Directel Holdings Limited
直通電訊控股有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 8337

2012
Interim Report

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.

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

HIGHLIGHTS

- Turnover for the six months ended 30 June 2012 was approximately HK$36,883,000, representing an increase of approximately 11.3% as compared with the corresponding period in 2011.
- Profit attributable to shareholders of the Company for the six months ended 30 June 2012 was approximately HK$12,709,000, representing an increase of approximately 41.7% as compared with the corresponding period in 2011.
- The Board does not recommend the payment of any dividend for the six months ended 30 June 2012.

UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2012

The board of Directors (the "Board") of the Company is pleased to announce the unaudited consolidated financial statements of the Company and its subsidiaries (together referred to as the "Group") for the three months and the six months ended 30 June 2012 (the "Relevant Periods") together with the unaudited comparative figures for the respective corresponding period in 2011 as follows:

CONSOLIDATED INCOME STATEMENT

	Note	For the three months ended 30 June		For the six months ended 30 June	
		2012	2011	**2012**	2011
		HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Turnover	5	**19,009**	16,855	**36,883**	33,143
Cost of sales		**(7,786)**	(6,565)	**(14,653)**	(14,482)
Gross profit		**11,223**	10,290	**22,230**	18,661
Other revenue		**5**	—	**32**	—
Administrative expenses		**(3,829)**	(4,175)	**(7,038)**	(8,676)
Profit from operations		**7,399**	6,115	**15,224**	9,985
Finance (cost)/income	6	**(116)**	435	**(4)**	714
Profit before taxation	7	**7,283**	6,550	**15,220**	10,699
Income tax	8	**(1,202)**	(1,081)	**(2,511)**	(1,733)
Profit for the period attributable to equity shareholders of the Company		**6,081**	5,469	**12,709**	8,966
Earnings per share	10				
– Basic and diluted		**HK$0.006**	HK$0.005	**HK$0.012**	HK$0.009

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

The Group had no components of comprehensive income other than "Profit for the period attributable to equity shareholders of the Company" in the periods presented. 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 period attributable to equity shareholders of the Company" in the periods presented.

CONSOLIDATED BALANCE SHEET

	Note	As at 30 June 2012 HK$'000 (Unaudited)	As at 31 December 2011 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment	11	**5,669**	2,431
Deferred tax assets		**2,275**	2,586
Total non-current assets		**7,944**	5,017
Current assets			
Inventories	12	**370**	321
Trade and other receivables	13	**62,864**	61,977
Income tax recoverable		**4**	246
Cash and cash equivalents	14	**82,490**	73,797
Total current assets		**145,728**	136,341
Current liabilities			
Trade and other payables	15	**8,244**	10,532
Current tax payables		**1,978**	85
Total current liabilities		**10,222**	10,617
Net current assets		**135,506**	125,724
Total assets less current liabilities		**143,450**	130,741
Non-current liabilities			
Deferred tax liabilities		**249**	249
Total non-current liabilities		**249**	249
Net assets		**143,201**	130,492
Capital and reserves			
Share capital	16	**10,375**	10,375
Share premium		**67,499**	67,499
Other reserve		**—**	—
Retained earnings		**65,327**	52,618
Total equity		**143,201**	130,492

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital *HK$'000* (Unaudited) (Note 16)	Share premium *HK$'000* (Unaudited)	Other reserve *HK$'000* (Unaudited)	Retained earnings *HK$'000* (Unaudited)	Total equity *HK$'000* (Unaudited)
As at 1 January 2011	10,375	67,499	—	34,788	112,662
Profit and total comprehensive income for the period	—	—	—	8,966	8,966
Dividend declared in respect of the previous year	—	—	—	(5,188)	(5,188)
As at 30 June 2011	10,375	67,499	—	38,566	116,440
As at 1 January 2012	**10,375**	**67,499**	**—**	**52,618**	**130,492**
Profit and total comprehensive income for the period	**—**	**—**	**—**	**12,709**	**12,709**
As at 30 June 2012	**10,375**	**67,499**	**—**	**65,327**	**143,201**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Note	For the six months ended 30 June	
		2012	2011
		HK$'000	*HK$'000*
		(Unaudited)	(Unaudited)
Net cash generated from/(used in) operating activities		**12,118**	(2,199)
Net cash used in investing activities		**(3,425)**	(3,247)
Net cash used in financing activities		**—**	(5,188)
Net increase/(decrease) in cash and cash equivalents		**8,693**	(10,634)
Cash and cash equivalents at 1 January	14	**73,797**	79,387
Cash and cash equivalents at 30 June	14	**82,490**	68,753

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

1. BACKGROUND OF THE COMPANY

Directel Holdings Limited (the "Company") was incorporated in the Cayman Islands on 28 July 2009 as an exempted company with limited liability under the Companies Law, 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 are principally engaged in provision of telecommunications services.

2. BASIS OF PREPARATION

The interim financial report of the Group has been prepared in accordance with the applicable disclosure provisions of Chapter 18 of the Rules Governing the Listing of Securities on GEM of the Stock Exchange, and in compliance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board ("IASB"). It was authorised for issue on 9 August 2012.

The interim financial report of the Group has been prepared in accordance with substantially the same accounting policies adopted in the Group's audited financial statements set out in the annual report for the year ended 31 December 2011, except for the accounting policy changes that are expected to be reflected in the 2012 annual financial statements. Details of these changes in accounting policies are set out in note 4.

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

The Group's interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2011 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRS").

The interim financial report for the six months ended 30 June 2012 is unaudited, but has been reviewed by the Company's audit committee.

The financial information relating to the financial year ended 31 December 2011 that is included in the interim financial report as being previously reported information does not constitute the Group's annual financial statements prepared under IFRS for that financial year but is derived from those financial statements. The Group's financial information relating to the financial year ended 31 December 2011 which is included in the annual report for the year ended 31 December 2011 is available at the Company's registered office. The independent auditor has expressed an unqualified opinion on those financial statements in the independent auditor's report included in the annual report for the year ended 31 December 2011.

3. SEGMENT REPORTING

IFRS 8 "Operating Segments" 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.

4. CHANGES IN ACCOUNTING POLICIES

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

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

5. TURNOVER

	For the three months ended 30 June		For the six months ended 30 June	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Provision of telecommunications services	**18,895**	16,396	**36,609**	31,865
Provision of telesales dealership services	**114**	459	**274**	1,278
	19,009	16,855	**36,883**	33,143

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 for each of the periods is as follows:

	For the three months ended 30 June		For the six months ended 30 June	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
The largest customer	**5,620**	4,985	**11,310**	9,658
The second largest customer	**4,546**	2,506	**8,442**	4,826
The third largest customer	**3,026**	—	**5,526**	—

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.

6. FINANCE (COST)/INCOME

	For the three months ended 30 June		For the six months ended 30 June	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Interest income from bank deposits	**99**	47	**202**	64
Net foreign exchange (loss)/gain	**(215)**	388	**(206)**	650
	(116)	435	**(4)**	714

7. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	For the three months ended 30 June		For the six months ended 30 June	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
(a) Staff costs:				
Salaries, wages and other benefits	**851**	848	**1,701**	1,685
Contributions to defined contribution retirement plan	**32**	33	**65**	65
	883	881	**1,766**	1,750
(b) Other items:				
Depreciation	**213**	158	**389**	410
Licence charges	**707**	641	**1,417**	1,212
Operating lease charges in respect of				
– rental of properties	**147**	132	**293**	264
– rental of transmission lines	**223**	130	**470**	237
Auditors' remuneration				
– annual audit services	**145**	189	**363**	411
– other compliance services	**—**	10	**—**	10
Utilities	**18**	17	**35**	33
Repair and maintenance	**139**	140	**277**	279
Bad debts written off	**19**	5	**19**	9
Cost of inventories	**268**	177	**502**	488

8. INCOME TAX

	For the three months ended 30 June		For the six months ended 30 June	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Current tax				
– Hong Kong Profits Tax	**1,038**	1,056	**2,200**	1,666
Deferred tax	**164**	25	**311**	67
Total income tax expense	**1,202**	1,081	**2,511**	1,733

8. INCOME TAX *(Continued)*

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 three months and the six months ended 30 June 2012 is calculated at 16.5% (three months and six months ended 30 June 2011: 16.5%) of the estimated assessable profits for the periods. The payments of dividends by Hong Kong companies are not subject to any Hong Kong withholding tax.

9. DIVIDEND

The Board does not recommend any payment of an interim dividend for the six months ended 30 June 2012. No interim dividend was paid in respect of the six months ended 30 June 2011.

No final dividend to the previous year was approved and paid during the period (six months ended 30 June 2011: HK$5,188,000).

10. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the three months ended 30 June 2012 is based on the unaudited profit attributable to ordinary equity shareholders of the Company of approximately HK$6,081,000 (three months ended 30 June 2011: approximately HK$5,469,000) and the weighted average number of 1,037,500,000 ordinary shares in issue during the period (three months ended 30 June 2011: weighted average number of 1,037,500,000 ordinary shares).

The calculation of basic earnings per share for the six months ended 30 June 2012 is based on the unaudited profit attributable to ordinary equity shareholders of the Company of approximately HK$12,709,000 (six months ended 30 June 2011: approximately HK$8,966,000) and the weighted average number of 1,037,500,000 ordinary shares in issue during the period (six months ended 30 June 2011: weighted average number of 1,037,500,000 ordinary shares).

(b) Diluted earnings per share

There were no potential dilutive ordinary shares for each of the three months and the six months ended 30 June 2011 and 30 June 2012, and therefore, diluted earnings per share are the same as the basic earnings per share.

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2012, the Group acquired items of property, plant and equipment with an aggregate cost of approximately HK$3,627,000 (six months ended 30 June 2011: approximately HK$42,000).

12. INVENTORIES

	As at 30 June 2012 ***HK$'000*** **(Unaudited)**	As at 31 December 2011 *HK$'000* (Audited)
SIM cards	**346**	280
Recharge vouchers	**24**	41
	370	321

13. TRADE AND OTHER RECEIVABLES

	As at 30 June 2012 ***HK$'000*** **(Unaudited)**	As at 31 December 2011 *HK$'000* (Audited)
Trade receivables		
– amounts due from third parties	**49,403**	41,972
less: allowance for doubtful debts	**(97)**	(90)
	49,306	41,882
Other receivables and prepayments		
– amounts due from third parties	**5,532**	8,730
– deposits and prepayments	**8,026**	11,365
	13,558	20,095
	62,864	61,977

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.

13. TRADE AND OTHER RECEIVABLES *(Continued)*

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

	As at 30 June 2012 ***HK$'000*** **(Unaudited)**	As at 31 December 2011 *HK$'000* (Audited)
Neither past due nor impaired	**6,328**	7,416
Less than 1 month past due	**6,607**	7,018
1 to 3 months past due	**9,394**	9,750
More than 3 months but less than 12 months past due	**12,545**	9,136
More than 12 months past due	**14,432**	8,562
	42,978	34,466
	49,306	41,882

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

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 30 June 2012 included amounts due from a mobile network operator in China amounting to HK$31,459,000, of which HK$10,600,000 and HK$14,213,000 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 period, no impairment allowance is considered necessary in respect of trade receivables as at 30 June 2012. The Group does not hold any collateral over these balances.

14. CASH AND CASH EQUIVALENTS

	As at 30 June 2012 HK$'000 (Unaudited)	As at 31 December 2011 HK$'000 (Audited)
Cash at banks and on hand	82,490	73,797

15. TRADE AND OTHER PAYABLES

	As at 30 June 2012 HK$'000 (Unaudited)	As at 31 December 2011 HK$'000 (Audited)
Trade payables		
– amount due to a related party	85	110
– amounts due to third parties	2,355	5,425
	2,440	5,535
Other payables		
– accrued charges and deposits	3,917	3,149
– deferred income	1,887	1,848
	5,804	4,997
	8,244	10,532

The amount due to a related party is 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:

	As at 30 June 2012 HK$'000 (Unaudited)	As at 31 December 2011 HK$'000 (Audited)
Within 1 month	1,369	3,307
Over 1 month but less than 3 months	1,071	2,228
	2,440	5,535

16. SHARE CAPITAL

		As at 30 June 2012		As at 31 December 2011	
		Number of shares	Nominal value	Number of shares	Nominal value
			HK$'000		*HK$'000*
	Note	(Unaudited)	(Unaudited)	(Audited)	(Audited)
Authorised	(i)	4,000,000,000	40,000	4,000,000,000	40,000
Issued and fully paid					
At beginning and end of period/year	(i),(ii)&(iii)	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 period rank pari passu in all respects with the then existing shares.

17. COMMITMENTS

(a) Capital commitments outstanding not provided for in the interim financial report were as follows:

	As at 30 June 2012 *HK$'000* **(Unaudited)**	As at 31 December 2011 *HK$'000* (Audited)
Contracted for	**966**	1,862

(b) The total future minimum lease payments under non-cancellable operating leases are payable as follows:

	As at 30 June 2012		As at 31 December 2011	
	Properties *HK$'000* **(Unaudited)**	**Transmission lines** *HK$'000* **(Unaudited)**	Properties *HK$'000* (Audited)	Transmission lines *HK$'000* (Audited)
Within 1 year	**528**	**791**	528	675
After 1 year but within 5 years	**792**	**456**	1,056	684
	1,320	**1,247**	1,584	1,359

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, with an option to renew the leases when all terms are renegotiated. None of the leases includes contingent rentals.

18. MATERIAL RELATED PARTY TRANSACTIONS

(a) Relationship between the Group and related parties

(i) Controlling shareholders of the Group

- Li Kin Shing
- Kwok King Wa

(ii) Subject to common control from controlling shareholders

- China Elite Information Technology Ltd.
- Directel Limited
- Fastary Limited
- 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
- Xiamen Elite Electric Co., Ltd.

18. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(b) Transactions

The Group entered into the following material related party transactions:

		For the three months ended 30 June		For the six months ended 30 June	
		2012	2011	**2012**	2011
		HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
		(Unaudited)	*(Unaudited)*	***(Unaudited)***	(Unaudited)
Continuing after the Listing					
Services rendered	(i)	**349**	655	**759**	1,554
Rental of properties	(ii)	**132**	132	**264**	264

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$44,000 from 1 September 2009 to 31 December 2011 and then at an aggregate monthly rental of HK$44,000 from 1 January 2012 to 31 December 2014.

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

(c) Balances with related parties

As at the respective balance sheet dates, the Group had the following balances with related parties:

	As at 30 June 2012	As at 31 December 2011
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Amount due to a related party		
– trade	**85**	110

18. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(d) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors and certain of the highest paid employees, is as follows:

	For the three months ended 30 June		**For the six months ended 30 June**	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Short-term employee benefits	**503**	500	**1,006**	991
Contributions to defined contributions retirement plan	**17**	17	**33**	33
	520	517	**1,039**	1,024

19. 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 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 report, the Companies Registry may take 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 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 six months ended 30 June 2012, 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.

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 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 six months ended 30 June 2012 compared to the corresponding period in 2011. The monthly average number of activated phone numbers increased by approximately 9.0% to 235,648 in the first half year of 2012 when compared to the corresponding period in 2011. However, total number of activated phone numbers decreased by approximately 0.1% to 239,843 as of 30 June 2012 compared to 240,041 as of 31 December 2011.

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 had showed a decreasing trend. Nevertheless, the ARPU of the Group was approximately HK$25.3 for the six months ended 30 June 2012, higher than approximately HK$23.5 for the same period last year. Such increase was mainly attributable to the relatively higher ARPU of most newly activated mobile phone numbers which belong to "One Card Multiple Number" services plans.

The volume of the Group's airtime sold increased from approximately 91.2 million minutes for the first half year of 2011 to approximately 118.6 million minutes for the first half year of 2012; and the revenue derived from the provision of "One Card Multiple Number" service, Hong Kong local mobile phone services and resale of airtime to MNOs increased from approximately HK$31.9 million to approximately HK$36.6 million during the same period. The Group's revenue per minute of airtime sold decreased from approximately HK$0.35 for the first half year of 2011 to approximately HK$0.31 for the first half year of 2012. Such decrease was mainly attributable to the relatively lower ARPU of majority activated mobile phone numbers which belong to Hong Kong local mobile phone services plans.

FINANCIAL REVIEW

For the six months ended 30 June 2012, the turnover of the Group increased to approximately HK$36,883,000 compared to approximately HK$33,143,000 for the corresponding period last year, represented an increase of approximately 11.3%. The increase in turnover was mainly attributed to the increase in the monthly average number of activated phone numbers.

The Group's cost of sales increased by approximately 1.2% to approximately HK$14,653,000 for the six months ended 30 June 2012 compared to approximately HK$14,482,000 for the corresponding period last year. The cost of sales in respect of the provision of mobile phone services and resale of airtime to MNOs increased by approximately 7.6% compared to the first half year of 2011. Such increase was mainly due to the increase in airtime usage by users and increased unit charges for IDD services by telecommunications services providers. The cost of sales in respect of the provision of telesales dealership services decreased by approximately 67.0% compared to the first half year of 2011, which was in line with the decrease in the revenue derived from the provision of telesales dealership services.

The gross profit of the Group for the six months ended 30 June 2012 increased to approximately HK$22,230,000 compared to approximately HK$18,661,000 for the corresponding period last year, and the gross profit margin increased to 60.3% for the six months ended 30 June 2012 from 56.3% for the corresponding period 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.

The Group's administrative expenses for the six months ended 30 June 2012 decreased by approximately 18.9% to approximately HK$7,038,000 compared to approximately HK$8,676,000 for the corresponding period last year. The decrease was mainly attributable to the commission and consultancy fee incurred of approximately HK$1,362,000 in the first half year of 2011, while there was approximately HK$352,000 incurred for the six months ended 30 June 2012.

For the six months ended 30 June 2011, the Group recorded finance income of approximately HK$714,000. For the six months ended 30 June 2012, the Group incurred finance cost of approximately HK$4,000. The finance cost incurred was mainly due to foreign exchange loss recorded arising from the movements in the exchange rate between Hong Kong dollars and Renminbi during the period.

The Group's income tax expenses for the six months ended 30 June 2012 increased by approximately 44.9% to approximately HK$2,511,000 compared to approximately HK$1,733,000 for the corresponding period last year. The increase was mainly attributed to the improvement of operation profit.

The Group's profit attributable to equity shareholders of the Company for the six months ended 30 June 2012 increased by approximately 41.7% to approximately HK$12,709,000 compared to approximately HK$8,966,000 for the corresponding period last year. The increase was mainly due to the improvement of gross profit and operation profit.

COMPARISON OF BUSINESS PLAN WITH ACTUAL BUSINESS PROGRESS

The following is a comparison of the Group's business plan as set out in the Company's prospectus dated 28 May 2010 (the "Prospectus") with actual business progress for the six months ended 30 June 2012:

	Business plan up to 30 June 2012 as set out in the Prospectus	Actual business progress up to 30 June 2012
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 several 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 30 June 2012 as set out in the Prospectus	**Actual business progress up to 30 June 2012**
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 several telecommunications equipment manufacturers in relation to the system upgrade, and accepted quotation in respect of the equipment from the manufacturers. Contract was signed and payment was made to the manufacturers. The 3G mobile data services in Hong Kong has been 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 from time to time.

	Business plan up to 30 June 2012 as set out in the Prospectus	Actual business progress up to 30 June 2012
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 30 June 2012 as set out in the Prospectus	Actual business progress up to 30 June 2012
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 report, we do not anticipate any change to this plan. During the period between 2 June 2010, being the date of Listing, and 30 June 2012, 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 30 June 2012 had been applied as follows:

	Adjusted use of proceeds in the same manner and proportion as stated in the Prospectus from the 20 May 2010, being the latest practicable date as defined in the Prospectus, to 30 June 2012	Actual use of proceeds from the date of Listing to 30 June 2012
	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
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	4.0
Development and implementation of RF-SIM business plans in Hong Kong and Macau	17.8	0.1
Working capital	6.8	4.8
Total	68.1	11.0

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 June 2012 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 MNOs and dealers in Macau and Taiwan and a dealer in Indonesia.

(3) On 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, the Company has contracted with and made payment to manufacturers 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.

(6) The unused net proceeds as at 30 June 2012 have been placed as interest bearing deposits in banks in Hong Kong.

BUSINESS OUTLOOK

The Group is optimistic and sees enormous opportunities and challenges in the market. Going forward in the second half of 2012, the Group will continue seeking 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; and (ii) introducing RF-SIM in Hong Kong and Macau.

The Board announced that the Company had submitted a formal application form to the Stock Exchange on 11 May 2012 for the proposed transfer of listing of its shares from GEM to the Main Board (the "Proposed Transfer"). The Directors believe that the listing of the shares on the Main Board will help to enhance the profile of the Group and increase the trading liquidity of the shares and recognitions by attracting larger institutional and retail investors. The Directors also consider that the listing of the shares on the Main Board will be beneficial to the future growth, financial flexibility and business development of the Group. The Stock Exchange is reviewing the Proposed Transfer and as at the date of this report, an approval has not yet been granted by the Stock Exchange and there is no assurance that such approval will be obtained from the Stock Exchange.

CAPITAL STRUCTURE

As at 30 June 2012, the Group had no outstanding loan or borrowing, and the gearing ratio (being ratio of total long term borrowings to equity) was therefore inapplicable. As at 30 June 2012, total equity attributable to equity holders of the Company amounted to approximately HK$143,201,000 (31 December 2011: approximately HK$130,492,000), 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 30 June 2012, the Group had net current assets of approximately HK$135,506,000 (31 December 2011: approximately HK$125,724,000), including cash balance of approximately HK$82,490,000 (31 December 2011: approximately HK$73,797,000). The current ratio was 14.3 as at 30 June 2012, higher than 12.8 as at 31 December 2011.

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 30 June 2012, the Group did not have any derivatives for hedging against the exchange rate risk.

PLEDGE OF ASSETS

As at 30 June 2012, 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 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 report, the Companies Registry may take 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 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 six months ended 30 June 2012, 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 30 June 2012 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 30 June 2012, the Group had 12 employees (31 December 2011: 12 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 does not recommend payment of any dividend for the six months ended 30 June 2012 (six months ended 30 June 2011: Nil).

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

As at 30 June 2012, so far as it is known to the Directors, the Directors and the chief executive of the Company had the following interests and short positions in the shares, underlying shares or the debentures of the Company or any of its associated corporations within the meaning of part XV of the Securities and Futures Ordinance (the "SFO"), which would have to be notified to the Company and the Stock Exchange pursuant to the provision of Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions of which they were taken or deemed to have under such provisions of the SFO) and/or required to be entered in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules:

(i) Long position in shares of the Company:

Name of Director	Nature of Interest/ Capacity	Number of Ordinary Shares	Approximate Percentage of Shareholding
Mr. Li Kin Shing	Interest of controlled corporation	696,250,000 *(Note 1)*	67.11%
	Beneficial owner	33,750,000	3.25%
Mr. Pang Kwok Chau	Beneficial owner	10,000,000 *(Note 2)*	0.96%
Mr. Wong Kin Wa	Beneficial owner	10,000,000 *(Note 2)*	0.96%

Notes:

(1) The 696,250,000 shares are owned by New Everich Holdings Limited ("New Everich") which is owned by Mr. Li Kin Shing and Ms. Kwok King Wa as to 54% and 46% respectively. Mr. Li Kin Shing is the spouse of Ms. Kwok King Wa. Accordingly, Mr. Li Kin Shing is deemed to be interested in the 696,250,000 shares under the SFO.

(2) Mr. Pang Kwok Chau and Mr. Wong Kin Wa acquired 10,000,000 shares on 28 March 2012, respectively.

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

Name of Director	Nature of Interest/Capacity	Approximate Percentage of Shareholding
Mr. Li Kin Shing	Beneficial owner	100.00%

Note: New Everich is owned as to 54% and 46% by Mr. Li Kin Shing and Ms. Kwok King Wa respectively. Mr. Li Kin Shing is the spouse of Ms. Kwok King Wa. Accordingly, Mr. Li Kin Shing is deemed to be interested in the 100% interests in New Everich under the SFO.

Save as disclosed above, as at 30 June 2012, none of the Directors nor the chief executives of the Company had any interests or short positions in any shares, underlying shares and/or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest and/or short positions which were taken or deemed to have under such provisions of the SFO), or which were recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or which would have to be notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

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

As at as at 30 June 2012, so far as it is known to the Directors, the persons (other than the Directors or chief executive of the Company) with interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which would be recorded in the register of the Company required to be kept under section 336 of the SFO or who are directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group were as follows:

Long position in shares of the Company:

Name	Nature of Interest/ Capacity	Number of Ordinary Shares	Approximate Percentage of Shareholding
New Everich	Beneficial owner	696,250,000	67.11%
Ms. Kwok King Wa	Interest of controlled corporation	696,250,000 *(Note 1)*	67.11%
	Interest of spouse	33,750,000 *(Note 2)*	3.25%

Notes:

(1) The 696,250,000 shares are owned by New Everich which is owned by Mr. Li Kin Shing and Ms. Kwok King Wa as to 54% and 46% respectively. Mr. Li Kin Shing is the spouse of Ms. Kwok King Wa. Accordingly, Ms. Kwok King Wa is deemed to be interested in the 696,250,000 shares under the SFO.

(2) Mr. Li Kin Shing acquired 33,750,000 shares on 19 May 2011. Mr. Li Kin Shing is the spouse of Ms. Kwok King Wa. Accordingly, Ms. Kwok King Wa is deemed to be interested in the 33,750,000 shares under the SFO.

Save as disclosed above, as at 30 June 2012, so far as it is known to the Directors, there was no other person (other than the Directors or chief executive of the Company) with interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which would be recorded in the register of the Company required to be kept under section 336 of the SFO or who are directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

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

SHARE OPTION SCHEME

The Company has conditionally adopted 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 period under review, and as at 30 June 2012, 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 during the six months ended 30 June 2012.

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 six months ended 30 June 2012, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any share of the Company.

COMPETING INTERESTS

During the six months ended 30 June 2012, 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 30 June 2012, 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 or 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 and 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 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 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 Group's unaudited results for the six months ended 30 June 2012 have been reviewed by the Audit Committee in accordance with Rule 5.30 of the GEM Listing Rules. The Audit Committee was of the opinion that such results complied with the applicable accounting standards and that adequate disclosures had been made.

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

Hong Kong, 9 August, 2012

As at the date of this report, the executive Directors are Mr. Pang Kwok Chau and Mr. Li Wang; the non-executive Directors are Mr. Li Kin Shing 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.