tax assessment of Elitel for the years from 2004 to 2008 was issued by the IRD on 19 January 2010 but with no mention of any claims made or to be made against Elitel for its late notification for the years from 2002 to 2008. The Directors are unsure whether any such claims will be raised by the IRD later. The Group will retain KPMG Tax Limited or such other competent tax adviser as its Hong Kong tax adviser for an initial period of one full financial year after [●] to ensure the Group's future tax compliance.

Please refer to "Risk Factors — IRD may penalise Elitel for its failure to notify the IRD of its chargeability to Hong Kong profits tax within the prescribed time limit for the years from 2002 to 2008 which may adversely affect the financial condition and results of the Group's operations" of this document for further details.

Failure to register under Part XI of the Companies Ordinance

Pursuant to section 333(1) of Part XI of the Companies Ordinance, a non-Hong Kong company that establishes a place of business in Hong Kong on or after the commencement of section 28 of Schedule 2 to the Companies (Amendment) Ordinance 2004 (30 of 2004) shall, within 1 month of the establishment of that place of business, apply to the Registrar of the Companies Registry for registration by delivering to the Registrar of the Companies Registry a specified form containing such particulars as are specified in the form. Pursuant to section 340 of the Companies Ordinance, if any non-Hong Kong company fails to comply with any of the provisions of Part XI of the Companies Ordinance, the company, and every officer or agent of the company who authorises or permits the default, shall be liable to a fine and, for continued default, to a daily default fine. Under schedule 12 of the Companies Ordinance, the aforesaid fine is the level 5 punishment, which is a fixed amount of HK$50,000 under the Criminal Procedure Ordinance (Cap 221) (the "CPO"), plus HK$700 per each late filing day via summary prosecution. The amount of fine is determined by the Magistrate presiding at the prosecution hearing, having regard to the maximum penalty laid down in schedule 12 of the Companies Ordinance.

Elitel registered as a non-Hong Kong company under Part XI of the Companies Ordinance on 11 August 2009. However, Elitel entered into an agreement in relation to its telecommunications business in Hong Kong on 8 November 2002, which constituted an establishment of a place of business in Hong Kong under the Companies Ordinance. Accordingly, the proper filing date in respect of Elitel's Part

XI registration to the Companies Registry should have been within one month from 8 November 2002. The failure of registration was due to the then directors of Elitel were of the view that, prior to the aforesaid registration date with the Companies Registry, (i) Elitel had not established any place of business in Hong Kong; (ii) Elitel had not kept any share register in Hong Kong; (iii) Elitel had never established any formal physical place of business or office in Hong Kong; and (iv) notwithstanding Elitel had two directors who were Hong Kong residents and were responsible for effecting Elitel's agreements with third parties, Elitel had not entered into any employment contracts and the day-to-day administrative support and customers services of Elitel had been provided by its associated company in Hong Kong.

According to schedule 12 of the Companies Ordinance, the estimated maximum penalty in respect of Elitel's late filing would be approximately HK$1.8 million. The estimated maximum penalty of approximately HK$1.8 million was calculated in accordance with the Companies Ordinance and the CPO whereas such estimation is the summation of: the daily default fine (HK$700) times the approximate number of late filing days between the supposed proper filing date, 8 November 2002, and the date of notification to the Companies Registry (365 days times 7 years) plus the level 5 punishment (HK$50,000). As advised by the Hong Kong legal adviser to the Group, Li & Partners, it is unlikely that Elitel will be penalised at the maximum level as calculated above since (i) the Group initiated to rectify Elitel's late filing with the Companies Registry and voluntarily proposed to cooperate with the Companies Registry to completely settle such matter; and (ii) according to the Companies Registry prosecution policy, private companies usually attract a less severe penalty than public and listed companies. These are both mitigating factors to be considered by the court if Elitel is eventually being prosecuted. In addition, the conviction record of listed companies, not private companies such as Elitel when its late filing was committed, prosecuted under the Companies Ordinance from January 2008 to December 2009 published by the Companies Registry in its official website www.cr.gov.hk indicates that the maximum penalty for breaches of various sections under the Companies Ordinance by listed companies, not private companies such as Elitel when its late filing was committed, did not exceed HK$0.5 million, though none of the published conviction related to the late filing of part XI registration. As such, the Group has not made any provision in relation to such breach as the amount of obligation cannot be measured with sufficient reliability. The Group will make provision in relation to such breach once reliable estimation on the penalty can be measured. As at the Latest Practicable Date, the Companies Registry was still considering whether to take any action against Elitel in relation to its possible breaches of the Companies Ordinance in respect of its failure to register under Part XI of the Companies Ordinance. As such, the Directors consider it constitutes a contingent liability. Please refer to "Financial Information — Contingent Liabilities" and Note 23 of the Accountants' Report set out in Appendix I to this document for details. Each of Mr. Li Kin Shing, Ms. Kwok King Wa and New Everich has agreed to provide indemnities to cover any claims which may be brought against the Group by the Companies Registry in respect of Elitel's failure to register as a non-Hong Kong company within the prescribed time limit under Part XI of the Companies Ordinance.

Elitel notified the Companies Registry regarding the present matter and initiated to rectify the aforesaid late filing in October 2009. As at the Latest Practicable Date, the Companies Registry is still in the process of reviewing Elitel's case. The Group will retain Li & Partners or such other competent legal firm as its Hong Kong legal adviser for at least one full financial year after the [●] to ensure the Group's future legal compliance. Please refer to "Risk Factors — Elitel may be subject to penalties imposed by the Companies Registry with regard to the Elitel's registration under Part XI of the Companies Ordinance" of this document for further details.

Failure to obtain business registration certificate

Pursuant to section 5 of the BRO, every person carrying on any business not registered under the provisions of the Business Regulation Ordinance 1952, or commencing to carry on any business, or carrying on any business to which the BRO is made to apply shall make application to the Commissioner of the IRD in the manner prescribed for the registration of that business within one month from the commencement of that business. Pursuant to section 15(1) of the BRO, any person fails to make any application required under the aforesaid section 5 would amount to an offence under the BRO, and the maximum penalty would be the level 2 fine, which is HK$5,000 under the CPO, and to imprisonment for one year.

Elitel obtained a business registration certificate under the BRO on 11 August 2009. However, Elitel entered into an agreement in relation to its telecommunications business in Hong Kong on 8 November 2002, which rendered Elitel commenced to carry on its telecommunications business in Hong Kong under the BRO. Accordingly, Elitel was in breach of section 5 of the BRO and should have registered with the Business Registration Office of Hong Kong (the "BR Office") within one month from 8 November 2002.

Elitel notified the BR Office in October 2009 with regard to its late registration under the BRO and initiated to rectify the said matter. As confirmed by the BR Office, Elitel would only be required to settle all the outstanding business registration fees and levy for the period from 8 November 2002 to 11 August 2009 totaling HK$14,050 and no further and/or subsequent actions of any kind would be taken by the BR Office under the BRO. Elitel fully settled the said amount in October 2009.

Internal Controls and Actions to Ensure Future Compliance

In order to enhance the Group's existing internal control system and the strength and effectiveness of its corporate governance, the Group has adopted and will adopt the following measures to incorporate corporate governance practices to ensure compliance with various applicable rules and regulations:

(a) The Group has engaged SHINEWING Risk Services Limited ("SHINEWING"), an independent internal control consultancy firm, to conduct an assessment over the effectiveness of the Group's existing internal control system. Based on SHINEWING's review and recommendations, the Group adopted measures and policies to improve its internal control systems. SHINEWING further concluded that no material deficiencies have been identified during their assessment with respect to the internal control systems of the Group based on the work performed. The Directors consider that the Group's current internal control systems together with the internal control measures to be implemented is effective to detect and prevent breaches of the Group.

(b) The Group has established a compliance committee, which comprises one executive Director, one independent non-executive Director with appropriate qualifications of accounting or related financial management expertise as required in Rule 5.05(2) of the GEM Listing Rules, the company secretary and the finance manager and will be chaired by an independent non-executive Director. The compliance committee has adopted terms of reference setting out in details its duties and obligations for ensuring compliance of regulatory matters and corporate governance requirements. The primary duties of the compliance committee are set out as follows:

(i) to hold meetings in each quarter to review, investigate and plan for the Group's legal and compliance matters;

(ii) to formulate management mechanisms for legal and compliance guidance and training, to provide legal and compliance training, to update information in respect of the Group's overall and departmental legal and compliance environments, to improve the Directors' and employees' knowledge and awareness of laws and regulations and to promote the Directors' and employees' law-abiding spirit;

(iii) to observe and monitor important legal and compliance documents, approvals, certificates and contracts, especially in relation to rights or obligations for operations and compliance with statutory and regulatory requirements, and to ensure the validity, accuracy and safety of the important legal and compliance documents, approvals, certificates and contracts;

(iv) to identify, correct and eliminate on a timely manner any inadequacies in compliance with laws and regulations regarding the Group's operations;

(v) to review and monitor the compliance and control environment of the Group;

(vi) to devise mechanism and procedures and make recommendations to the Board to improve the control environment and effectiveness of internal controls of the Group;

(vii) to review and assess the qualification and competence of any professional parties to be engaged or re-engaged by the Group and to recommend to the Board the approval of such engagement or re-engagement;

(viii) to review the competence and performance of any professional parties engaged by the Group at least annually, and to recommend to the Board the continuous engagement or re-engagement of the same; and

(ix) to monitor the timing of preparation of the accounts and tax reporting by members of the Group.

(c) The Group has established an audit committee composed of independent non-executive Directors. The audit committee, among other things, reviews the Group's internal control and compliance procedures relating to accounting and financial issues and requirements under the GEM Listing Rules. In addition, after the [●], the audit committee, upon due and careful inquiries, will disclose its opinion on the Group's internal controls and legal compliances in the annual report of the Company.

(d) The Group will engage Li & Partners or such other competent legal firm as its Hong Kong legal advisers and KPMG Tax Limited or such other competent tax adviser as its tax adviser for at least one full financial year after the [●] and seek their advice on legal and tax matters of the Group.

(e) [●]

(f) The Group will adopt and follow the Code on Corporate Governance Practices in Appendix 15 of the GEM Listing Rules.

(g) Prior to the [●], the Directors had received and reviewed a detailed memorandum prepared by its Hong Kong legal advisers setting out the requisite on-going regulatory requirements and obligations of the Directors after the [●].

(h) Prior to the [●], the Directors had attended the training sessions conducted by the Group's Hong Kong legal advisers on the on-going obligations and duties of a director of a company whose shares are listed on the Stock Exchange. The Directors have confirmed in writing in relation to their understanding of the duties prescribed by the GEM Listing Rules and other applicable laws and regulations.

INDEPENDENCE FROM THE CONTROLLING SHAREHOLDERS

Financial independence

The Directors are of the view that the Group does not unduly rely on advances from its ultimate shareholder and related parties for its business operations. In addition, the amount due to related parties was fully settled in October 2009. As such, the Directors consider that the Group can operate independently from the Controlling Shareholders from the financial perspective.

Operational Independence

Independent access to service providers

- The Group's major service providers are telecommunications operators which are all accessible independently from the Controlling Shareholders.

Independence of production/operation capabilities/clientele

- During the Track Record Period, the Group had established its own customer bases and itself negotiated and concluded agreements with its customers, which are all Independent Third Parties.

- In respect of the property numbered 1 in the property valuation report annexed as Appendix III to this document, the premises is mainly used as the Group's headquarter in Hong Kong for administrative purpose only and can be easily relocated. The Directors are of the view that the Group's business does not rely on the relevant premises.

- Save as the data processing and billing management system which was provided by a connected person of the Group as mentioned in "Connected Transactions" in this section of this document, all of the Group's operating equipment and facilities, including computers, servers and operating systems, are owned by the Group. The Group used to outsource such services to an Independent Third Party until early 2007 when China Elite Information was able to provide the same services at a lower price and the Group changed to outsource such service to China Elite Information. The Directors considered that the service provider of such data processing and billing management system can be easily replaced, therefore, the Group's business does not unduly rely on the abovementioned connected person.

- Save as the service agreements in respect of BIS and customer hotline services and telesales services which were provided by PacificNet Communication, a connected person of the Group as mentioned in "Connected Transactions" in this section of this document, the Group has not entered into any other service agreements in relation to BIS and customer hotline services and telesales services with its connected person. The Directors are of the view that the service provider of such services can be easily replaced, therefore, the Group's business does not rely on the abovementioned connected person.

- Save as disclosed in "Competing Interests" in this section of the document, none of the Controlling Shareholders and their respective associates have any business or interest which competes or may compete with the business of the Group. Therefore, there is no conflict of interests for the Group to access customers of other companies owned by the Controlling Shareholders.

- Save as the transactions as mentioned in "Connected Transactions" in this section of the document, the Group does not enter into any other transactions with its connected persons. The Directors are of the view that either the counterparty in such transactions can be easily replaced or the transactions contemplated under such agreements are not essential to the core business of the Group, and therefore the Group's business does not rely on these connected persons. Furthermore, as RF-SIM is just one of the value-added services provided/intended to be provided by the Group, amongst call forward, caller display, SMS, mobile, ringtones, secretarial services, 3G mobile data services, the Directors consider that the Group's business, taken as a whole, does not rely on the sub-licence of RF-SIM granted by Directel Limited.

Management Independence

The Board

To ensure that the Group can operate independently from the Controlling Shareholders, certain corporate governance measures have been adopted. The Board comprises seven Directors, which include two executive Directors, namely Mr. Pang Kwok Chau and Mr. Li Wang, two non-executive Directors, namely Mr. Li Kin Shing and Mr. Wong Kin Wa, and three independent non-executive Directors, namely Mr. Chen Xuedao, Mr. Chu, Howard Ho Hwa and Ms. Lee Man Yee, Maggie. All of the executive Directors and independent non-executive Directors are experienced and capable of monitoring the operation of the Group independently from the Controlling Shareholders. Mr. Li Kin Shing and Mr. Wong Kin Wa, the two non-executive Directors, are not involved in the daily management and operation of the Group. Therefore, the Directors are of the view that the interests of the Shareholders can be safeguarded. For details of the Directors, please refer to "Directors, Senior Management and Staff" of this document. In the event there are conflicts of interests for approving a proposed transaction due to the dual positions of a Director as both directors of the Company and another company, pursuant to the relevant provisions of the Articles, the relevant Director shall be absent from the Board meeting and abstain from voting (nor be counted in the quorum) in the resolution(s) of the Board approving such transaction.

According to the service agreements entered into between the Company and the executive Directors, each of the executive Directors has undertaken to the Group, among other things, that he will not, without any prior written approval from the Board, (i) accept any position of a company whose business may directly or indirectly compete with the Group's business or be engaged in any business which may directly or indirectly compete with the Group's business; or (ii) solicit any employee of the Group or induce them to leave the Group or solicit any customers of the Group, during the term and within the six months after termination of his service agreement.

Committees

The Group has established the (1) audit committee; (2) remuneration committee; and (3) nomination committee. Each committee consists of a majority of independent non-executive Directors to monitor the operation of the Group.

The audit committee is responsible for reviewing and supervising the financial reporting process and internal control system of the Group whereas the remuneration committee's role is to ensure that the Directors are properly remunerated without being influenced by the Controlling Shareholders. The nomination committee ensures that only persons with capability and relevant experience are appointed as Directors to avoid the appointment of individuals who may affect the independence of the Board.

Senior Management

The Group is also managed by its senior management who can work and carry on the business of the Group independently from the Controlling Shareholders. For details of the Group's senior management, please refer to the "Directors, Senior Management and Staff" of this document.

NON-COMPETITION UNDERTAKING

Non-competition undertaking with the Controlling Shareholders and Directel Limited

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 Convenantors.

COMPETING INTERESTS

Save as disclosed below, none of the business or interest of the Directors, Management Shareholders, Controlling Shareholders and substantial Shareholders and their respective associates competes or may compete with the business of the Group under Rule 11.04 of GEM Listing Rules nor has any other conflicts of interest which any such person has or may have with the Group.

Directel Limited

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, a Management Shareholder and a substantial Shareholder, and Ms. Kwok King Wa, a Controlling Shareholder, a Management Shareholder and a substantial Shareholder 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 and thus a connected person.

Upon the assignment of the RF-SIM Intellectual Property Rights in Hong Kong and Macau, Directel Limited is the legal and beneficial owner of the RF-SIM Intellectual Property Rights in Hong Kong and Macau. Further, Directel Limited is the licensee of the operation rights of RF-SIM in overseas markets and it has the right to grant licences of the operation rights of RF-SIM 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 RF-SIM operation rights in other regions in the future.

The Directors confirm that as China-HK Telecom has obtained the [exclusive licence of the operation rights of RF-SIM Intellectual Property Rights] in Hong Kong and Macau and since the services provided by the Group are mainly in Hong Kong and Macau, there will be no direct competition between the services provided by Directel Limited, which are in territories other than the PRC, Hong Kong and Macau. Nevertheless, the Management Shareholders (including Mr. Li Kin Shing and 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. For further details of the deed of non-competition undertaking, please refer to "Non-competition undertaking" in this section.

INFORMATION ABOUT THE APPLICABLE RELATED PARTIES

The table below set forth the principal business and the members of the board of directors of the other applicable related parties which are subject to common control by the Controlling Shareholders as at the Latest Practicable Date:-

Related parties	**Principal business**	**Name of director(s)**
China Elite Energy Limited	Investment holding.	Mr. Li Kin Shing and Ms. Kwok King Wa
China Elite Information Technology Ltd.	Computer messaging system development, system integration, computer software development and technology services.	Mr. Li Kin Shing, Ms. Kwok King Wa and Ms. Li Yin
Directel Communications Services Limited	Investment holding.	Mr. Li Kin Shing and Ms. Kwok King Wa
Directel Limited	Investment holding.	Mr. Li Kin Shing and Ms. Kwok King Wa
Fastary Limited	Investment holding.	Mr. Li Kin Shing and Ms. Kwok King Wa
International Elite Limited - Macao Commercial Offshore	Provision of customer support to customers relationship management outsourcing services.	Mr. Li Kin Shing and Mr. Wong Kin Wa
IEL	Provision of customer relationship management outsourcing services in the PRC, Hong Kong and Macau.	Mr. Li Kin Shing, Ms. Kwok King Wa, Ms. Li Yin, Mr. Wong Kin Wa, Mr. Li Wen, Mr. Tang Yue, Mr. Chen Xuedao and Mr. Cheung Sai Ming
PacificNet Communications	Provision of customer support to customer relationship management outsourcing services.	Mr. Li Kin Shing and Mr. Wong Kin Wa
Sunward Telecom Limited (incorporated in the BVI)	Investment holding.	Mr. Li Kin Shing and Ms. Kwok King Wa
Sunward Telecom Limited (incorporated in the Cayman Islands)	Investment holding.	Mr. Li Kin Shing and Ms. Kwok King Wa

Related parties	Principal business	Name of director(s)
Talent Group (International) Limited	Investment holding.	Ms. Kwok King Wa and Talent International Holdings Ltd.
Talent Information	Investment in property.	Ms. Kwok King Wa and Pearl River Profits Limited
Target Link Enterprises Limited	Investment in software.	Mr. Li Kin Shing and Ms. Kwok King Wa
Winet Engineering Limited	Provision of customer relationship management services.	Mr. Li Kin Shing and Ms. Kwok King Wa
Xiamen Elite Electric Co., Ltd.	Network communications product and software design (including the research and development of RF-SIM).	Mr. Li Kin Shing

The Directors confirm that none of the business or interest of the Directors, Management Shareholders, Controlling Shareholders and substantial Shareholders and their respective associates set forth above competes or may compete with the business of the Group nor has any other conflicts of interest which any such person has or may have with the Group.

INFORMATION ABOUT THE IEL GROUP

The IEL Group is principally engaged in the provision of customer relationship management outsourcing services in the PRC, Hong Kong and Macau with its major customers being telecommunications service providers and other service-oriented companies. The infrastructure of the IEL Group consists of customer relationship management service centres that are designed to efficiently host a substantial number of telephone service operators.

The Group is principally engaged in the provision of "One Card Multiple Number" service in Hong Kong. The service involves the integration of two or more mobile phone numbers in different designated territories into one SIM card. The target customers of the Group include both (1) MNOs that provide repackaged "One Card Multiple Number" services under their own brands; (2) dealers; and (3) retail users. The telecommunications system of the Group involves telecommunications platforms and gateways that enable the provision of "One Card Multiple Number" service.

The Directors confirm that the Group, upon the request of its users, has to provide customer hotline and BIS services supplementary to its core business. The Directors further confirm that costs for the provision of customer hotline and BIS services from the IEL Group accounted for approximately 7.4%, 8.6% and 5.6% of the Group's total costs for the three years ended 31 December 2009 respectively. Since the Group outsources almost all these customer hotline and BIS services to the IEL Group and such services are supplemental to the Group's operation, the Directors consider that such services are not the Group's principal business activities nor a competing business.

Accordingly, the Directors believe that as the principal business activities and services/provided by the Group and that of the IEL Group are different, there is no competition between the Group and the IEL Group and it is unlikely that there will be competition in the future.

CONNECTED TRANSACTIONS

Pursuant to Chapter 20 of the GEM Listing Rules, each of the following continuing connected transactions as described below will constitute (1) continuing connected transactions of the Company exempt from the reporting, announcement and independent Shareholders' approval requirements; or (2) continuing connected transactions of the Company exempt from the independent Shareholders' approval requirement under the GEM Listing Rules upon the [●]:

Exempt Continuing Connected Transactions

Continuing connected transactions exempt from the reporting, announcement and independent Shareholders' approval requirements

A. Service agreement between China-HK Telecom and China Elite Information 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 in respect of the Company's office in Hong Kong.

Non-exempt Continuing Connected Transactions

Continuing connected transactions exempt from the independent Shareholders' approval requirements

D. Service agreements

   1. Service agreement between Elitel and PacificNet Communications in respect of BIS services; and

   2. Service agreement between China-HK Telecom and PacificNet Communications in respect of BIS and customer hotline services.

E. Service agreement between China-HK Telecom and PacificNet Communications in respect of telesales services.

Exempt Continuing Connected Transactions

Continuing connected transactions exempt from the reporting, announcement and independent Shareholders' approval requirements

A. ***China-HK Telecom Information Service Agreement***

On 28 December 2006, China-HK Telecom and China Elite Information entered into an information services agreement (the "**China-HK Telecom Information Service Agreement**") pursuant to which China Elite Information agreed to provide data processing and billing management services to China-HK Telecom in connection with the information of the products and the fee calculations of the clients of China-HK Telecom. The Directors are of the view that the outsourcing of such work enhances the overall operation efficiency of its daily operations which is consistent with the low-cost strategy of the Group. The term of the China-HK Telecom Information Service Agreement is for the period from 1 January 2007 to 31 December 2011.

China Elite Information is principally engaged in the business of development of computer information system, computer technology and software, and is a wholly-owned subsidiary of a company held as to 50% by Mr. Li Kin Shing, a non-executive Director, the chairman of the Company, a Controlling Shareholder, a Management Shareholder and a substantial Shareholder, and 50% by Ms. Kwok King Wa, a Controlling Shareholder, a Management Shareholder, a substantial Shareholder and the spouse of Mr. Li Kin Shing respectively. While the Group is the only customer of China Elite Information for the provision of data processing and billing management services, revenue attributed to the provision of data processing and billing management services to the Group accounted for approximately 17.6%, 10.4% and 12.4% of the revenue of China Elite Information for 2007, 2008 and 2009 respectively. China Elite Information is not included as a member of the Group because its principal business is outside the scope of provision of mobile telecommunications services. According to the GEM Listing Rules, China Elite Information is an associate of Mr. Li Kin Shing and Ms. Kwok King Wa and thus a connected person.

As China Elite Information is a connected person, the China-HK Telecom Information Service Agreement will constitute a continuing connected transaction of the Company under Rule 20.14 of the GEM Listing Rules.

The fees payable for the services provided by China Elite Information are determined on the current market rate of similar services and are agreed between China-HK Telecom and China Elite Information. The terms offered to China-HK Telecom by China Elite Information under the China-HK Telecom Information Service Agreement are no less favourable than those offered by other Independent Third Parties in the ordinary course of business.

Historical transaction value

For the three years ended 31 December 2009, the fees paid by the Group for the provision of data processing and billing management services by China Elite Information to China-HK Telecom amounted to HK$360,000, HK$360,000 and HK$360,000 respectively.

Annual caps

The annual fee for the provision of data processing and billing management services by China Elite Information to China-HK Telecom is HK$440,000, HK$484,000 and HK$532,400 for each of the three years ending 31 December 2012 respectively. The Directors consider that the China-HK Telecom Information Service Agreement has been entered into on normal commercial terms and in the ordinary and usual course of business of the Group.

The expected cap amount of the transaction under the China-HK Telecom Information Service Agreement for each of the three years ending 31 December 2012 is less than HK$1,000,000. As such, the transactions under the China-HK Telecom Information Service Agreement shall constitute exempt continuing connected transaction of the Company under Rule 20.33(3) of the GEM Listing Rules and are exempt from the reporting, announcement and independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

B. ***China-HK Telecom RF-SIM Licence Agreement***

On 24 May 2010, China-HK Telecom and Directel Limited entered into a licence agreement (the "**China-HK Telecom RF-SIM Licence Agreement**") pursuant to which Directel Limited agreed to grant an exclusive licence to China-HK Telecom for its [operation rights of RF-SIM Intellectual Property Rights] in Hong Kong and Macau. The initial term of the China-HK Telecom RF-SIM Licence Agreement is for the period from the date of the China-HK Telecom RF-SIM Licence Agreement to 31 December 2012, and upon the expiry of the initial term of the China-HK Telecom RF-SIM Licence Agreement, subject to the compliance of the relevant requirements of the GEM Listing Rules or the rules governing the listing of securities on the Stock Exchange (where appropriate), the China-HK Telecom RF-SIM Licence Agreement may be renewed at the sole discretion of the Group for another three years, and upon the expiry of such renewed term, be further renewed for a term until 7 September 2017, being the expiry date of the term of the Hong Kong Patents.

Directel Limited is held as to 50% by Mr. Li Kin Shing, a non-executive Director, the chairman of the Company, a Controlling Shareholder, a Management Shareholder and a substantial Shareholder, and 50% by Ms. Kwok King Wa, a Controlling Shareholder, a Management Shareholder, a substantial Shareholder 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 and thus a connected person. China-HK Telecom is an indirect wholly-owned subsidiary of the Company.

As Directel Limited is a connected person, the China-HK Telecom RF-SIM Licence Agreement will constitute a continuing connected transaction of the Company under Rule 20.14 of the GEM Listing Rules.

The licence fees under the China-HK Telecom RF-SIM Licence Agreement are determined with reference to the prices that several independent telecommunications industry participants are willing to pay for such licence. The terms offered to China-HK Telecom by Directel Limited under the China-HK Telecom RF-SIM Licence Agreement are no less favourable than those offered by Directel Limited to other Independent Third Parties in the ordinary course of business.

Historical transaction value

Since there was no transaction contemplated under the China-HK Telecom RF-SIM Licence Agreement during the Track Record Period, there was no historical transaction value for the China-HK Telecom RF-SIM Licence Agreement for the three years ended 31 December 2009 and the Group did not pay any licence fee to Directel Limited in 2009.

Annual caps

Pursuant to the China-HK Telecom RF-SIM Licence Agreement, the annual licence fee for the [operation rights of RF-SIM Intellectual Property Rights] in Hong Kong and Macau by China-HK Telecom is, whichever the lower, (i) HK$980,000 per annum; or (ii) five percent of the total revenue generated from the operations of RF-SIM in Hong Kong and Macau as stated in the audited financial statements of China-HK Telecom for each of the three years ending 31 December 2012. The Directors consider that the China-HK Telecom RF-SIM Licence Agreement has been entered into on normal commercial terms and in the ordinary and usual course of business of the Group.

The expected cap amount of the transaction under the China-HK Telecom RF-SIM Licence Agreement for each of the three years ending 31 December 2012 is less than HK$1,000,000. As such, the transactions under the China-HK Telecom RF-SIM Licence Agreement shall constitute exempt continuing connected transaction of the Company under Rule 20.33(3) of the GEM Listing Rules and are exempt from the reporting, announcement and independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

C. ***HK Tenancy Agreement***

On 1 September 2009, a tenancy agreement (the "**HK Tenancy Agreement**") was entered into between Talent Information as landlord and the Company as tenant in respect of the premises located at Office Nos. 1, 2, 14 and 15, 37th Floor, Hong Kong Plaza, No. 188 Connaught Road West, Hong Kong (the "**Hong Kong Premises**"), being property numbered 1 as referred to in the property valuation report as set out in Appendix III to this document, with an aggregate gross floor area of approximately 410.26 square metres for a term commencing on 1 September 2009 and expiring on 31 December 2011. The property is used as the office for the Group's operation in Hong Kong.

Talent Information is a property holding company and indirectly held as to 100% by Ms. Kwok King Wa, a Controlling Shareholder, a Management Shareholder and a substantial Shareholder of the Company and the spouse of Mr. Li Kin Shing. According to the GEM Listing Rules, Talent Information is an associate of Ms. Kwok King Wa, thus a connected person of the Company.

As Talent Information is a connected person, the HK Tenancy Agreement will constitute a continuing connected transaction of the Company under Rule 20.14 of the GEM Listing Rules.

Historical transaction value

For the three years ended 31 December 2009, the rent paid by the Group in respect of the Hong Kong Premises amounted to HK$480,000, HK$480,000 and HK$496,000 respectively.

Annual caps

Pursuant to the HK Tenancy Agreement, the annual rent for the Hong Kong Premises during the tenure of the HK Tenancy Agreement is HK$528,000, payable by the Company in advance on or before the first day of each calendar month. The annual rent payable to Talent Information was determined at arm's length negotiation between the parties to the HK Tenancy Agreement. The independent property valuer of the Company, Jones Lang LaSalle Sallmanns Limited, has also confirmed that the terms of the HK Tenancy Agreement are fair and reasonable and the rental payment under the HK Tenancy Agreement reflects the current market rate. The Directors consider that the HK Tenancy Agreement has been entered into on normal commercial terms and in the ordinary and usual course of business of the Group.

The expected cap amount of the transaction under the HK Tenancy Agreement for each of the three years ending 31 December 2012 is less than HK$1,000,000. As such, the transactions under the HK Tenancy Agreement shall constitute exempt continuing connected transaction of the Company under Rule 20.33(3) of the GEM Listing Rules and are exempt from the reporting, announcement and independent shareholders' approval requirements, under Chapter 20 of the GEM Listing Rules.

Non-exempt Continuing Connected Transactions

Continuing connected transactions exempt from the independent Shareholders' approval requirement

D. ***Service Agreements***

PacificNet Communications currently provides, and will continue to provide, BIS and/or customer hotline services to the users of Elitel's customers and China-HK Telecom.

1. *Elitel Service Agreement*

On 8 October 2007, Elitel and PacificNet Communications entered into a service agreement (the "**Elitel Service Agreement**") pursuant to which PacificNet Communications agreed to provide users of Elitel's customers with BIS services. Elitel's major customers are MNOs that provide repackaged "One Card Multiple Number" service under their own brands. PacificNet Communications may delegate its duties and responsibilities under the Elitel Service Agreement to other members of the IEL Group. The term of the Elitel Service Agreement is for the period from 8 October 2007 to 31 December 2009. The Elitel Service Agreement was renewed on substantially the same terms for another three years to 31 December 2012 on 16 December 2009.

PacificNet Communications is an indirect wholly-owned subsidiary of IEL and IEL is a company controlled by Mr. Li Kin Shing, a non-executive Director, the chairman of the Company, a Controlling Shareholder, a Management Shareholder and a substantial Shareholder, and Ms. Kwok King Wa, a Controlling Shareholder, a Management Shareholder and a substantial Shareholder and the spouse of Mr. Li Kin Shing as at the Latest Practicable Date. According to the GEM Listing Rules, PacificNet Communications is an associate of Mr. Li Kin Shing and Ms. Kwok King Wa and thus a connected person. The IEL Group is principally engaged in the provision of customer relationship management outsourcing services in the PRC, Hong Kong and Macau and its major customers include leading telecommunications service providers in those territories.

As PacificNet Communications is a connected person of the Company, the Elitel Service Agreement will constitute a continuing connected transaction of the Company under Rule 20.14 of the GEM Listing Rules.

The fees payable for the services provided to the Group are determined on the number of users using the BIS service on the last day of each calendar month times a fixed rate, which is agreed between Elitel and PacificNet Communications. The terms offered to Elitel by PacificNet Communications under the Elitel Service Agreement are no less favourable than those offered by other Independent Third Parties in the ordinary course of business.

Historical transaction value

For the three years ended 31 December 2009, the fees paid by the Group for the provision of BIS service by PacificNet Communications to Elitel's customers amounted to approximately HK$624,000, HK$465,000 and HK$305,000 respectively.

Annual caps

The proposed cap amounts of the fees to be paid by the Group for the provision of services under the Elitel Service Agreement for each of the three years ending 31 December 2012 are HK$710,000, HK$760,000 and HK$760,000 respectively. Such proposed cap amounts are determined based on the extent and volume of the services that PacificNet Communications will provide to Elitel's customers, which is estimated to be in an average of approximately 5,380, 5,760 and 5,760 customers per month for the three years ending 31 December 2012 respectively, and the price charged by other Independent Third Parties for similar services provided, which is expected to slightly increase with the expected increase in demand of BIS services in the three years ending 31 December 2012 as it is anticipated that Elitel's customers will increase their resources in the promotion of "One Card Multiple Number" service. The Directors consider that the cap amounts were arrived at after due and careful consideration.

2. *China-HK Telecom Service Agreement*

On 8 October 2007, China-HK Telecom and PacificNet Communications entered into a service agreement (the "**China-HK Telecom Service Agreement**", together with the Elitel Service Agreement, the "**Service Agreements**") pursuant to which PacificNet Communications agreed to provide users of China-HK Telecom with BIS and customer hotline services. PacificNet Communications may delegate its duties and responsibilities under the China-HK Telecom Service Agreement to other members of the IEL Group. The term of the China-HK Telecom Service Agreement is for the period from 8 October 2007 to 31 December 2009. The China-HK Telecom Service Agreement was renewed on substantially the same terms for another three years to 31 December 2012 on 16 December 2009.

PacificNet Communications is an indirect wholly-owned subsidiary of IEL and IEL is a company controlled by Mr. Li Kin Shing, a non-executive Director, the chairman of the Company, a Controlling Shareholder, a Management Shareholder and a substantial Shareholder, and Ms. Kwok King Wa, a Controlling Shareholder, a Management Shareholder, a substantial Shareholder and the spouse of Mr. Li Kin Shing as at the Latest Practicable Date. According to the GEM Listing Rules, PacificNet Communications is an associate of Mr. Li Kin Shing and Ms. Kwok King Wa and thus a connected person.

As PacificNet Communications is a connected person of the Company, the China-HK Telecom Service Agreement will constitute a continuing connected transaction of the Company under Rule 20.14 of the GEM Listing Rules.

The fees payable for the services provided by PacificNet Communications are determined on the basis of, inter alia, (i) in respect of BIS service, the number of users using the BIS service on the last day of each calendar month times a fixed rate, which is agreed between China-HK Telecom and PacificNet Communications; and (ii) in respect of customer hotline services, the number of seats required for each particular project, the number of incoming calls times corresponding fixed rate, which is agreed between China-HK Telecom and PacificNet Communications. The terms offered to China-HK Telecom by PacificNet Communications under the China-HK Telecom Service Agreement are no less favourable than those offered by other Independent Third Parties in the ordinary course of business.

Historical transaction value

For the three years ended 31 December 2009, the fees paid by the Group for the provision of BIS service and customer hotline services by PacificNet Communications to China-HK Telecom amounted to approximately HK$1,539,000, HK$1,591,000 and HK$1,118,000 respectively. During the period from 1 January 2007 to the commencement date of the China-HK Telecom Service Agreement (the "**China-HK Telecom Service Agreement Subject Period**"), China-HK Telecom did not enter into any formal agreement in relation to the provision of BIS service and customer hotline services with PacificNet Communications. The Directors confirm that the terms and conditions of the services to be provided by PacificNet Communications will be similar to those during the China-HK Telecom Service Agreement Subject Period and no significant changes on terms and conditions were noted during the China-HK Telecom Service Agreement Subject Period and the Track Record Period.

Annual caps

The proposed cap amounts of the fees to be paid by the Group to PacificNet Communications for the provision of services under the China-HK Telecom Service Agreement for each of the three years ending 31 December 2012 are HK$1,930,000, HK$2,123,000 and HK$2,123,000 respectively. Such proposed cap amounts are determined based on the extent and volume of the services that PacificNet Communications will provide to the customers of China-HK Telecom, which is estimated to be approximately HK$1,580,000, HK$1,740,000 and HK$1,740,000 for the three years ending 31 December 2012 respectively, and the price charged by other Independent Third Parties for similar services provided. China-HK Telecom planned to substantially expand its pre-paid card services with higher market potential and planned to further expand the "One Card Multiple Number" service across Taiwan and Macau starting from the second half year of 2009. In view of the above, it is expected that the customer base of China-HK Telecom will grow significantly throughout the three years ending 31 December 2012 which will lead to a growing demand for both customer hotline and BIS services of the IEL Group. The Directors consider that the cap amounts were arrived at after due and careful consideration.

Pursuant to Rules 20.25 and 20.26 of the GEM Listing Rules, the transactions under the Elitel Service Agreement and the China-HK Telecom Service Agreement have been aggregated. It is anticipated that on an annual basis, the aggregate fees to be paid by the Group for the provision of BIS and/or customer hotline services under the Service Agreements for each of the three years ending 31 December 2012 are HK$2,640,000, HK$2,883,000 and HK$2,883,000 respectively, and each of the percentage ratios (other than the profits ratio) under Chapter 19 of the GEM Listing Rules, where applicable, in respect of the Service Agreements is, on an annual basis, higher than 2.5% but less than 25% and less than HK$10,000,000. As such, the transactions under the Service Agreements shall constitute non-exempt continuing connected transactions of the Company under Rule 20.34(2) of the GEM Listing Rules and are subject to the reporting and announcement requirements, but are exempt from the independent Shareholders' approval requirement under Chapter 20 of the GEM Listing Rules.

E. ***China-HK Telecom Telesales Agreement***

PacificNet Communications currently provides, and will continue to provide telesales services to China-HK Telecom. On 8 October 2007, China-HK Telecom and PacificNet Communications entered into a telesales services agreement (the "**China-HK Telecom Telesales Agreement**") pursuant to which PacificNet Communications agreed to provide telesales services to China-HK Telecom. PacificNet Communications may delegate its duties and responsibilities under the China-HK Telecom Telesales Agreement including but not limited to provision of telesales service to other members of the IEL Group. The term of the China-HK Telecom Telesales Agreement is for the period from 8 October 2007 to 31 December 2009. The China-HK Telecom Telesales Agreement was renewed on substantially the same terms for another three years to 31 December 2012 on 16 December 2009.

PacificNet Communications is an indirect wholly-owned subsidiary of IEL and IEL is a company controlled by Mr. Li Kin Shing, a non-executive Director, the chairman of the Company, a Controlling Shareholder, a Management Shareholder and a substantial Shareholder, and Ms. Kwok King Wa, a

Controlling Shareholder, a Management Shareholder, a substantial Shareholder and the spouse of Mr. Li Kin Shing as at the Latest Practicable Date. According to the GEM Listing Rules, PacificNet Communications is an associate of Mr. Li Kin Shing and Ms. Kwok King Wa and thus a connected person.

As PacificNet Communications is a connected person of the Company, the China-HK Telecom Service Agreement will constitute a continuing connected transaction of the Company under Rule 20.14 of the GEM Listing Rules.

The fees payable by China-HK Telecom to PacificNet Communications in respect of the telesales services are derived from the number of successful orders/deals for specific products and/or services marketed, times a fixed rate, of which are mutually agreed between China-HK Telecom and PacificNet Communications. The Directors consider that the China-HK Telecom Telesales Agreement has been entered into on normal commercial terms and in the ordinary and usual course of business of the Group.

Historical transaction value

For the three years ended 31 December 2009, the fees paid by the Group for the provision of the telesales service by PacificNet Communications to China-HK Telecom amounted to approximately HK$8,152,000, HK$8,330,000 and HK$5,081,000 respectively. However, during the period from 1 January 2007 to the commencement date of the China-HK Telecom Telesales Agreement (the "**China-HK Telecom Telesales Agreement Subject Period**"), China-HK Telecom did not enter into any formal agreement with PacificNet Communications in relation to the provision of the telesales services. The Directors confirm that the terms and conditions of the services to be provided by PacificNet Communications will be similar to those during the China-HK Telecom Telesales Agreement Subject Period and no significant changes on terms and conditions were noted during the China-HK Telecom Telesales Agreement Subject Period and the Track Record Period.

Annual caps

The proposed cap amounts of the fees to be paid by the Group for the telesales services under the China-HK Telecom Telesales Service Agreement for each of the three years ending 31 December 2012 are HK$8,400,000, HK$8,820,000 and HK$8,820,000 respectively. The proposed cap amounts are determined based on the extent and volume of the services that PacificNet Communications will provide to the customers of China-HK Telecom and the price charged by other Independent Third Parties for similar services provided. In August 2006, China-HK Telecom entered into a dealership agreement with Hutchison Telephone in respect of the provision of telesales services and fulfillment services to Hutchison Telephone for its 2G and 3G mobile services in Hong Kong. China-HK Telecom then outsourced the telesales services to PacificNet Communications and performed the fulfillment services by itself. Based on the Group's past experience, it is expected that the number of new 2G users secured by the Group for Hutchison per month will decrease during the three years ending 31 December 2012, which is expected to be approximately 3,000, 2,800 and 2,500 customers per month respectively. In addition, in view of the growing potential of Hong Kong 3G market, it is expected that the number of new 3G users secured by the Group for Hutchison will increase from the second half of 2009. The number of new 3G users secured by the Group for Hutchison per month for the three years ending 31 December 2012 is estimated to be approximately 530, 800 and 1,010 respectively. As the amount charged for each new 3G user is approximately 41% higher than that of each new 2G user, such annual cap is expected to increase accordingly.

The expected cap amounts of the transactions under the China-HK Telecom Telesales Agreement for each of the three years ending 31 December 2012 is less than HK$10,000,000 and each of the percentage ratios (other than the profits ratio) under Chapter 19 of the GEM Listing Rules, where applicable, in respect of the transactions under the China-HK Telecom Telesales Agreement is, on an annual basis, higher than 2.5% but less than 25%. As such, the transactions under the China-HK Telecom Telesales Agreement will constitute non-exempt continuing connected transactions of the Company under Rule 20.34(2) of the GEM Listing Rules and are subject to the reporting and announcement requirements, but are exempt from the independent Shareholders' approval requirement under Chapter 20 of the GEM Listing Rules.

WAIVER FROM STRICT COMPLIANCE OF THE GEM LISTING RULES

[●]

RELATED PARTY TRANSACTIONS

During the Track Record Period, the Group entered into certain related party transactions, details of which are set out in Note 21 headed "Material related party transactions" to the Accountants' Report set out in Appendix I to this document.

BUSINESS OBJECTIVES

The Group aims at becoming one of the leading "One Card Multiple Number" service providers and it aspires to achieve the following business objectives:

- expanding the geographical coverage of mobile services provided by the Group through development and expansion of such services in Asia Pacific; and

- providing a wider variety of value-added services for its users to increase the revenue derived from users' airtime usage through (i) upgrading the Group's telecommunications equipment to be compatible with the 3G mobile networks operated by the Group's service operators in Hong Kong and the PRC as a MVNO enabling its users to enjoy 3G mobile data services; and (ii) introducing RF-SIM in Hong Kong and Macau to broaden the customer base of the Group.

The Company may also consider other potential business opportunities to further expand its mobile phone business as well as to diversify its risk of relying on a limited number of telecommunications service providers. The Company or any of its Directors currently has no intention to have any material changes with the Company's business and/or to enter into any material arrangements for potential acquisition of assets for the Company's non-core business or disposal of assets relating to the Company's core businesses.

BUSINESS STRATEGIES

The Group intends to implement key strategic initiatives to achieve the above business objectives in accordance with the schedule set forth in "Implementation Plan" in this section. The followings set forth the key strategic initiatives which the Group plans to implement in the future. Though the Group has entered into service agreements with a telecommunication provider in Macau for providing mobile phone services in Macau (the "Macau Agreements"), as at the Latest Practicable Date, the Group had not yet launched its "One Card Multiple Number" service in Macau. Save as the Macau Agreements, as at the Latest Practicable Date, the Group had not entered into any legally binding agreement with respect to the business strategies mentioned herein below.

Developing the business of mobile phone services in other Asia Pacific territories

Apart from travelling between Hong Kong and China, there is a significant number of mobile phone users frequently travelling between Hong Kong and the Asia Pacific territories including Taiwan and Macau. In addition to the territories of Hong Kong and China, the Group has developed its mobile phone services in Taiwan since 2003 by extending the Group's telecommunications networks to there. After such development has become mature, the Group intends to further develop its services in one or two additional territories in the Asia Pacific region, which the Group is still evaluating, from 2011 onwards. It is intended to be achieved through (i) cooperating with licensed MNOs in such territories; (ii) investing in additional telecommunications equipment to ensure proper network connectivity between the Group's telecommunications system and those of its business partners (approximately HK$[●] million); (iii) promoting the Group's services in these territories (approximately HK$[●] million); and (iv) recruiting appropriate staff to cope with such expansions (approximately HK$[●] million). Currently, the Group intends to spend approximately [●]% of the net [●], or approximately HK$[●] million, for such expansion. In particular, approximately HK$[●] million will be spent in relation to the expansion of the Group's "One Card Multiple Number" service in Macau, approximately HK$[●] million for Taiwan and approximately HK$[●] million for the additional one or two territories in the Asia Pacific region. The Group has entered into service agreements with the telecommunications service providers in Macau and a cooperation platform has been established for the Group to expand its mobile phone services in Macau. It has been the business strategy of the Group to concentrate on the Hong Kong market taking into consideration of its existing resources. The Group will expand its mobile phone services in the Macau market after receiving the [●] from [●]. As at the Latest Practicable Date, the Group was conducting the relevant research and was discussing with suppliers for purchasing equipment to support the "One Card Multiple Number" service as well as 3G data service in Macau. The Directors are of the view that the expansion of the Group's businesses in territories other than China could enlarge its market shares in the telecommunications market and enhance its long-term financial performance. Upon completion of the above expansion, the Group's "One Card Multiple Number" users will be able to be connected to the mobile network in Hong Kong, Macau, Taiwan and one to two additional territories in the Asia Pacific region.

Upgrading the Group's telecommunications equipment to be compatible with the 3G mobile networks in Hong Kong and China for the provision of 3G data services as a MVNO

Provision of mobile data services through 3G network.

Similar to 2G, 3G is a wireless communications technology which allows simultaneous use of voice and data services. Nonetheless, the data transmission rates, in terms of megabyte per second, of 3G are higher than that of 2G. Thus, 3G networks enable network operators to offer users a wider range of more advanced services while achieving greater network capacity through improved spectral efficiency. Technically, the qualities of voice services provided via 2G or 3G are the same. Due to the higher data transmission rates of 3G, the mobile data services provided via 3G networks are of higher quality than those provided via 2G networks, particularly in email checking, web browsing, video and music streaming, game downloading, etc.

Reasons for the upgrade

Currently, the Group's telecommunications equipment for the provision of "One Card Multiple Number" service is unable to support the 3G networks nor to provide mobile data services in Hong Kong and China. Users of the Group's "One Card Multiple Number" service can only use the voice services and SMS services through 2G networks. According to the statistics published by OFTA, the mobile data usage in Hong Kong increased by approximately 932.2% from approximately 54.0 million megabytes per month in May 2008 to approximately 557.4 million megabytes per month in November 2009. The average mobile data usage per 2.5G/3G customer also increased by approximately 562.9% from approximately 17.0 megabytes to approximately 112.7 megabytes during the same period. As at the Latest Practicable Date, four of the five MNOs in Hong Kong and all three MNOs in China offered mobile services, including voice and data services, through their respective 3G networks.

Accordingly, the Directors are of the view that since the acceptance and usage of 3G mobile data services (including email checking, web browsing, video and music streaming, as well as game downloading) have become increasingly popular, in order to broaden its source of revenue and to follow the market trend, the Group intends to upgrade its telecommunications equipment to be compatible with the 3G mobile networks for the provision of 3G data services as a MVNO in Hong Kong and China. Since most of the market players in the telecommunications industry in Hong Kong and China are offering 3G data services, the Directors consider that it is essential for the Group to upgrade its telecommunications equipment to catch up with other market players and enhance its competitiveness in the market.

In addition, the popularity of using smart phones has increased significantly in the past few years. The majority of smart phones in the market are compatible with 3G mobile data services and are able to support email checking, web browsing, video and music streaming, as well as game downloading. The Directors are of the view that such increasing popularity of smart phone usage is one of the reasons for the considerable increase of mobile data usage in the past years. Many advanced functions of smart phones involve mobile data usage, which makes mobile data usage more common. As a result, the Directors consider that it is necessary for the Group to upgrade its telecommunications equipment to catch up with the market development and to ensure the mobile phone services offered by the Group will not cause any limitations in using the advanced functions of smart phones.

Potential benefits to be enjoyed by the Group from the upgrade

When the Group is able to offer 3G mobile data services to its users upon completion of the upgrade in 2011, the Directors expect that the Group will be able to:-

- generate additional revenue from mobile data services other than voice services;
- widen its user base by capturing users who demand for mobile data services;
- retain the existing users by offering them additional value-added services;
- enhance the Group's competitiveness in the market; and
- increase the Group's ARPU and profitability.

In addition to the potential economic benefits, upon completion of the upgrade, the Directors believe that the Group will be able to meet the requirements set out in the "Guidelines for the Application of Services-Based Operator Licence" issued by OFTA and be qualified for the TA's regulatory support on its access to the MNOs' 3G mobile network in Hong Kong which are obliged to open 30% of their 3G network capacity to MVNOs which are not affiliated to any 3G MNOs. The Directors consider that such guideline and regulatory support could help mitigating the risk of the Group failing to source Hong Kong airtime through Hong Kong MNOs. Please refer to "Regulations — Open network requirements for 3G MNOs" of this document for further details.

Implementation plans

The Group intends to spend approximately HK$[●] million to upgrade its "One Card Multiple Number" system. The upgrade will be conducted through the incorporation of a more advanced HLR data base system and a roaming gateway into the Group's existing system. Such HLR data base system and roaming gateway have similar functions as the Group's existing HLR data base system and roaming gateway, which are mainly for location updates and call routings. The main reason for purchasing the new equipment is to enable the Group's system to be compatible with the 3G networks in Hong Kong and China to offer 3G mobile data services as its existing equipment was purchased many years ago and not compatible with 3G networks in Hong Kong and China.

The Directors believe that there are at least two telecommunications equipment manufacturers in China could provide the equipment required for the upgrade of the Group's system, and the Group has liaised with two telecommunications equipment manufacturers in relation to the system upgrade. According to the information provided by such manufacturers, one of which is a telecommunications solutions provider which has served major telecommunications operators while the other manufacturer is an international telecommunications equipment provider and a listed company in Hong Kong. Both manufacturers are the manufacturers of the Group's existing telecommunications equipment and Independent Third Parties. For the proposal of the upgrade, the Group has obtained quotation in respect of the equipment from one of the manufacturers. As such, the Directors are of the view that there is no material obstacle in sourcing the equipment required. The Group intends to purchase the aforesaid equipment from one of the manufacturers, and the equipment will be designed and manufactured according to the Group's requirements and specifications. It is expected that the upgrade, which would be divided into two phases (approximately HK$[●] million for the first phase and approximately HK$[●] million for the second phase), would be completed before 30 June 2011.

Feasibility studies

According to the product specifications provided by the aforesaid two telecommunications equipment manufacturers and upon the review of such product specifications by the technical staff of the Group, the equipment intended to be purchased will be compatible with the 3G networks operated by MNOs in Hong Kong and China. In light of the above and the fact that the design of the equipment is based on the Group's existing system and requirements, the Directors believe that the equipment intended to be purchased will be compatible with the 3G networks operated by telecommunications service providers of the Group. In addition, the Group also intends to enter into purchase agreements with MNOs in Hong Kong and China for the supply of 3G mobile airtime and data volume. Upon completion of the equipment upgrade plan and the entering into of the purchase agreements, the Group will be able to provide 3G mobile data services in Hong Kong.

Business and revenue model

Similar to the provision of voice services of the "One Card Multiple Number" service, the Group, as a MVNO, has to rely on MNOs for their continuous provision of 3G mobile data transmission. The Group intends to source Hong Kong and China mobile data from its existing mobile service providers in Hong Kong and China respectively to provide mobile data services through its equipment and system to its users/dealers either under the Group's brand names or not under the Group's brand names.

Basically, the Group intends to charge its users for the mobile data usage on a per megabyte or kilobyte basis, which is similar to the charging methods of other MNOs in Hong Kong and China as at the Latest Practicable Date according to the best knowledge and belief of the Directors. After the upgrade, the Directors expect that the airtime charges in respect of voice services would not be materially affected since the purchase price of 2G or 3G airtime offered to the Group by its service providers are substantially the same.

The Group's mobile data services would be incorporated into the existing mobile phone services.

Pre-paid plans — each pre-paid SIM card will have a fixed amount of stored value. After the upgrade, each pre-paid SIM card could provide voice and mobile data services. When a pre-paid SIM card is activated and used by a user, its stored value would be deducted according to the user's airtime and mobile data usage. In general, for the "One Card Multiple Number" service, mobile data usage in Hong Kong would be subject to Hong Kong local charges, and mobile data usage in China would be subject to China local charges instead of roaming charges. For Hong Kong local mobile phone services, mobile data usage in Hong Kong would also be subject to Hong Kong local charges. When all the stored value of a pre-paid SIM card is used up, the user will no longer be able to use the Group's mobile phone services unless such user recharges the SIM card by purchasing and using the Group's recharge coupons.

Post-paid plans — users would be charged in accordance with his/her respective monthly service plans and agreed charges of any extra mobile data usage beyond the limit.

Other than the difference in price levels, the Directors believe that the above charging mechanism is commonly adopted by the MNOs in Hong Kong and China.

Given that the provision of the mobile data services is merely one of the value-added services to the existing mobile phone services provided by the Group, the Directors expect that the revenue collection mechanism of the mobile data services will be in line with that of the mobile phone services currently adopted by the Group.

The Directors estimate that the costs incurred in the upgrade could be breakeven within approximately 2.5 years from the commencement of the implementation plan. Such estimation is arrived after taking into account that the new telecommunications equipment will be depreciated on a seven-year basis with annual depreciation of approximately HK$[●] million and the revenue expected to be derived from the existing users of the "One Card Multiple Number" service and Hong Kong local mobile phone services who will switch to the Group's 3G mobile phone services gradually. However, there may be a risk that the 3G plan may not be breakeven within the aforesaid timeframe. Please see "Risk Factors — Risk relating to the Group — The Group may fail to sustain its future ARPU, revenue per minute of airtime sold, turnover and net profit and may fail to achieve breakeven in respect of the Group's 3G plan and RF-SIM plan within the expected timeframe" of this document for further details.

Market potential

According to OFTA, the number of 3G customers in Hong Kong increased by approximately 561.4% from approximately 635,000 in December 2005 to approximately 4.2 million in January 2010; while the mobile data usage in Hong Kong increased by approximately 1,253.1% from approximately 54.0 million megabytes per month in May 2008 to approximately 730.7 million megabytes per month in January 2010. With the increasing popularity of smart phones and improved technologies, the Directors are of the view that the demand for mobile data usage in the market would continue to increase and also there is an increasing trend for the demand for 3G networks.

Competition

Upon the completion of the upgrade of the Group's telecommunications equipment, the Directors expect that in addition to voice services, the Group will be able to include 3G mobile data services in its "One Card Multiple Number" service and Hong Kong local mobile phone services. As at the Latest Practicable Date, four of the five MNOs in Hong Kong and all three MNOs in China were offering mobile services, including voice and data services, through their respective 3G networks. Accordingly, the Directors consider that these MNOs are the Group's competitors in the market and such competition is fierce. In general, the Directors expect that the Group will compete on pricing, scope of geographical network coverage, service plan quality and stability, usage convenience as well as other ancillary valued-added services.

The Directors expect that the pricing of its 3G mobile voice and data services would be an advantage of the Group to compete in the market. Through the Group's upgraded "One Card Multiple Number" system, the Directors believe that users could economically use 3G mobile voice and data services, such as email checking and web browsing, in China by paying local mobile data service charges to avoid paying the relatively higher data roaming fees. The Directors expect that the charges of 3G mobile data services offered by the Group will be determined based on factors such as the then prevailing market price and the cost of procuring such services by the Group. In addition, as the Directors view 3G mobile data services as one of the value-added services mainly to retain the existing users and widen the potential user base of the Group, the Group will still focus on its existing "One Card Multiple Number" business upon [●].

The following table compares the expected 3G voice service charges of the "One Card Multiple Number" per-paid plan offered by the Group and the roaming services offered by five MNOs in Hong Kong as at the Latest Practicable Date:-

	Expected 3G voice service charges for Group's "One Card Multiple Number" pre-paid plan service	**Roaming service charges of the five MNOs in Hong Kong*(Note 1)***
	HK$/minute	HK$/minute
Outgoing calls dialed from Guangdong Province to Hong Kong	2.55	4.95-7.76
Outgoing calls dialed from Guangdong Province to Guangdong Province *(Note 2)*	0.55	3.0-3.6
Incoming calls received in Guangdong Province	0.40	6.48-8.30

Notes:

(1) Information obtained from the websites of the respective MNOs.

(2) Voice service charge for the Group's "One Card Multiple Number" pre-paid plan service for outgoing calls dialed from Guangdong Province to all areas in China is also expected to be charged at HK$0.55/minute. However, roaming service charges for such services of the five MNOs in Hong Kong are not publicly available and hence no comparison could be made herein.

The Directors will make reference to the then service plans or schemes offered by the MNOs when the 3G mobile data services are launched in determining the charging mechanism of the Group's services.

Repair and maintenance

The Group intends to contract with the manufacturer of the equipment for repair and maintenance services to ensure there will be regular checking and maintenance for the proper functioning of the equipment and stability of the services provided by the Group and to have technical assistance from the manufacturer in case there are any malfunctions in the equipment.

Introducing RF-SIM into the Group's business in Hong Kong and Macau

Technical specification of RF-SIM

RF-SIM is a combination of ordinary mobile phone SIM card and contactless smartcard which operates at 2.4GHz frequency band. Such technologies were developed by Xiamen Elite, which received a patent certificate issued by the State Intellectual Property Office of the PRC on 23 April 2008 and registered the Hong Kong Patents on 7 September 2009. Pursuant to the deed of assignment entered into between Xiamen Elite and Directel Limited and dated 24 May 2010, Xiamen Elite assigned to Directel Limited the Xiamen Elite's RF-SIM Intellectual Property Rights in Hong Kong and Macau, including the Hong Kong Patents. According to the UC Report prepared by Unified Communications, a provider of telecommunications products and customised solutions and an Independent Third Party, in addition to the usual functions of an ordinary SIM card, RF-SIM comprises other additional functions such as identification, electronic couponing and access control and is compatible with the majority of mobile phones in the market today and mobile phone modification is not necessary.

Reasons for introducing RF-SIM into the Group's business

The Group's mobile phone services, including the "One Card Multiple Number" service and Hong Kong local mobile phone services and resale of airtime to MNOs, are its core business and major source of revenue. However, the Directors are of the view that in light of the fierce competitions in the telecommunications industry, it is necessary for the Group to introduce services with a wider variety of value-added functions to enhance its competitiveness and to capture a larger share of the market. The Directors believe that the introduction of RF-SIM into the Group's existing business could assist the Group to achieve such goal.

The essence for the introduction of RF-SIM is to indirectly increase the Group's revenue through the increase in the number of the Group's users so as to increase their airtime usage. Given that RF-SIM comprises other additional functions, the Group will be able to generate additional revenue from offering RF-SIM to customers and users. However, such revenue is expected to be minimal in the near future. Despite that, the Directors are of the view that the introduction of RF-SIM can be viewed as a marketing tool for the Group to attract new users and to retain its existing users.

According to the UC Report, since RF-SIM incorporates the functions of identification, electronic couponing and access control into a mobile phone, the Directors believe that the convenience given by RF-SIM could attract a group of users to use such product. Each user of RF-SIM would automatically become a user of the Group's mobile phone services as such user would be able to make phone calls and send SMSs after the RF-SIM has been inserted into his/her cell phone. Accordingly, it is expected that the Group's revenue generated from the users' airtime usage would increase corresponding to the increase in the number of the Group's RF-SIM and mobile phone service users.

Benefits to be received by the Group from the introduction of RF-SIM

When the Group is able to offer RF-SIM to its users, the Directors expect that the Group will be able to:-

- increase its user base of the "One Card Multiple Number" service and Hong Kong local mobile phone services by capturing users who demand for the functions of RF-SIM;

- retain its existing users by offering value-added services through RF-SIM;

- increase the Group's revenue from additional airtime usage and value-added services income derived from the introduction of RF-SIM;

- strengthen the Group's competitiveness in the market by offering new value-added services through the application of RF-SIM

The implementation plan

To launch RF-SIM into the market, the Group intends to, among others, (i) invest in building RF-SIM application systems (including BOSS system, servers, RF-SIM card and RF-SIM card readers) and provide payment for technical fees for the system installation (approximately HK$[●] million); (ii) promote the Group's RF-SIM services to housing estates, car parks, major chain convenience stores and shopping malls (approximately HK$[●] million); and (iii) recruit appropriate marketing and technical staff to implement such plans in Hong Kong and Macau (approximately HK$[●] million). The Group intends to spend approximately [●]% of the net [●], or approximately HK$[●] million, for the provision of RF-SIM with the Group's mobile phone services in Hong Kong and Macau. In particular, approximately HK$[●] million and HK$[●] million will be spent for implementing the development plans in Hong Kong and Macau respectively. The Directors intend to replace the SIM cards of its existing users and new users free of charge or at a preferential price.

The Directors believe that there are at least two equipment manufacturers which could provide the specialised equipment and at least two other manufacturers which could provide the specialised SIM cards required to launch the RF-SIM. The Group has liaised with these four manufacturers, being (i) a supplier of smart card products and a listed company in the PRC; (ii) an enterprise engaged in the research and development, production and sales of smart cards equipment; (iii) a supplier of smart cards system; and (iv) a smart card provider, according to the information provided by such manufacturers. All of these manufacturers are Independent Third Parties, and the Group has obtained quotations in respect of the equipment and SIM cards from these manufacturers. As such, the Directors are of the view that there is no material obstacle in sourcing the specialised SIM cards and equipment required.

Feasibility studies

According to the UC Report regarding the applications and functions of RF-SIM, various detailed feasibility tests and trials on the access control and promotion couponing functions of RF-SIM were performed. The tests and trials performed were simulations of the practical applications of the access control and promotion couponing functions, and the results were satisfactory. Based on the result of the tests and trials, Unified Communications concluded that RF-SIM technology is ready to be deployed and commercialised, and there is no major technical or operational barrier for RF-SIM to be implemented in Hong Kong and Macau. The Directors have also performed tests and trials for some of these applications themselves. Therefore, the Directors are of the view that there is no major technical or operational obstacles for RF-SIM to be implemented and launched in Hong Kong and Macau.

Business and revenue model

The Group intends to launch two value-added services using the RF-SIM, which are the access control services ("E-Access") and promotion services for commercial customers ("E-Promotion").

i. E-Access

The Group expects to introduce the application of RF-SIM on access control in housing estates and car parks in Hong Kong in the second quarter in 2010.

According to the UC Report, at the time when a user possessing a RF-SIM handset approaches a RF-SIM sensor device, the RF-SIM card delivers the physical identification to the door access controller through the sensor device. The door access controller then compares the physical identification from the RF-SIM card with the stored data on the sensor device, authenticates the user authority, and further controls the door's status. Meanwhile, the door access controller transfers the information stored in the RF-SIM card and timed control information, etc. to the server platform. The server then saves the information in the database for record.

The Group does not expect to generate any direct or significant income from this service, but will leverage the partnership with those property management companies to attract car park users and real-estate tenants to join the Group's mobile phone services and improve the revenue generated from airtime usage. The service charge will be waived for the first year to widen the customer base of the Group. After the first year, the Directors will review its charging policy and may charge the management companies of housing estates and/or car parks an annual fee for the service and such annual fee will be determined based on the relevant operational cost including depreciation and maintenance expenses.

After entering into contracts with the property and/or car park management companies, the Group will provide the relevant equipment and system required for access control and the cost relating to the equipment and system is expected to be shared by the Group and the relevant companies in accordance with the contracts. The Group may bill the companies and collect the annual service charges at the beginning of each year (except for the first year).

ii. E-Promotion

The Group intends to attract and acquire more customers by using RF-SIM as a mobile e-commerce platform to enable its potential commercial customers from various business sectors to launch precision guide advertising such as product or service coupons, bonus points, the commercial customers' addresses and websites. According to the UC Report, RF-SIM card readers are capable to transmit advertisements and information of products, shopping, food and beverages coupons to any RF-SIM within 100 meters, so that the Group's potential commercial customers can deliver effective advertisements in a more targeted and well-defined manner based on the location of the mobile phone user. RF-SIM users can select the advertisements which they are interested and download e-coupons to make consumption with the Group's commercial customers to receive more discounts and it can therefore improve Group's commercial customers' the ultimate advertising reach. The Group's RF-SIM mobile e-commerce platform represents a transaction bridge for users and commercial customers that revolutionises the traditional advertising models through all-the-way tracking of the target audiences' consumption process to deliver a complete shopping guide for goods or services.

Revenue from E-Promotion is expected to be generated based on two charging schemes offered to commercial customers:

a. typical charging scheme: including charges for the cost of production and broadcast of the advertisements and the number of advertisements downloaded (e.g. HK$1/download) and redeemed (e.g. HK$2/download) by users; or

b. fixed rate charging scheme: a monthly package fee which includes a certain number of advertisements which could be downloaded and redeemed by users.

The rate and terms will be subject to annual renewal with reference to the market price and conditions in the advertisement industry. The aforesaid service charges would only be applied to commercial customers, and no charges would be applied to users in E-Promotion.

Regarding the revenue collection mechanism for the typical charging scheme, when users receive advertising coupons from or redeem the coupons at the Group's RF-SIM card readers, as such RF-SIM card readers are connected to the Group's server, the record of receiving and redemption would be sent to the Group's server. The Group will then issue monthly invoices to the commercial customers according to the number of coupons received and redeemed.

Since the Group's principal intention of introducing RF-SIM is to widen the Group's user base which in return increases the airtime usage, the Directors expect that the investment in the introduction of RF-SIM will take no less than approximately 5 years from the commencement of the implementation plan to breakeven after taking into account the income expected to be directly generated from the value-added services of RF-SIM only. However, there may be a risk that the RF-SIM plan may not be breakeven within the aforesaid timeframe. Please see "Risk Factors — The Group may fail to sustain its future ARPU, revenue per minute of airtime sold, turnover and net profit and may fail to achieve breakeven in respect of the Group's 3G plan and RF-SIM plan within the expected timeframe" of this document for further details.

As at the Latest Practicable Date, the Directors, to the best of their knowledge and belief, were not aware of any MNOs or MVNOs in Hong Kong or Macau which were providing value-added services in relation to RF-SIM to their users. Therefore, information with regard to how and what similar service providers were charging their services in relation to RF-SIM in Hong Kong and Macau was not available to the Directors.

Market potential

The Group engaged GIA, an international strategic market intelligence and advisory group and an Independent Third Party, to prepare the GIA Report for the purpose of analysing the market opportunity and competitive landscape of RF-SIM in Hong Kong and Macau as well as the potential market for RF-SIM from the perspective of mobile operators, merchants and property developers.

According to the GIA Report, GIA was of the view that (1) from the mobile operators' perspective, the key opportunities for RF-SIM are electronic membership, electronic payments, electronic access and electronic promotions; (2) from the merchants' perspective, the key opportunities for RF-SIM are the penetration into the retail segments (including food and beverages, fashion, cosmetics, department stores, supermarkets and cinema) as well as services for customers (including electronic promotion, electronic wallet, loyalty programs and electronic access); and (3) from the property developers' perspective, the key opportunities for RF-SIM are the penetration into new property developments and the differentiation of RF-SIM as a more secure technology.

The GIA Report also stated a number of challenges which might be encountered by the Group in launching RF-SIM. Please see "Risk Factors — Risks relating to the Group — The Group may encounter a number of challenges in implementing the business plan in respect of RF-SIM, which may affect the future financial performance of the Group" of this document for details.

Competition

In the light of the fact that the RF-SIM has been granted short-term patents protection in Hong Kong and the Group, being the exclusive licensee of [the operation of RF-SIM Intellectual Property Rights] in Hong Kong and Macau, has not officially launched the RF-SIM in Hong Kong and Macau, the Group is not aware of any direct competition encountered by the Group in Hong Kong and Macau as at the Latest Practicable Date. Nevertheless, the E-Access and E-Promotion services of RF-SIM might separately encounter competitions from similar services in the market.

i. E-Access

According to the GIA Report, the electronic access service offered by Octopus covered over 200 buildings in Hong Kong as of the date of the GIA Report. GIA considered that the electronic access service is a relatively new area for Octopus and Octopus would have a less competitive dominance over the Group's E-Access in this regard. However, the Directors are of the view that due to the high market share and penetration rate of Octopus in Hong Kong, the Group's E-Access service would still encounter a very keen competition in the market in Hong Kong.

ii. E-Promotion

The Directors are of the view that the E-Promotion service to be offered by the Group would encounter competitions from similar promotion means including SMS broadcasting. To the best knowledge and belief of the Directors, SMS broadcasting allows users to passively receive advertising SMSs in a specific location, such as shopping malls, and users may redeem souvenirs or discounts at specific shops or restaurants inside the mall by showing the SMSs stored in their mobile phones. The Directors are of the view that the mechanism of SMS broadcasting is similar to the traditional leaflet distributions, which users are unable to choose the types of promotion SMSs they would like to receive or when the promotion SMSs to be received.

On the other hand, E-Promotion service enables users to actively choose the types of coupons to be received and when such coupons to be received through their mobile phones. Users may then redeem the coupons by tapping their mobile phones on the card readers installed in shops or restaurants. The Directors are of the view that the E-Promotion service offered by the Group could provide a more convenient platform and a better user-experience in receiving electronic coupons since users would be less likely to be annoyed by junk promotion coupons. The Directors are also of the view that from the merchants' perceptive, E-Promotion service would be a more effective and efficient means to gather statistical information of their promotion campaigns from their potential and target customers over SMS broadcasting since all coupon receipt and redemption statistics are processed through computers which enables merchants to conveniently access the statistics regarding their promotion campaigns and use such statistics to improve their future promotion campaigns.

BASES AND ASSUMPTIONS

The Directors have assessed the potential of the "One Card Multiple Number" market and have formulated the above corporate strategies and business plans to achieve the Group's business objectives on the bases of (i) past market trend; (ii) anticipated market demand; and (iii) future growth of its services based on the Directors' experience and knowledge. The Directors have made the following principal assumptions in making such assessment and formulation:

General assumptions

(1) The Group is not materially adversely affected by any changes in existing government policies or political, legal (including changes in legislations or regulations or rules), fiscal market, or economic conditions in the Cayman Islands, the PRC and Hong Kong in which the Group carries or will carry on business.

(2) The Group is not materially or adversely affected by any changes in bases or rates of taxation or duties in Hong Kong or in any other places in which the Group operates or is incorporated.

(3) The Group is not materially or adversely affected by any changes in inflation rates, interest rates or exchange rates from those currently prevailing.

Specific assumptions

(1) [●]

(2) The Group is not adversely affected by any of the risk factors set out in "Risk Factors" of this document.

(3) There will be increasing demand for the Group's services.

(4) The Group will not encounter any significant difficulties in recruiting and retaining sufficiently qualified personnel.

(5) The Group will not encounter any significant problems or disruptions adversely affecting its operations or business objectives in any ways, including but not limited to:

- failure in the Group's operation system for whatever reasons;
- serious accidents, natural and political disasters, labor disputes, or litigation affecting the operation of the Group; and
- any other force majeure events.

IMPLEMENTATION PLAN

In light of the Group's objectives as described above, the Group has formulated the following business plan to implement its strategies:

Expanding the business of mobile phone services in other Asia Pacific territories

	From the Latest Practicable Date to 30 June 2010		For the six months ending 31 December 2010		For the six months ending 30 June 2011		For the six months ending 31 December 2011		For the year ending 31 December 2012		Total
	Action to be taken	*(HK$ million)*	**Action to be taken**	*(HK$ million)*	**Action to be taken**	*(HK$ million)*	**Action to be taken**	*(HK$ million)*	**Action to be taken**	*(HK$ million)*	*(HK$ million)*
Investment in the equipment	Investing in equipment to develop the business of "One Card Multiple Number" service in Macau from June 2010 and onwards	[●]	Investing in equipment to develop the business of "One Card Multiple Number" service in Macau (HK$[●] million); Investing in equipment to expand the business of "One Card Multiple Number" service in Taiwan from August 2010 and onwards (HK$[●] million)	[●]	Investing in equipment to expand the business of "One Card Multiple Number" service in Taiwan (HK$[●] million); Investing in equipment to develop the business of "One Card Multiple Number" service in one to two additional countries in the Asia Pacific territories from May 2011 and onwards (HK$[●] million)	[●]	Investing in equipment to develop the business of "One Card Multiple Number" service in other Asia Pacific territories from November 2011 and onwards	[●]	[●]	[●]	[●]
Marketing	Marketing and promotion of the "One Card Multiple Number" service to enhance the popularity of such service in Macau	[●]	Marketing and promotion of the "One Card Multiple Number" service to enhance the popularity of such service in Macau and Taiwan	[●]	Marketing and promotion of the "One Card Multiple Number" service to enhance the popularity of such service in Taiwan and one to two additional countries in the Asia Pacific territories	[●]	Marketing and promotion of the "One Card Multiple Number" service to enhance the popularity of such service	[●]	[●]	[●]	[●]
Human resources	To hire staff responsible for sales and distribution	[●]	To hire staff responsible for sales and distribution	[●]	To hire staff responsible for sales and distribution	[●]	To hire staff responsible for sales and distribution	[●]	[●]	[●]	[●]
Total		[●]		[●]		[●]		[●]		[●]	[●]

Upgrading the Group's telecommunications equipment to be compatible with the 3G mobile networks in Hong Kong and China

	From the Latest Practicable Date to 30 June 2010		**For the six months ending 31 December 2010**		**For the six months ending 30 June 2011**		**For the six months ending 31 December 2011**		**For the year ending 31 December 2012**		**Total**
	Action to be taken	*(HK$ million)*	**Action to be taken**	*(HK$ million)*	**Action to be taken**	*(HK$ million)*	**Action to be taken**	*(HK$ million)*	**Action to be taken**	*(HK$ million)*	*(HK$ million)*
Investment in the equipment	—	—	To upgrade the HLR data base system and roaming gateway, so that the Group's system for "One Card Multiple Number" service and Hong Kong local mobile phone services can be compatible with 3G platforms of Hong Kong network operators. After the completion of the first phase of the upgrade, the Group's users of "One Card Multiple Number" service and Hong Kong local mobile phone services can use 3G mobile data services in Hong Kong (while still using the 2G network when roaming in Mainland). The Group may consider to revise its plan tariffs with reference to the local telecommunications market in Hong Kong.	[●]	Continue to upgrade HLR data base system and roaming gateway, so that the Group's system for "One Card Multiple Number" service can be compatible with 3G platform of China network operator. Upon the completion of the second phase of upgrade, the Group's users of "One Card Multiple Number" service can also use 3G mobile data services when roaming in Mainland. The Group may consider to revise its plan tariffs with reference to the local telecommunications market in Mainland.	[●]	—	—	—	—	[●]
Total		—		[●]		[●]		—		—	[●]

Introducing RF-SIM to the Group's mobile phone services in Hong Kong and Macau

	From the Latest Practicable Date to 30 June 2010		For the six months ending 31 December 2010		For the six months ending 30 June 2011		For the six months ending 31 December 2011		For the six month ending 30 June 2012		For the six month ending 31 December 2012		Total
	Action to be taken	*(HK$ million)*	**Action to be taken**	*(HK$ million)*	**Action to be taken**	*(HK$ million)*	**Action to be taken**	*(HK$ million)*	**Action to be taken**	*(HK$ million)*	**Action to be taken**	*(HK$ million)*	*(HK$ million)*
Investment in the equipment	Investing in servers (HK$[●] million) and application system (HK$[●] million) in Hong Kong	[●]	Investing in BOSS system (HK$[●] million), servers (HK$[●] million) and application system (HK$[●] million) in Hong Kong	[●]	Investing in: (1) servers (HK$[●] million) and application system (HK$[●] million) in Macau; and (2) investment in equipment (HK$[●] million) in Hong Kong	[●]	—	—	—	—	—	—	[●]
Purchase of specialised SIM cards for RF-SIM	To develop RF-SIM users' base in Hong Kong by (1) replacing ordinary SIM cards of existing users with RF-SIM cards free of charge or at a preferential price; (2) introducing to new users RF-SIM cards free of charge or at a preferential price or subsidies of usage fee; and (3) promoting to dealers or operators via existing sales channels.	[●]	To develop RF-SIM users' base in Hong Kong by (1) replacing ordinary SIM cards of existing users with RF-SIM cards free of charge or at a preferential price; (2) introducing to new users RF-SIM cards free of charge or at a preferential price or subsidies of usage fee; and (3) promoting to dealers or operators via existing sales channels.	[●]	To develop RF-SIM users' base in Hong Kong and Macau by (1) replacing ordinary SIM cards of existing users with RF-SIM cards free of charge or at a preferential price; (2) introducing to new users RF-SIM cards free of charge or at a preferential price or subsidies of usage fee; and (3) promoting to dealers or operators via existing sales channels.	[●]	To develop RF-SIM users' base in Hong Kong and Macau by (1) replacing ordinary SIM cards of existing users with RF-SIM cards free of charge or at a preferential price; (2) introducing to new users RF-SIM cards free of charge or at a preferential price or subsidies of usage fee; and (3) promoting to dealers or operators via existing sales channels.	[●]	To develop RF-SIM users' base in Hong Kong and Macau by (1) replacing ordinary SIM cards of existing users with RF-SIM cards free of charge or at a preferential price; (2) introducing to new users RF-SIM cards free of charge or at a preferential price or subsidies of usage fee; and (3) promoting to dealers or operators via existing sales channels.	[●]	To develop RF-SIM users' base in Hong Kong and Macau by (1) replacing ordinary SIM cards of existing users with RF-SIM cards free of charge or at a preferential price; (2) introducing to new users RF-SIM cards free of charge or at a preferential price or subsidies of usage fee; and (3) promoting to dealers or operators via existing sales channels.	[●]	[●]
Purchase of RF-SIM card readers	Testing of RF-SIM readers in Hong Kong	[●]	Purchase of RF-SIM card readers for (1) housing estates and car parks; (2) the delivery of commercial advertisements and coupons; and (3) receiving the coupons (all the card readers will be placed in Hong Kong)	[●]	Purchase of RF-SIM card readers for (1) housing estates and car parks; (2) the delivery of commercial advertisements and coupons; and (3) receiving the coupons (Approximately 80% and 20% of the card readers will be placed in Hong Kong and Macau respectively)	[●]	Purchase of RF-SIM card readers for (1) housing estates and car parks; (2) the delivery of commercial advertisements and coupons; and (3) receiving the coupons (Approximately 80% and 20% of the card readers will be placed in Hong Kong and Macau respectively)	[●]	Purchase of RF-SIM card readers for (1) housing estates and car parks; (2) the delivery of commercial advertisements and coupons; and (3) receiving the coupons (Approximately 80% and 20% of the card readers will be placed in Hong Kong and Macau respectively)	[●]	Purchase of RF-SIM card readers for (1) housing estates and car parks; (2) the delivery of commercial advertisements and coupons; and (3) receiving the coupons (Approximately 80% and 20% of the card readers will be placed in Hong Kong and Macau respectively)	[●]	[●]

	From the Latest Practicable Date to 30 June 2010		For the six months ending 31 December 2010		For the six months ending 30 June 2011		For the six months ending 31 December 2011		For the six month ending 30 June 2012		For the six month ending 31 December 2012		Total
	Action to be taken	*(HK$ million)*	**Action to be taken**	*(HK$ million)*	**Action to be taken**	*(HK$ million)*	**Action to be taken**	*(HK$ million)*	**Action to be taken**	*(HK$ million)*	**Action to be taken**	*(HK$ million)*	*(HK$ million)*
Payment for technical fee for the system installation	Outsourcing costs to install card readers and system testing in shops and/or housing estates and/or car parks in Hong Kong	[●]	Outsourcing costs to install card readers and system testing in shops and/or housing estates and/or car parks in Hong Kong	[●]	Outsourcing costs to install card readers and system testing in shops and/or housing estates and/or car parks (Approximately 80% and 20% of the card readers will be located in Hong Kong and Macau respectively)	[●]	Outsourcing costs to install card readers and system testing in shops and/or housing estates and/or car parks (Approximately 80% and 20% of the card readers will be located in Hong Kong and Macau respectively)	[●]	Outsourcing costs to install card readers and system testing in shops and/or housing estates and/or car parks (Approximately 80% and 20% of the card readers will be located in Hong Kong and Macau respectively)	[●]	Outsourcing costs to install card readers and system testing in shops and/or housing estates and/or car parks (Approximately 80% and 20% of the card readers will be located in Hong Kong and Macau respectively)	[●]	[●]
Marketing	To announce the introduction of RF-SIM through promotion campaigns to replace ordinary SIM cards and introduce new users	[●]	To announce the introduction of RF-SIM through promotion campaigns to replace ordinary SIM cards and introduce new users	[●]	—	—	—	—	—	—	—	—	[●]
Human resources	To hire additional staff to carry out promotion and maintenance	[●]	To hire additional staff to carry out promotion and maintenance	[●]	—	—	—	—	—	—	—	—	[●]
Total		[●]		[●]		[●]		[●]		[●]		[●]	[●]

DIRECTORS, SENIOR MANAGEMENT AND STAFF

BOARD OF DIRECTORS

The Board consists of seven Directors, three of whom are independent non-executive Directors. The powers and duties of the Board include convening Shareholders' meetings and reporting the Board's work at Shareholders' meetings, implementing resolutions passed at Shareholders' meetings, determining the Group's business plans and investment plans, formulating the Group's annual budget and final accounts, formulating proposals for profit distributions and for the increase or reduction of share capital as well as exercising other powers, functions and duties as conferred by the Articles of Association. All the executive Directors have entered into service contracts with the Company.

The following table sets forth information regarding the current Directors:

Name	Age	Position
Li Kin Shing (李健誠)	52	Chairman and non-executive Director
Pang Kwok Chau (彭國洲)	49	Chief executive officer and executive Director
Li Wang (李宏)	39	Executive Director
Wong Kin Wa (黃建華)	42	Non-executive Director
Chen Xuedao (陳學道)	67	Independent non-executive Director
Chu, Howard Ho Hwa (朱賀華)	46	Independent non-executive Director
Lee Man Yee, Maggie (李敏怡)	39	Independent non-executive Director

Chairman and non-executive Directors

Mr. Li Kin Shing (李健誠), aged 52, is the chairman and a non-executive Director of the Company. Mr. Li has over 21 years of experience in the telecommunications industry. Mr. Li is an executive director and chief executive officer of International Elite Ltd., a company listed on the Main Board and controlled by Mr. Li and his spouse Ms. Kwok King Wa. 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 of which its total revenue amounted to approximately RMB346.5 million as at 31 December 2009 according to annual report filed with the U.S. Securities and Exchange Commission. Save as disclosed herein, Mr. Li has not been a director of any publicly listed company during the three years preceding the date of this document. He was appointed as the chairman and non-executive Director on 31 August 2009.

Executive Directors

Mr. Pang Kwok Chau (彭國洲), aged 49, is the chief executive officer and an executive Director of the Company. 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 16 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. Mr. Pang has not been a director of any publicly listed company during the three years preceding the date of this document. He was appointed as an executive Director on 31 August 2009.

Mr. Li Wang (李宏), aged 39, is the executive Director of the Company. He is responsible for the overall management, corporate planning and business development of the Group. Mr. Li has over 7 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. Mr. Li has not been a director of any publicly listed company during the three years preceding the date of this document. He was appointed as an executive Director on 31 August 2009.

Non-executive Director

Mr. Wong Kin Wa (黃建華), aged 42, is a non-executive Director of the Company. Mr. Wong obtained a diploma in Auditing from Guangzhou Radio & TV University in 1988. Mr. Wong has over 10 years of finance and marketing experience, in particular in the telecommunications industry in Hong Kong and Macau. Mr. Wong is an executive director and chief financial officer of IEL, a company listed on the Main Board and controlled by Mr. Li Kin Shing and his spouse, Ms. Kwok King Wa. 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. Save as disclosed herein, Mr. Wong has not been a director of any publicly listed company during the three years preceding the date of this document. He was appointed as a non-executive Director on 31 August 2009.

Independent Non-executive Directors

Mr. Chen Xue Dao (陳學道), aged 67, was appointed as an independent non-executive Director on 20 May 2010. Mr. Chen is currently a member of the Telecommunications Technology Committee of the Ministry of Information Industry of the PRC (中國信息產業部通信科學技術委員會), member of the Economic Specialists in the Telecommunications Committee of the Ministry of Information Industry of the PRC (中國信息產業部電信經濟專家委員會), fellow member of the China Institute of Communications (中國通信學會), chairman of the Guangdong Institute of Communications (廣東省通信學會), honorable chairman of Guangdong Communication Industry Association (廣東省通信行業協會), honorable chairman of Guangdong Internet Society (廣東省互聯網協會) and committee member of the Guangdong Provincial Association for Science and Technology (廣東省科學技術協會). Mr. Chen also 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. Mr. Chen has been an independent non-executive director of IEL since 2007. Save as disclosed herein, Mr. Chen has not been a director of any publicly listed company during the three years preceding the date of this document.

Mr. Chu Howard Ho Hwa (朱賀華), aged 46, was appointed as an independent non-exective Director on 20 May 2010. Mr. Chu has over 10 years of business experience and over 4 years of experience in corporate governance. He is currently the chief financial officer of Trony Solar Holdings Co., Ltd. and has previously worked for Shanghai Century Acquisition Corporation, a company listed on the American Stock Exchange, and United Energy Group Limited, a company listed on the Stock Exchange. Mr. Chu obtained a master degree of business administration from the Columbia University and a bachelor degree of science from the University of Rochester in 1999 and 1986 respectively. In the three years preceding the date of this document, Mr. Chu did not hold any directorship in listed public companies.

Ms. Lee Man Yee, Maggie (李敏怡), aged 39, was appointed as an independent non-executive Director on 20 May 2010. Ms. Lee has over 10 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. In the three years preceding the date of this document, Ms. Lee did not hold any directorship in listed public companies.

SENIOR MANAGEMENT

Name	Age	Group Position
Chan Wai Ching (陳惠貞)	48	Company secretary
Wu Guo Neng (伍國能)	31	Finance manager
Hui Luen Sing, Anthony (許聯星)	43	Information technology and network manager

Ms. Chan Wai Ching (陳惠貞), aged 48, joined the Group in 2009 and was appointed as the Company's company secretary on 6 August 2009. Ms. Chan has over 25 years of experience in accounting, finance, taxation and corporate governance and is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Ms. Chan holds a master degree of professional accounting from The Hong Kong Polytechnic University. Ms. Chan has been the qualified accountant and company secretary of IEL since June 2007.

Mr. Wu Guo Neng (伍國能), aged 31, joined the Group in 2009 and is the finance manager of the Group. He is responsible for the financial and accounting issues of the Group. Prior to joining the Group, Mr. Wu served as the senior accounting officer of 廣州盛華信息有限公司 (China Elite Info. Co. Ltd. (Guangzhou)) from 2007. Mr. Wu has more than 8 years of experience in accounting and worked in KPMG China for more than 6 years. Mr. Wu is a member of Chinese Institute of Certified Public Accountants (中國註冊會計師協會) and obtained a bachelor degree of accountancy from the Sun Yat-Sen University (中山大學).

Mr. Hui Luen Sing, Anthony (許聯星), aged 43, joined the Group in 2006 and has been the manager of the information technology and network department of the Group since 2006. He is responsible for the overall management and to provide advice on various information technology and network technical issues to the Group. Mr. Hui has more than 20 years of experience in telecommunications industry. Prior joining the Group, Mr. Hui has worked for several telecommunications service providers for over 10 years. Mr. Hui obtained a certificate in electronics from the Vocational Training Council and completed a certificate programme on supervisory of management for managers from The Hong Kong Management Association.

COMPANY SECRETARY

Ms. Chan Wai Ching is the company secretary of the Company. Details of the qualification and experience of Ms. Chan are set out in "Senior Management" in this section.

COMPLIANCE OFFICER

Mr. Pang Kwok Chau is the compliance officer of the Company. Details of the qualification and experience of Mr. Pang are set out in "Board of Directors" in this section.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company reimburses the Directors for expenses which are necessarily and reasonably incurred for providing services to the Group or executing their functions in the Group's operations. When reviewing and determining the specific remuneration packages for the executive Directors and senior management, the remuneration committee takes into consideration factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment and services elsewhere in the Group and desirability of performance-based remuneration.

For the three years ended 31 December 2009, the total remuneration (comprising basic salaries, housing allowances, other allowances, pension and benefits) paid to the executive Directors was approximately HK$551,000, HK$553,000 and HK$625,000 respectively. The aggregate remuneration payable to the executive Directors for the year ending 31 December 2010 is estimated to be approximately [HK$796,000]. The Company also expects to pay the non-executive Directors and independent non-executive Directors approximately [HK$247,000] for their services, for the year ending 31 December 2010.

AUDIT COMMITTEE

The Company has established an audit committee on 20 May 2010 with written terms of reference in compliance with Rules 5.28 and 5.29 of the GEM Listing Rules. The primary duties of the audit committee are, among other things, to review and supervise the financial reporting process and internal control system of the Group. The audit committee has three members comprising the three independent non-executive Directors and Ms. Lee Man Yee, Maggie has been appointed as the chairman of the audit committee.

REMUNERATION COMMITTEE

The Company has established a remuneration committee on 20 May 2010 with written terms of reference in compliance with the Code on Corporate Governance Practices 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. Mr. Li Kin Shing 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.

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. Mr. Pang Kwok Chau has been appointed as the chairman of the nomination committee. The nomination committee is mainly responsible for making recommendations to the Board on appointment of Directors and succession planning for the Directors.

EMPLOYEES

As at 30 April 2010, the Group has a total of 13 employees. The following table shows a breakdown of the employees of the Group by their functions:

Functions	No. of employees
Management	2
Company Secretary	1
Financial and accounting	2
Sales and marketing	1
Information technology, repair and maintenance	3
Customer service	2
Administration and human resources	2
	13

The Group recognises the importance of maintaining a good relationship with its employees. The remuneration payable to its employees includes salaries and allowances. The Group also provides medical insurance to its employees.

During the Track Record Period, the Group has not experienced any significant problems with its employees or disruption to its operations due to labour disputes, nor has it experienced any difficulties in its recruitment and retention of experienced staff. The Directors believe that the Group has a good working relationship with its employees.

PROVIDENT FUND

The Group provides a mandatory provident fund scheme for its employees pursuant to the Mandatory Provident Fund Schemes Ordinance. Under the mandatory provident fund scheme, the Group and its employees have to contribute an amount equal to 5% of the relevant income (including wages, salaries, leave pay, fees, commissions, bonuses, gratuity perquisites and allowances, but excluding housing allowances or housing benefits) of such staff to the mandatory provident fund scheme, subject to a minimum and maximum level of the monthly relevant income of HK$5,000 and HK$20,000 respectively.

SHARE OPTION SCHEME

The Company has conditionally adopted the Share Option Scheme on 20 May 2010. The purpose of this scheme is to provide the people and the parties working for the interests of the Group with an opportunity to obtain an equity interest in the Company, thus linking their interest with the interest of the Group and thereby providing them with an incentive to work better for the interest of the Group. No share option has been granted pursuant to the Share Option Scheme as at the Latest Practicable Date. Please refer to "Appendix V — Statutory and General Information — Share Option Scheme" to this document.

SUBSTANTIAL SHAREHOLDERS AND SIGNIFICANT SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, immediately following completion of the [●] (but without taking into account of any Shares which may be allotted and issued upon the exercise of the [●] and any options which may be granted under the Share Option Scheme), the following persons/entities will have interests and/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, will be directly or indirectly interested in 10% or more of the voting power at general meetings of the Company:

Name	**Capacity/Nature of Interest**	**Number of Shares held immediately after the [●]**	**Position**	**Approximate percentage of shareholding in the Company immediately after the [●]**
New Everich *(Note 1)*	Beneficial owner	[●] *(Note 3)*	Long	[●]%
Mr. Li Kin Shing *(Note 2)*	Interest of controlled corporation	[●] *(Note 3)*	Long	[●]%
Ms. Kwok King Wa *(Note 2)*	Interest of controlled corporation	[●] *(Note 3)*	Long	[●]%

Notes:

(1) New Everich, a company incorporated on 23 April 2009 under the laws of the BVI with limited liability, is owned by Mr. Li Kin Shing and Ms. Kwok King Wa as to 54% and 46% respectively.

(2) Mr. Li Kin Shing and Ms. Kwok King Wa were brought up in the PRC. They have never been full time government officials of any country nor full time employees of a state or government-owned or operated entity for a substantial period of time.

(3) The [●] 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, each of Mr. Li Kin Shing and Ms. Kwok King Wa is deemed to be interested in the [●] Shares under the SFO.

MANAGEMENT SHAREHOLDERS

So far as the Directors are aware, immediately following completion of the [●] (but without taking into account of any Shares which may be allotted and issued upon the exercise of the [●] and any options which may be granted under the Share Option Scheme), the following persons individually and/or collectively are entitled to exercise or control the exercise of 5% or more of the voting power at the general meetings of the Company and are able, as a practical matter, to direct or influence the management of the Company immediately prior to the date of this document and/or immediately prior to the [●] and are therefore regarded as Management Shareholders under the GEM Listing Rules:

Name	**Capacity/Nature of Interest**	**Number of Shares held immediately after the [●]**	**Position**	**Approximate percentage of shareholding in the Company immediately after the [●]**
New Everich *(Note 1)*	Beneficial owner	[●] *(Note 3)*	Long	[●]%
Mr. Li Kin Shing *(Note 2)*	Interest of controlled corporation	[●] *(Note 3)*	Long	[●]%
Ms. Kwok King Wa *(Note 2)*	Interest of controlled corporation	[●] *(Note 3)*	Long	[●]%

Notes:

(1) New Everich, a company incorporated on 23 April 2009 under the laws of the BVI with limited liability, is owned by Mr. Li Kin Shing and Ms. Kwok King Wa as to 54% and 46% respectively.

(2) Mr. Li Kin Shing is the chairman of the Company and a non-executive Director. Ms. Kwok King Wa is his spouse. As each of Mr. Li Kin Shing and Ms. Kwok King Wa, by virtue of his/her indirect shareholding in the Company through New Everich, is individually and/or collectively entitled to exercise, or control the exercise of 5% or more of the voting power at the general meetings of the Company and/or is able to directly or indirectly influence the management of the Company immediately prior to the [●], each of them is therefore a Management Shareholder under the GEM Listing Rules.

(3) The [●] 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, each of Mr. Li Kin Shing and Ms. Kwok King Wa is deemed to be interested in the [●] Shares under the SFO.

SIGNIFICANT SHAREHOLDERS

So far as the Directors are aware, save for the persons disclosed under "Substantial Shareholders" and "Management Shareholders" in this section above, there are no other persons who will immediately following completion of the [●] (but without taking into account of any Shares which may be allotted and issued upon the exercise of the [●] and any options which may be granted under the Share Option Scheme) be directly or indirectly interested in 5% or more of the voting power at the general meetings of the Company and are therefore regarded as significant shareholders of the Company under the GEM Listing Rules.

UNDERTAKING

Pursuant to Rule 13.16A(1) of the GEM Listing Rules, each of the Controlling Shareholders has undertaken to the Stock Exchange that he, she or it shall not and shall procure that the relevant registered holder(s) shall not:

(a) in the period commencing on the date of this document and ending on the date which is six months from the [●] (the "**First Six-Month Period**") dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the securities of the Company in respect of which he, she or it is shown by this document to be the beneficial owner; or

(b) in the period of six months commencing on the date on which the period referred to in (a) above expires (the "**Second Six-Month Period**"), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the securities referred to in (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances the Controlling Shareholders would, either individually or taken together with the others of them, cease to be a Controlling Shareholder.

Each of the Controlling Shareholders has also undertaken to the Stock Exchange and the Company to comply with the following requirements:

(i) in the event that the Controlling Shareholder pledges or charges any direct or indirect interest in the relevant securities referred to in (a) above in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)), as security for a bona fide commercial loan or pursuant to any right or waiver granted by the Stock Exchange pursuant to Rule 13.18(4) of the GEM Listing Rules, at any time during the period commencing on the date of this document and ending on the date which is six months from the [●], he or she or it must inform the Company immediately thereafter, disclosing the details specified in Rules 17.43(1) to (4) of the GEM Listing Rules; and

(ii) when he or she or it receives indications, either verbal or written, from the pledge or chargee that any of the pledged or charged securities will be disposed of, immediately inform the Company of such indications.

The Company will inform the Stock Exchange as soon as the Company has been informed of the matters referred to above by way of the Controlling Shareholders and disclose such matters by way of announcement pursuant to the requirements under the Rule 17.43 of the GEM Listing Rules as soon as possible.

SHARE CAPITAL

The registered share capital of the Company, issued or to be issued, fully paid or credited as fully paid are as follows:

Authorised:		*HK$*
4,000,000,000	Shares	40,000,000

General mandate to issue Shares

Subject to the [●], the Directors have been granted a general unconditional mandate to allot and issue and deal with the unissued Shares with an aggregate nominal value of not more than:

(a) 20% of the aggregate nominal value of the share capital of the Company in issue immediately following the completion of the [●] but excluding Shares to be issued pursuant to the exercise of the [●]; and

(b) the aggregate nominal value of the share capital of the Company repurchased by the Company (if any) pursuant to the general mandate to repurchase Shares as described below.

The Directors may, in addition to the Shares which they are authorised to issue under the mandate, allot, issue and deal in the Shares pursuant to a rights issue, an issue of Shares pursuant to the exercise of subscription rights attaching to any warrants of the Company, scrip dividends or similar arrangements or options to be granted under the Share Option Scheme or any other option scheme or similar arrangement for the time being adopted.

General mandate to repurchase Shares

Subject to the [●], the Directors have been granted a general unconditional mandate to exercise all the powers of the Company to repurchase Shares with a total nominal value of not more than 10% of the aggregate nominal value of the share capital of the Company in issue following the completion of the [●] but excluding any Shares to be issued under the [●].

This mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and which are in accordance with all applicable laws and the requirements of the GEM Listing Rules. A summary of the relevant GEM Listing Rules is set out in "Appendix V — Repurchase by the Company of its own Shares" to this document.

The general mandates to issue and repurchase Shares will expire:

- at the conclusion of the next annual general meeting of the Company;

- at the expiration of the period within which the next annual general meeting of the Company is required by any applicable law of Cayman Islands or the Articles to be held; or

- when varied, revoked or renewed by an ordinary resolution of the Shareholders in general meeting,

whichever is the earliest.

For further details of these general mandates, please refer to the "Appendix V — Written resolutions of the Shareholders passed on 20 May 2010" and "Appendix V — Repurchase by the Company of its own Shares" to this document.

OVERVIEW

The Group is a MVNO which is principally engaged in the provision of mobile phone services. The Group has been principally engaged in the provision of "One Card Multiple Number" service under the brand names of "China-HK Telecom/中港通" and "Directel/直通" in Hong Kong since 2003.

The Group's revenue is mainly derived from the provision of telecommunications services, including (i) the provision of mobile phone services (for "One Card Multiple Number" service and Hong Kong local mobile phone services); (ii) resale of airtime to MNOs; (iii) telesales dealership services; and (iv) other services which accounted for approximately 78.1%, 9.7%, 11.2% and 1.0% of the Group's revenue for the year ended 31 December 2009 respectively. The Group's mobile phone services comprise the "One Card Multiple Number" service and Hong Kong local mobile phone services, in which the former is the Group's major source of revenue and accounted for approximately 54.4%, 51.9% and 58.3% of the Group's total revenue for the three years ended 31 December 2009 respectively. For the three years ended 31 December 2009, the total revenue of the Group was approximately HK$54.7 million, HK$46.2 million and HK$51.9 million respectively, and its net profit was approximately HK$10.7 million, HK$8.8 million and HK$10.1 million respectively. Accordingly, the net profit increased by approximately 14.8% in 2009 when compared with that of 2008, and the increase was mainly due to (i) the increase in the revenue; (ii) the decrease in the unit cost of the Group's China airtime resulting from the decrease in the selling price of domestic roaming airtime by approximately 56.0% by the Group's China airtime service provider since 1 May 2008 which resulted in a decrease in cost of sales of the Group; and (iii) the recognition of exchange gain in 2009.

For the three years ended 31 December 2009, the revenue derived from the Group's resale of airtime to MNOs accounted for approximately 18.5%, 15.4% and 9.7% of the total revenue of the Group respectively, whereas the revenue derived from the Group's provision of telesales dealership services accounted for approximately 18.5%, 19.8% and 11.2% of the total revenue of the Group respectively. The Group's gross profit margin in respect of its telesales dealership services ranged from approximately -0.2% to 2.2% during the Track Record Period. Despite the low profit margin recorded for the telesales dealership services, the Group still retains the provision of these services to maintain a strategic relationship with its major customers.

The Directors are of the view that although the financial performance of the Group was impacted by the global economic crisis in the second half of 2008, such impact was not severe. Following the recovery of the global economy during the year of 2009, the Group's financial performance in 2009 was improved.

FACTORS AFFECTING THE GROUP'S RESULTS OF OPERATIONS

The Directors consider the factors set forth below may have affected the Group's business and historical financial results and may also affect its future financial results. The following should be read in conjunction with "Risk Factors" and "Regulations" of this document.

1. Development and trends of the market and industry

The Group's results of operations are significantly affected by developments and trends in the mobile telecommunications market and industry in which it operates. These developments and trends include the increase in competition and decline in tariffs, high levels of customer penetration and usage, technological advances in services and equipment, the issuance of new spectrum licences, changes in regulatory policies and consolidation within the telecommunications industry. Please refer to "Risk Factors — Risk relating to the Group", "Risk Factors — Risk relating to the Industry" and "Regulations" of this document.

2. The Group's ability to maintain competitiveness in the market

The competition in the industry which the Group operates is fierce and the substantiality of the financial results of the Group is significantly dependent on its ability to maintain its competiveness in the market. Please refer to "Risk Factors — Risks relating to the Group — The Group's services encounter intense competition in the Hong Kong mobile telecommunications market which could materially and adversely affect its financial performance" of this document.

3. Substantial reliance on several telecommunications service providers

As the Group is a MVNO, its operation substantially relies on services provided by its telecommunications service providers. In the event that any of the Group's telecommunications service providers terminates its contractual relationships with the Group, or cannot provide services to the Group due to various reasons or significantly increase the airtime costs, the results of operations of the Group would be materially and adversely affected. Please refer to "Risk Factors — Risks relating to the Group — The Group's operation substantially relies on services provided by several third party telecommunications service providers and any termination or discontinuation of services would materially and adversely affect the Group's operation and financial performance" of this document.

4. Reliance on major customers

The Group's top five customers accounted for approximately 49.4%, 46.2% and 50.0% of the Group's total turnover for the three years ended 31 December 2009 respectively. The Group expects that a significant portion of its turnover will continue to be derived from its top five customers. The Group's revenue could be materially and adversely affected if any of its major customers significantly reduces the amount of purchases or ceases to procure services provided by the Group. Please refer to "Risk Factors — Risks relating to the Group — A substantial amount of the Group's revenue is derived from its major customers" of this document.

5. Changes in economic conditions

The Group's results of operations are primarily affected by economic conditions in Hong Kong and China. The Group's results of operations may also be affected by the economic conditions in Taiwan as the Group's service extends to such region. As the Group had no material bank borrowings or loans in relation to its operation and business during the Track Record Period, the global economic crisis did not have any material impact on the Group's financial performance during the global economic crisis in 2008. However, during the period of slow economic growth, demand for mobile telecommunications services may be adversely affected, which would affect the Group's results of operations accordingly. Please refer to "Risk Factors — Risks relating to the Group — The Group's business may be adversely affected by the recent global economic crisis and other events affecting Hong Kong and the PRC" of this document.

6. Non-recurring expenses

The accrual or payment of non-recurring expenses (e.g. tax penalties, fines or [●]) may affect the Group's results of operations. As disclosed in "Business — Legal Compliance and Proceedings — Failure to inform the IRD of its chargeability to Hong Kong profits tax for the years from 2002 to 2008" of this document, the Group has made provision for the estimated potential tax penalty of approximately HK$0.5 million in relation to Elitel's tax position for the years from 2002 to 2008 in its audited consolidated financial statements. Further, as disclosed in "Business — Legal Compliance and Proceedings — Failure to register under Part XI of the Companies Ordinance" of this document, the Group has not made any provision in relation to such breach as the amount of obligation cannot be measured with sufficient reliability. The Group may be required to pay for the penalty in relation to such breach in the future. Such kind of non-recurring expenses may affect the Group's results of operation in the future.

BASIS OF PRESENTATION

Mr. Li Kin Shing and Ms. Kwok King Wa owned various companies incorporated in the Cayman Islands and Hong Kong which are principally engaged in the provision of telecommunications services. To rationalise the Group's structure in preparation for the [●], the companies comprising the Group underwent the Reorganisation, as detailed in "Appendix V — 1. Further Information about the Company and its Subsidiaries — D. Corporate Reorganisation" to this document. As a result, the Company became the immediate holding company of the Group.

As the companies that took part in the Reorganisation were controlled by the same group of ultimate equity holders, Mr. Li Kin Shing and Ms. Kwok King Wa (referred to as the "controlling shareholders"), before and after the Reorganisation and, consequently, there was a continuation of the risks and benefits to the controlling shareholders and therefore this is considered as a business combination under common control and merger accounting has been applied in the accounting for the Reorganisation. The consolidated income statements, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements of the Group as set out in Appendix I to this document include the results of operations of the Group for the Track Record Period as if the Reorganisation was completed at the beginning of the Track Record Period. The consolidated balance sheets of the Group as at 31 December 2007, 2008 and 2009 as set out in Appendix I to this document have been prepared to present the state of affairs of the Group as at those dates.

All material intra-group transactions and balances have been eliminated on consolidation.

SIGNIFICANT ACCOUNTING POLICIES

The financial information set out in the Accountants' Report in Appendix I to this document has been prepared in accordance with the IFRSs. The preparation of the Group's financial information 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.

The selection of significant accounting policies, the judgement 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 consolidated financial information as set out in Appendix I to this document. The significant accounting policies are set forth in Section C of the Accountants' Report in Appendix I to this document. The Directors believe that the following significant accounting policies involve the most significant judgements and estimates used in the preparation of the financial information as set out in Appendix I to this document.

The International Accounting Standards Board has issued a number of new and revised IFRSs. For the purpose of preparing the financial information as set out in Appendix I to this document, the Group has adopted all these new and revised IFRSs to the Track Record Period, except for any new standards or interpretations that are not yet effective for the accounting year ended 31 December 2009. The possible impact of the revised and new accounting standards and interpretations issued but not yet effective for the accounting year beginning 1 January 2009 are set out in Note 24 of the Accountants' Report as included in Appendix I to this document.

The financial information as set out in Appendix I to this document also complies with the disclosure requirements of the Companies Ordinance and the applicable disclosure provisions of the GEM Listing Rules.

The accounting policies set out in the Accountants' Report in Appendix I to this document have been applied consistently to all periods presented in the financial information as set out in Appendix I to this document.

Property, plant and equipment

Property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses.

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:

• Furniture and fixtures	5 years
• Facilities equipment	5 years
• Office equipment	5 years

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

Impairment of assets

(i) ***Impairment of trade and other receivables***

Trade and other receivables that are stated at amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, any impairment loss is determined and recognised as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

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

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) ***Impairment of other assets***

Internal and external sources of information are reviewed at each balance sheet date to identify indications that property, plant and equipment may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated.

— *Calculation of recoverable amount*

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

— *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the other assets in the cash-generating 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 to sell, or value in use, if determinable.

— *Reversals of impairment losses*

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

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.

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, cost of conversion 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 of completion and 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.

Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

Trade and other payables

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

Income tax

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, 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 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 balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date 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.

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 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 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.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Revenue from the provision of telecommunications services through pre-paid and post-paid plans is recognised when services have been rendered (i.e. when the airtime is actually used by users after activating the SIM cards). In particular, revenue generated from pre-paid plans is recognised when users use the services after the pre-paid SIM cards are activated.

(ii) Revenue from the provision of telesales dealership services is recognised when the services have been rendered and the Group has obtained the rights to demand payment for the services rendered.

(iii) Interest income is recognised as it accrues using the effective interest method.

SUMMARY OF RESULTS OF OPERATIONS

The table below sets forth the Group's consolidated income statements during the Track Record Period:

	For the year ended 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	54,650	46,164	51,875
Cost of sales	(30,921)	(24,738)	(25,594)
Gross profit	23,729	21,426	26,281
Other revenue	310	97	2
Administrative expenses	(10,822)	(11,948)	(18,020)
Profit from operations	13,217	9,575	8,263
Finance income	130	16	2,786
Finance costs	(1,545)	(1,159)	—
Net finance (costs)/income	(1,415)	(1,143)	2,786
Profit before taxation	11,802	8,432	11,049
Income tax	(1,138)	361	(910)
Profit for the year attributable to equity shareholders of the Company	10,664	8,793	10,139
Earnings per share			
Basic and diluted earnings per share	HK$0.014	HK$0.012	HK$0.014

OVERVIEW OF MAJOR INCOME STATEMENT ITEMS

Revenue

The Group's revenue is mainly derived from the provision of mobile phone services, resale of airtime to MNOs, telesales dealership services and other services. The Group's mobile phone services comprise "One Card Multiple Number" service and Hong Kong local mobile phone services, whereas its other services comprise CDMA network maintenance services and personal ring back tone services. The following table sets forth the breakdown of the Group's revenue during the Track Record Period:

	For the year ended 31 December					
	2007		2008		2009	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
"One Card Multiple Number" service						
i. Under the Group's brand names						
- pre-paid plans	15,732	28.8	14,568	31.5	15,780	30.4
- post-paid plans	10,855	19.9	7,386	16.0	5,019	9.6
ii. Not under the Group's brand names						
- local dealers	3,133	5.7	2,020	4.4	9,474	18.3
Subtotal	29,720	54.4	23,974	51.9	30,273	58.3
Hong Kong Local Mobile Phone Services						
i. Under the Group's brand names						
- pre-paid plans	—	—	1,054	2.3	3,872	7.5
ii. Not under the Group's brand names						
- local dealers	343	0.6	878	1.9	6,360	12.3
Subtotal	343	0.6	1,932	4.2	10,232	19.8
Total of Mobile Phone Services	30,063	55.0	25,906	56.1	40,505	78.1
Resale of Airtime to MNOs	10,098	18.5	7,087	15.4	5,050	9.7
Telesales Dealership Services	10,135	18.5	9,162	19.8	5,817	11.2
Other Services	4,354	8.0	4,009	8.7	503	1.0
Total	54,650	100.0	46,164	100.0	51,875	100.0

Mobile phone services

The Group's revenue derived from the provision of mobile phone services decreased by approximately 14.0% from approximately HK$30.1 million in 2007 to approximately HK$25.9 million in 2008. The decrease was mainly due to the decline in total China and Hong Kong airtime consumed by its users as a result of the global economic crisis, despite the increase in the number of the Group's users in 2008.

The Group's revenue derived from the provision of mobile phone services increased by approximately 56.4% from approximately HK$25.9 million in 2008 to approximately HK$40.5 million in 2009, of which the revenue derived from the provision of "One Card Multiple Number" service increased by approximately 26.3%. The increase was mainly attributable to the additional sales of the "One Card Multiple Number" service to a newly secured dealer of the Group in 2009. On the other hand, the revenue derived from the provision of Hong Kong local mobile phone services increased by approximately 436.8% in 2009. The significant increase in the revenue derived from the provision of Hong Kong local mobile phone services was mainly attributable to the two newly secured dealers which purchased Hong Kong airtime from the Group for the provision of Hong Kong local mobile phone services in 2009.

Resale of airtime to MNOs

The Group resells Hong Kong airtime to China Unicom Guangdong and China airtime to PCCW Mobile and Hutchison, through the Group's "One Card Multiple Number" system. The Group's revenue derived from resale of airtime to MNOs decreased by approximately 29.7% from approximately HK$10.1 million in 2007 to HK$7.1 million in 2008, and decreased by approximately 28.2% from approximately HK$7.1 million in 2008 to approximately HK$5.1 million in 2009. The decrease was mainly due to the decline in the demand for airtime from the MNOs.

Telesales dealership services

The Group provided telesales dealership services to two major MNOs in Hong Kong for maintaining a strategic relationship with such operators. The Group's revenue derived from the provision of telesales dealership services decreased during the Track Record Period. The decrease was mainly attributable to the reduction in outsourced telesales volume by the Group's customers.

Other services

The Group offered CDMA network maintenance services to its customer in 2007 and 2008, and personal ring back tone services to a major MNO during the Track Record Period. The Group's CDMA network maintenance services accounted for approximately 5.5% and 4.9% of the Group's total revenue for the two years ended 31 December 2008 respectively, while the Group's personal ring back tone services accounted for approximately 2.5%, 3.8% and 1.0% respectively of the total revenue of the Group during the Track Record Period. The Group has ceased to offer CDMA network maintenance services and personal ring back tone services since November 2008 and April 2009 respectively.

ARPU analysis

The following table sets forth the breakdown of the Group's revenue, monthly average number of activated phone numbers and ARPU of its mobile phone services during the Track Record Period:

	For the year ended 31 December 2007			For the year ended 31 December 2008			For the year ended 31 December 2009		
	Revenue *HK$'000*	**Monthly average number of activated phone numbers (Notes 1, 2 and 3)**	**ARPU (Note 4)** *HK$*	**Revenue** *HK$'000*	**Monthly average number of activated phone numbers (Notes 1, 2 and 3)**	**ARPU (Note 4)** *HK$*	**Revenue** *HK$'000*	**Monthly average number of activated phone numbers (Notes 1, 2 and 3)**	**ARPU (Note 4)** *HK$*
"One Card Multiple Number" Service									
i. Under the Group's brand names									
- pre-paid plans	15,732	24,503	53.5	14,568	46,113	26.3	15,780	57,140	23.0
- post-paid plans	10,855	2,975	304.1	7,386	2,315	265.9	5,019	1,910	219.0
ii. Not under the Group's brand names									
- local dealers (Note 5)	3,133	1,634	159.8	2,020	1,236	136.2	9,474	16,622	47.5
Subtotal	29,720	29,112	85.1	23,974	49,664	40.2	30,273	75,672	33.3
Hong Kong Local Mobile Phone Services									
i. Under the Group's brand names									
- pre-paid plans	—	—	—	1,054	1,194	73.6	3,872	13,268	24.3
ii. Not under the Group's brand names									
- local dealers (Note 5)	343	1,729	16.5	878	8,010	9.1	6,360	20,813	25.5
Subtotal	343	1,729	16.5	1,932	9,204	17.5	10,232	34,081	25.0
Total of Mobile Phone Services	30,063	30,841	81.2	25,906	58,868	36.7	40,505	109,753	30.8

Notes:

(1) The monthly average number of activated phone numbers equals to the sum of the number of activated phone numbers as at the month-ends divided by 12 for the computation of each of the three years ended 31 December 2009.

(2) Once the Group's pre-paid SIM card is activated, such activated pre-paid SIM card would be counted as an activated pre-paid phone number of the Group upon the time of activation. Activated pre-paid SIM cards are those pre-paid SIM cards which have been sold, not expired and have been used at least once or activated by customers.

(3) The number of pre-paid SIM cards excludes both airtime and/or value of expired cards and cards kept in stock by dealers.

(4) ARPU is calculated by the respective service revenue under mobile phone services during the year divided by 12, divided by the monthly average number of activated phone numbers in that year, on a twelve-month basis.

(5) Activated phone numbers sold by local dealers not under the Group's brand names are regarded as activated phone numbers of the Group as (i) the relevant Hong Kong phone number is owned and assigned by the Group; (ii) the requisite licence fee payable to OFTA for these Hong Kong phone numbers are borne by the Group; and/or (iii) the bundling of the China airtime and Hong Kong airtime is provided by the Group's telecommunications system.

Cost of sales

The Group's cost of sales mainly consists of the purchase of airtime and IDD services from MNOs and telecommunications service providers, inventory costs, circuit leasing and outsourcing costs, including customer hotline and BIS services, telesales and fulfillment services, from third party and connected service providers. In particular, fulfilment services comprise the implementation of telesales order by performing credit check on the users, preparing the service agreement between the telecommunications service provider and the user in addition to other documents, explaining the terms of the service agreement to the users before signing and providing the SIM card to the user. The following table sets forth the breakdown of the Group's cost of sales in respect of its major cost items during the Track Record Period:-

	For the year ended 31 December					
	2007		**2008**		**2009**	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Purchase of airtime and IDD services from MNOs and telecommunications service providers	17,350	56.1	13,183	53.3	16,941	66.2
Inventory costs	99	0.3	83	0.3	1,033	4.1
Circuit leasing	1,031	3.4	205	0.8	210	0.8
Outsourcing costs						
- customer hotline and BIS services	2,285	7.4	2,288	9.3	1,722	6.7
- telesales and fulfillment services	10,156	32.8	8,979	36.3	5,688	22.2
Total	30,921	100.0	24,738	100.0	25,594	100.0

As shown in the above table, purchase of airtime and IDD services from MNOs and telecommunications service providers was the most significant cost item of the Group during the Track Record Period, which accounted for approximately 56.1%, 53.3% and 66.2% of the total cost of sales of the Group for the three years ended 31 December 2009 respectively.

The following table sets forth the breakdown of the Group's cost of sales in respect of its services provided during the Track Record Period:-

	For the year ended 31 December					
	2007		**2008**		**2009**	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Mobile phone services and resale of airtime to MNOs	20,765	67.2	15,759	63.7	19,906	77.8
Telesales dealership services	10,156	32.8	8,979	36.3	5,688	22.2
Total	30,921	100.0	24,738	100.0	25,594	100.0

The Group's cost of sales increased by approximately 3.6% from approximately HK$24.7 million in 2008 to approximately HK$25.6 million in 2009, in which the cost of sales in respect of the provision of mobile phone services and resale of airtime to MNOs increased by approximately 26.3% whereas the cost of sales in respect of the provision of telesales dealership services decreased by approximately 36.7%. The cost of sales was in line with the respective changes regarding the revenue derived from the Group's provision of mobile phone services and resale of airtime to MNOs as well as provision of telesales dealership services.

The Group's cost of sales decreased by approximately 20.1% from approximately HK$30.9 million in 2007 to approximately HK$24.7 million in 2008, in which the cost of sales in respect of the provision of mobile phone services and resale of airtime to MNOs decreased by approximately 24.1% whereas the cost of sales in respect of telesales dealership services decreased by approximately 11.6%. As the revenue derived from the Group's provision of mobile phone services and resale of airtime to MNOs as well as telesales dealership services decreased, their respective cost of sales decreased accordingly.

Other revenue

The Group's other revenue are mainly miscellaneous revenue.

Administrative expenses

The Group's administrative expenses mainly consist of staff costs, depreciation, licence charges, selling and distribution expenses, rental expenses, repair and maintenance expenses, office expenses, data processing and billing management service charges as well as [●].

The following table sets forth the breakdown of the Group's administrative expenses during the Track Record Period:-

	For the year ended 31 December					
	2007		2008		2009	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Staff costs	2,760	25.5	3,265	27.3	2,955	16.4
Depreciation	2,620	24.2	1,784	14.9	1,475	8.2
Licence charges	1,455	13.5	2,101	17.6	1,791	9.9
Selling and distribution expenses	1,722	15.9	2,050	17.2	2,490	13.8
Rental expenses	480	4.4	480	4.0	514	2.9
Repair and maintenance expenses	213	2.0	345	2.9	345	1.9
Office expenses	589	5.4	466	3.9	673	3.7
Data processing and billing management service charges	360	3.3	360	3.0	360	2.0
Donation	—	—	400	3.4	—	—
Auditor remuneration	72	0.7	73	0.6	73	0.4
Bad debts written off	55	0.5	191	1.6	107	0.6
Allowance for doubtful debts	—	—	—	—	302	1.7
[●]	—	—	—	—	5,911	32.8
Others	496	4.6	433	3.6	1,024	5.7
Total	10,822	100.0	11,948	100.0	18,020	100.0

Net finance costs/income

The Group's net finance costs/income mainly consist of bank interest income and foreign exchange loss/gain.

Income tax

The income tax imposed on the Group consists of the profits tax of Hong Kong, which were calculated at 17.5%, 16.5% and 16.5% for the three years ended 31 December 2009 respectively. During the Track Record Period, the effective tax rate of the Group were approximately 9.6%, 0.0% and 8.2%. The Company and its overseas subsidiaries were incorporated in the Cayman Islands as exempted companies, and are not subject to any income tax in the Cayman Islands accordingly.

REVIEW OF HISTORICAL OPERATING RESULTS

Year ended 31 December 2009 compared to year ended 31 December 2008

Revenue

The revenue derived from the Group's provision of mobile phone services increased by approximately 56.4% from approximately HK$25.9 million in 2008 to approximately HK$40.5 million in 2009, in which the "One Card Multiple Number" service increased by approximately 26.3% from approximately HK$24.0 million to approximately HK$30.3 million and the Hong Kong local mobile phone services increased by approximately 436.8% from approximately HK$1.9 million to approximately HK$10.2 million. Such increase was mainly due to the increase in the monthly average number of activated phone numbers which overweighed the decrease in the Group's ARPU. The total monthly average number of activated phone numbers increased by approximately 86.4% from approximately 58,868 for the year ended 31 December 2008 to approximately 109,753 for the year ended 31 December 2009. The increase was primarily attributable to (a) the Group's commencement of offering pre-paid plans for Hong Kong local mobile phone services under the Group's brand names since May 2008, which had attracted a number of new users for Hong Kong airtime to the Group; and (b) the Group's success in securing three new dealers for the sales of Hong Kong and China airtime in the first half of 2009 (among the three new dealers, two of them purchased Hong Kong airtime only from the Group for the provision of Hong Kong local mobile phone services, whereas the other dealer purchased both Hong Kong and China airtime from the Group for the provision of "One Card Multiple Number" service), which had brought in a number of new users to the Group. Accordingly, the Group recorded (1) an increase in the sales volume of its total China and Hong Kong airtime from approximately 41.1 million minutes for the year ended 31 December 2008 to approximately 102.0 million minutes for the year ended 31 December 2009; and (2) an increase in the monthly average number of activated phone numbers in relation to the Group's "One Card Multiple Number" service and Hong Kong local mobile phone services by approximately 86.4% from approximately 58,868 in 2008 to approximately 109,753 in 2009.

The ARPU decreased from approximately HK$36.7 for the year ended 31 December 2008 to approximately HK$30.8 for the year ended 31 December 2009. The decrease in ARPU was primarily due to the larger discounts offered by the Group to dealers for the Group's China and Hong Kong airtime resulting in a lower ARPU for these new users which eventually led to the decrease in the ARPU although the Group recorded an increase in the sales volume of its total China and Hong Kong airtime from approximately 41.1 million minutes for the year ended 31 December 2008 to approximately 102.0 million minutes for the year ended 31 December 2009. In addition, the sales price of China airtime offered by the Group to its users in 2009 was lower than that in 2008 as the Group reduced the China domestic roaming fees in May 2008. Also, the Group's newly activated mobile phone numbers in 2009 were mainly for pre-paid plans of "One Card Multiple Number" service and Hong Kong local mobile phone services, which had lower ARPU than the ARPU of the activated phone numbers in 2008.

The revenue derived from the Group's resale of airtime to MNOs decreased by approximately 28.2% from approximately HK$7.1 million in 2008 to approximately HK$5.1 million in 2009. The decrease was mainly attributable to the reduction in the amount of airtime purchased by the MNOs from the Group due to the continuous decline in the demand for airtime of the MNOs.

The revenue derived from the Group's provision of telesales dealership services decreased by approximately 37.0% from approximately HK$9.2 million in 2008 to approximately HK$5.8 million in 2009. The decrease was mainly attributable to the reduction in the amount of telesales outsourced by the Group's customers resulting from the global economic crisis.

The revenue derived from the Group's provision of other services declined by approximately 87.5% from approximately HK$4.0 million in 2008 to approximately HK$0.5 million in 2009. The decrease was mainly attributable to the termination of purchasing CDMA network maintenance services by the Group's customer in November 2008. The revenue recorded in 2009 was mainly derived from the provision of the Group's personal ring back tone services. Nevertheless, the Group's customer has ceased to purchase such service since April 2009.

Cost of sales

The Group's cost of sales increased by approximately 3.6% from approximately HK$24.7 million in 2008 to approximately HK$25.6 million in 2009. The cost of sales regarding the Group's provision of mobile phone services and resale of airtime to MNOs increased by approximately 26.0% from approximately HK$15.8 million in 2008 to approximately HK$19.9 million in 2009. Such increase was in line with the increase in the respective turnover in 2009 resulting from the increase in airtime usage by users. However, the percentage of the increase in the cost of sales was lower than that of the turnover in 2009, which was mainly due to the reduction in the average unit cost of airtime purchased by the Group from the major MNOs by approximately 48.3% and the increase in the amount of airtime sold by the Group in 2009. The cost of sales regarding the Group's provision of telesales dealership services decreased by approximately 36.7% from approximately HK$9.0 million in 2008 to approximately HK$5.7 million in 2009. Such decrease was in line with the decrease in the respective turnover in 2009 resulting from the reduction in the amount of telesales outsourced by the Group's customers.

Gross profit

As a result, the Group's gross profit increased by approximately 22.9% from approximately HK$21.4 million in 2008 to approximately HK$26.3 million in 2009.

Other revenue

The Group's other revenue decreased from approximately HK$97,000 in 2008 to approximately HK$2,000 in 2009.

Administrative expenses

The Group's administrative expenses increased by approximately 51.3% from approximately HK$11.9 million in 2008 to approximately HK$18.0 million in 2009. The increase was mainly attributable to the [●] incurred of approximately HK$5.9 million in 2009. In addition, allowance for doubtful debts increased from HK$0 for the year ended 31 December 2008 to approximately HK$302,000 for the year ended 31 December 2009. The increase was mainly due to the allowance for doubtful debts of HK$302,000 were made for post-paid service plans in 2009, whereas no such specific allowance was made in 2008.

Profit from operations

As a result, the Group's profit from operations decreased by approximately 13.5% from approximately HK$9.6 million in 2008 to approximately HK$8.3 million in 2009.

Net finance costs/income

The Group had net finance costs of approximately HK$1.1 million in 2008 and a net finance income of approximately HK$2.8 million in 2009. The increase was primarily attributable to the foreign exchange gain arising from foreign currency transactions, where in June 2009 the Group fully settled the balances with certain third parties and related parties denominated in RMB with reference to the historical exchange rate in prior years when such balances were made.

Profit before taxation

The Group's profit before taxation increased by approximately 31.0% from approximately HK$8.4 million in 2008 to approximately HK$11.0 million in 2009.

Income tax

The Group's income tax in 2009 was approximately HK$0.9 million whereas the Group had an income tax credit of approximately HK$0.4 million in 2008. The Group's effective tax rate increased from 0.0% in 2008 to 8.2% in 2009. The increase was mainly due to the increase in profit before taxation which was set off by the effect from the deferred tax arose from recognition of tax losses not recognised previously.

Profit for the year attributable to equity shareholders of the Company

The Group's profit for the year attributable to equity shareholders of the Company increased by approximately 14.8% from approximately HK$8.8 million in 2008 to approximately HK$10.1 million in 2009 due to the improvement of gross profit and recognition of foreign exchange gain in 2009.

Year ended 31 December 2008 compared to year ended 31 December 2007

Revenue

The Group's revenue decreased by approximately 15.5% from approximately HK$54.7 million in 2007 to approximately HK$46.2 million in 2008. Generally, the decrease in the Group's revenue was mainly attributable to the global economic crisis in the second half of 2008.

The revenue derived from the Group's provision of mobile phone services decreased by approximately 14.0% from approximately HK$30.1 million in 2007 to approximately HK$25.9 million in 2008. The decrease was primarily attributable to the decline in total China and Hong Kong airtime consumed by its users caused by the global economic crisis, in which its total China and Hong Kong airtime decreased from approximately 46.1 million minutes to approximately 41.1 million minutes, despite the increase in the Group's total monthly average number of activated phone numbers of mobile phone services from approximately 30,841 for the year ended 31 December 2007 to approximately 58,868 for the year ended 31 December 2008 mainly due to the increase in activation of pre-paid plans for "One Card Multiple Number" service. In addition, the selling price of China airtime offered by the Group to its users was reduced on 1 May 2008 following the promulgation of the relevant policy by the PRC government during such period.

The decrease in the ARPU in 2008 compared to that in 2007 was primarily due to the reduction in the domestic roaming fees imposed on users by the Group since 1 May 2008 following the promulgation of the relevant policy by the PRC government during such period. In addition, the total China and Hong Kong airtime consumed by its users decreased from approximately 46.1 million minutes for the year ended 31 December 2007 to approximately 41.1 million minutes for the year ended 31 December 2008 as a result of the global economic crisis. Also, new activation of mobile phone numbers during the year of 2008 were mainly for pre-paid plans for "One Card Multiple Number" service which were of much lower ARPU than the activated phone numbers during 2007.

The revenue derived from the Group's resale of airtime to MNOs decreased by approximately 29.7% from approximately HK$10.1 million in 2007 to approximately HK$7.1 million in 2008. The decrease was mainly attributable to the reduction in the amount of airtime purchased by the MNOs from the Group resulting from the global economic crisis.

The revenue derived from the Group's telesales dealership services decreased by approximately 8.9% from approximately HK$10.1 million in 2007 to approximately HK$9.2 million in 2008. The decrease was mainly due to the global economic crisis which resulted in a reduction in its commission revenue generated from the respective telesales dealership services.

On the other hand, the revenue derived from the Group's other services decreased by approximately 9.1% from approximately HK$4.4 million in 2007 to approximately HK$4.0 million in 2008. The decrease was mainly caused by the Group's cessation to provide the CDMA network maintenance services in November 2008, which reduced the revenue in the fourth quarter of 2008.

Cost of sales

The Group's cost of sales decreased by approximately 20.1% from approximately HK$30.9 million in 2007 to approximately HK$24.7 million in 2008. The cost of sales regarding the Group's provision of mobile phone services and resale of airtime to MNOs decreased by approximately 24.0% from approximately HK$20.8 million in 2007 to approximately HK$15.8 million in 2008. Such decrease was in line with the decrease in the respective revenue in 2008 resulting from the decline in airtime usage by users. However, the percentage of decrease in the cost of sales was higher than that of the revenue in 2008, which was mainly due to the decrease in the selling price of domestic roaming airtime by the Group's China airtime service provider. The cost of sales regarding the Group's provision of telesales dealership services decreased by approximately 11.8% from approximately HK$10.2 million in 2007 to approximately HK$9.0 million in 2008. Such decrease was also in line with the decrease in the respective revenue in 2008 resulting from the global economic crisis.

Gross profit

As a result, the Group's gross profit decreased by approximately 9.7% from approximately HK$23.7 million in 2007 to approximately HK$21.4 million in 2008.

Other revenue

The Group's other revenue decreased from approximately HK$310,000 in 2007 to approximately HK$97,000 in 2008.

Administrative expenses

The Group's administrative expenses increased by approximately 10.2% from approximately HK$10.8 million in 2007 to approximately HK$11.9 million in 2008. This was mainly attributable to the increase in the Group's staff costs, the increase in the licence charges due to the escalation in its number of activated phone numbers, and the HK$400,000 donation to the Community Chest in the first half of 2008 regarding the Group's successful bidding for demanding the Telecommunications Authority to reserve the mobile number block "969" as the first three digits of the Hong Kong mobile phone numbers offered by the Group's mobile phone services.

Profit from operations

The Group's profit from operations decreased by approximately 27.3% from approximately HK$13.2 million in 2007 to approximately HK$9.6 million in 2008.

Net finance costs/income

The Group's net finance costs decreased by approximately 21.4% from approximately HK$1.4 million in 2007 to approximately HK$1.1 million in 2008. The decrease mainly due to less foreign exchange loss was recorded arising from the movements in the exchange rate between HK dollars and RMB during the year.

Profit before taxation

The Group's profit before taxation decreased by approximately 28.8% from approximately HK$11.8 million in 2007 to approximately HK$8.4 million in 2008.

Income tax

The Group's income tax expense in 2007 was approximately HK$1.1 million whereas the Group had an income tax credit of approximately HK$0.4 million in 2008. This was mainly attributable to the deferred tax of approximately HK$1.1 million recognised by the Group in 2008 in accordance with the accounting policies of the Group. As a result, the Group's effective tax rate decreased from approximately 9.6% in 2007 to 0.0% in 2008.

Profit for the year attributable to equity shareholders of the Company

The Group's profit for the year attributable to equity shareholders of the Company decreased by approximately 17.8% from approximately HK$10.7 million in 2007 to approximately HK$8.8 million in 2008.

Margin analysis

The following table sets forth the breakdown of the Group's gross profit margins during the Track Record Period:

	For the year ended 31 December		
	2007	**2008**	**2009**
	%	%	%
Gross profit margin			
– mobile phone services and resale of airtime to MNOs	48.3	52.2	56.3
– telesales dealership services	(0.2)	2.0	2.2
– other services	100.0	100.0	100.0
Overall	43.4	46.4	50.7

The Group's gross profit margin increased from approximately 43.4% in 2007 to approximately 46.4% in 2008. Particularly, the gross profit margin of the mobile phone services and resale of airtime to MNOs increased from approximately 48.3% in 2007 to approximately 52.2% in 2008. The increase was primarily attributable to the decrease in the unit cost of the Group's China airtime due to the decrease in the selling price of domestic roaming airtime by 56.0% by the Group's China airtime service provider since 1 May 2008, where the average unit cost of China airtime decreased by approximately 7.6% from 2007 to 2008.

The Group's gross profit margin increased from approximately 46.4% in 2008 to approximately 50.7% in 2009. In particular, the gross profit margin of the mobile phone services and resale of airtime to MNOs increased from approximately 52.2% in 2008 to approximately 56.3% in 2009. The increase was mainly resulted from the decrease in the selling price of domestic roaming airtime by the Group's China airtime service provider in 2009 compared to that in 2008. The average unit cost of China airtime decreased by approximately 24.6% in 2009 compare to that in 2008.

The Group's gross profit margin in respect of its telesales dealership services ranged from approximately -0.2% to 2.2% for the three years ended 31 December 2009. The revenue generated from the services was in the form of commission income. The consideration for the provision of such telesales dealership services to the Group's customers was agreed pursuant to the number of new secured users and the commission schedule according to the relevant agreements. The direct cost of the Group's telesales dealership services mainly consists of procurement costs and fulfillment costs. The procurement costs incurred were for the Group's provision of telesales services provided by its telesales service provider, PacificNet Communications, in which the fees payable by the Group to PacificNet Communications in respect of the telesales services are based on the number of successful orders/deals for specific products and/or services marketed times a rate which was mutually agreed between the Group and PacificNet Communications. The fulfillment services comprise the implementation of telesales order by performing credit checks on users, preparing the service agreements between the MNOs and users in addition to other documents, explaining the terms of the service agreement to users before signing and providing the SIM cards to users. The fulfillment costs incurred were calculated based on the total number of deliveries of the services introduced to users via the aforesaid telesales services times an agreed rate with the suppliers. However, as the fulfillment costs incurred in the telesales dealership services were higher than expected as the number of successful subscription is lower than the Group originally estimated, the gross profit margin of such services remained low during the Track Record Period. Nonetheless, in order to maintain a strategic relationship with its major customers for the current and potential future development of the Group's business, the Group maintains the provision of telesales dealership services despite the low profit generated in this regard. The Directors believe that the continuing of such business is beneficial to the Group as a whole.

The Group's gross profit margin in respect of its other services was approximately 100.0% for the three years ended 31 December 2009. Such high margin was mainly due to the costs incurred in providing the CDMA network maintenance services and personal ring back tone services were minimal.

The following table sets forth the Group's net profit margin during the Track Record Period:

	For the year ended 31 December		
	2007	**2008**	**2009**
	%	%	%
Net profit margin	19.5	19.0	19.5

The Group's net profit margin decreased from approximately 19.5% in 2007 to approximately 19.0% in 2008. The decrease was mainly due to the increase of administrative expenses.

The Group's net profit margin increased from approximately 19.0% in 2008 to approximately 19.5% in 2009 as the gross profit margin improved and the Group recorded a net finance income in 2009 whereas it recorded a net finance costs in 2008.

LIQUIDITY AND CAPITAL RESOURCES

The Group's cash needs have historically related primarily to purchases of airtime and IDD services from certain MNOs and telecommunications service providers, SIM cards, circuit leasing and outsourcing costs.

The Group has secured its cash resources mainly from its operating activities. The Group has adopted a policy to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient cash reserves to meet its liquidity requirement in both short and long term. The Directors are of the view that the Group's internally generated cash flow is sufficient to meet its financial obligations when they fall due. The Group recorded a net outflow of cash of approximately HK$6.4 million for the year ended 31 December 2009.

Cash flow

	For the year ended 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Net cash generated from/(used in) operating activities	17,899	11,975	(24,832)
Net cash (used in)/generated from investing activities	(3,510)	(11,314)	22,150
Net cash (used in)/generated from financing activities	(7,116)	153	(3,713)
Net increase/(decrease) in cash	7,273	814	(6,395)
Cash as at 1 January	3,120	10,393	11,207
Cash as at 31 December	10,393	11,207	4,812

Cash flow from operating activities

The Group recorded a cash inflow of approximately HK$12.0 million from its operating activities for the year ended 31 December 2008, whereas it recorded a cash outflow of approximately HK$24.8 million for the year ended 31 December 2009. Although the Group recorded a significant increase in its profit before taxation between the years, it had a substantial increase in cash outflow as a results of settling its trade and other payables and increase in trade and other receivables as a result of longer credit period granted to MNOs.

The Group's net cash generated from its operating activities decreased by approximately 33.0% from approximately HK$17.9 million in 2007 to approximately HK$12.0 million in 2008. The decrease was mainly attributable to the decrease in the Group's profit before taxation resulting from the global economic crisis in the second half 2008.

Cash flow from investing activities

The Group recorded a cash outflow of approximately HK$11.3 million from its investing activities for the year ended 31 December 2008, whereas it recorded a cash inflow of approximately HK$22.2 million for the year ended 31 December 2009. The significant increase was mainly attributable to the Group's cash inflow from repayments of cash advances received from the related parties.

The Group's net cash used in its investing activities increased by approximately 222.9% from approximately HK$3.5 million in 2007 to approximately HK$11.3 million in 2008. The increase in cash outflow was primarily attributable to the increase in advances made to related parties.

Cash flow from financing activities

The Group recorded a cash inflow in its financing activities of approximately HK$153,000 for the year ended 31 December 2008, whereas it recorded a cash outflow of approximately HK$3.7 million for the year ended 31 December 2009. The increase in cash outflow was mainly attributable to the repayments of cash advances made to related parties.

The Group recorded a cash outflow in its financing activities of approximately HK$7.1 million in 2007, whereas it recorded a cash inflow of approximately HK$153,000 in 2008. The increase in cash inflow mainly resulted from the decrease in repayments of cash advances made to related parties and an ultimate Shareholder, Mr. Li Kin Shing.

Current ratio

The following table sets forth the Group's current ratio during the Track Record Period:

	As at 31 December		
	2007	**2008**	**2009**
Current ratio[(Note)]	0.81	0.99	1.55

Note Current ratio is calculated by current assets divided by current liabilities

The current ratio of the Group as at 31 December 2007, 2008 and 2009 was 0.81, 0.99 and 1.55 respectively. The continuous improvement of the Group's current ratio was mainly due to the continuous repayments of other payables as at 31 December 2007, 2008 and 2009.

Gearing ratio

As the Group did not incur any debt during the Track Record Period, the gearing ratio (calculated as total debt divided by total assets) of the Group was nil throughout the Track Record Period.

WORKING CAPITAL

As at 31 March 2010, being the latest practicable date for the purpose of the following working capital statement, the Group's net current assets are as follows:

	As at 31 March 2010
	(unaudited)
	HK$'000
Current assets	
Inventories	1,533
Trade and other receivables	19,965
Cash	8,469
Total current assets	29,967
Current liabilities	
Trade and other payables *(Note)*	16,440
Current tax payables	1,399
Total current liabilities	17,839
Net current assets	12,128

Note: Included in the trade and other payables, there was an amount due to an ultimate Shareholder, Mr. Li Kin Shing, of approximately HK$5.8 million as at 31 March 2010, which was unsecured, interest-free and had no fixed repayment term. This amount had been fully repaid on 22 May 2010.

Trade receivables

The Group's trade receivables represent primarily the balances due from the Group's customers to which certain terms of credit are offered in the ordinary course of business. The following table sets forth a summary of average turnover of trade receivables during the Track Record Period:

	For the year ended 31 December		
	2007	**2008**	**2009**
Turnover of trade receivables (days)(Note)	100	90	102

Note Turnover of trade receivables (in days) equal to average trade receivables divided by turnover and multiplied by 365 days. Average trade receivables equal to trade receivables at the beginning of the year plus trade receivables at the end of the year and divided by 2.

The average turnover of trade receivables increased from approximately 100 days in 2007 to approximately 102 days in 2009. The increase in average turnover of trade receivables in 2009 was mainly due to longer credit period granted to MNOs.

Generally, provision of mobile phone services to the Group's major customers, including the major MNOs and its dealers, are made in an open account with credit terms of up to 30 days after the date of invoice, which could be settled by cheques, telegraphic transfer or bank deposits. Subject to negotiations, credit terms could be extended to two to four months for certain customers with well-established trading and payment records on a case-by-case basis.

On the other hand, provision of mobile phone services to the Group's post-paid users are generally made in an open account with credit terms up to 12 days after the date of invoice, which could be settled by cheques, credit cards or bank deposits. Payments of provision of telesales dealership services are generally made in bullet payments within a few months after the date of services rendered, which could be settled by cheques.

As at 31 December 2009, the Group's trade receivables of approximately HK$302,000 (2008: nil; 2007: nil) were individually determined to be impaired. The individually impaired receivables related to invoices that were default in payment and the Directors assessed that the receivables are not expected to be recovered. Consequently, specific allowances for doubtful debts of approximately HK$302,000 (2008: nil; 2007: nil) were recognised. The Group does not hold any collateral over these balances.

The Group performs reviews of receivables on a case-by-case basis and writes off identified doubtful receivables. For the three years ended 31 December 2009, the Group wrote off identified doubtful receivables amounting to approximately HK$55,000, HK$191,000 and HK$107,000 respectively.

As at 31 March 2010, approximately HK$9.5 million or 48.8% of the Group's trade receivable of approximately HK$19.5 million as at 31 December 2009 were subsequently settled and approximately HK$4.2 million or 45.1% of the trade receivables with age generally over 3 months as at 31 December 2009 were subsequently settled. The remaining approximately HK$10.0 million or 51.2% of the Group's trade receivables as at 31 December 2009 mainly consists of the amounts due from China Unicom Guangdong of approximately HK$9.0 million.

Impairment loss of HK$302,000 has been provided in respect of doubtful trade receivables as at 31 December 2009. Regarding the trade receivables in respect of China Unicom Guangdong, after taking into account that: (i) China Unicom Guangdong is a reputable company in the PRC; (ii) the Group has established long-term business relationship with China Unicom Guangdong; and (iii) China Unicom Guangdong has maintained a good repayment track record with the Group, the Directors are willing to extend the credit terms to China Unicom Guangdong generally. Based on past payment pattern of China Unicom Guangdong, the year-end balances as at 31 December 2006, 31 December 2007 and 31 December 2008 had been fully settled in August 2007, August 2008 and January 2010 respectively. The Directors consider that the late settlement for balance as at 31 December 2008, as compared to its previous settlement records, is an exceptional case. To the best knowledge and belief of the Directors, there have been significant changes in the internal human resources and administrative departments of China Unicom Guangdong as a result of the internal restructuring which took place in the second half of 2008 and accordingly the settlement process took longer than usual. As a result, the Directors consider that other than the write-off and impairment loss being made during the Track Record Period, no impairment allowance is considered necessary in respect of trade receivables as at 31 December 2009 and the Directors are not aware of any difficulties relating to the collection of the Group's trade receivables as at 31 December 2009.

The following table sets forth a summary of the ageing analysis of the Group's trade receivables by billing date as at the balance sheet date:

	As at 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Age of trade receivables			
Within 1 month	4,755	3,512	4,809
Over 1 month but less than 3 months	4,967	4,401	5,411
Over 3 months but less than 6 months	2,429	763	4,313
Over 6 months but less than 1 year	926	749	917
Over 1 year	282	17	4,091
Total	**13,359**	**9,442**	**19,541**

Prepayments, deposits and other receivables

The Group's prepayments and deposits are mainly made for the purchase of airtime from its service providers. The Group's deposits and prepayments as at 31 December 2007, 2008 and 2009 were approximately HK$4.2 million, HK$3.9 million and HK$1.4 million respectively.

The Group's other receivables due from third parties are mainly miscellaneous fees as at 31 December 2007, 2008 and 2009 were approximately HK$22,000, HK$1.3 million and HK$41,000 respectively.

Due from an ultimate Shareholder and related parties

The amounts due from an ultimate Shareholder, Mr. Li Kin Shing, and related parties were unsecured, interest free and repayable on demand. As at 31 December 2007 and 2008, the aggregate amounts due from Mr. Li Kin Shing and related parties was approximately HK$12.3 million and HK$23.4 million respectively. As at 31 December 2009, the amounts due from related parties were approximately HK$22,000.

Trade payables

The Group's trade payables mainly include payables for purchasing airtime and outsourcing costs. The following table sets forth a summary of turnover of trade payables during the Track Record Period:

	For the year ended 31 December		
	2007	**2008**	**2009**
Turnover of trade payables (days)[(Note)]	95	66	75

Note Turnover of trade payables (in days) equals to average trade payables divided by cost of sales and multiplied by 365 days. Average trade payables equals to trade payables at the beginning of the year plus trade payables at the end of the year and divided by 2.

The Group's turnover of trade payables decreased from approximately 95 days in 2007 to approximately 75 days in 2009. Such decrease was mainly resulted from the Group's internal policy to establish a better relationship with its service providers and suppliers through earlier repayment of trade payables.

The following table sets forth the ageing analysis of trade payables by transaction date as at the balance sheet date:

	As at 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Age of trade payables			
Within 1 month	2,557	2,930	1,923
Over 1 months but less than 3 months	548	1,302	1,225
Over 3 months but less than 6 months	223	—	1,123
Over 6 months but less than 1 year	200	—	809
Over 1 year	588	588	588
Total	**4,116**	**4,820**	**5,668**

Other payables

The Group's balances of other payables due to third parties as at 31 December 2007, 2008 and 2009 were approximately HK$35.4 million, HK$33.8 million and nil respectively. Such payables were mainly for the Group's working capital and are unsecured, non-interest bearing with no specific repayment term.

Amounts due to an ultimate Shareholder and related parties

The amounts due to an ultimate Shareholder, Mr. Li Kin Shing, and related parties were unsecured, interest free and repayable on demand. As at 31 December 2007, 2008 and 2009, the amount due to an ultimate Shareholder, Mr. Li Kin Shing was approximately HK$1.8 million, HK$1.8 million and nil and the amounts due to related parties were approximately HK$2.8 million, HK$3.0 million and nil, respectively.

Deferred income

Receipts in advance from users (i.e. deferred income) in relation to pre-paid plan will be recognised as revenue when services are rendered, i.e. revenue is deferred and recognised over the period during which the airtime is actually used by pre-paid plan users after activating the SIM cards, which is in line with International Accounting Standard 18 "Revenue". The corresponding cost of revenue, mainly purchased airtime, will also be recognised in the same period.

Revenue from the provision of mobile phone services through pre-paid plan includes provision of "One Card Multiple Number" service and Hong Kong local mobile phone services.

1. "One Card Multiple Number" service

The Group, as a MVNO, has the contractual arrangement with the MNO in the PRC, China Unicom Guangdong, in which it provides airtime to the Group. To carry out the contractual arrangement, the Group paid an initial deposit to China Unicom Guangdong to obtain rights for using the pre-paid plan provided by such MNO. The cash receipts from users in relation to pre-paid plan for "One Card Multiple Number" service are collected by the Group and remitted to China Unicom Guangdong for further execution of the pre-paid plans. Not until the airtime is actually used by pre-paid plan users, no revenue would be recognised. The actual airtime used by pre-paid plan users is ultimately captured and maintained by China Unicom Guangdong. As at 31 December 2007, 2008 and 2009, the Group recognised revenue and the corresponding cost of revenue according to the actual airtime usage for that period provided by China Unicom Guangdong. Therefore, no deferred income is required to be recognised.

2. Hong Kong local mobile phone services

The Group has provided pre-paid plans for Hong Kong local mobile phone services since May 2008. The Group recognised deferred income of approximately HK$0.6 million in relation to the pre-paid airtime not yet utilised as at 31 December 2009. No deferred income was recognised as at 31 December 2008 as the Directors considered the amount of such deferred income was immaterial to the Group as a whole.

CAPITAL EXPENDITURE

As a MVNO, the Group always endeavours to minimise its capital expenditure as it does not need to construct an entire mobile telecommunications network except for purchasing the equipment required for the operation of its "One Card Multiple Number" business. In addition, the Group tends to lease properties for its operations instead of spending a significant amount of capital investment in real properties. As such, the Group only recorded a minimal amount of capital expenditure during the Track Record Period.

CAPITAL COMMITMENTS

As at 31 March 2010, being the latest practicable date for ascertaining information for disclosure in this section, the Group did not have significant capital commitments.

INDEBTEDNESS

As at 31 December 2007, 2008 and 2009, the Group had no material bank borrowings or loans in relation to its operation and business. Save as the other payables mentioned in "Amounts due to an ultimate Shareholder and related parties" of this section, the Group had no other borrowings as at 31 December 2007, 2008 and 2009, and accordingly there was no material covenant related to the Group's outstanding debts.

As at 31 March 2010, included in trade and other payables of the Group, there was an amount due to an ultimate Shareholder, Mr. Li Kin Shing, of approximately HK$5.8 million, which was unsecured, interest-free and has no fixed repayment term. This amount had been fully repaid on 22 May 2010. Save as disclosed herein, the Group had no material bank borrowings or loans in relation to its operation and business, and accordingly there was no material covenant related to the Group's outstanding debts as at 31 March 2010.

Contingent liabilities

As at the Latest Practicable Date, the Companies Registry was still considering whether to take any action against Elitel in relation to its possible breaches of the Companies Ordinance in respect of its failure to register as a non-Hong Kong company within the prescribed time limit under Part XI of the Companies Ordinance. Elitel may be subject to certain penalty in this respect. Please refer to "Business — Failure to register under Part XI of the Companies Ordinance" of this document for further details.

Disclaimer

Save as described in this section, as at 31 March 2010, which is the latest practicable date for ascertaining information for disclosure in this section, the Group did not have any outstanding mortgages, charges, pledges, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance leases or hire purchase commitments, acceptance liabilities, acceptance credits, any guarantees or other significant contingent liabilities.

No material change

The Directors confirm that there has not been any material change in the indebtedness and contingent liabilities of the Group as at 31 March 2010, being the latest practicable date for ascertaining information for disclosure in this section.

FINANCIAL RISKS

Credit risk

Trade and other receivables are the major credit risk which the Group exposes to. The Group has adopted certain credit policies and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requesting credit over a certain amount.

Foreign currency risk

The Group's presentation and functional currency is in Hong Kong dollars. However, the Group has certain foreign currency sales and purchase (mostly in Renminbi), which expose the Group to foreign currency risk. Currently, the Group has no hedging policy in respect of foreign currency risk, but the management of the Group monitors the related foreign currency risk exposure closely and may consider hedging significant foreign currency risk exposure should the need arise.

PROPERTY INTEREST

Particular of the Group's property interest is set out in Appendix III to this document. Jones Lang LaSalle Sallmanns Limited has valued the property interest of the Group as at 31 March 2010. The valuation certificate is set out in Appendix III to this document.

According to the valuation by Jones Lang LaSalle Sallmanns Limited, the Group had one leased property in Hong Kong which has no commercial value.

DIVIDEND POLICY

The Group did not declare or pay any dividend for the three years ended 31 December 2009.

The Group intends to recommend and distribute dividends of not less than 20% of the net profit attributable to the Shareholders in each financial year. Nevertheless, the amount of dividends that may be declared in future will be subject to, among other factors, the discretion of the Directors, the availability of distributable profits, the Group's earnings, financial conditions, capital requirements, cash requirements, development plans and other factors as deemed relevant at such time by the Directors. Therefore, prospective investors should not use the Group's dividend payout history as a reference or basis to predict the future dividend payouts.

Any declaration and payment as well as the amount of dividends will be subject to the Group's constitutional documents, the relevant listing rules and laws in Hong Kong as well as the approval of the Shareholders.

DISTRIBUTABLE RESERVE

As at 31 December 2009, the Company had no reserve available for distribution to the Shareholders.

DISCLOSURE UNDER CHAPTER 17 OF THE GEM LISTING RULES

Save as disclosed in this document, the Directors have confirmed that as at the Latest Practicable Date, they were not aware of any circumstances which would give rise to a disclosure obligation under Rules 17.15 to 17.21 of the GEM Listing Rules.

NO MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position or prospects of the Group since 31 December 2009 (being the date to which the latest audited financial statements of the Group were made up).

The following is the text of a report, prepared for the purpose of incorporation in this document, received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong.

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

[Date]

The Directors
Directel Holdings Limited
Guotai Junan Capital Limited

Dear Sirs

INTRODUCTION

We set out below our report on the financial information relating to Directel Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") including the consolidated income statements, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements of the Group, for each of the years ended 31 December 2007, 2008 and 2009 (the "Track Record Period"), and the consolidated balance sheets of the Group as at 31 December 2007, 2008 and 2009, together with the notes thereto (the "Financial Information"), for inclusion in the document.

The Company was incorporated in the Cayman Islands on 28 July 2009 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganisation completed on 7 September 2009 (the "Reorganisation") as detailed in Appendix V "Statutory and General Information" to this document, the Company became the holding company of the companies now comprising the Group, details of which are set out in Section A below. The Company has not carried on any business since the date of its incorporation save for the aforementioned Reorganisation.

As at the date of this report, no audited financial statements have been prepared for the Company and Sunward Telecom Limited (incorporated in the Cayman Islands) as they are investment holding companies and not subject to statutory audit requirements under the relevant rules and regulations in the jurisdiction of incorporation. We have, however, reviewed all significant transactions of the Company, from 28 July 2009, the date of incorporation of the Company, to the end of the Track Record Period and Sunward Telecom Limited from the beginning of the Track Record Period to 26 May 2008, the date of disposal of its entire interests, for the purpose of this report.

The statutory financial statements of the other companies including Elitel Limited, China-Hongkong Telecom Limited and Directel Communications Limited, now comprising the Group for the financial years ended 31 December 2007, 2008 and 2009, which were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), were audited by Nicholas Fung & Co., Certified Public Accountants (registered in Hong Kong) for the financial years ended 31 December 2007, 2008 and 2009.

BASIS OF PREPARATION

The Financial Information has been prepared by the directors of the Company based on the audited financial statements or, where appropriate, unaudited management accounts of the companies comprising the Group, on the basis set out in Section A below, after making such adjustments as are appropriate. Adjustments have been made, for the purpose of this report, to restate these financial statements to conform with the accounting policies referred to in Section C, which are in accordance with International Financial Reporting Standards ("IFRSs") promulgated by the International Accounting Standards Board (the "IASB"), the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). IFRSs include International Accounting Standards and Interpretations.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS

The directors of the Company are responsible for the preparation and true and fair presentation of the Financial Information in accordance with IFRSs issued by the IASB, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Information that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Our responsibility is to express an opinion on the Financial Information based on our audit.

BASIS OF OPINION

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have carried out appropriate audit procedures in respect of the Financial Information for the Track Record Period in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have carried out such additional procedures as we considered necessary in accordance with Auditing Guideline "[●] and the Reporting Accountant" (Statement 3.340) issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform our work to obtain reasonable assurance as to whether the Financial Information is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Information. The procedures selected depend on the reporting accountant's judgement, including the assessment of the risks of material misstatement of the Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity's preparation and true and fair presentation of the Financial Information 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Financial Information.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

We have not audited any financial statements of the companies now comprising the Group in respect of any period subsequent to 31 December 2009.

OPINION

In our opinion, for the purpose of this report, all adjustments considered necessary have been made and the Financial Information, on the basis of presentation set out in Section A below and in accordance with the accounting policies set out in Section C below, gives a true and fair view of the Group's consolidated results and cash flows for the Track Record Period, and the state of affairs of the Group as at 31 December 2007, 2008 and 2009.

A BASIS OF PRESENTATION

Mr Li Kin Shing and Ms Kwok King Wa owned various companies incorporated in the Cayman Islands and Hong Kong which are principally engaged in the provision of telecommunications services. To rationalise the Group's structure in the preparation for the [●], the companies comprising the Group underwent the Reorganisation, as detailed in Appendix V "Statutory and General Information" to this document. As a result of which, the Company became the immediate holding company of the Group.

As the companies that took part in the Reorganisation were controlled by the same group of ultimate shareholders, Mr Li Kin Shing and Ms Kwok King Wa (referred to as the "controlling shareholders"), before and after the Reorganisation and, consequently, there was a continuation of the risks and benefits to the controlling shareholders and therefore this is considered as a business combination under common control and merger accounting has been applied in the accounting of the Reorganisation. The consolidated income statements, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements of the Group as set out in Section B include the results of operations of the Group for the Track Record Period as if the Reorganisation was completed at the beginning of the Track Record Period. The consolidated balance sheets of the Group as at 31 December 2007, 2008 and 2009 as set out in Section B have been prepared to present the state of affairs of the Group as at those dates.

All material intra-group transactions and balances have been eliminated on consolidation.

At the date of this report, the Company has direct or indirect interests in the following subsidiaries, which are private companies or, if established / incorporated outside Hong Kong have substantially the same characteristics as a Hong Kong private company. The particulars of these subsidiaries are set out below:

Name of company	Place and date of incorporation/ establishment	Issued and fully paid up/ authorised capital	Attributable equity interest Direct	Indirect	Principal activities
Elitel Limited	Cayman Islands 30 August 2001	US$2/ US$50,000	100%	—	Provision of telecommunications services
China-Hongkong Telecom Limited	Hong Kong 5 September 2001	HK$100/ HK$10,000	—	100%	Provision of telecommunications services
Directel Communications Limited	Hong Kong 20 April 1995	HK$5,000,000/ HK$5,000,000	—	100%	Provision of telecommunications services

B FINANCIAL INFORMATION

1 Consolidated income statements

	Section C Note	For the year ended 31 December 2007	2008	2009
		HK$'000	*HK$'000*	*HK$'000*
Turnover	2	54,650	46,164	51,875
Cost of sales		(30,921)	(24,738)	(25,594)
Gross profit		23,729	21,426	26,281
Other revenue		310	97	2
Administrative expenses		(10,822)	(11,948)	(18,020)
Profit from operations		13,217	9,575	8,263
Finance income	3	130	16	2,786
Finance costs	3	(1,545)	(1,159)	—
Net finance (costs)/income		(1,415)	(1,143)	2,786
Profit before taxation	4	11,802	8,432	11,049
Income tax	5	(1,138)	361	(910)
Profit for the year attributable to equity shareholders of the Company		10,664	8,793	10,139
Earnings per share				
Basic and diluted earnings per share	8	HK$0.014	HK$0.012	HK$0.014

The accompanying notes form part of this Financial Information.

2 Consolidated statements of comprehensive income

The Group had no components of comprehensive income other than "profit for the year" in the Track Record Period. Accordingly, no separate consolidated statement of comprehensive income is presented as the Group's "total comprehensive income" was the same as the "profit for the year" in the Track Record Period.

The accompanying notes form part of this Financial Information.

3 Consolidated balance sheets

	Section C	At 31 December		
	Note	**2007**	**2008**	**2009**
		HK$'000	*HK$'000*	*HK$'000*
Non-current assets				
Property, plant and equipment	9	4,668	3,099	1,837
Deferred tax assets	10(d)	—	1,254	2,814
Total non-current assets		4,668	4,353	4,651
Current assets				
Inventories	11	534	663	1,473
Trade and other receivables	12	29,905	37,994	20,967
Cash	13	10,393	11,207	4,812
Total current assets		40,832	49,864	27,252
Current liabilities				
Trade and other payables	14	(46,226)	(45,257)	(10,458)
Current tax payables	10(a)	(4,231)	(5,001)	(7,134)
Total current liabilities		(50,457)	(50,258)	(17,592)
Net current (liabilities)/assets		(9,625)	(394)	9,660
Total assets less current liabilities		(4,957)	3,959	14,311
Non-current liabilities				
Deferred tax liabilities	10(d)	—	(123)	(336)
Total non-current liabilities		—	(123)	(336)
Net (liabilities)/assets		(4,957)	3,836	13,975
Capital and reserves				
Share capital	15	—	—	—
Other reserve	16	—	—	—
(Accumulated losses)/Retained earnings		(4,957)	3,836	13,975
Total equity		(4,957)	3,836	13,975

The accompanying notes form part of this Financial Information.

4 Consolidated statements of changes in equity

	Share capital	Other reserve	(Accumulated losses) / Retained earnings	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 15)	*(Note 16)*		
At 1 January 2007	—	—	(15,621)	(15,621)
Total comprehensive income for the year	—	—	10,664	10,664
At 31 December 2007	—	—	(4,957)	(4,957)
Total comprehensive income for the year	—	—	8,793	8,793
At 31 December 2008	—	—	3,836	3,836
Arising on Reorganisation *(Note 16)*	—	—	—	—
Total comprehensive income for the year	—	—	10,139	10,139
At 31 December 2009	—	—	13,975	13,975

The accompanying notes form part of this Financial Information.

5 Consolidated cash flow statements

	Section C Note	**For the year ended 31 December 2007**	**2008**	**2009**
		HK$'000	*HK$'000*	*HK$'000*
Cash flows from operating activities				
Profit before taxation		11,802	8,432	11,049
Adjustments for:				
Depreciation	4(b)	2,620	1,784	1,475
Allowance for doubtful debts	12(b)	—	—	302
Write down of inventories	11(b)	—	—	161
Interest income from bank deposits	3	(130)	(16)	(1)
		14,292	10,200	12,986
Change in inventories		114	(129)	(971)
Change in trade and other receivables		3,059	3,026	(6,688)
Change in trade and other payables		434	(1,122)	(30,035)
Cash generated from/(used in) operations		17,899	11,975	(24,708)
Income tax paid	10(a)	—	—	(124)
Net cash generated from/(used in) operating activities		17,899	11,975	(24,832)
Cash flows from investing activities				
Interest received	3	130	16	1
Acquisition of property, plant and equipment	9	(94)	(215)	(213)
Advances made to related parties	21(c)	(3,631)	(15,270)	(7,434)
Repayments received from related parties	21(c)	85	4,155	29,796
Net cash (used in)/generated from investing activities		(3,510)	(11,314)	22,150

	Section C Note	For the year ended 31 December 2007 HK$'000	2008 HK$'000	2009 HK$'000
Cash flows from financing activities				
Advances received from related parties	21(c)	10,483	153	—
Advances received from an ultimate shareholder	21(c)	158	—	—
Repayments made to related parties	21(c)	(13,194)	—	(3,081)
Repayments made to an ultimate shareholder	21(c)	(4,563)	—	(632)
Net cash (used in)/generated from financing activities		(7,116)	153	(3,713)
Net increase/(decrease) in cash		7,273	814	(6,395)
Cash at beginning of the year	13	3,120	10,393	11,207
Cash at end of the year	13	10,393	11,207	4,812

The accompanying notes form part of this Financial Information.

C NOTES TO THE FINANCIAL INFORMATION

1 Significant accounting policies

(a) *Statement of compliance*

The Financial Information set out in this report has been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which collective term includes International Accounting Standards and related interpretations, promulgated by the International Accounting Standards Board ("IASB"). Further details of the significant accounting policies adopted are set out in the remainder of this Section C.

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing this Financial Information, the Group has adopted all these new and revised IFRSs to the Track Record Period, except for any new standards or interpretations that are not yet effective for the accounting year ended 31 December 2009. The possible impact of the revised and new accounting standards and interpretations issued but not yet effective for the accounting year beginning 1 January 2009 are set out in Note 24.

This Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

(b) *Basis of combination*

The Financial Information comprises the Company and its subsidiaries and has been prepared using the merger basis of accounting as if the Group had always been in existence, as further explained in Section A.

(c) *Basis of measurement*

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the entity ("functional currency").

The Financial Information is presented in Hong Kong dollars, rounded to the nearest thousand except per share data. It is prepared on the historical cost basis.

(d) ***Use of estimates and judgements***

The preparation of Financial Information 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.

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 Information and major sources of estimation uncertainty are discussed in Note 19.

(e) ***Subsidiaries***

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

The income and expenses of a subsidiary are included in the Financial Information from the date that control commences until the date that control ceases. Merger accounting is adopted for common control combinations in which all of the combining entities or businesses are ultimately controlled by the same party or parties before and after the business combination, and that control is not transitory.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated Financial Information. 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.

(f) ***Property, plant and equipment***

Property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (Note 1(h)(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:

- Furniture and fixtures 5 years
- Facilities equipment 5 years
- Office equipment 5 years

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

(g) ***Operating lease charges***

Leases of assets under which the lessor has not transferred substantially all the risks and rewards of ownership are classified as operating leases.

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

(h) ***Impairment of assets***

(i) *Impairment of trade and other receivables*

Trade and other receivables that are stated at amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, any impairment loss is determined and recognised as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

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

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) *Impairment of other assets*

Internal and external sources of information are reviewed at each balance sheet date to identify indications that property, plant and equipment may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated.

— Calculation of recoverable amount

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

— Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the other assets in the cash-generating 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 to sell, or value in use, if determinable.

— Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

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.

(i) ***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, cost of conversion 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 of completion and 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.

(j) ***Trade and other receivables***

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (Note 1(h)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(k) ***Trade and other payables***

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

(l) ***Cash***

Cash comprises 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.

(m) ***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.

(n) ***Income tax***

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, 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 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 balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date 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.

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 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 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.

(o) ***Provisions and contingent liabilities***

Provisions are recognised for liabilities of uncertain timing or amount 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.

(p) ***Revenue recognition***

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Revenue from the provision of telecommunications services is recognised when the services have been rendered.

(ii) Revenue from the provision of telesales dealership services is recognised when the services have been rendered and the Group has obtained the rights to demand payment for the services rendered.

(iii) Interest income is recognised as it accrues using the effective interest method.

(q) ***Translation of foreign currencies***

Foreign currency transactions during the year are translated at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates ruling at the balance sheet date. 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 exchange rates ruling at the transaction dates.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the exchange rates ruling at the dates of transactions. Balance sheet items are translated into Hong Kong dollars at the closing exchange rates at the balance sheet date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

(r) ***Related parties***

For the purposes of the Financial Information, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

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

(s) ***Segment reporting***

IFRS 8 introduces a "management approach" to segment reporting, i.e. the identification of segments and the preparation of segment information must be based on the internal reports that the entity's chief operating decision maker reviews regularly in allocating resources to segments and in assessing their performance.

The financial information provided to the chief operating decision maker does not contain profit or loss information of each service line and the chief operating decision maker reviews the operating results of the Group as a whole. Therefore, the operations of the Group constitute one single reportable segment.

2 Turnover

The principal activities of the Group are the provision of telecommunications services. Turnover represents the sales value of services rendered to customers. The amount of each significant category of revenue recognised in turnover during the Track Record Period is as follows:

	For the year ended 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Provision of telecommunications services	40,161	32,993	45,555
Provision of telesales dealership services	10,135	9,162	5,817
Others	4,354	4,009	503
	54,650	46,164	51,875

Revenues from transactions with external customers, including revenue derived from entities which are known to the Group to be under common control with these individual customers, amounting to 10% or more of the Group's aggregate turnover for each of the years ended 31 December 2007, 2008 and 2009 are as follows:

	For the year ended 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
The largest customer	9,750	10,072	8,234
The second largest customer	9,584	6,124	6,379

Substantially all of the Group's external customers and property, plant and equipment are located in Hong Kong.

3 Finance income and finance costs

	For the year ended 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Finance income			
Interest income from bank deposits	130	16	1
Net foreign exchange gain	—	—	2,785
Subtotal	130	16	2,786
Finance costs			
Net foreign exchange loss	(1,545)	(1,159)	—
Subtotal	(1,545)	(1,159)	—
Net finance (costs) / income	(1,415)	(1,143)	2,786

4 Profit before taxation

Profit before taxation is arrived at after charging:

(a) ***Staff costs***

	For the year ended 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Salaries, wages and other benefits	2,634	3,109	2,826
Contributions to defined contribution retirement plan	126	156	129
	2,760	3,265	2,955

Staff costs include directors' remuneration (Note 6).

(b) ***Other items***

	Note	For the year ended 31 December 2007 *HK$'000*	2008 *HK$'000*	2009 *HK$'000*
Depreciation	9	2,620	1,784	1,475
Bad debts written off		55	191	107
Licence charges		1,455	2,101	1,791
Operating lease charges in respect of				
- rental of properties	21(b)	480	480	496
- rental of transmission lines		1,031	205	228
Auditors' remuneration				
- annual audit services		60	60	60
- other compliance services		12	13	13
Utilities		49	51	57
Repair and maintenance		213	345	345
Cost of inventories	11(b)	244	225	1,188
Allowance for doubtful debts	12(b)	—	—	302

5 Income tax in the consolidated income statements

(a) ***Income tax in the consolidated income statements represents:***

	For the year ended 31 December 2007 *HK$'000*	2008 *HK$'000*	2009 *HK$'000*
Current tax - Hong Kong Profits Tax			
Provision for the year	1,138	770	2,279
Over-provision in respect of prior years	—	—	(22)
	1,138	770	2,257
Deferred tax			
Origination and reversal of temporary differences	—	(1,131)	(1,347)
	—	(1,131)	(1,347)
	1,138	(361)	910

(i) *Hong Kong Profits Tax*

The Company's Hong Kong subsidiaries are subject to Hong Kong Profits Tax. In addition, the Company and Elitel Limited, although incorporated in the Cayman Islands, are also considered as having a taxable presence in Hong Kong, since they are primarily managed and controlled in Hong Kong. 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 year ended 31 December 2009 is calculated at 16.5% (2008: 16.5%; 2007: 17.5%) of the estimated assessable profits for the year. In 2008, the Government of the Hong Kong Special Administrative Region enacted a change in the profits tax rate from 17.5% to 16.5% for the fiscal year 2008/2009. The payments of dividends by Hong Kong companies are not subject to any Hong Kong withholding tax.

(b) ***Reconciliation between income tax expense and accounting profit at applicable tax rates:***

	For the year ended 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Profit before taxation	11,802	8,432	11,049
Notional tax on profit before taxation, calculated at the rates applicable to profits in Hong Kong	2,065	1,391	1,823
Tax effect of non-taxable income	(25)	(3)	—
Tax effect of non-deductible expenses	20	13	1,072
Utilisation of previously unrecognised tax losses	(213)	(385)	(114)
Recognition of tax losses not recognised previously	(709)	(1,377)	(1,849)
Over-provision in prior years	—	—	(22)
Actual tax expense	1,138	(361)	910

6 Directors' remuneration

Details of directors' remuneration of the Group are as follows:

	For the year ended 31 December 2007				
	Directors' fees	**Salaries, allowances and benefits in kind**	**Contributions to retirement benefit plan**	**Bonuses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors					
Pang Kwok Chau	—	485	26	40	551
Li Wang	—	—	—	—	—
Subtotal	—	485	26	40	551
Non-executive directors					
Li Kin Shing	—	—	—	—	—
Wong Kin Wa	—	—	—	—	—
Subtotal	—	—	—	—	—
Independent non-executive directors					
Chen Xuedao	—	—	—	—	—
Chu, Howard Ho Hwa	—	—	—	—	—
Lee Man Yee, Maggie	—	—	—	—	—
Subtotal	—	—	—	—	—
Total	—	485	26	40	551

	For the year ended 31 December 2008				
	Directors' fees	**Salaries, allowances and benefits in kind**	**Contributions to retirement benefit plan**	**Bonuses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors					
Pang Kwok Chau	—	487	26	40	553
Li Wang	—	—	—	—	—
Subtotal	—	487	26	40	553
Non-executive directors					
Li Kin Shing	—	—	—	—	—
Wong Kin Wa	—	—	—	—	—
Subtotal	—	—	—	—	—
Independent non-executive directors					
Chen Xuedao	—	—	—	—	—
Chu, Howard Ho Hwa	—	—	—	—	—
Lee Man Yee, Maggie	—	—	—	—	—
Subtotal	—	—	—	—	—
Total	—	487	26	40	553

	For the year ended 31 December 2009				
	Directors' fees	**Salaries, allowances and benefits in kind**	**Contributions to retirement benefit plan**	**Bonuses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors					
Pang Kwok Chau	—	488	29	108	625
Li Wang	—	—	—	—	—
Subtotal	—	488	29	108	625
Non-executive directors					
Li Kin Shing	—	—	—	—	—
Wong Kin Wa	—	—	—	—	—
Subtotal	—	—	—	—	—
Independent non-executive directors					
Chen Xuedao	—	—	—	—	—
Chu, Howard Ho Hwa	—	—	—	—	—
Lee Man Yee, Maggie	—	—	—	—	—
Subtotal	—	—	—	—	—
Total	—	488	29	108	625

During the Track Record Period, there were no amounts paid or payable by the Group to the directors or any of the highest paid individuals set out in Note 7 below 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 Track Record Period.

7 Individuals with highest emoluments

Of the five individuals with the highest emoluments, one (2007 and 2008: one) is a director whose emoluments for the year ended 31 December 2009 are disclosed in Note 6. For each of the years ended 31 December 2007, 2008 and 2009, the aggregate of the emoluments in respect of the other four individuals with highest emoluments are as follows:

	For the year ended 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Salaries and other emoluments	1,293	1,780	1,072
Contributions to defined contribution retirement plan	69	90	58
Bonuses	107	48	275
	1,469	1,918	1,405

An analysis of the emoluments of the four individuals with the highest emoluments is with the following bands:

	For the year ended 31 December		
	2007	**2008**	**2009**
	Number of individuals	*Number of individuals*	*Number of individuals*
HK$Nil - HK$1,000,000	4	4	4

8 Earnings per share

The calculation of basic earnings per share is based on the profit attributable to the equity shareholders of the Company during the Track Record Period and the [●] shares in issue and issuable, comprising 200 shares in issue as at the date of the [●] and [●] shares to be issued pursuant to the [●] as set out in Appendix V to the document, as if the shares were outstanding throughout the entire Track Record Period.

There were no dilutive potential ordinary shares during the Track Record Period, and therefore, diluted earnings per share are the same as the basic earnings per share.

9 Property, plant and equipment

	Furniture and fixtures *HK$'000*	Facilities equipment *HK$'000*	Office equipment *HK$'000*	Total *HK$'000*
Cost:				
At 1 January 2007	6	13,488	198	13,692
Additions	—	39	55	94
At 31 December 2007	6	13,527	253	13,786
Additions	—	202	13	215
At 31 December 2008	6	13,729	266	14,001
Additions	—	205	8	213
At 31 December 2009	6	13,934	274	14,214
Accumulated depreciation:				
At 1 January 2007	(5)	(6,397)	(96)	(6,498)
Charge for the year	(1)	(2,583)	(36)	(2,620)
At 31 December 2007	(6)	(8,980)	(132)	(9,118)
Charge for the year	—	(1,745)	(39)	(1,784)
At 31 December 2008	(6)	(10,725)	(171)	(10,902)
Charge for the year	—	(1,435)	(40)	(1,475)
At 31 December 2009	(6)	(12,160)	(211)	(12,377)
Net book value:				
At 31 December 2007	—	4,547	121	4,668
At 31 December 2008	—	3,004	95	3,099
At 31 December 2009	—	1,774	63	1,837

10 Income tax in the consolidated balance sheets

(a) ***Current tax payables in the consolidated balance sheets represent:***

	At 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Provision for Hong Kong Profits Tax for the year	1,138	770	2,279
Provisional profits tax paid	—	—	(124)
	1,138	770	2,155
Balance of Hong Kong Profits Tax provision relating to prior years	3,093	4,231	4,979
	4,231	5,001	7,134

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

The components of deferred tax assets / (liabilities) recognised in the consolidated balance sheets and the movements during the Track Record Period are as follows:

Deferred tax arising from:

	Unutilised tax loss	**Depreciation allowances in excess of the related depreciation**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2007	1,376	(1,376)	—
(Charged)/credited to profit or loss	(368)	368	—
At 31 December 2007	1,008	(1,008)	—
Credited to profit or loss	753	378	1,131
At 31 December 2008	1,761	(630)	1,131
Credited to profit or loss	1,054	293	1,347
At 31 December 2009	2,815	(337)	2,478

Deferred tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through future taxable profit is probable.

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

In accordance with the accounting policy set out in Note 1(n), the Group did not recognise deferred tax assets in respect of cumulative tax losses of China-Hongkong Telecom Limited and Directel Communications Limited amounting to HK$23.3 million, HK$12.6 million and HK$0.7 million as at 31 December 2007, 2008 and 2009 respectively, as it is not probable that future taxable profits will be available against which tax losses can be utilised. The tax losses do not expire under current tax legislation.

(d) ***Reconciliation to the consolidated balance sheets***

	At 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Net deferred tax assets recognised on the consolidated balance sheets	—	1,254	2,814
Net deferred tax liabilities recognised on the consolidated balance sheets	—	(123)	(336)
At 31 December	—	1,131	2,478

11 Inventories

(a) Inventories in the consolidated balance sheets comprise:

	At 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
SIM cards	518	651	1,465
Recharge vouchers	16	12	8
	534	663	1,473

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

	At 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Cost of inventories sold	244	225	1,027
Write down of inventories	—	—	161
	244	225	1,188

12 Trade and other receivables

	At 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Trade receivables			
- amounts due from related parties	77	—	—
- amounts due from third parties	13,282	9,442	19,843
less: allowance for doubtful debts (Note 12(b))	—	—	(302)
	13,359	9,442	19,541
Other receivables			
- amounts due from related parties	11,183	22,298	22
- amount due from an ultimate shareholder	1,137	1,137	—
- amounts due from third parties	22	1,258	41
	12,342	24,693	63
Deposits and prepayments	4,204	3,859	1,363
	29,905	37,994	20,967

The Group's credit policy is set out in Note 18(a).

The amounts due from an ultimate shareholder and related parties are unsecured, interest free and repayable on demand.

(a) ***Ageing analysis***

Included in trade receivables are trade debtors (net of allowance for doubtful debts) with the following ageing analysis by billing date as of the balance sheet date:

	At 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Within 1 month	4,755	3,512	4,809
Over 1 month but less than 3 months	4,967	4,401	5,411
Over 3 months but less than 6 months	2,429	763	4,313
Over 6 months but less than 1 year	926	749	917
Over 1 year	282	17	4,091
	13,359	9,442	19,541

Included in trade receivables are trade debtors with the following ageing analysis by due date as of the balance sheet date:

	At 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Current	3,277	1,463	2,942
Less than 1 month past due	2,944	2,916	4,137
1 to 3 months past due	4,537	3,777	3,241
More than 3 months but less than 12 months past due	2,325	1,269	5,142
More than 12 months past due	276	17	4,381
	13,359	9,442	19,843
Less: allowance for doubtful debts	—	—	(302)
	13,359	9,442	19,541

(b) ***Impairment of trade receivables***

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly (see Note 1(h)(i)).

The movement in the allowance for doubtful debts during the Track Record Period is as follows:

	For the year ended 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
At 1 January	—	—	—
Impairment loss recognised	—	—	302
At 31 December	—	—	302

At 31 December 2009, the Group's trade debtors of HK$302,000 (2007 and 2008: HK$Nil) were individually determined to be impaired. The individually impaired receivables related to invoices that were default in payment and management assessed that the receivables are not expected to be recovered. Consequently, specific allowances for doubtful debts of HK$302,000 (2007 and 2008: HK$Nil) were recognised. The Group does not hold any collateral over these balances.

(c) ***Trade receivables that are not impaired***

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired are as follows:

	For the year ended 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Neither past due nor impaired	3,277	1,463	2,942
Less than 1 month past due	2,944	2,916	4,137
1 to 3 months past due	4,537	3,777	3,241
More than 3 months but less than 12 months past due	2,325	1,269	5,131
More than 12 months past due	276	17	4,090
	10,082	7,979	16,599
	13,359	9,442	19,541

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

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

13 Cash

	At 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Cash at bank and on hand	10,393	11,207	4,812

14 Trade and other payables

	At 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Trade payables			
- amounts due to related parties	902	1,633	2,369
- amounts due to third parties	3,214	3,187	3,299
	4,116	4,820	5,668
Other payables			
- amounts due to related parties	2,842	2,995	—
- amount due to an ultimate shareholder	1,769	1,769	—
- amounts due to third parties	35,433	33,831	—
	40,044	38,595	—
Accrued charges and deposits	2,066	1,842	4,191
Deferred income	—	—	599
	46,226	45,257	10,458

The amounts due to an ultimate shareholder and related parties are unsecured, interest free and repayable on demand.

Included in trade and other payables are trade creditors with the following ageing analysis by transaction date as of the balance sheet date:

	At 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Within 1 month	2,557	2,930	1,923
Over 1 month but less than 3 months	548	1,302	1,225
Over 3 months but less than 6 months	223	—	1,123
Over 6 months but less than 1 year	200	—	809
Over 1 year	588	588	588
	4,116	4,820	5,668

15 Share capital

For the purpose of this report, share capital as at 31 December 2007, 2008 and 2009 represented the aggregate amount of paid-in capital of the companies comprising the Group at those dates, after elimination of investments in subsidiaries.

(a) The share capital in the consolidated balance sheets as at 31 December 2007 and 2008 represented two issued and fully-paid ordinary shares of Elitel Limited of US$1 each, approximately HK$16 in total.

(b) The Company was incorporated on 28 July 2009 with an authorised share capital of HK$50,000 divided into 5,000,000 shares of HK$0.01 each, and 100 shares of HK$0.01 each were allotted and issued at par to New Everich Holdings Limited.

On 7 September 2009, the Company allotted and issued 100 shares of HK$0.01 each to New Everich Holdings Limited pursuant to a share swap agreement entered into among the Company, Mr Li Kin Shing, Ms Kwok King Wa and Elitel Limited.

The share capital in the consolidated balance sheet as at 31 December 2009 represented 200 issued shares of Directel Holdings Limited of HK$0.01 each, HK$2 in total.

16 Other reserve

On 7 September 2009, the Company acquired the entire issued share capital of Elitel Limited by allotment and issue of 100 shares of HK$0.01 each. The difference between the nominal value of entire issued share capital of Elitel Limited of US$2 (equivalent to HK$16) and the nominal value of the 100 shares allotted and issued by the Company was treated as an equity movement and recorded in "Other reserve" amounting to HK$15. On the same date, the Company became the holding company of Elitel Limited.

17 Retirement benefits

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement plan administered by an independent trustee. Under the MPF Scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the plan vest immediately.

The Group has no other obligations for payment of retirement and other post-retirement benefits of employees other than the contribution described above.

18 Financial risk management and fair values

Exposure to credit, liquidity and market risks arises in the normal course of the Group's business. The Group's financial assets include cash at bank and on hand, trade and other receivables. The Group's financial liabilities include trade and other payables.

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***

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis.

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.

At 31 December 2007, 2008 and 2009, the Group had a concentration of credit risk as 81%, 82% and 92% of the total trade receivables respectively was due from the Group's five largest individual customers, and 27%, 43% and 67% of the total trade receivables respectively was due from the Group's major customer.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated balance sheet. The Group does not provide any guarantees which would expose the Group to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in Note 12.

(b) ***Liquidity risk***

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's policy to managing liquidity risk is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

(c) ***Market risk***

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(i) *Interest rate risk*

The Group has no significant exposure to market risk for changes in interest rate.

(ii) *Currency risk*

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

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

Exposure to foreign currencies (expressed in HK$'000)

	At 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
RMB			
- Trade and other receivables	13,408	17,785	13,124
- Cash	—	—	49
- Trade and other payables	(30,103)	(28,654)	—
	(16,695)	(10,869)	13,173
US$			
- Cash	7,860	8,041	63
- Trade and other payables	(7,800)	(7,800)	—
	60	241	63
Net balance sheet exposure	(16,635)	(10,628)	13,236

Sensitivity analysis

A 5% strengthening of the HK$ against RMB at the balance sheet date would have increased/(decreased) profit after tax and retained earnings by the amounts shown below. This analysis assumes that all other variables remain constant.

	At 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
RMB	689	454	(550)

A 5% weakening of the HK$ against the RMB at the balance sheet date would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

It is assumed that the pegged rate between HK$ and US$ would be materially unaffected by any changes in movement in value of the US$ against other currencies.

The sensitivity analysis assumes that the changes in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the balance sheet date.

(d) ***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 commensurate with the level of risk.

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 Track Record Period.

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

(e) ***Fair value***

The fair values of the Group's financial instruments are not materially different from their carrying amounts. Fair value estimates are made at a specific point in time and are based on relevant market information and information about the financial assets and liabilities. These estimates are subjective in nature, involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

19 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 Information. The following principal accounting policies involve the most significant judgements and estimates used in the preparation of the Financial Information.

(a) ***Depreciation***

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

(b) ***Impairments***

In considering the impairment loss that may be required for certain property, plant and equipment of the Group, recoverable amount of these assets needs to be determined. The recoverable amount is the greater of the fair value less costs to sell 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 asset are discounted to their present value, which requires significant judgement relating to items such as level of turnover 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 turnover and operating costs.

Impairment loss for bad and doubtful debts is assessed and provided based on the directors' regular review of ageing analysis and evaluation of collectability. A considerable level of judgement is exercised by the directors when assessing the credit worthiness and past collection history of each individual customer.

An increase or decrease in the above impairment loss would affect the net profit in future years.

(c) ***Recognition of deferred tax assets***

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

20 Commitments

The total future minimum lease payments under non-cancellable operating leases at 31 December 2007, 2008 and 2009 are payable as follows:

	At 31 December					
	2007		2008		2009	
	Properties	Transmission lines	Properties	Transmission lines	Properties	Transmission lines
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Within 1 year	480	136	480	173	528	241
After 1 year but within 5 years	1,200	360	720	248	528	140
	1,680	496	1,200	421	1,056	381

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

21 Material related party transactions

(a) ***Relationship between the Group and related parties***

(i) *Ultimate shareholders of the Group*

- Li Kin Shing
- Kwok King Wa

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

- China Elite Energy Limited
- China Elite Information Technology Ltd.
- Directel Communications Services Limited
- Directel Limited
- Fastary Limited
- International Elite Ltd.
- International Elite Limited - Macao Commercial Offshore
- PacificNet Communications Limited - Macao Commercial Offshore
- Sunward Telecom Limited (incorporated in the BVI)
- Sunward Telecom Limited (incorporated in the Cayman Islands)
- Talent Group (International) Limited
- Talent Information Engineering Co. Limited
- Target Link Enterprises Limited
- Winet Engineering Limited
- Xiamen Elite Electric Co., Ltd.

(iii) *Related parties of ultimate shareholders*

- Guangdong Zhitong Telecommunications Limited
- Guangzhou Zhitong Telecommunications Limited ("Guangzhou Zhitong") *(Note)*
- Guangzhou Zhitong Mobile Telecommunications Limited
- Shenzhen Zhitong Telecommunications Limited ("Shenzhen Zhitong") *(Note)*
- Shenzhen Zhitong Mobile Telecommunications Limited

Note: Mr Li Kin Shing and Ms Kwok King Wa disposed of their entire interests in Guangzhou Zhitong and Shenzhen Zhitong to independent third parties in April 2007 and since then, Guangzhou Zhitong and Shenzhen Zhitong are no longer related parties to the Group.

(b) ***Transactions***

During the Track Record Period, the Group entered into the following material related party transactions:

		For the year ended 31 December		
	Note	**2007**	**2008**	**2009**
		HK$'000	*HK$'000*	*HK$'000*
Services rendered	(i)	11,372	10,807	6,864
Rental of properties	(ii)	480	480	496

Notes:

(i) Services rendered by related parties are related to telesales services, customer hotline services, Built-in-Secretarial services and data processing and billing management services.

(ii) The Group leased certain properties under operating lease from a related party, Talent Information Engineering Co. Limited, at an aggregate monthly rental of approximately HK$40,000 from 1 July 2006 to 31 August 2009 and then at an aggregate monthly rental of HK$44,000 from 1 September 2009 to 31 December 2011 (with an option to renew for another three years).

The directors 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) ***Advances/repayment of advances to/from related parties***

	For the year ended 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Cash advances to related parties	3,631	15,270	7,434
Repayment of cash advances from related parties	85	4,155	29,796
Cash advances from related parties	10,483	153	—
Cash advances from an ultimate shareholder	158	—	—
Repayment of cash advances to related parties	13,194	—	3,081
Repayment of cash advances to an ultimate shareholder	4,563	—	632

The directors have confirmed that the cash advances to and from related parties will not continue in the future after the [●].

(d) ***Balances with related parties***

As at the respective balance sheet dates, the Group had the following balances with related parties:

	At 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Amounts due from an ultimate shareholder and related parties			
- trade	77	—	—
- non-trade	12,320	23,435	22
Amounts due to an ultimate shareholder and related parties			
- trade	902	1,633	2,369
- non-trade	4,611	4,764	—

Notes: The amounts due from/to shareholders and related parties are unsecured, interest free and are repayable on demand. The amounts due from an ultimate shareholder and related parties are included in "Trade and other receivables" (Note 12) and the amounts due to an ultimate shareholder and related parties are included in "Trade and other payables" (Note 14). No allowance for doubtful debts has been made in respect of the amounts due from shareholders and related parties.

(e) ***Key management personnel remuneration***

Remuneration for key management personnel of the Group, including amounts paid to the Group's directors as disclosed in Note 6 and certain of the individuals with highest emoluments as disclosed in Note 7, are as follows:

	For the year ended 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Short-term employee benefits	2,100	2,506	1,761
Contributions to defined contribution retirement plan	104	125	80
	2,204	2,631	1,841

Total remuneration is included in "staff costs" (Note 4(a)).

(f) ***Contributions to defined contribution retirement plan***

The amounts of contributions and details of the Group's defined contribution retirement plan are described in Notes 4(a) and 17.

22 Immediate and ultimate controlling party

At 31 December 2007, 2008 and 2009, the directors consider the immediate and ultimate controlling party of the Group to be the ultimate shareholders as mentioned in Note 21(a)(i).

23 Contingent liabilities

Elitel Limited failed to register as a non-Hong Kong company within the prescribed time limit under Part XI of the Companies Ordinance, which shall be within one month of the establishment of the place of business in Hong Kong.

As at the date of this report, the Companies Registry was still considering whether to take any action against Elitel Limited in relation to its possible breaches of the Companies Ordinance in respect of its failure to register promptly under Part XI of the Companies Ordinance. Elitel Limited may be subject to certain penalty in this respect.

The Group did not recognise any provision in respect of the abovementioned issue as the amount of the obligation cannot be measured with sufficient reliability.

During the Track Record Period, no claims had been made against the Group by the Companies Registry in respect of Elitel Limited's failure to register as a non-Hong Kong company under Part XI of the Companies Ordinance.

24 Possible impact of amendments, new standards and interpretations issued but not yet effective for the Track Record Period

Up to the date of issue of this report, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the Track Record Period and which have not been adopted in this report.

The directors have confirmed that the Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations 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 Group's results of operations and financial position.

D DIRECTORS' REMUNERATION

Save as disclosed in Section C Note 6 above, no other remuneration has been paid or is payable in respect of the Track Record Period by the Group to the directors of the Company. Under the arrangement presently in force, the estimated aggregate amount of the Company's directors' remuneration payable for the year ending 31 December 2010 is approximately [HK$1,043,000], excluding management bonuses which are payable at the Company's discretion.

E SUBSEQUENT EVENTS

The following significant events took place subsequent to 31 December 2009:

[●]

F BALANCE SHEET OF THE COMPANY

The balance sheet of the Company at 31 December 2009 was as follows:

	At 31 December 2009
	HK$'000
Assets	
Investment in a subsidiary	—
Amounts due from shareholders	—
Prepayments	583
Total assets	583
Liabilities	
Amount due to a subsidiary	(5,540)
Accrued charges	(1,539)
Total liabilities	(7,079)
Net liabilities	(6,496)
Capital and reserves	
Share capital *(Note 15(b))*	—
Accumulated losses	(6,496)
Total equity	(6,496)

G SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 December 2009.

Yours faithfully

KPMG
Certified Public Accountants
Hong Kong

The following is the text of a letter and valuation certificate, prepared for the purpose of incorporation in this document received from Jones Lang LaSalle Sallmanns Limited, an independent valuer, in connection with its valuation as at 31 March 2010 of the property interest of the Group.

JONES LANG LASALLE® SALLMANNS

Jones Lang LaSalle Sallmanns Limited
17/F Dorset House Taikoo Place
979 King's Road Quarry Bay Hong Kong
tel +852 2169 6000 fax +852 2169 6001
Licence No: C-030171

[Date]

The Board of Directors
Directel Holdings Limited
Rooms 3701-2, 14-15
Hong Kong Plaza
188 Connaught Road West
Hong Kong

Dear Sirs,

In accordance with your instructions to value the property in which Directel Holdings Limited (the "Company") and its subsidiaries (hereinafter together referred to as the "Group") have interests in Hong Kong, we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital value of the property interest as at 31 March 2010 (the "date of valuation").

Our valuation of the property interest represents the market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion".

We have attributed no commercial value to the property interest which are leased by the Group, due either to the short-term nature of the lease or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rent.

Our valuation has been made on the assumption that the seller sells the property interest in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the value of the property interest.

No allowance has been made in our report for any charge, mortgage or amount owing on any of the property interest valued nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their value.

In valuing the property interest of the Group in Hong Kong held under the Government Leases expiring before 30th June, 1997, we have taken into account the stipulations contained in Annex III of the Joint Declaration of the Government of the United Kingdom and the Government of the People's Republic of China on the question of Hong Kong and the New Territories Leases (Extension) Ordinance 1988 that such leases have been extended without premium until 30th June, 2047 and that a rent of three per cent of the then ratable value is charged per annum from the date of extension.

In valuing the property interest, we have complied with all requirements contained in Chapter 8 of the Rules Governing the Listing of Securities on the Growth Enterprise Market issued by The Stock Exchange of Hong Kong Limited; the RICS Valuation Standards (6th Edition) published by the Royal Institution of Surveyors; and the HKIS Valuation Standards on Properties (1st Edition 2005) published by the Hong Kong Institute of Surveyors.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been provided with copies of title documents and tenancy agreement relating to the property interest and have caused searches to be made at the Hong Kong Land Registry. However, we have not searched the original documents to verify the ownership or to ascertain any amendment.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the property but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defect. No tests were carried out on any of the services.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive an informed view, and we have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary figures stated in this report are in Hong Kong Dollars (HK$).

Our valuation certificate is attached.

Yours faithfully,
for and on behalf of
Jones Lang LaSalle Sallmanns Limited
Paul L. Brown
B.Sc. FRICS FHKIS
Director

Note: Paul L. Brown is a Chartered Surveyor who has 27 years' experience in the valuation of properties in the PRC and 30 years of property valuation experience in Hong Kong and the United Kingdom, as well as relevant experience in the Asia-Pacific region, France and Germany.

VALUATION CERTIFICATE

Property interest rented and occupied by the Group in Hong Kong

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2010 *HK$*
Office Nos.1, 2, 14 and 15 37th Floor Hong Kong Plaza No.188 Connaught Road West Hong Kong	The property comprises 4 units on 37th Floor of a 43 office/commercial building completed in about 1983. The property has a total gross floor area of approximately 410.26 sq.m. The property is leased to Directel Holdings Limited from Talent Information Engineering Company Limited (a connected party) for a term of 28 months commencing from 1 September 2009 until 31 December 2011 (with an option to renew for another three years), at a monthly rent of HK$44,000 inclusive of rates, government rent and management fees.	The property is currently occupied by the Group for office purpose.	No commercial value

Notes:

1. The registered owner of the property is Talent Information Engineering Company Limited vide Memorial No. UB6081314 dated 2 July 1994.

2. Pursuant to a Tenancy Agreement, the property is leased to Directel Holdings Limited from Talent Information Engineering Co. Limited (a connected party), for a term of 28 months commencing from 1 September 2009 until 31 December 2011 (with an option to renew for another three years), at a monthly rent of HK$44,000 inclusive of rates, government rent and management fee.

3. The Tenancy Agreement of the property has been duly stamped with the Stamp Office.

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman Islands company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 28 July 2009 under the Companies Law. The Company's constitutional documents consist of its Amended and Restated Memorandum of Association (the "Memorandum") and the Amended and Restated Articles of Association (the "Articles").

1. MEMORANDUM OF ASSOCIATION

(a) The Memorandum provides, *inter alia*, that the liability of members of the Company is limited and that the objects for which the Company is established are unrestricted (and therefore include acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate whether as principal, agent, contractor or otherwise and since the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.

(b) By special resolution the Company may alter the Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on 20 May 2010. The following is a summary of certain provisions of the Articles:

(a) Shares

(i) *Classes of shares*

The share capital of the Company consists of ordinary shares.

(ii) *Share certificates*

Every person whose name is entered as a member in the register of members shall be entitled without payment to receive a certificate for his shares. The Companies Law prohibits the issue of bearer shares to any person other than an authorised or recognised custodian defined in the Companies Law. The requirement on all service providers to implement appropriate due diligence procedures on the identity of a client in order to "know your client" as a result of proceeds of crime legislation mandates that special procedures should be followed when issuing bearer shares.

Every certificate for shares, warrants or debentures or representing any other form of securities of the Company shall be issued under the seal of the Company, and shall be signed autographically by one Director and the Secretary, or by 2 Directors, or by some other person(s) appointed by the Board for the purpose. As regards any certificates for shares or debentures or other securities of the Company, the Board may by resolution determine that such signatures or either of them shall be dispensed with or affixed by some method or system of mechanical signature other than autographic as specified in such resolution or that such certificates need not be signed by any person. Every share certificate issued shall specify the number and class of shares in respect of which it is issued and the amount paid thereon and may otherwise be in such form as the Board may from time to time prescribe. A share certificate shall relate to only one class of shares, and where the capital of the Company includes shares with different voting rights, the designation of each class of shares, other than those which carry the general right to vote at general meetings, must include the words "restricted voting" or "limited voting" or "non-voting" or some other appropriate designation which is commensurate with the rights attaching to the relevant class of shares. The Company shall not be bound to register more than 4 persons as joint holders of any share.

(b) Directors

(i) *Power to allot and issue shares and warrants*

Subject to the provisions of the Companies Law, the Memorandum and Articles and without prejudice to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Board may determine). Any share may be issued on terms that upon the happening of a specified event or upon a given date and either at the option of the Company or the holder thereof, they are liable to be redeemed.

The Board may issue warrants to subscribe for any class of shares or other securities of the Company on such terms as it may from time to time determine.

Where warrants are issued to bearer, no certificate thereof shall be issued to replace one that has been lost unless the Board is satisfied beyond reasonable doubt that the original certificate thereof has been destroyed and the Company has received an indemnity in such form as the Board shall think fit with regard to the issue of any such replacement certificate.

Subject to the provisions of the Companies Law, the Articles and, where applicable, the rules of any stock exchange of the Relevant Territory (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others whose registered addresses are in any particular territory or territories where, in the absence of a registration statement or other special formalities, this is or may, in the opinion of the Board, be unlawful or impracticable. However, no member affected as a result of the foregoing shall be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) *Power to dispose of the assets of the Company or any subsidiary*

While there are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries, the Board may exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting, but if such power or act is regulated by the Company in general meeting, such regulation shall not invalidate any prior act of the Board which would have been valid if such regulation had not been made.

(iii) *Compensation or payments for loss of office*

Payments to any present Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually or statutorily entitled) must be approved by the Company in general meeting.

(iv) *Loans and provision of security for loans to Directors*

There are provisions in the Articles prohibiting the making of loans to Directors and their associates which are equivalent to provisions of Hong Kong law prevailing at the time of adoption of the Articles.

The Company shall not directly or indirectly make a loan to a Director or a director of any holding company of the Company or any of their respective associates, enter into any guarantee or provide any security in connection with a loan made by any person to a Director or a director of any holding company of the Company or any of their respective associates, or if any one or more of the Directors hold (jointly or severally or directly or indirectly) a controlling interest in another company, make a loan to that other company or enter into any guarantee or provide any security in connection with a loan made by any person to that other company.

(v) *Disclosure of interest in contracts with the Company or with any of its subsidiaries*

With the exception of the office of auditor of the Company, a Director may hold any other office or place of profit with the Company in conjunction with his office of Director for such period and, upon such terms as the Board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer or member of any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration or other benefits received by him as a director, officer or member of such other company. The Board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company.

No Director or intended Director shall be disqualified by his office from contracting with the Company, either as vendor, purchaser or otherwise, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company for any profit realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established. A Director who is, in any way, materially interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the earliest meeting of the Board at which he may practically do so.

There is no power to freeze or otherwise impair any of the rights attaching to any Share by reason that the person or persons who are interested directly or indirectly therein have failed to disclose their interests to the Company.

A Director shall not vote (nor shall he be counted in the quorum) on any resolution of the Board in respect of any contract or arrangement or other proposal in which he or his associate(s) is/are materially interested, and if he shall do so his vote shall not be counted nor shall he be counted in the quorum for that resolution, but this prohibition shall not apply to any of the following matters namely:

(aa) the giving of any security or indemnity to the Director or his associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;

(bb) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has/have himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(cc) any proposal concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(dd) any proposal concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a member or in which the Director or his associate(s) is/are beneficially interested in shares of that company, provided that the Director and any of his associates are not in aggregate beneficially interested in 5% or more of the issued shares of any class of such company (or of any third company through which his interest or that of his associate(s) is derived) or of the voting rights;

(ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death or disability benefits scheme or other arrangement which relates both to Directors, his associate(s) and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not generally accorded to the employees to which such scheme or fund relates; or

(ff) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company.

(vi) *Remuneration*

The Directors shall be entitled to receive, as ordinary remuneration for their services, such sums as shall from time to time be determined by the Board, or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree or failing agreement, equally, except that in such event any Director holding office for only a portion of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he has held office. The Directors shall also be entitled to be repaid all travelling, hotel and other expenses reasonably incurred by them in attending any Board meetings, committee meetings or general meetings or otherwise in connection with the discharge of their duties as Directors. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

Any Director who, at the request of the Company performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such special or extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the Board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the Board may from time to time decide. Such remuneration shall be in addition to his ordinary remuneration as a Director.

The Board may establish, either on its own or jointly in concurrence or agreement with other companies (being subsidiaries of the Company or with which the Company is associated in business), or may make contributions out of the Company's monies to, such schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or former Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and former employees of the Company and their dependents or any class or classes of such persons.

In addition, the Board may also pay, enter into agreements to pay or make grants of revocable or irrevocable, whether or not subject to any terms or conditions, pensions or other benefits to employees and former employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or former employees or their dependents are or may become entitled under any such scheme or fund as mentioned above. Such pension or benefit may, if deemed desirable by the Board, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) *Appointment, retirement and removal*

At any time or from time to time, the Board shall have the power to appoint any person as a Director either to fill a casual vacancy on the Board or as an additional Director to the existing Board subject to any maximum number of Directors, if any, as may be determined by the members in general meeting. Any Director so appointed shall hold office only until the next general meeting of the Company and shall then be eligible for re-election. There is no shareholding qualification for Directors.

At each annual general meeting, one third of the Directors for the time being will retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not less than one third shall be the number of retiring Directors. The Directors who shall retire in each year will be those who have been longest in the office since their last re-election or appointment but as between persons who become or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

No person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been lodged at the head office or at the registration office. The period for lodgment of such notices will commence no earlier than the day after the despatch of the notice of the meeting appointed for such election and end no later than 7 days prior to the date of such meeting and the minimum length of the period during which such notices to the Company may be given must be at least 7 days.

A Director is not required to hold any shares in the Company by way of qualification nor is there any specified upper or lower age limit for Directors either for accession to the Board or retirement therefrom.

A Director may be removed by an ordinary resolution of the Company before the expiration of his term of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and the Company may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two.

In addition to the foregoing, the office of a Director shall be vacated:

(aa) if he resigns his office by notice in writing delivered to the Company at the registered office or head office of the Company for the time being or tendered at a meeting of the Board;

(bb) if he dies or becomes of unsound mind as determined pursuant to an order made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Board resolves that his office be vacated;

(cc) if, without special leave, he is absent from meetings of the Board for six (6) consecutive months, and the Board resolves that his office is vacated;

(dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;

(ee) if he is prohibited from being a director by law;

(ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles;

(gg) if he has been validly required by the stock exchange of the Relevant Territory (as defined in the Articles) to cease to be a Director and the relevant time period for application for review of or appeal against such requirement has lapsed and no application for review or appeal has been filed or is underway against such requirement; or

(hh) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) then in office.

From time to time the Board may appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the Board may determine and the Board may revoke or terminate any of such appointments. The Board may also delegate any of its powers to committees consisting of such Director or Directors and other person(s) as the Board thinks fit, and from time to time it may also revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers so delegated, conform to any regulations that may from time to time be imposed upon it by the Board.

(viii) *Borrowing powers*

Pursuant to the Articles, the Board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, debenture stock, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party. The provisions summarised above, in common with the Articles of Association in general, may be varied with the sanction of a special resolution of the Company.

(ix) *Register of Directors and officers*

Pursuant to the Companies Law, the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within 30 days of any change in such directors or officers.

(x) *Proceedings of the Board*

Subject to the Articles, the Board may meet anywhere in the world for the despatch of business and may adjourn and otherwise regulate its meetings as it thinks fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

(c) Alterations to the constitutional documents

To the extent that the same is permissible under Cayman Islands law and subject to the Articles, the Memorandum and Articles of the Company may only be altered or amended, and the name of the Company may only be changed by the Company by special resolution.

(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to any class of shares may (unless otherwise provided for by the terms of issue of the shares of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings shall *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be not less than two persons together holding (or in the case of a shareholder being a corporation, by its duly authorised representative) or representing by proxy not less than one-third in nominal value of the issued shares of that class. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(e) Alteration of capital

The Company may, by an ordinary resolution of its members, (a) increase its share capital by the creation of new shares of such amount as it thinks expedient; (b) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; (c) divide its unissued shares into several classes and attach thereto respectively any preferential, deferred, qualified or special rights, privileges or conditions; (d) subdivide its shares or any of them into shares of an amount smaller than that fixed by the Memorandum; and (e) cancel shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled; (f) make provision for the allotment and issue of shares which do not carry any voting rights; (g) change the currency of denomination of its share capital; and (h) reduce its share premium account in any manner authorised and subject to any conditions prescribed by law.

Reduction of share capital — subject to the Companies Law and to confirmation by the court, a company limited by shares may, if so authorised by its Articles of Association, by special resolution, reduce its share capital in any way.

(f) Special resolution — majority required

In accordance with the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or by proxy or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 21 clear days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given. However, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which less than 21 clear days' notice has been given.

Under Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

An "ordinary resolution", by contrast, is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than fourteen clear days' notice has been given and held in accordance with the Articles. A resolution in writing signed by or on behalf of all members shall be treated as an ordinary resolution duly passed at a general meeting of the Company duly convened and held, and where relevant as a special resolution so passed.

(g) Voting rights (generally and on a poll) and right to demand a poll

Subject to any special rights, restrictions or privileges as to voting for the time being attached to any class or classes of shares at any general meeting on a show of hands, every member who is present in person or by proxy or being a corporation, is present by its duly authorised representative shall have one vote, and on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every share which is fully paid or credited as fully paid registered in his name in the register of members of the Company but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purpose as paid up on the share. Notwithstanding anything contained in the Articles, where more than one proxy is appointed by a member which is a Clearing House (as defined in the Articles) (or its nominee(s)), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he does use in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded or otherwise required under the rules of the stock exchange of the Relevant Territory (as defined in the Articles). A poll may be demanded by:

(i) the chairman of the meeting; or

(ii) at least two members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or

(iii) any member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or

(iv) a member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Should a Clearing House or its nominee(s), be a member of the Company, such person or persons may be authorised as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised in accordance with this provision shall be entitled to exercise the same rights and powers on behalf of the Clearing House or its nominee(s), as if such person were an individual member including the right to vote individually on a show of hands.

Where the Company has knowledge that any member is, under the Listing Rules, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

(h) Annual general meetings

The Company must hold an annual general meeting each year. Such meeting must be held not more than 15 months after the holding of the last preceding annual general meeting, or such longer period as may be authorised by the Stock Exchange at such time and place as may be determined by the Board.

(i) Accounts and audit

The Board shall cause proper books of account to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the assets and liabilities of the Company and of all other matters required by the Companies Law necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions.

The books of accounts of the Company shall be kept at the head office of the Company or at such other place or places as the Board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any account or book or document of the Company except as conferred by the Companies Law or ordered by a court of competent jurisdiction or authorised by the Board or the Company in general meeting.

The Board shall from time to time cause to be prepared and laid before the Company at its annual general meeting balance sheets and profit and loss accounts (including every document required by law to be annexed thereto), together with a copy of the Directors' report and a copy of the auditors' report not less than 21 days before the date of the annual general meeting. Copies of these documents shall be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles together with the notice of annual general meeting, not less than 21 days before the date of the meeting.

Subject to the rules of the stock exchange of the Relevant Territory (as defined in the Articles), the Company may send summarised financial statements to shareholders who has, in accordance with the rules of the stock exchange of the Relevant Territory (as defined in the Articles), consented and elected to receive summarised financial statements instead of the full financial statements. The summarised financial statements must be accompanied by any other documents as may be required under the rules of the stock exchange of the Relevant Territory (as defined in the Articles), and must be sent to the shareholders not less than twenty-one days before the general meeting to those shareholders that have consented and elected to receive the summarised financial statements.

The Company shall appoint auditor(s) to hold office until the conclusion of the next annual general meeting on such terms and with such duties as may be agreed with the Board. The auditors' remuneration shall be fixed by the Company in general meeting or by the Board if authority is so delegated by the members.

The auditors shall audit the financial statements of the Company in accordance with generally accepted accounting principles of Hong Kong, the International Accounting Standards or such other standards as may be permitted by the Stock Exchange.

(j) Notices of meetings and business to be conducted thereat

An annual general meeting and any extraordinary general meeting at which it is proposed to pass a special resolution must be called by at least 21 days' notice in writing, and any other extraordinary general meeting shall be called by at least 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time, place and agenda of the meeting, and particulars of the resolution(s) to be considered at that meeting, and, in the case of special business, the general nature of that business.

Except where otherwise expressly stated, any notice or document (including a share certificate) to be given or issued under the Articles shall be in writing, and may be served by the Company on any member either personally or by sending it through the post in a pre-paid envelope or wrapper addressed to such member at his registered address as appearing in the Company's register of members or by leaving it at such registered address as aforesaid or (in the case of a notice) by advertisement in the newspapers. Any member whose registered address is outside Hong Kong may notify the Company in writing of an address in Hong Kong which for the purpose of service of notice shall be deemed to be his registered address. Where the registered address of the member is outside Hong Kong, notice, if given through the post, shall be sent by pre-paid airmail letter where available.

Although a meeting of the Company may be called by shorter notice than as specified above, such meeting may be deemed to have been duly called if it is so agreed:

(i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and

(ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the issued shares giving that right.

All business transacted at an extraordinary general meeting shall be deemed special business and all business shall also be deemed special business where it is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

(aa) the declaration and sanctioning of dividends;

(bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;

(cc) the election of Directors in place of those retiring;

(dd) the appointment of auditors;

(ee) the fixing of the remuneration of the Directors and of the auditors;

(ff) the granting of any mandate or authority to the Board to offer, allot, grant options over, or otherwise dispose of the unissued shares of the Company representing not more than 20% in nominal value of its existing issued share capital (or such other percentage as may from time to time be specified in the rules of the Stock Exchange) and the number of any securities repurchased by the Company since the granting of such mandate; and

(gg) the granting of any mandate or authority to the Board to repurchase securities in the Company.

(k) Transfer of shares

Subject to the Companies Law, all transfers of shares shall be effected by an instrument of transfer in the usual or common form or in such other form as the Board may approve provided always that it shall be in such form prescribed by the Stock Exchange and may be under hand or, if the transferor or transferee is a Clearing House or its nominee(s), under hand or by machine imprinted signature or by such other manner of execution as the Board may approve from time to time.

Execution of the instrument of transfer shall be by or on behalf of the transferor and the transferee provided that the Board may dispense with the execution of the instrument of transfer by the transferor or transferee or accept mechanically executed transfers in any case in which it in its discretion thinks fit to do so, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of the Company in respect thereof.

The Board may, in its absolute discretion, at any time and from time to time remove any share on the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the Board otherwise agrees, no shares on the principal register shall be removed to any branch register nor shall shares on any branch register be removed to the principal register or any other branch register. All removals and other documents of title shall be lodged for registration and registered, in the case of shares on any branch register, at the relevant registration office and, in the case of shares on the principal register, at the place at which the principal register is located.

The Board may, in its absolute discretion, decline to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share option scheme upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The Board may decline to recognise any instrument of transfer unless a fee of such maximum sum as the Stock Exchange may determine to be payable or such lesser sum as the Board may from time to time require is paid to the Company in respect thereof, the instrument of transfer is properly stamped (if applicable), is in respect of only one class of share and is lodged at the relevant registration office or the place at which the principal register is located accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a newspaper circulating generally in Hong Kong or, where applicable, any other newspapers in accordance with the requirements of the Stock Exchange, at such times and for such periods as the Board may determine. The register of members shall not be closed for periods exceeding in the whole 30 days in any year.

Fully paid shares shall be free from any restriction with respect to the right of the holder thereof to transfer such shares (except when permitted by the Stock Exchange) and shall also be free from all liens.

(l) Power of the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles to purchase its own shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirement imposed from time to time by code, rules or regulations issued from time to time by the Stock Exchange and/or the Securities and Futures Commission of Hong Kong.

Where the Company purchases for redemption a redeemable Share, purchases not made through the market or by tender shall be limited to a maximum price, and if purchases are by tender, tenders shall be available to all members alike.

(m) Power of any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to the ownership of shares in the Company by a subsidiary.

(n) Dividends and other methods of distribution

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the Board.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide:

(i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid, although no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share; and

(ii) all dividends shall be apportioned and paid pro rata in accordance with the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Board may deduct from any dividend or other monies payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

Where the Board or the Company in general meeting has resolved that a dividend should be paid or declared on the share capital of the Company, the Board may resolve:

(aa) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the members entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or

(bb) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit.

Upon the recommendation of the Board the Company may by ordinary resolution in respect of any one particular dividend of the Company determine that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, bonus or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, but in the case of joint holders, shall be addressed to the holder whose name stands first in the register of members of the Company in respect of the shares at his address as appearing in the register, or addressed to such person and at such address as the holder or joint holders may in writing so direct. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent and shall be sent at the holder's or joint holders' risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared, the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

The Board may, if it thinks fit, receive from any member willing to advance the same, and either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the moneys so advanced may pay interest at such rate (if any) not exceeding 20 % per annum, as the Board may decide, but a payment in advance of a call shall not entitle the member to receive any dividend or to exercise any other rights or privileges as a member in respect of the share or the due portion of the shares upon which payment has been advanced by such member before it is called up.

All dividends, bonuses or other distributions unclaimed for one year after having been declared may be invested or otherwise made use of by the Board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions unclaimed for six years after having been declared may be forfeited by the Board and, upon such foreiture, shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

The Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

(o) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorised. Every instrument of proxy, whether for a specified meeting or otherwise, shall be in such form as the Board may from time to time approve, provided that any form issued to a member for use by him for appointing a proxy to attend and vote at an extraordinary general meeting or at an annual general meeting at which any business is to be transacted shall be such as to enable the member, according to his intentions, to instruct the proxy to vote in favour of or against (or, in default of instructions, to exercise his discretion in respect of) each resolution dealing with any such business.

(p) Calls on shares and forfeiture of shares

The Board may from time to time make such calls as it may think fit upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment thereof made payable at fixed times. A call may be made payable either in one sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20% per annum as the Board shall fix from the day appointed for the payment thereof to the time of actual payment, but the Board may waive payment of such interest wholly or in part. The Board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced the Company may pay interest at such rate (if any) not exceeding 20% per annum as the Board may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment thereof, the Board may, at any time thereafter during such time as any part of the call or instalment remains unpaid, serve not less than 14 days' notice on him requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice will name a further day (not earlier than the expiration of 14 days from the date of the notice) on or before which the payment required by the notice is to be made, and it shall also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, nevertheless, remain liable to pay to the Company all moneys which, at the date of forfeiture, were payable by him to the Company in respect of the shares together with (if the Board shall in its discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20 per cent per annum as the Board may prescribe.

(q) Inspection of corporate records

Members of the Company have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. However, the members of the Company will have such rights as may be set forth in the Articles. The Articles provide that for so long as any part of the share capital of the Company is listed on the Stock

Exchange, any member may inspect any register of members of the Company maintained in Hong Kong (except when the register of member is closed) without charge and require the provision to him of copies or extracts thereof in all respects as if the Company were incorporated under and were subject to the Hong Kong Companies Ordinance.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or outside the Cayman Islands, as its directors may, from time to time, think fit.

(r) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, and continues to be present until the conclusion of the meeting.

The quorum for a general meeting shall be two members present in person (or in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(s) Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles concerning the rights of minority members in relation to fraud or oppression. However, certain remedies may be available to members of the Company under Cayman Islands law, as summarised in paragraph 3(f) of this Appendix.

(t) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

(i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, then the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively; and

(ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, on the shares held by them respectively.

In the event that the Company is wound up (whether the liquidation is voluntary or compelled by the court) the liquidator may, with the sanction of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator shall think fit, but so that no member shall be compelled to accept any shares or other property upon which there is a liability.

(u) Untraceable members

The Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

In accordance with the Articles, the Company is entitled to sell any of the shares of a member who is untraceable if:

(i) all cheques or warrants, being not less than three in total number, for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years;

(ii) upon the expiry of the 12 years and 3 months period (being the 3 months notice period referred to in sub-paragraph (iii)), the Company has not during that time received any indication of the existence of the member; and

(iii) the Company has caused an advertisement to be published in accordance with the rules of the stock exchange of the Relevant Territory (as defined in the Articles) giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the stock exchange of the Relevant Territory (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(v) Subscription rights reserve

Pursuant to the Articles, provided that it is not prohibited by and is otherwise in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of the shares to be issued on the exercise of such warrants, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of such shares.

3. CAYMAN ISLANDS COMPANY LAW

The Company was incorporated in the Cayman Islands as an exempted company on 28 July 2009 subject to the Companies Law. Certain provisions of Cayman Islands company law are set out below but this section does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the Companies Law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

(a) Company operations

As an exempted company, the Company must conduct its operations mainly outside the Cayman Islands. Moreover, the Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

In accordance with the Companies Law, a Cayman Islands company may issue ordinary, preference or redeemable shares or any combination thereof. The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangements in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation, the following:

(i) paying distributions or dividends to members;

(ii) paying up unissued shares of the company to be issued to members as fully paid bonus shares;

(iii) in the redemption and repurchase of shares (in accordance with the detailed provisions of section 37 of the Companies Law);

(iv) writing-off the preliminary expenses of the company;

(v) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and

(vi) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

Notwithstanding the foregoing, the Companies Law provides that no distribution or dividend may be paid to members out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

It is further provided by the Companies Law that, subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if authorised to do so by its articles of association, by special resolution reduce its share capital in any way.

The Articles include certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) Financial assistance to purchase shares of a company or its holding company

There are no statutory prohibitions in the Cayman Islands on the granting of financial assistance by a company to another person for the purchase of, or subscription for, its own, its holding company's or a subsidiary's shares. Therefore, a company may provide financial assistance provided the directors of the company when proposing to grant such financial assistance discharge their duties of care and acting in good faith, for a proper purpose and in the interests of the company. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a member. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. Nonetheless, if the articles of association do not authorise the manner of purchase, a company cannot purchase any of its own shares without the manner of purchase first being authorised by an ordinary resolution of the company. A company may not redeem or purchase its shares unless they are fully paid. Furthermore, a company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. In addition, a payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

A Cayman Islands company may be able to purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. Thus there is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases. The directors of a company may under the general power contained in its memorandum of association be able to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of section 34 of the Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see sub-paragraph 2(n) of this Appendix for further details).

(f) Protection of minorities and shareholders' suits

It can be expected that the Cayman Islands courts will ordinarily follow English case law precedents (particularly the rule in the case of *Foss v. Harbottle* and the exceptions thereto) which permit a minority member to commence a representative action against or derivative actions in the name of the company to challenge:

(i) an act which is *ultra vires* the company or illegal;

(ii) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company; and

(iii) an irregularity in the passing of a resolution the passage of which requires a qualified (or special) majority which has not been obtained.

Where a company (not being a bank) is one which has a share capital divided into shares, the court may, on the application of members thereof holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine the affairs of the company and, at the direction of the court, to report thereon.

Moreover, any member of a company may petition the court which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

In general, claims against a company by its members must be based on the general laws of contract or tort applicable in the Cayman Islands or be based on potential violation of their individual rights as members as established by a company's memorandum and articles of association.

(g) Disposal of assets

There are no specific restrictions in the Companies Law on the power of directors to dispose of assets of a company, although it specifically requires that every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interest of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

Section 59 of the Companies Law provides that a company shall cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters with respect to which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company.

Section 59 of the Companies Law further states that proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

(i) Exchange control

There are no exchange control regulations or currency restrictions in effect in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Council:

(i) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and

(ii) in addition, that no tax be levied on profits, income gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:

(aa) on or in respect of the shares, debentures or other obligations of the Company; or (bb) by way of withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (1999 Revision).

The undertaking for the Company is for a period of twenty years from 11 August 2009.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments. The Cayman Islands are not a party to any double tax treaties.

(k) Stamp duty on transfers

There is no stamp duty payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

(l) Loans to directors

The Companies Law contains no express provision prohibiting the making of loans by a company to any of its directors. However, the Articles provide for the prohibition of such loans under specific circumstances.

(m) Inspection of corporate records

The members of the company have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

(n) Register of members

A Cayman Islands exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or outside the Cayman Islands, as the directors may, from time to time, think fit. The Companies Law contains no requirement for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

(o) Winding up

A Cayman Islands company may be wound up either by (i) an order of the court; (ii) voluntarily by its members; or (iii) under the supervision of the court.

The court has authority to order winding up in a number of specified circumstances including where, in the opinion of the court, it is just and equitable that such company be so wound up.

A voluntary winding up of a company occurs where the members so resolve in general meeting by special resolution, or, by ordinary resolutions when the company is unable to pay its debt as they fall due; or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles expires, or where the event occurs on the occurrence of which the memorandum or articles provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the commencement of its winding up except so far as it may be beneficial for its winding up. Upon appointment of a voluntary liquidator, all the powers of the directors cease, except so far as the company in general meeting or the liquidator sanctions their continuance.

In the case of a members' voluntary winding up of a company, one or more liquidators shall be appointed for the purpose of winding up the affairs of the company and distributing its assets.

As soon as the affairs of a company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed off, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof.

When a resolution has been passed by a company to wind up voluntarily, the liquidator or any contributory or creditor may apply to the court for an order for the continuation of the winding up under the supervision of the court, on the grounds that (i) the company is or is likely to become insolvent; or (b) the supervision of the court will facilitate a more effective, economic or expeditious liquidation of the company in the interests of the contributories and creditors. A supervision order shall take effect for all purposes as if it was an order that the company be wound up by the court except that a commenced voluntary winding up and the prior actions of the voluntary liquidator shall be valid and binding upon the company and its official liquidator.

For the purpose of conducting the proceedings in winding up a company and assisting the court, there may be appointed one or more persons to be called an official liquidator or official liquidators; and the court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more than one persons are appointed to such office, the court shall declare whether any act required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the court.

(p) Reconstructions

Reconstructions and amalgamations are governed by specific statutory provisions under the Companies Law whereby such arrangements may be approved by a majority in number representing 75% in value of members or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the courts. Whilst a dissenting member would have the right to express to the court his view that the transaction for which approval is being sought would not provide the members with a fair value for their shares, nonetheless the courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting member would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of their shares) ordinarily available, for example, to dissenting members of a United States corporation.

(q) Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting members to transfer their shares on the terms of the offer. A dissenting member may apply to the court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting member to show that the court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority members.

(r) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, save to the extent any such provision may be held by the court to be contrary to public policy, for example, where a provision purports to provide indemnification against the consequences of committing a crime.

4. GENERAL

Appleby, the Company's legal adviser on Cayman Islands law, have sent to the Company a letter of advice which summarises certain aspects of the Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to "Appendix VI — Documents Delivered to the Registrar of Companies and Available for Inspection" of this document. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

1. FURTHER INFORMATION ABOUT THE COMPANY AND ITS SUBSIDIARIES

A. Incorporation of the Company

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 28 July 2009. The Company has established a place of business in Hong Kong at Rooms 01, 02, 14 and 15, 37/F, Hong Kong Plaza, 188 Connaught Road West, Hong Kong and was registered in Hong Kong under Part XI of the Companies Ordinance as a non-Hong Kong company on 25 September 2009. In compliance with the requirements of the Companies Ordinance, Mr. Pang Kwok Chau, an executive Director, of Flat A, 5/F., Block 3, Beverley Heights, 56 Cloud View Road, North Point, Hong Kong, has been appointed as the agent of the Company for the acceptance of service of process and any notice required to be served on the Company in Hong Kong. As the Company was incorporated in the Cayman Islands, it operates subject to the Companies Law and its constitution, which comprises a memorandum of association and the Articles. A summary of various parts of the constitution and relevant aspects of the Companies Law is set out in Appendix IV to this document.

B. Changes in share capital

(a) As at the date of incorporation of the Company, its authorised share capital was HK$50,000 divided into 5,000,000 Shares of HK$0.01 each, 100 of which was allotted and issued, to New Everich.

(b) On 7 September 2009, the Company allotted and issued 100 Shares to New Everich pursuant to a share swap agreement entered into among the Company, Mr. Li Kin Shing, Ms. Kwok King Wa and Elitel.

(c) By the written resolutions of the Shareholders passed on 20 May 2010, the authorised share capital of the Company was increased by HK$39,950,000 by the creation of 3,995,000,000 Shares of HK$0.01 each.

The Directors do not have any present intention to issue any of the authorised but unissued share capital of the Company and, without the prior approval of the Shareholders at general meeting, no issue of Shares will be made which would effectively alter the control of the Company.

Save as disclosed herein and as mentioned in the following paragraphs respectively headed "Written resolutions of the Shareholders passed on 20 May 2010" and "Corporate reorganisation", there has been no alteration in the share capital of the Company since the date of its incorporation.

C. Written resolutions of the Shareholders passed on 20 May 2010

[●]

D. Corporate Reorganisation

The companies comprising the Group underwent the Reorganisation to rationalise the Group's structure in preparation for the [●] which involve the following:-

(a) On 7 September 2009, the Company, Mr. Li Kin Shing, Ms. Kwok King Wa and Elitel entered into a share swap agreement (the "Share Swap Agreement") comprising of a share adjustment provision (the "Adjustment Provision") whereas as a matter of family arrangement, the ultimate beneficial shareholding ratio of Mr. Li Kin Shing and Ms. Kwok King Wa in the Company immediately after the completion of the Share Swap Agreement shall be adjusted from 50% and 50% to 54% and 46% respectively. Pursuant to the Share Swap Agreement, Mr. Li Kin Shing and Ms. Kwok King Wa together transferred 100% equity interest in Elitel to the Company in consideration and exchange of the Company issuing and allotting 100 Shares at par to New Everich credited as fully paid by two instruments of transfer both dated 7 September 2009, pursuant to which Mr. Li Kin Shing and Ms. Kwok King Wa each transferred their 50% equity interest in Elitel to the Company in consideration of and exchange of the Company issuing and alloting an aggregate of 100 Shares at par to New Everich under the directors of Mr. Li Kin Shing and Ms. Kwok King Wa respectively and pursuant to the Adjustment Provision.

(b) By a share purchase agreement dated 10 September 2009, New Everich transferred 9 Shares to SBCVC in consideration of US$750,000. Such consideration is based on arm's length negotiation between New Everich and SBCVC with reference to the net asset value and the profitability of the Company. Pursuant to the said share purchase agreement, SBCVC enjoys certain rights, among others, (i) a tag-along right which allows SBCVC to sell the Shares together with New Everich on the same terms and conditions to the same purchaser if New Everich proposes to sell any Shares prior to the [●] to any person not an affiliate of New Everich and upon completion of such sale, New Everich will beneficially own less than 50% or less of the Company; and (ii) a put option, exercisable one time only, to require New Everich to repurchase or procure others to purchase from SBCVC all or portion of the Shares held by it in consideration of an aggregate US$750,000 on a pro rata basis in accordance with the portion of the Shares to be sold if the Company has not completed its [●] within 6 months from the date of the said share purchase agreement. All SBCVC's rights hereof will terminate upon the [●]. Upon completion of the said share transfer, New Everich and SBCVC held 95.5% and 4.5% of the issued share capital of the Company respectively.

(c) By the written resolutions of the Shareholders dated 20 May 2010, the authorised share capital of the Company was increased by HK$39,950,000 by the creation of 3,995,000,000 Shares of HK$0.01 each and the Company will allot and issue 716,249,809 Shares and 33,749,991 Shares of HK$0.01 each to New Everich and SBCVC respectively on a pro rata basis following the increase and conditional on the share premium account of the Company being credited as fully paid by way of [●].

E. Changes in share capital of subsidiaries

The Company's subsidiaries are referred to in the accountant's report of the Company, the text of which is set out in Appendix I to this document. There has been no alteration in the share capital of any subsidiary of the Company within the two years preceding the date of this document.

F. Repurchase by the Company of its own securities

This section includes information required by the Stock Exchange to be included in this document concerning the repurchase by the Company of its own securities:

(a) *Provisions of the GEM Listing Rules*

The GEM Listing Rules permit companies whose primary listing is on GEM to repurchase in cash their securities on GEM subject to certain restrictions, a summary of which is set out below:

(i) Shareholders' approval

All proposed repurchases of securities, which must be fully paid up in the case of shares, on GEM by a company with its primary listing on GEM must be approved in advance by an ordinary resolution of the Shareholders, either by way of general mandate or by specific approval of a particular transaction.

(ii) Source of funds

Any repurchase by the Company may only be funded out of funds legally available for such purpose in accordance with its memorandum of association and the Articles, the applicable laws of the Cayman Islands and the GEM Listing Rules. The Company may not repurchase its own securities on GEM for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

(iii) Shares to be repurchased

The GEM Listing Rules provide that the shares which are proposed to be repurchased by a company must be fully paid up.

(b) *Reasons for repurchases*

The Directors believe that it is in the best interests of the Company and the Shareholders for the Directors to have a general authority from the Shareholders to enable the Company to repurchase the Shares in the market. Repurchases of the Shares will only be made when the Directors believe that such repurchases will benefit the Company and the Shareholders as a whole. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share.

(c) *Funding of repurchases*

Repurchase pursuant to the repurchase mandate would be financed out of funds of the Company legally available for such purpose in accordance with its memorandum of association and the Articles, the GEM Listing Rules and the applicable laws of the Cayman Islands. The Directors consider that, if the repurchase mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of the Company as compared with the position disclosed in this document. However, the Directors do not propose to exercise the repurchase mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or its gearing levels.

(d) *Director's undertaking*

The Directors have undertaken to the Stock Exchange that, they will exercise the power of the Company to make purchases of the Company's securities in accordance with the GEM Listing Rules, the applicable laws and regulations of the Cayman Islands and the Articles.

(e) *Disclosure of interests*

None of the Directors or, to the best of their knowledge, having made all reasonable enquiries, any of their respective associates, as defined in the GEM Listing Rules, has any present intention to sell any Shares to the Company or its subsidiaries.

No connected person, as defined in the GEM Listing Rules, has notified the Company that he or she has a present intention to sell Shares to the Company, or has undertaken not to do so, if the repurchase mandate is exercised.

(f) *Takeovers Code consequences*

If, as a result of a securities repurchase pursuant to the repurchase mandate, a shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purpose of the Takeovers Code.

Accordingly, a shareholder, or a group of shareholders acting in concert, depending on the level of increase of shareholders' interest, could obtain or consolidate control of the company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code as a result of any such increase. Save as aforesaid, the Directors are not aware of any consequences which may arise under the Takeovers Code if the repurchase mandate is exercised.

The Directors have no present intention to exercise the repurchase mandate to such an extent as would result in takeover obligations under the Takeovers Code.

2. FURTHER INFORMATION ABOUT THE BUSINESS OF THE GROUP

A. Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by the Company or any of its subsidiaries within the two years immediately preceding the date of this document and are or may be material:

(a) a deed of termination dated 30 July 2009 executed by SBCVC Fund II, L.P., Elitel Limited, Sunward Telecom Limited, Directel Communications Services Limited (formerly known as Sunward Telecom Limited), China-Hongkong Telecom Limited, Directel Communications Limited, Target Link Enterprises Limited, 廈門盛華電子科技有限公司 (Xiamen Elite Electric Co., Ltd.), Kingford Holdings Limited, 廣州盛華信息技術有限公司 (China Elite

Information Technology Ltd.), Mr. Li Kin Shing and Ms. Kwok King Wa, pursuant to which all parties agreed to terminate and cancel a share purchase agreement entered into in or about April 2007 in respect of SBCVC Fund II, L.P.'s subscription of 10,000,000 Series A Preferred Shares to be issued by Elitel Limited;

(b) a share swap agreement dated 7 September 2009 entered into among Mr. Li Kin Shing, Ms. Kwok King Wa, the Company and Elitel Limited, pursuant to which Mr. Li Kin Shing and Ms. Kwok King Wa together transferred 100% equity interest in Elitel Limited to the Company in consideration and exchange of the Company issuing and allotting 100 Shares to New Everich Holdings Limited credited as fully paid;

(c) an instrument of transfer dated 7 September 2009, by which Mr. Li Kin Shing transferred 1 share of Elitel Limited to the Company in consideration of 50 Shares be allotting and issuing to New Everich Holdings Limited;

(d) an instrument of transfer dated 7 September 2009, by which Ms. Kwok King Wa transferred 1 share of Elitel Limited to the Company in consideration of 50 Shares be allotting and issuing to New Everich Holdings Limited;

(e) the deed of non-competition undertaking dated 24 May 2010 executed by New Everich Holdings Limited, Mr. Li Kin Shing, Ms. Kwok King Wa and Directel Limited in favour of the Company, for itself and on behalf of its subsidiaries, details of which are set out in "Relationship with the Controlling Shareholders, Non-competition Undertakings and Connected Transactions — Non-competition Undertaking" of this document; and

(f) [●]

B. Intellectual property rights of the Group

(a) *Trade marks*

As at the Latest Practicable Date, the Group has registered the following trade marks:

Trade mark	Territory	Class	Applicant(s)	Trade Mark number	Registration Date	Expiry Date
China-HK Telecom China-HK Telecom	Hong Kong	9, 38	China-HK Telecom	301394181	29 July 2009	28 July 2019
中港通 1卡2號	Hong Kong	9, 38	China-HK Telecom	301394226	29 July 2009	28 July 2019
中港通 一卡兩號	Hong Kong	9, 38	China-HK Telecom	301394217	29 July 2009	28 July 2019

Trade mark	Territory	Class	Applicant(s)	Trade Mark number	Registration Date	Expiry Date
Elitel	Hong Kong	9, 35, 36, 38, 39	Elitel	301394280	29 July 2009	28 July 2019
直通	Hong Kong	9, 35, 36, 38, 39	Directel HK	301394271	29 July 2009	28 July 2019
Directel	Hong Kong	9, 38	Directel HK	301394262	29 July 2009	28 July 2019
直通電訊	Hong Kong	9, 38	Directel HK	301394253	29 July 2009	28 July 2019
中港通	Hong Kong	9, 35, 36, 38	China-HK Telecom	301497772	14 December 2009	13 December 2019

Notes:

Class 9: Telecommunication apparatus and instruments; telephone apparatus and instruments; facsimile transmission and reception apparatus and instruments; portable communication apparatus and instruments; electronic devices for storage, retrieval, communication, transmission, input, output and processing of information and data; telecommunication and telephone exchange apparatus and instruments; telephones, mobile telephones, pagers, facsimile apparatus; telephone card vending apparatus; facsimile, teleprinting, paging apparatus; message handling and switching apparatus; computers; computer software and computer programs; computer memories, computer networking apparatus; cordless telephone cards, mobile telephone cards; parts and fittings for all the aforesaid goods; all included in Class 9.

Class 35: Advertising; business management; business administration; office functions.

Class 36: Insurance; financial affairs; monetary affairs; real estate affairs.

Class 38: Telecommunication services, paging services, voice mail services, mobile telephone services, cordless telephone services, transmission of information by means of alpha-numeric paging; secretarial paging services; satellite communication networks services; electronic communication services; telephone communication services; delivery of messages by electronic media; facsimile communication services; message sending; wireless communication services; rental of telecommunication apparatus, pagers, mobile telephones and cordless telephones; provision of information relating to the aforesaid services; advisory services relating to the aforesaid services; all included in Class 38.

Class 39: Transport; packaging and storage of goods; travel arrangement.

(b) *Domain names*

As at the Latest Practicable Date, the Group has registered the following domain names:

Domain name	Registration date	Expiry date	Registered owner
China-hkt.com	3 November 2005	3 November 2011	China-HK Telecom
852.com.hk	20 March 2006	29 March 2011	China HK Telecom
directel.hk	22 November 2007	28 November 2011	China-HK Telecom

Note: Contents in these domains do not form part of this document.

3. FURTHER INFORMATION ABOUT THE DIRECTORS, SENIOR MANAGEMENT AND STAFF

A. Disclosure of interests

(a) *Interests and short positions of Directors and chief executive in the shares, underlying shares and debentures of the Company and its associated corporations*

Immediately following completion of the [●] and taking no account of any Shares which may be allotted and issued upon the exercise of the [●] and any options which may be granted under the Share Option Scheme on any shares which may fall to be allotted and issued or repurchased by the Company pursuant to the mandates as referred to in "Further Information about the Company and its Subsidiaries" of this Appendix, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which, once the Shares are listed, will have to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register as referred to therein, or pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors to be notified to the Company and the Stock Exchange, will be as follows:

(i) Long position in Shares

Name of Director	Capacity/ Nature of Interest	Number of Shares	Approximate percentage of shareholding interests
Mr. Li Kin Shing	Interest of a controlled corporation	[●] Shares *(Note)*	[●]%

Note: The [●] Shares are owned by New Everich which 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 [●] Shares under the SFO.

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

Name of Director	Capacity/Nature of Interest	Approximate percentage of shareholding interests
Mr. Li Kin Shing	Beneficial owner	54%

(b) *Interests and short positions of Substantial Shareholders in the shares, underlying shares and debentures of the Company and its associated corporations*

Immediately following completion of the [●] and taking into no account of any Shares which may be allotted and issued upon the exercise of the [●] and any options which may be granted under the Share Option Scheme or any Shares which may fall to be allotted or issued or repurchased by the Company pursuant to the mandates referred to in "Further Information about the Company and its Subsidiaries" in this Appendix, so far as it is known to the Directors, the following persons, not being a Director or chief executive of the Company, will have an interest or short position in the Shares and 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, who is interested, directly or indirectly, 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:

Long position in Shares

Name	Capacity	Number of Shares	Approximate percentage of interests
New Everich	Beneficial owner	[●]	[●]%
Ms. Kwok King Wa	Interest of controlled corporation	[●]	[●]%

(c) *Particulars of service contracts*

Each of the executive Directors has entered into a service agreement with the Company. The terms and conditions of each of such service agreements are similar in all material aspects and are briefly described as follows:

(a) Each service contract is for an initial term of three years commencing on the [●]. 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.

(b) The annual remuneration (including director's fee, basic salary, allowance, non-cash benefit and retirement scheme contribution) payable to Mr. Pang Kwok Chau and Mr. Li Wang under their respective service agreements shall be approximately HK$631,230 and HK$216,500 respectively.

(c) Each of the executive Directors is entitled to a management bonus, the amount of which is determined with reference to the operating results of the Group and the performance of the executive Director; and

(d) Each of the executive Directors shall abstain from voting and not be counted in the quorum in respect of any resolution of the Board regarding the amount of annual salary and management bonus payable to himself.

Each of the non-executive Directors has entered into a service agreement with the Company. The terms and conditions of each of the such service agreements are similar in all material aspects and are briefly described as follows:

(a) Each service contract is for an initial term of three years commencing on the [●]. 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.

(b) The annual director's fee payable to Mr. Li Kin Shing and Mr. Wong Kin Wa under their respective service agreement shall be HK$80,000 and HK$80,000 respectively.

(c) Each of the non-executive Directors is entitled to a management bonus, the amount of which is determined with reference to the operating results of the Group and the performance of the non-executive Director.

(d) Each of the non-executive Directors shall abstain from voting and not be counted in the quorum in respect of any resolution of the Board regarding the amount of annual salary and management bonus payable to himself.

Each of the independent non-executive Directors has entered into a service agreement with the Company under which each of them agreed to act as independent non-executive Director for a period of three years, commencing on the [●], unless terminated in accordance with the terms and conditions specified therein. The annual director's fee payable to Mr. Chen Xuedao, Mr. Chu, Howard Ho Hwa and Ms. Lee Man Yee, Maggie under their respective service agreements shall be HK$80,000, HK$80,000 and HK$80,000 respectively.

Save for the annual director's fees mentioned above, none of the independent non-executive Directors is expected to receive any other remuneration for holding his office as an independent non-executive Director.

Save as disclosed above, none of the Directors has or is proposed to have any service agreement with the Company or any of its subsidiaries (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

(d) *Remuneration of Directors*

The Company's policies concerning remuneration of the executive Directors and non-executive Directors are as follows:

(a) the amount of remuneration is determined by the Remuneration Committee and on the basis of the relevant Director's experience, responsibility, workload and the time devoted to the Group;

(b) non-cash benefits may be provided to the executive Directors and non-executive Directors under their remuneration package; and

(c) the Directors may be granted, at the discretion of the Board, options pursuant to the Share Option Scheme, as part of this remuneration package.

During the financial year ended 31 December 2009, the aggregate emoluments (including director's fee, basic salary, allowance, non-cash benefit and retirement scheme contribution) paid by the Group to the Directors were approximately HK$625,000. Further information in respect of the Directors' remuneration is set out in Appendix I to this document.

It is expected that an aggregate of approximately [HK$1,043,000] will be paid as remuneration to the Directors by the Group in respect of the financial year ending 31 December 2010 pursuant to the present arrangement.

Save as disclosed in Appendix I to this document, none of the Directors received any remuneration or benefits in kind from the Group during the Track Record Period.

(e) *Disclaimers*

Save as disclosed in this document:

(a) so far as the Directors are aware, none of the Directors or chief executive of the Company has any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations, within the meaning of Part XV of the SFO, which will have to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he will be taken or deemed to have under the SFO) once the Shares are listed, or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein once the Shares are listed, or which will be required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules relating to securities transactions by the Directors to be notified to the Company and the Stock Exchange, once the Shares are listed;

(b) so far as the Directors are aware, none of the Directors and experts referred to under the heading "Consents of experts" of this Appendix has any direct or indirect interest in the promotion of the Company, or in any assets which have within the two (2) years immediately preceding the date of this document been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;

(c) none of the Directors and experts referred to under the heading "Consents of experts" in this Appendix is materially interested in any contract or arrangement subsisting at the date of this document which is significant in relation to the business of the Group taken as a whole;

(d) none of the Directors has any existing or proposed service contracts with any member of the Group, excluding contracts which are determinable by the employer within one year without payment of compensation other than statutory compensation;

(e) the Directors are not aware of any person, not being a Director or chief executive of the Company, who will, immediately following completion of the [●], be interested in or has short positions in the Shares or underlying shares of the Company which have to be notified to the Company and the Stock Exchange under Divisions 2 and 3 of Part XV of the SFO once the Shares are listed, or, who is, 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 other member of the Group;

(f) none of the experts referred to under the heading "Consents of experts" of this Appendix has any shareholding in any member of the Group or the right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and

(g) none of the Directors, their associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) has any interest in the Group's five largest suppliers and five largest customers.

(f) *[●]*

(g) *Related party transactions*

During the three years preceding the date of this document, the Group was engaged in related party transactions as described in the Accountants' Report set out in Appendix I to this document and "Relationship with the Controlling Shareholders, Non-competition Undertakings and Connected Transactions — Connected Transactions" of this document.

4. SHARE OPTION SCHEME

A. Summary of terms of the Share Option Scheme

The purpose of the Share Option Scheme is to provide the people and the parties working for the interests of the Group with an opportunity to obtain an equity interest in the Company, thus linking their interest with the interests of the Group and thereby providing them with an incentive to work better for the interests of the Group.

The following is a summary of the principal terms of the Share Option Scheme conditionally approved by the written resolutions of the Shareholders passed on 20 May 2010:

(a) *Who may join*

The Board may, at its absolute discretion, offer to any (i) full-time or part-time employees of the Group; (ii) directors (including any executive, non-executive and independent non-executive directors (where applicable)) of the Group; (iii) substantial shareholders of each member of the Group; (iv) associates of directors or substantial shareholders of each member of the Group; and (v) the trustees of any trust pre-approved by the Board, the beneficiary (or in case of discretionary trust, the discretionary objects) of which includes any of the abovementioned persons (together, the “Participants” and each, a “Participant”) options to subscribe for such number of Shares as the Board may determine at a subscription price determined in accordance with sub-paragraph (c) below, and subject to the other terms of the Share Option Scheme summarised below.

Upon acceptance of the offer, the grantee shall pay HK$1 to the Company by way of consideration for the grant and the option shall be deemed to have been granted and to have taken effect with retrospective effect from the date on which the option is offered.

(b) *Grant of options to connected persons or any of their associates*

Any grant of options to a Participant who is a Director, chief executive, or substantial shareholder (as defined in the GEM Listing Rules) of the Company or any of his/her/its respective Associates must be approved by the independent non-executive Directors, excluding any independent non-executive Director who is a grantee of the options.

Where the Board proposes to grant any option to a Participant who is a substantial shareholder (as defined in the GEM Listing Rules) of the Company or an independent non-executive Director, or any of his/her/its Associates, and such option which if exercised in full, would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted pursuant to the Share Option Scheme and other share option schemes of the Company (including options exercised, cancelled and outstanding) to such Participant in the 12-month period up to and including the date of grant being proposed by the Board (the "Relevant Date"):

(i) representing in aggregate more than 0.1% of the total number of Shares in issue at the Relevant Date; and

(ii) having an aggregate value, based on the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the Relevant Date and if the Relevant Date is not a Business Day, the Business Day immediately preceding the Relevant Date, in excess of HK$5,000,000.

Such proposed grant of options and any proposed change in the terms of options granted to a grantee who is a substantial Shareholder or an independent non-executive Director of the Company shall be approved by the Shareholders by way of a poll in general meeting and the Company shall send a circular to the Shareholder, containing all such information as may be required by the GEM Listing Rules. All the Participants concerned and all other connected persons of the Company must abstain from voting in favour of the resolution at such general meeting.

The abovementioned circular must contain the following information:-

(a) details of the number and terms (including the subscription price) of the options to be granted to each Participant, which must be fixed before the Shareholders' meeting and the date of the board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the subscription price;

(b) a recommendation from the independent non-executive Directors (excluding the independent non-executive Director who is the grantee of the options) to the independent Shareholders as to voting; and

(c) the information required under Rules 23.02(2)(c) and (d) of the GEM Listing Rules, the disclaimer required under Rule 23.02(4) of the GEM Listing Rules and the information required under Rule 2.28 of the GEM Listing Rules.

(c) *Price for Shares*

The subscription price for the Shares under the Share Option Scheme shall be determined by the Board in its absolute discretion and notified to a Participant, provided that such price shall be at least the highest of (i) the closing price of Shares as stated in the Stock Exchange's daily quotations sheet on the date of offer of an option which must be a Business Day; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheet for the five consecutive Business Days immediately preceding the date of offer [●]; and (iii) the nominal value of a Share.

(d) *Maximum number of Shares*

(i) The total number of Shares which may be allotted and issued upon the exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option scheme(s) of the Company) to be granted under the Share Option Scheme and any other share option scheme(s) of the Company must not in aggregate exceed 100,000,000 Shares, representing 10% of the Shares in issue immediately upon completion of the [●] (the "Scheme Mandate Limit"), unless the Company obtains a fresh approval from its Shareholders pursuant to sub-paragraph (ii) below or the options are granted pursuant to sub-paragraph (iii) below.

(ii) The Company may seek approval of its Shareholders in general meeting to renew the Scheme Mandate Limit provided that the total number of Shares in respect of which options may be granted under the Share Option Scheme and any other share option schemes of the Company shall not exceed 10% (the "Renewal Limit") of the issued share capital of the Company at the date of approval to renew such limit. Options previously granted under the Share Option Scheme (including those outstanding, cancelled, lapsed in accordance with the Share Option Scheme or exercised options) shall not be counted for the purpose of calculating the Renewal Limit. The Company shall send a circular to Shareholders containing the information and disclaimer required under the GEM Listing Rules for the purpose of seeking the approval of its Shareholders for the Renewal Limit.

(iii) The Company may authorise the Directors to grant options to specified Participant(s) beyond the Scheme Mandate Limit or Renewal Limit if the grant of such options is specifically approved by the Shareholders in general meeting. In such case, the Company shall send a circular to Shareholders in connection with the general meeting at which their approval will be sought containing a generic description of the specified Participants who may be granted such options, the number and terms of the option to be granted, the purpose of granting options to the specified Participants with an explanation as to how the terms of the options serve such purpose, the information and the disclaimer required under the GEM Listing Rules and such further information as may be required by the Stock Exchange from time to time.

(iv) Notwithstanding the above, the maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company must not exceed 30% of the total number of Shares in issue from time to time. No option may be granted under the Share Option Scheme or any other share option schemes if this will result in the said 30% limit being exceeded.

The maximum number of Shares issued and to be issued upon exercise of the options granted and to be granted pursuant to the Share Option Scheme and any other share option schemes of the Group to each Participant (including both exercised and outstanding options) in any 12-month period up to and including the date of grant of the options must not exceed 1% of the total number of Shares in issue (the "Individual Limit"). Any further grant of options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant must be subject to the approval of the Shareholders in general meeting at which such Participant and his associates must abstain from voting.

(e) *Time of and restrictions on exercise of option*

An option may be exercised in whole or in part in accordance with the terms of the Share Option Scheme at any time during a period to be notified by the Board to each grantee provided that the period within which the Shares may be taken up under the option must not be more than five (5) years from the date of offer of the option.

There is no general requirement on the minimum period for which an option must be held or the performance targets which must be achieved before an option can be exercised under the terms of the Share Option Scheme.

(f) *Rights are personal to grantee*

Options granted under the Share Option Scheme must be personal to the grantee, which may not be sold, transferred, charged, mortgaged, encumbered, assigned or created any interest (whether legal or beneficial) by the grantee to or in favour of any third party over or in relation to any option.

(g) *Termination of employment*

In the event that the grantee ceases to be a Participant for any reason (other than on his death) including the termination of employment or appointment on one or more of the grounds specified in paragraph (o)(vi) below, the option granted to such grantee will lapse on the date of such cessation (to the extent not already exercised) and will not be exercisable unless the Board otherwise determines to grant an extension at the absolute discretion of the Board in which event the grantee may exercise the option within such period of extension and up to a maximum entitlement directed at the absolute discretion of the Board on the date of grant of extension (to the extent which has become exercisable and not already exercised) and subject to any other terms and conditions decided at the discretion of the Board. For the avoidance of doubt, such period of extension (if any) shall be granted within and in any event ended before the expiration of the period of one month following the date of his cessation to be a Participant or the relevant option period, whichever is earlier.

(h) *Rights on cessation of employment by death*

If the grantee of an option who is an individual dies before exercising the option in full and none of the event sets out in paragraph (o)(vi) below arises, his/her personal representative(s) may exercise the option up to the entitlement of the grantee as at the date of death (to the extent they have become exercisable and not already exercised) within a period of 12 months or such longer period as the Board may at its absolute discretion determine from the date of death (provided that such exercise is during the relevant option period).

(i) *Effects of alterations to share capital*

In the event of [●], rights issue, sub-division or consolidation of the Shares, or reduction of capital in the Company whilst any option remains exercisable (excluding any alteration in the capital structure of the Company as a result of an issue of Shares as consideration in respect of a transaction to which the Company is a party), or in the event of any distribution of the Company's capital assets to its Shareholders on a pro rata basis (whether in cash or in specie) other than dividend paid out of the net profit attributable to its Shareholders for each financial year of the Company, such corresponding alterations (if any) shall be made to the number or nominal amount of Shares subject to the option so far as unexercised or the subscription price for the Shares subject to the option so far as unexercised, or any combination thereof, as an independent financial adviser appointed by the Company or the auditors for the time being of the Company shall certify in writing to the Directors, either generally or as regards any particular grantee, to be in their opinion fair and reasonable. The capacity of the independent financial adviser or the auditors in this paragraph is that of experts and not of arbitrators and their certification shall, in the absence of manifest error, be final, conclusive and binding on the Company and the grantees. The costs of the independent financial adviser or the auditors shall be borne by the Company. Notice of such alteration(s) (if any) shall be given to the grantees by the Company. Any such alterations will be made on the basis that a Participant shall have the same proportion of the issued share capital of the Company (as interpreted in accordance with the Supplementary Guidance). No such alteration will be made the effect of which would be to enable a Share to be issued at less than its nominal value. In addition, any adjustment to be made will comply with the GEM Listing Rules, the Supplemental Guidance and any future interpretation of the GEM Listing Rules issued by the Stock Exchange from time to time.

(j) *Rights on a take-over or share repurchase*

If a general or partial offer, whether by way of take-over or share repurchase offer (but other than by way of scheme of arrangement), is made to all the holders of Shares (or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror) and if such offer becomes or is declared unconditional prior to the expiry of the relevant option period, the grantee (or his personal representative(s)) shall be entitled to exercise the option in full (to the extent which has become exercisable on the date of the notice of the offeror and not already exercised) at any time within one month after the date on which the offer becomes or is declared unconditional.

(k) *Rights on winding up*

If a notice is given by the Company to its members to convene a general meeting for the purposes of considering and, if thought fit, approving a resolution to voluntarily wind up the Company, the Company shall forthwith after it despatches such notice to each of its members give notice thereof to the grantees (or his/her personal representative(s), who may, subject to the provisions of all applicable laws, by notice in writing to the Company (such notice to be received by the Company not later than two business days prior to the proposed general meeting) accompanied by a remittance for the full amount of the subscription price for the Shares in respect of which the notice is given, exercise the option (to the extent they have become exercisable and not already exercised) either to its full extent or to the extent specified in such notice and the Company shall, as soon as possible and in any event no later than the Business Day immediately prior to the date of the proposed general meeting referred to above, allot and issue such number of Shares to the grantee which falls to be issued on such exercise, credited as fully paid and register the grantee as holder thereof.

(l) *Rights on a scheme of arrangement*

If a general or partial offer by way of a scheme of arrangement is made to all Shareholders and has been approved by the necessary number of Shareholders at the requisite meetings, the grantee (or his personal representative(s)) may thereafter (but only until such time as shall be notified by the Company, after which it shall lapse) exercise the option (to the extent which has become exercisable and not directly exercised) to its full extent or to the extent specified in the notice.

(m) *Rights on compromise or arrangement*

Other than a general offer or partial offer or a scheme of arrangement contemplated in paragraph (l) above, if a compromise or arrangement between the Company and its members or creditors is proposed for the purposes of or in connection with the reconstruction of the Company or its amalgamation with any other company or companies, the Company shall give notice thereof to all grantees (or to their personal representatives) on the same day as it gives notice to the members or creditors of the Company summoning a meeting to consider such a compromise or arrangement, and the grantees (or his/her personal representative(s)) may, by notice in writing to the Company accompanied by the remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given (such notice to be received by the Company not later than two Business Days prior to the proposed meeting), exercise his/her option (to the extent which has become exercisable and not already exercised) either to its full extent or to the extent specified in such notice, but the exercise of an option as aforesaid shall be conditional upon such compromise or arrangement being sanctioned by the court of competent jurisdiction and becoming effective. The Company shall as soon as possible and in any event no later than the Business Day immediately prior to the date of the proposed meeting referred to above, allot and issue such number of Shares to the grantee which falls to be issued on such exercise credited as fully paid and register the grantee as holder of such Shares. Upon such compromise or arrangement becoming effective, all options shall lapse except insofar as previously exercised under the Share Option Scheme. The Company may require the grantee (or his personal representative(s)) to transfer or otherwise deal with the Shares issued as a result of the exercise of options in these circumstances so as to place the grantee in the same position as nearly as would have been the case had such Shares been subject to such compromise or arrangement.

(n) *Ranking of Shares*

The Shares to be allotted and issued upon the exercise of an option will be subject to all the provisions of the Articles for the time being in force and will rank pari passu in all respects with the fully paid Shares in issue on the date of their allotment and issue (the "Exercise Date") and accordingly will entitle the holders of the Shares to participate in all dividends or other distributions declared paid or made on or after the Exercise Date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor is before the Exercise Date. Shares allotted and issued upon the exercise of an option shall not carry voting rights until the name of the grantee has been duly entered into the register of members of the Company as the holder thereof.

(o) *Lapse of option*

The right to exercise an option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

(i) the expiry of the option period;

(ii) the expiry of the periods referred to in paragraph (g), (h) or (m), where applicable;

(iii) subject to the court of competent jurisdiction not making an order prohibiting the offeror from acquiring the remaining shares in the offer, the expiry of the period referred to in paragraph (j);

(iv) subject to the scheme of arrangement becoming effective, the expiry of the period referred to in paragraph (l);

(v) subject to the expiry of the period of extension (if any) referred to in paragraph (g), the date on which the grantee ceases to be a Participant for any reason other than his death or the termination of his employment or engagement on one or more grounds specified in (vi) below. A transfer of employment from one company in the Group to another company in the Group shall not be considered as a cessation of employment;

(vi) the date on which the grantee ceases to be a Participant by reason of the termination of his employment on the grounds that he has been guilty of misconduct, or has been in breach of a material term of the relevant employment contract, or appears either to be unable to pay or have no reasonable prospect to be able to pay debts, or has committed any act of bankruptcy, or has become insolvent, or has been served a petition for bankruptcy or winding-up, or has made any arrangements or composition with his creditors generally, or has been convicted of any criminal offence or (if so determined by the Board, the board of the relevant Subsidiary or the board of the relevant associated company of the Company, as the case may be) on any other ground on which an employer would be entitled to summarily terminate his employment at common law or pursuant to any applicable laws or under the grantee's service contract with the Company, the relevant Subsidiary or the relevant associated company of the Company (as the case may be). A resolution of the Board, the board of the relevant Subsidiary or the board of the relevant associated company of the Company (as the case may be) to the effect that the employment or engagement of a grantee has or has not been terminated on one or more of the grounds specified in this paragraph (v) above shall be conclusive and binding on the grantee;

(vii) subject to paragraph (k) the date of the commencement of the winding-up of the Company;

(viii) the date on which the grantee commits a breach of paragraph (f); or

(ix) the date on which the option is cancelled by the Board as set out in paragraph (t).

(p) *Period of the Share Option Scheme*

Subject to earlier termination by Shareholders' resolution in general meeting, the Share Option Scheme shall be valid and effective for a period of five (5) years commencing from 20 May 2010, after which period no further Options will be offered or granted but the provisions of the Share Option Scheme shall remain in full force and effect in respect of all options which remain exercisable at the end of such period.

(q) *Price sensitive developments*

No grant of options shall be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been announced in accordance with the requirements of the GEM Listing Rules. In particular, during the period of one month immediately preceding the earlier of:

(i) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the GEM Listing Rules) for the approval of the Company's results for any year, half-year, quarterly, or any other interim period (whether or not required under the GEM Listing Rules); and

(ii) the deadline for the Company to publish an announcement of its results for any year or half-year under the GEM Listing Rules, or quarterly or any other interim period (whether or not required under the GEM Listing Rules).

and ending on the date of the results announcement, no option may be granted. Such period will cover any period of delay in the publication of a results announcement.

(r) *Alterations to the Share Option Scheme and the terms of options granted under the Share Option Scheme*

(i) Subject to (ii) below, the terms and conditions of the Share Option Scheme may be altered by resolution of the Board from time to time except that the provisions relating to matters contained in Rule 23.03 of the GEM Listing Rules shall not be altered to extend the class of persons eligible for the grant of options or to the advantage of grantees or Participants except with the prior approval of the Shareholders in general meeting, with grantees and their Associates abstaining from voting, and no such alteration shall operate to affect adversely the terms of issue of any option granted or agreed to be granted prior to such alteration except with the consent or sanction of such majority of the grantees as would be required of the Shareholders under the Articles for the time being for a variation of the rights attached to the Shares;

(ii) Any alterations of the terms and conditions of the Share Option Scheme, which are of a material nature or change the authority of the Board, shall be approved by the Stock Exchange and the Shareholders in general meeting, except where the alterations take effect automatically under the existing terms of the Share Option Scheme;

(iii) The amended terms of the Share Option Scheme or the options must still comply with the relevant requirements of Chapter 23 of the GEM Listing Rules;

(iv) Any change to the authority of the Directors or scheme administrators, if any, in relation to any alteration to the terms of the Scheme must be approved by the Shareholders in general meeting.

(s) *Termination of Share Option Scheme*

The Company by ordinary resolution in general meeting or the Board may at any time terminate the operation of the Share Option Scheme and in such event no further option shall be offered but the provisions of the Share Option Scheme shall remain in full force and effect in all other respects in respect of any options granted prior thereto but not yet exercised at the time of termination.

(t) *Cancellation of Options*

The Board may, with the consent of the relevant grantee, at any time cancel any option granted but not exercised. Where the Company cancels options and offers new options to the same option holder, the offer of such new options may only be made under the Share Option Scheme with available options (to the extent not yet granted and excluding the cancelled options) within the limit approved by the Shareholders as mentioned in paragraph (d) above.

B. Present status of the Share Option Scheme

As at the Latest Practicable Date, no option has been granted under the Share Option Scheme.

5. OTHER INFORMATION

A. Estate duty and tax indemnities

Each of New Everich, Mr. Li Kin Shing and Ms. Kwok King Wa has, pursuant to a deed of indemnity referred to in ''Summary of material contracts'' of this Appendix, given joint and several indemnities in respect of among other things (a) any liability for Hong Kong estate duty which might be incurred by any member of the Group by virtue of any transfer of property (within the meaning of section 35 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong, as amended)) to any member of the Group on or before the date on which [●] becomes unconditional, and (b) any tax liabilities which might be payable by any member of the Group in respect of any income, profits or gains earned, accrued or received or deemed to have been earned, accrued or received on or before the [●], save as to such circumstances including:

(a) to the extent that full provision or allowance has been made for such taxation in the audited accounts of the Group for the three years ended 31 December 2009, as set out in Appendix I to this document;

(b) to the extent that such taxation arises or is incurred as a result of any retrospective change in law or retrospective increase in tax rates coming into force after the [●];

(c) to the extent that the liability for such taxation would not have arisen but for some act or omission of, or transaction voluntarily effected by, any members of the Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) which are carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets after 31 December 2009; or

(d) to the extent of any provisions or reserve made for taxation in the audited accounts of the Group up to 31 December 2009 which is finally established to be an over-provision or an excessive reserve.

The Directors have been advised that no material liability for estate duty is likely to fall on any member of the Group in the Cayman Islands, Hong Kong and other jurisdictions in which the companies comprising the Group are incorporated.

Pursuant to abovementioned deed of indemnity, each of New Everich, Mr. Li Kin Shing and Ms. Kwok King Wa has agreed with the Group that it/he/she would fully indemnify and at any time keep the Group fully indemnified from and against all loss, payments, suits, settlement payment, cost, liability, damages or expenses which the Group may incur or suffer, accrue, directly or indirectly, from any act of the Group arising from or in connection with:

(a) Elitel's failure to notify the IRD of its chargeability to Hong Kong profit tax for the years from 2002 to 2008 within the prescribed time limit under section 51(2) of the IRO as set forth in "Risk Factors — Risks Relating to the Group — IRD may penalise Elitel for its failure to notify the IRD of its chargeability to Hong Kong profits tax within the prescribed time limit for the years from 2002 to 2008 which may be adversely affect the financial condition and results of the Group's operations" of this document under any applicable laws, rules and regulations, together with such other relevant payments, suits, settlement payment, cost, liability, damages or expenses under any applicable laws, rules and regulations;

(b) Elitel's potential failure regarding its registration as a non-Hong Kong Company within the prescribed time limit under Part XI of the Companies Ordinance as set forth in "Risk Factors — Risk Relating to the Group — Elitel may be subject to penalties imposed by the Companies Registry with regard to Elitel's registration under Part XI of the Companies Ordinance" of this document under any applicable laws, rules and regulations, together with such other relevant payments, suits, settlement payment, cost, liability, damages or expenses under any applicable laws, rules and regulations; and

(c) the Group's operation which may potentially infringe intellectual property rights of other third parties as set forth in the section headed "Risk Factors — Risks Relating to the Group — The Group's operation may potentially infringe intellectual property rights of other third parties which may materially and adversely affect the Group's business operation and future plans" of this document under any applicable laws, rules and regulations, together with such other relevant payments, suits, settlement payment, cost, liability, damages or expenses under any applicable laws, rules and regulations;

on or before the [●] or as a result of or in relation to any violations or breaches or non-compliance of any laws, rules or regulations and/or all litigations, arbitration, claims (including counter-claims), complaints, demands and/or legal proceedings by or against the Group at any time on or before the [●].

B. Litigation

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and no such litigation or claim was known to the Directors or the Company to be pending or threatened by or against any member of the Group.

C. [●]

D. Preliminary expenses

The estimated preliminary expenses of the Company are HK$112,940 and are payable by the Company.

E. Promoters

The Company has no promoter within the two years preceding the date of this document, no amount or benefit has been paid or given to the promoter in connection with the [●] or the related transactions described in this document.

F. Qualifications of experts

The following are the qualifications of the experts which have given their opinions or advice which is contained in this document:

Name of expert	Qualification
KPMG	Certified public accountants
KPMG Tax Limited	Professional tax advisers
Jones Lang LaSalle Sallmanns Limited	Professional property valuers
Appleby	Cayman Islands attorneys-at-law
Li & Partners	Qualified Hong Kong lawyers
Li & Partners Attorneys at Law	Qualified PRC lawyers
Rui Afonso Lawyers' Office	Qualified Macau lawyers
K&L Gates	Qualified Taiwan lawyers

G. [●]

H. [●]

I. No material adverse change

The Directors confirm that there has been no material adverse change in the financial prospects of the Company or its subsidiaries since 31 December 2009 (being the date to which the latest audited financial statements of the Company were made up).

J. Miscellaneous

(a) Save as disclosed in this document:

(i) within the three years preceding the date in this document, no share or loan capital of the Company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;

(ii) within the three years preceding the date in this document, no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

(iii) no founders, management or deferred shares of the Company have been issued or agreed to be issued;

(iv) within the three years preceding the date of this document, no commission, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital of the Company; and

(v) there has not been any interruption in the business of the Group which may have or have had a significant effect on the financial position of the Group in the twenty-four (24) months preceding the date of this document.

(b) Save as disclosed in this document, none of Guotai Junan Capital Limited, KPMG, KPMG Tax Limited, Jones Lang LaSalle Sallmanns Limited, Appleby, Li & Partners, Li & Partners Attorneys at Law, Rui Afonso Lawyers' Office and K&L Gates nor any of their respective directors, employees and associates:

(i) is interested legally or beneficially in any shares in any member of the Group; or

(ii) has any right or option (whether legally enforceable or not) to subscribe for or nominate person to subscribe for any shares in any member of the Group; or

(iii) has any direct or indirect interest in the promotion of, or in any assets which have been acquired or disposed of by or leased to the Company within the three years immediately preceding the date of this document, or which are proposed to be acquired or disposed of or leased to the Company.