DIRECTEL HOLDINGS LIMITED

直 通 電 訊 控 股 有 限 公 司

(incorporated in the Cayman Islands with limited liability)

(Stock Code : 8337)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2011

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

HIGHLIGHTS

- Turnover for the year ended 31 December 2011 was approximately HK$72,270,000, representing an increase of approximately 5.1% as compared with 2010.
- Profit attributable to shareholders of the Company for the year ended 31 December 2011 was approximately HK$23,018,000, representing an increase of approximately 10.6% as compared with 2010.
- Basic and diluted earnings per share was HK$0.022, representing a decrease of approximately 4.3% as compared with 2010.
- The Board does not recommend the payment of a final dividend for the year ended 31 December 2011.

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2011

The board of Directors (the "Board") of the Company is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2011 together with the comparative figures for 2010 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December

	Note	**2011** *HK$'000*	2010 *HK$'000*
Turnover	4	**72,270**	68,766
Cost of sales		**(28,415)**	(27,683)
Gross profit		**43,855**	41,083
Other income		**29**	698
Administrative expenses		**(18,311)**	(17,617)
Profit from operations		**25,573**	24,164
Finance income	5	**1,922**	1,172
Profit before taxation	6	**27,495**	25,336
Income tax	7	**(4,477)**	(4,523)
Profit for the year attributable to equity shareholders of the Company		**23,018**	20,813
Earnings per share	9		
— Basic and diluted		**HK$0.022**	HK$0.023

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

The Group had no components of comprehensive income other than "Profit for the year attributable to equity shareholders of the Company" in the years presented. Accordingly, no separate consolidated statement of comprehensive income is presented as the Group's "Total comprehensive income for the year" was the same as the "Profit for the year attributable to equity shareholders of the Company" in the years presented.

CONSOLIDATED BALANCE SHEET

	Note	As at 31 December 2011 HK$'000	As at 31 December 2010 HK$'000
Non-current assets			
Property, plant and equipment	10	**2,431**	793
Deferred tax assets		**2,586**	2,711
Total non-current assets		**5,017**	3,504
Current assets			
Inventories	11	**321**	171
Trade and other receivables	12	**61,977**	39,584
Income tax recoverable		**246**	454
Cash and cash equivalents	13	**73,797**	79,387
Total current assets		**136,341**	119,596
Current liabilities			
Trade and other payables	14	**10,532**	7,977
Current tax payables		**85**	2,393
Total current liabilities		**10,617**	10,370
Net current assets		**125,724**	109,226
Total assets less current liabilities		**130,741**	112,730
Non-current liabilities			
Deferred tax liabilities		**249**	68
Total non-current liabilities		**249**	68
Net assets		**130,492**	112,662
Capital and reserves			
Share capital	15	**10,375**	10,375
Share premium		**67,499**	67,499
Other reserve		**—**	—
Retained earnings		**52,618**	34,788
Total equity		**130,492**	112,662

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December

	Note	**Share capital** *HK$'000*	**Share premium** *HK$'000*	**Other reserve** *HK$'000*	**Retained earnings** *HK$'000*	**Total equity** *HK$'000*
As at 1 January 2010		—	—	—	13,975	13,975
Profit and total comprehensive income for the year		—	—	—	20,813	20,813
Shares issued under the Placing, net of share issuing expenses	15(ii)	2,875	74,999	—	—	77,874
Capitalisation issue	15(iii)	7,500	(7,500)	—	—	—
As at 31 December 2010		10,375	67,499	—	34,788	112,662
As at 1 January 2011		**10,375**	**67,499**	**—**	**34,788**	**112,662**
Profit and total comprehensive income for the year		**—**	**—**	**—**	**23,018**	**23,018**
Dividends approved in respect of the previous year	**8(b)**	**—**	**—**	**—**	**(5,188)**	**(5,188)**
As at 31 December 2011		**10,375**	**67,499**	**—**	**52,618**	**130,492**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

		For the year ended 31 December	
		2011	2010
	Note	***HK$'000***	*HK$'000*
Net cash generated from/(used in) operating activities		**1,590**	(3,193)
Net cash used in investing activities		**(1,992)**	(106)
Net cash (used in)/generated from financing activities		**(5,188)**	77,874
Net (decrease)/increase in cash		**(5,590)**	74,575
Cash at beginning of the year	13	**79,387**	4,812
Cash at end of the year	13	**73,797**	79,387

NOTES

1. BACKGROUND OF THE COMPANY

Directel Holdings Limited ("the Company") was incorporated in the Cayman Islands on 28 July 2009 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company has established a place of business in 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. On 2 June 2010, the Company listed its shares with a par value of HK$0.01 each on the GEM of the Stock Exchange (the "Listing").

The Company and its subsidiaries (together referred to as "the Group") are principally engaged in provision of telecommunications services.

2. BASIS OF PREPARATION

This announcement does not comprise the consolidated financial statements for the year ended 31 December 2011 but the information herein has been extracted from the audited consolidated financial statements of the Group for the year ended 31 December 2011.

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

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

3. CHANGES IN ACCOUNTING POLICIES

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

- IAS 24 (revised 2009), Related party disclosures

- Improvements to IFRSs (2010)

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. The impacts of the relevant developments are discussed below:

- IAS 24 (revised 2009) revises the definition of a related party. As a result, the Group has re-assessed the identification of related parties and concluded that the revised definition does not have any material impact on the Group's related party disclosures in the current and previous period. IAS 24 (revised 2009) also introduces modified disclosure requirements for government-related entities. This does not impact the Group because the Group is not a government-related entity.

- Improvements to IFRSs (2010) omnibus standard introduces a number of amendments to the disclosure requirements in IFRS 7, Financial instruments: Disclosures. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the financial statements in the current and previous periods.

4. TURNOVER

	For the year ended 31 December	
	2011	2010
	HK$'000	*HK$'000*
Provision of telecommunications services	**70,402**	64,900
Provision of telesales dealership services	**1,868**	3,866
	72,270	68,766

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

	For the year ended 31 December	
	2011	2010
	HK$'000	*HK$'000*
The largest customer	**22,216**	13,597
The second largest customer	**12,551**	12,631
The third largest customer	**8,566**	—

Substantially all of the Group's revenue are derived from Hong Kong and the Group's property, plant and equipment are located in Hong Kong.

5. FINANCE INCOME

	For the year ended 31 December	
	2011	2010
	HK$'000	*HK$'000*
Interest income from bank deposits	**162**	59
Net foreign exchange gain	**1,760**	1,113
	1,922	1,172

6. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	For the year ended 31 December	
	2011	2010
	HK$'000	*HK$'000*
(a) Staff costs:		
Salaries, wages and other benefits	**3,429**	3,157
Contributions to defined contribution retirement plan	**143**	139
	3,572	3,296
(b) Other items:		
Depreciation	**516**	1,209
Licence charges	**2,809**	1,710
Operating lease charges in respect of		
- rental of properties	**528**	528
- rental of transmission lines	**709**	337
Auditors' remuneration		
- audit services	**860**	794
- other compliance services	**90**	66
Utilities	**69**	68
Repair and maintenance	**560**	417
Allowance for doubtful debts	**11**	59
Cost of inventories	**1,140**	2,416
Listing expenses	**—**	2,780

7. INCOME TAX

	For the year ended 31 December	
	2011	2010
	HK$'000	*HK$'000*
Current tax - Hong Kong Profits Tax	**4,171**	4,688
Deferred tax	**306**	(165)
	4,477	4,523

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 2011 is calculated at 16.5% (2010: 16.5%) of the estimated assessable profits for the years. The payments of dividends by Hong Kong companies are not subject to any Hong Kong withholding tax.

8. DIVIDENDS

(a) Dividends payable to equity shareholders of the Company attributable to the year:

	For the year ended 31 December	
	2011	2010
	HK$'000	*HK$'000*
Final dividends proposed after the balance sheet date of HK nil cents per ordinary share (2010: HK0.5 cents per ordinary share)	**—**	5,188

The final dividends proposed after the balance sheet date had not been recognised as liability at the balance sheet date.

(b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year:

	For the year ended 31 December	
	2011	2010
	HK$'000	*HK$'000*
Final dividends in respect of the previous financial year, approved and paid during the year, of HK0.5 cents per ordinary share (2010: Nil)	**5,188**	—

9. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the year ended 31 December 2011 is based on the profit attributable to ordinary equity shareholders of the Company of approximately HK$23,018,000 (2010: approximately HK$20,813,000) and the weighted average of 1,037,500,000 (2010: 917,774,000) ordinary shares of the Company.

(b) Diluted earnings per share

There were no potential dilutive ordinary shares during the current and prior years, therefore, diluted earnings per share are the same as the basic earnings per share.

10. PROPERTY, PLANT AND EQUIPMENT

During the year ended 31 December 2011, the Group acquired property, plant and equipment with an aggregate cost of approximately HK$2,154,000 (2010: approximately HK$165,000).

11. INVENTORIES

	As at 31 December 2011	As at 31 December 2010
	HK$'000	*HK$'000*
SIM cards	**280**	141
Recharge vouchers	**41**	30
	321	171

12. TRADE AND OTHER RECEIVABLES

	As at 31 December 2011 HK$'000	As at 31 December 2010 HK$'000
Trade receivables	**41,972**	36,301
Less: allowance for doubtful debts	**(90)**	(123)
	41,882	36,178
Other receivables and prepayments	**20,095**	3,406
	61,977	39,584

The ageing analysis of trade receivables by due date that are neither individually nor collectively considered to be impaired are as follows:

	As at 31 December 2011 HK$'000	As at 31 December 2010 HK$'000
Neither past due nor impaired	**7,416**	6,070
Less than 1 month past due	**7,018**	6,679
1 to 3 months past due	**9,750**	4,572
More than 3 months but less than 12 months past due	**9,136**	8,653
More than 12 months past due	**8,562**	10,204
	34,466	30,108
	41,882	36,178

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

Generally, provision of mobile phone services to the Group's major customers, including the major mobile network operators and its dealers, are made in an open account with credit terms up to 30 days after the date of invoice. 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. Provision of mobile phone services to the Group's pre-paid users are made in payment in advance, whereas post-paid users are made in an open account with credit terms up to 12 days after the date of invoice. Payments of provision of telesales dealership services are made in bullet payments within one to five months after the date of services rendered.

Trade 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. In particular, the trade receivables as at 31 December 2011 included amounts due from a mobile network operator in China amounting to HK$24,998,000, of which HK$8,718,000 and HK$8,494,000 fell into "More than 3 months but less than 12 months past due" and "More than 12 months past due" respectively. The directors consider (i) that mobile network operator is a reputable company in the PRC; (ii) the Group has established long-term business relationship with that mobile network operator; and (iii) that mobile network operator has maintained a good repayment track record with the Group, the directors are willing to extend credit terms to that mobile network operator generally. As a result, the directors consider other than the write off and impairment loss being made during the year, no impairment allowance is considered necessary in respect of trade receivables as at 31 December 2011.

The Group does not hold any collateral over these balances.

13. CASH AND CASH EQUIVALENTS

	As at 31 December 2011	As at 31 December 2010
	HK$'000	*HK$'000*
Cash at bank and on hand	**73,797**	79,387

14. TRADE AND OTHER PAYABLES

	As at 31 December 2011	As at 31 December 2010
	HK$'000	*HK$'000*
Trade payables	**5,535**	4,726
Other payables	**4,997**	3,251
	10,532	7,977

Included in trade and other payables are trade creditors with the following ageing analysis by transaction date as of the balance sheet date:

	As at 31 December 2011	As at 31 December 2010
	HK$'000	*HK$'000*
Within 1 month	**3,307**	2,750
Over 1 month but less than 3 months	**2,228**	1,617
Over 3 months but less than 6 months	**—**	359
	5,535	4,726

15. SHARE CAPITAL

		As at 31 December 2011		As at 31 December 2010	
		Number of shares	**Nominal value**	Number of shares	Nominal value
	Note		***HK$***		*HK$*
Authorised	(i)	**4,000,000,000**	**40,000,000**	4,000,000,000	40,000,000

		2011		2010	
		Number of shares	**Nominal value**	Number of shares	Nominal value
	Note		***HK$'000***		*HK$'000*
Issued and fully paid					
At beginning of year	(i)	**1,037,500,000**	**10,375**	200	—
Shares issued under the Placing	(ii)	**—**	**—**	287,500,000	2,875
Capitalisation issue	(iii)	**—**	**—**	749,999,800	7,500
At end of year		**1,037,500,000**	**10,375**	1,037,500,000	10,375

Notes:

(i) 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 ("New Everich").

On 7 September 2009, the Company allotted and issued 100 shares of HK$0.01 each to New Everich pursuant to a share swap agreement entered into among the Company, Mr. Li Kin Shing, Ms. Kwok King Wa and Elitel Limited.

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.

(ii) On 2 June 2010, 287,500,000 ordinary shares of HK$0.01 each were issued by way of placing at a price of HK$0.30 per share for cash consideration of HK$86,250,000 (the "Placing"). The excess of the placing price over the par value of the shares issued was credited to the share premium account. Part of the proceeds of HK$2,875,000, being the par value of the shares issued, was credited to the Company's share capital account. The remaining proceeds of HK$83,375,000 after set off by share issuance expenses of approximately HK$8,376,000 were credited to the share premium account.

(iii) On 2 June 2010, pursuant to the written resolutions of the shareholders passed on 20 May 2010, an amount of HK$7,499,998 standing to the credit of share premium account of the Company was capitalised by issue and allotment of 749,999,800 ordinary shares of HK$0.01 each credited as fully paid at par to the shareholders whose names appeared on the register of members of the Company as at the close of business of 20 May 2010 upon the Placing.

All the shares issued during the current and prior years rank pari passu in all respects with the then existing shares.

16. COMMITMENTS

(a) Capital commitments outstanding at 31 December 2011 not provided for in the financial statements were as follows:

	As at 31 December 2011	As at 31 December 2010
	HK$'000	*HK$'000*
Contracted for	**1,862**	—

(b) As at 31 December 2011, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	As at 31 December 2011		As at 31 December 2010	
	Properties	**Transmission lines**	Properties	Transmission lines
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Within 1 year	**528**	**675**	528	288
After 1 year but within 5 years	**1,056**	**684**	—	—
	1,584	**1,359**	528	288

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 two years (2010: one to seven years), with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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 and one MNO in the People's Republic of China ("the PRC"), and subsequently sold the airtime through different channels and in various forms to users, dealers or MNOs. The Group's mobile phone services include "One Card Multiple Number" service and Hong Kong local mobile phone services. The Group also provides services of resale of airtime to MNOs, telesales dealership services and other services.

The Group's performance kept improving for the year ended 31 December 2011 compared to 2010. Total number of activated phone numbers increased by approximately 3.8% to 240,041 as of 31 December 2011 compared to 231,166 as of 31 December 2010. The monthly average number of activated phone numbers increased by approximately 19.8% to 222,796 in the year of 2011 when compared to 2010.

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 average revenue per user ("ARPU") of the Group showed a decreasing trend. The ARPU of the Group was approximately HK$25.4 for the year ended 31 December 2011, lower than approximately HK$27.5 for the last year.

The volume of the Group's airtime sold increased from approximately 184.6 million minutes for the year of 2010 to approximately 206.5 million minutes for the year of 2011; and the revenue derived from "One Card Multiple Number" service, Hong Kong local mobile phone services and resale of airtime to MNOs increased from approximately HK$64.9 million to approximately HK$70.4 million during the same period. The Group's revenue per minute of airtime sold decreased from approximately HK$0.35 for the year of 2010 to approximately HK$0.34 for the year of 2011. Such decrease was mainly attributable to the relatively lower ARPU of most newly activated mobile phone numbers which belong to Hong Kong local mobile phone services plans.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2011, the turnover of the Group increased to approximately HK$72,270,000 compared to approximately HK$68,766,000 for the last year, represented an increase of approximately 5.1%. The increase in turnover was mainly attributable to the increase in the monthly average number of activated phone numbers which overweighed the effect of the decrease in the Group's ARPU.

Cost of Sales

The Group's cost of sales increased by approximately 2.6% to approximately HK$28,415,000 for the year ended 31 December 2011 compared to approximately HK$27,683,000 for the last year, in which the cost of sales in respect of the provision of mobile phone services and resale of airtime to MNOs increased by approximately 13.5% when compared to last year. Such increase was mainly due to the increase in airtime usage by users, increased unit charges for IDD services by telecommunications services providers and additional interconnection fees for cross-border networks charged by an affiliate of MNO. The cost of sales in respect of the provision of telesales dealership services decreased by approximately 56.3% when compared to last year, which was in line with the decrease in the revenue derived from the provision of telesales dealership services.

Gross Profit

The gross profit of the Group for the year ended 31 December 2011 increased to approximately HK$43,855,000 when compared to approximately HK$41,083,000 for the last year due to an improvement in gross profit margin to 60.7% for the year ended 31 December 2011 from 59.7% for the last year. The improvement in gross profit and gross profit margin was mainly attributable to the decrease of average unit cost of Hong Kong airtime resulting from mass purchase and then satisfying the minimum monthly airtime purchase amount adopted by two MNOs.

Administrative Expenses

The Group's administrative expenses for the year ended 31 December 2011 increased by approximately 3.9% to approximately HK$18,311,000 compared to approximately HK$17,617,000 for the last year. The increase was mainly attributable to the licence fee of approximately HK$2,809,000 incurred in the year of 2011 while such expenses was approximately HK$1,710,000 in the year of 2010.

Finance Income

The Group's finance income for the year ended 31 December 2011 increased by approximately 64.0% to approximately HK$1,922,000 when compared to approximately HK$1,172,000 for the last year. The increase was mainly due to the increase of foreign exchange gain arising from the movements in the exchange rate between Hong Kong dollars and Renminbi during the year.

Income Tax

The Group's income tax expense for the year ended 31 December 2011 decreased by approximately 1.0% to approximately HK$4,477,000 when compared to approximately HK$4,523,000 for the last year. The decrease was mainly attributed to the listing fee incurred in the year of 2010 which was not tax deductible, while no such expense was incurred in the year of 2011.

Profit Attributable to Shareholders

The Group's profit attributable to equity shareholders of the Company for the year ended 31 December 2011 increased by approximately 10.6% to approximately HK$23,018,000 compared to approximately HK$20,813,000 for the last year. The increase was mainly due to improvement of gross profit and no more one-off listing expenses incurred in the year of 2011, while there was an one-off listing expenses of approximately HK$2,780,000 in the year of 2010.

COMPARISON OF BUSINESS PLAN WITH ACTUAL BUSINESS PROGRESS

The following is a comparison of the Group's business plan as set out in the Prospectus with actual business progress for the year ended 31 December 2011:

	Business plan up to 31 December 2011 as set out in the Prospectus	Actual business progress up to 31 December 2011
Expanding the business of mobile phone services in other Asia Pacific territories		
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 expand the business of "One Card Multiple Number" service in Taiwan from August 2010 and onwards; 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; Investing in equipment to develop the business of "One Card Multiple Number" service in other Asia Pacific territories from November 2011 and onwards.	The Group has liaised with two telecommunications equipment manufacturers in relation to the system upgrade, and accepted quotation in respect of the equipment from one of the manufacturers. Contract was signed and advance payment was made to the manufacturer. It is estimated that the capacity of new equipment can support the demand from Macau and Taiwan in the coming year. For the development in other countries in the Asia Pacific territories, the Group will invest in equipment depending on the marketing status and customer demand.
Marketing	Marketing and promotion of the "One Card Multiple Number" service to enhance the popularity of such service in Macau, Taiwan and one to two additional countries in the Asia Pacific territories.	The Group is preparing a detailed marketing and promotion plan, and continues to monitor the customers' pattern in Macau and Taiwan closely. The Group has been at the negotiation stage with potential partnership MNOs and dealers in Macau and Taiwan and a dealer in Indonesia to explore local market. No agreement has been finalised yet.
Human resources	To hire staff responsible for sales and distribution.	The Group is searching for qualified people by itself and through agents. No new staff has been hired yet.

	Business plan up to 31 December 2011 as set out in the Prospectus	Actual business progress up to 31 December 2011

Upgrading the Group's telecommunications equipment to be compatible with the 3G mobile networks in Hong Kong and China

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 has liaised with two telecommunications equipment manufacturers in relation to the system upgrade, and accepted quotation in respect of the equipment from one of the manufacturers. Contract was signed and advance payment was made to the manufacturer. It is estimated that the 3G mobile data services in Hong Kong will be launched in the first quarter of 2012 after the testing of system.
	Continue to upgrade the HLR data base system and roaming gateway, so that the Group's system for "One Card Multiple Number" service can be compatible with 3G platforms of China network operators. 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 has been at the negotiation stage with a China network operator on the terms and conditions of data services in Mainland. No agreement has been finalised yet.
	The Group may consider to revise its plan tariffs with reference to the local telecommunications market in Hong Kong and Mainland.	The Group has been monitoring the data service tariffs in local market of Hong Kong and Mainland, and will review the tariffs when new data services are launched.

	Business plan up to 31 December 2011 as set out in the Prospectus	**Actual business progress up to 31 December 2011**
Introducing RF-SIM to the Group's mobile phone services in Hong Kong and Macau		
Investment in the equipment	Investing in servers and application system in Hong Kong and Macau; and investing in BOSS system and equipment in Hong Kong.	The Group is at the negotiation stage on the purchase of equipment.
Purchase of specialised SIM cards for RF-SIM	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.	Sample RF-SIM readers were tested with satisfactory results and the Group is at the negotiation stage on the purchase of SIM cards.
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 (Approximately 80% and 20% of the card readers will be placed in Hong Kong and Macau respectively).	The Group is at the negotiation stage on the purchase of RF-SIM readers.
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 and Macau.	The Group has liaised with several service providers and at the negotiation stage on the service fees.

	Business plan up to 31 December 2011 as set out in the Prospectus	Actual business progress up to 31 December 2011
Marketing	To announce the introduction of RF-SIM through promotion campaigns to replace ordinary SIM cards and introduce new users.	The Group is preparing a detailed marketing and promotion plan and it is expected to launch campaigns when RF-SIM cards are ready. The Group is at the negotiation stage with a dealer in transportation and retail industry on the promotion of RF-SIM e-coupon service. No agreement has been finalised yet.
Human resources	To hire additional staff to carry out promotion and maintenance.	The Group is searching for qualified people by itself and through agents. No new staff has been hired yet.

USE OF PROCEEDS

The net proceeds from the Placing were approximately HK$69.2 million, which was different from the estimated net proceeds of approximately HK$69.9 million as disclosed in the Company's announcement dated 1 June 2010 and the estimated net proceeds of approximately HK$49.8 million estimated on the assumption that the placing price would be the mid-point of the stated range as stated in the Prospectus. We intend to adjust the use of proceeds in the same manner and in the same proportion as shown in the Prospectus. As stated in the Prospectus, we plan to expand the business of mobile phone services in other Asia Pacific territories, upgrade the Group's telecommunications equipment to be compatible with the 3G mobile networks in Hong Kong and China and introduce RF-SIM to the Group's mobile phone services in Hong Kong and Macau in the forthcoming future. As at the date of this announcement, we do not anticipate any change to this plan. During the period between 2 June 2010, being the date of Listing, and 31 December 2011, there was no significant amount of usage made out of the net proceeds from the Placing as the Group needed more time to negotiate with suppliers and service providers for better terms. The net proceeds from the issue of new shares from the date of Listing to 31 December 2011 had been applied as follows:

	Adjusted use of proceeds in the same manner and proportion as stated in the Prospectus from 20 May 2010, being the latest practicable date as defined in the Prospectus, to 31 December 2011	**Actual use of proceeds from the date of Listing to 31 December 2011**
	HK$ million	*HK$ million*
Expansion of mobile phone services in Macau, Taiwan and other Asia Pacific territories		
- Macau	8.9	1.0
- Taiwan	6.5	0.9
- other Asia Pacific Territories	7.3	0.2
	22.7	2.1

	Adjusted use of proceeds in the same manner and proportion as stated in the Prospectus from 20 May 2010, being the latest practicable date as defined in the Prospectus, to 31 December 2011 *HK$ million*	Actual use of proceeds from the date of Listing to 31 December 2011 *HK$ million*
Upgrading the Group's telecommunications equipment for compatible with the 3G mobile network operated by the Group's service operators in Hong Kong and the PRC	20.8	3.1
Development and implementation of RF-SIM business plans in Hong Kong and Macau	16.5	0.0
Working capital	6.8	4.8
Total	66.8	10.0

Notes:

The business objectives as stated in the Prospectus were based on the best estimation of the future market conditions made by the Group at the time of preparing the Prospectus. The use of proceeds was applied in accordance with the actual development of the market.

(1) Since the Listing on 2 June 2010, the Group proceeded to commence with its expansion and business development. The remaining proceeds were not fully applied by the end of December 2011 in order for the Group to negotiate with suppliers and service providers for better terms;

(2) On expansion of mobile phone services in Macau, Taiwan and other Asia Pacific territories, the Company has contracted with and made prepayment to a manufacturer for equipment investment. The Group is at the negotiation stage on the partnership terms with potential partnership with MNOs and dealers in Macau and Taiwan and a dealer in Indonesia;

(3) On upgrading the Group's telecommunications equipment for compatibility with the 3G mobile network operated by the Group's service operators in Hong Kong and the PRC, the Company has contracted with and made prepayment to a manufacturer for equipment investment;

(4) On development and implementation of RF-SIM business plans in Hong Kong and Macau, the Company is at the negotiation stage on the purchase of equipment and SIM cards;

(5) On expenditure relating to working capital, it mainly consisted of the payment of general and administrative expenses, including staff costs (including directors' remuneration), professional fees and other general operating expenses; and

(6) The unused net proceeds as at 31 December 2011 have been placed as interest bearing deposits in banks in Hong Kong.

BUSINESS OUTLOOK

Following the recovery of the global economy since the fourth quarter of 2009, the Group is optimistic and sees enormous opportunities and challenges in the market. Going forward in the year of 2012, the Group will continue to seek opportunities in existing business to broaden the Group's customer base and expand the Group's operations by means of strengthening relationship with existing dealers, exploring new qualifying dealers and maintaining its low cost strategy for its marketing activities. Also, the Group will execute its business plan continuously to expand the geographical coverage of mobile phone services provided by the Group through development and expansion of such services in Asia Pacific and the Group will provide 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, providing its users more value-added data communication services; and (ii) introducing RF-SIM in Hong Kong and Macau, to enhance the Group's overall competitiveness.

CAPITAL STRUCTURE

As at 31 December 2011, the Group had no outstanding loan or borrowing, and the gearing ratio (being ratio of total long term borrowings to equity) was therefore inapplicable. As at 31 December 2011, total equity attributable to equity holders of the Company amounted to approximately HK$130,492,000 (31 December 2010: approximately HK$112,662,000), which was primarily attributable to the proceeds from the Placing and earnings.

LIQUIDITY AND FINANCIAL RESOURCES

The Group normally finances its operations with internally generated cash flows and capital contribution from shareholders. As at 31 December 2011, the Group had net current assets of approximately HK$125,724,000 (31 December 2010: approximately

HK$109,226,000), including cash balance of approximately HK$73,797,000 (31 December 2010: approximately HK$79,387,000). The current ratio was 12.8 as at 31 December 2011, higher than 11.5 as at 31 December 2010.

FOREIGN EXCHANGE EXPOSURE

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily Renminbi ("RMB"). 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. As at 31 December 2011, the Group did not have any derivatives for hedging against the exchange rate risk.

PLEDGE OF ASSETS

As at 31 December 2011, the Group did not have any pledges on its assets.

CONTINGENT LIABILITIES

Elitel Limited, a wholly owned subsidiary of the Company, failed to register as a non-Hong Kong company within the prescribed time limit under Part XI of the Hong Kong Companies Ordinance, which shall be within one month of the establishment of the place of business in Hong Kong in November 2002.

As at the date of this announcement, the Companies Registry may take action against Elitel Limited in relation to its possible breaches of the Hong Kong Companies Ordinance in respect of its failure to register promptly under Part XI of the Hong Kong Companies Ordinance and 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 year ended 31 December 2011, 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 Hong Kong Companies Ordinance.

SIGNIFICANT ACQUISITION, DISPOSAL OR INVESTMENT

As at 31 December 2011, the Group has no specific acquisition target. The Group did not have any material acquisition and disposals of subsidiaries and affiliated companies, and investment during the period under review.

STAFF AND REMUNERATION POLICY

As at 31 December 2011, the Group had 12 employees (31 December 2010: 13 employees). Remuneration is determined with reference to market terms and the performance, qualification and experience of individual employee. Year-end bonus based on individual performance will be paid to employees as recognition of and reward for their contributions. Other benefits include medical insurance, share option scheme and contributions to statutory mandatory provident fund scheme to its employees in Hong Kong.

DIVIDENDS

The Board of Directors does not recommend the payment of a final dividend for the year ended 31 December 2011 (2010: HK0.5 cents per share).

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from 27 April 2012 to 30 April 2012, both days inclusive. In order to ascertain the members' entitlement to the attendance of the forthcoming annual general meeting of the Company, all share transfers documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, namely Tricor Investor Services Limited at 26/F Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 26 April 2012.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in this announcement, during the year ended 31 December 2011, there was no rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or of any other body corporate granted to any Directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company or any of its subsidiaries a party to any arrangements to enable the Directors, their respective spouse or children under 18 years of age to acquire such rights in the Company or any other body corporate.

SHARE OPTION SCHEME

The Company has conditionally adopted the share option scheme in the written resolutions of the shareholders of the Company passed on 20 May 2010 (the "Share Option Scheme").

The Share Option Scheme became unconditional after the listing of the Company's shares on GEM on 2 June 2010. The Company did not grant or cancel any options under the Share Option Scheme any time during the year, and as at 31 December 2011, there was no outstanding share option under the Share Option Scheme.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, the Company has complied with all the code provisions as set out in Appendix 15 to the GEM Listing Rules for the year ended 31 December 2011.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

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

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

During the year ended 31 December 2011, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any share of the Company.

COMPETING INTERESTS

During the year ended 31 December 2011, save as disclosed below, none of the Directors or controlling shareholders of the Company nor their respective associates is considered to have interests in a business that competes or is likely to compete, either directly or indirectly, with the businesses of the Group other than those businesses where the Directors have been appointed or were appointed as directors to represent the interests of the Company and/or the Group.

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

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

International Elite Ltd. ("IEL") is a company incorporated in the Cayman Islands and a listed company on the Main Board of the Stock Exchange with Mr. Li Kin Shing and Ms. Kwok King Wa as controlling shareholders. According to the GEM Listing Rules, IEL is an associate of Mr. Li Kin Shing and Ms. Kwok King Wa and thus a connected person. Sunward Telecom Limited ("Sunward Telecom") and its wholly-owned subsidiaries (collectively, the "Sunward Group") are wholly-owned subsidiaries of IEL. The Sunward Group, as a whole, is principally engaged in (i) the research and development, production and sales of RF-SIM products; and (ii) licensing of the RF-SIM operations rights in markets other than Hong Kong and Macau.

The Directors confirm that as China-Hongkong Telecom Limited, a wholly-owned subsidiary of the Company, has obtained the exclusive licence of the operation rights of RF-SIM intellectual property rights in Hong Kong and Macau and since the services provided by the Group are mainly in Hong Kong and Macau, there will be no direct competition between the services provided by Directel Limited, which are in territories other than the PRC, Hong Kong and Macau. There will also be no direct competition between the services provided by IEL, which its strategy is to concentrate on the application of the RF-SIM intellectual property rights in the PRC. Nevertheless, Mr. Li Kin Shing, Ms. Kwok King Wa and Directel Limited (as Covenantors) executed a deed of non-competition undertaking in favour of the Company on 24 May 2010 pursuant to which the Covenantors have undertaken to the

Company inter alia, that (i) the Covenantors shall not, directly or indirectly, engage in, invest in, participate in, or attempt to participate in, whether on his/her/its own account or with each other or in conjunction with or on behalf of any person or company, any business which will or may compete with the RF-SIM business of the Group in Hong Kong and Macau; and (ii) in the event the Covenantors or their associates were given any business opportunities that is or may involve in direct or indirect competition with the business of the Group, the Covenantors shall assist the Company in obtaining such business opportunities in the terms being offered to the Covenantors, or more favourable terms being acceptable to the Company.

INTEREST OF COMPLIANCE ADVISER

As at 31 December 2011, as notified by the Company's compliance adviser, Guotai Junan Capital Limited ("Compliance Adviser"), except for the agreement entered into between the Company and the Compliance Adviser dated 28 May 2010, neither the Compliance Adviser nor its directors, employees or associates had any interests as notified to the Group pursuant to Rule 6A.32 of the GEM Listing Rules and all Directors and controlling shareholders and their respective associates as referred to in Rule 11.04 of the GEM Listing Rules.

AUDIT COMMITTEE

The Company has established an audit committee ("Audit Committee") on 20 May 2010 with written terms of reference in compliance with the GEM Listing Rules. The Audit Committee consists of the three independent non-executive Directors, namely, Ms. Lee Man Yee, Maggie, Mr. Chen Xue Dao and Mr. Chu, Howard Ho Hwa. Ms. Lee Man Yee, Maggie is the chairman of the Audit Committee.

The primary duties of the Audit Committee are to review the Company's annual report and consolidated financial statements, half-yearly report and quarterly reports and to provide advice and comment thereon to the Board. The Audit Committee is also responsible for reviewing and supervising the financial reporting process and internal control of the Group.

During the year of 2011, the audit committee has (i) reviewed the quarterly and half-yearly results; (ii) reviewed the accounting policies adopted by the Group and issues related to accounting practice; and (iii) assisted the Board to evaluate on the effectiveness of financial reporting procedure and internal control.

The Group's audited results for the year ended 31 December 2011 have been reviewed by the Audit Committee and which was of the opinion that such results complied with the applicable accounting standards and that adequate disclosures had been made.

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

Hong Kong, 20 March, 2012

As at the date of this announcement, the executive Directors are Mr. Pang Kwok Chau and Mr. Li Wang; the non-executive Directors are Mr. Li Kin Shing and Mr. Wong Kin Wa; and the independent non-executive Directors are Ms. Lee Man Yee, Maggie, Mr. Chen Xue Dao and Mr. Chu, Howard Ho Hwa.

This announcement will remain on the "Latest Company Announcements" page of the GEM website at www.hkgem.com for at least 7 days from the day of its publication and on the Company's website at www.directel.hk.