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 2013

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 announcement, 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 ("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 announcement 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 announcement misleading.

HIGHLIGHTS

- Turnover for the year ended 31 December 2013 was approximately HK$50,882,000, representing a decrease of approximately 29.1% as compared with 2012.

- Profit attributable to shareholders of the Company for the year ended 31 December 2013 was approximately HK$10,081,000, representing a decrease of approximately 54.4% as compared with 2012.

- Basic and diluted earnings per share was HK$0.010 representing a decrease of approximately 52.4% as compared with 2012.

- The Board does not recommend the payment of a final dividend for the year ended 31 December 2013.

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2013

The board of Directors (the "Board") of the Company is pleased to announce the audited consolidated results of the Company and its subsidiaries (together referred to as the "Group") for the year ended 31 December 2013 together with the comparative figures for 2012 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2013

	Note	**2013** *HK$'000*	2012 *HK$'000*
Turnover	4	**50,882**	71,780
Cost of sales		**(25,106)**	(29,604)
Gross profit		**25,776**	42,176
Other income		**43**	44
Administrative expenses		**(14,489)**	(15,760)
Profit from operations		**11,330**	26,460
Finance income	5	**985**	278
Profit before taxation	6	**12,315**	26,738
Income tax	7	**(2,234)**	(4,608)
Profit for the year attributable to equity shareholders of the Company		**10,081**	22,130
Earnings per share	9		
— Basic and diluted		**HK$0.010**	HK$0.021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2013

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 profit or loss and other 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

At 31 December 2013

	Note	2013 HK$'000	2012 HK$'000
Non-current assets			
Property, plant and equipment	10	**5,108**	5,969
Deferred tax assets		**1,585**	1,951
Total non-current assets		**6,693**	7,920
Current assets			
Inventories	11	**314**	303
Trade and other receivables	12	**36,329**	46,472
Income tax recoverable		**1,394**	753
Cash at bank and on hand	13	**126,229**	108,858
Total current assets		**164,266**	156,386
Current liabilities			
Trade and other payables	14	**7,453**	10,730
Income tax payables		**—**	21
Total current liabilities		**7,453**	10,751
Net current assets		**156,813**	145,635
Total assets less current liabilities		**163,506**	153,555
Non-current liabilities			
Deferred tax liabilities		**803**	933
Total non-current liabilities		**803**	933
Net assets		**162,703**	152,622
Capital and reserves			
Share capital		**10,375**	10,375
Share premium		**67,499**	67,499
Other reserve		**—**	—
Retained earnings		**84,829**	74,748
Total equity		**162,703**	152,622

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

	Share capital *HK$'000*	Share premium *HK$'000*	Other reserve *HK$'000*	Retained earnings *HK$'000*	Total equity *HK$'000*
Balance at 1 January 2012	10,375	67,499	—	52,618	130,492
Change in equity for 2012:					
Profit and total comprehensive income for the year	—	—	—	22,130	22,130
Balance at 31 December 2012 and at 1 January 2013	**10,375**	**67,499**	**—**	**74,748**	**152,622**
Change in equity for 2013:					
Profit and total comprehensive income for the year	**—**	**—**	**—**	**10,081**	**10,081**
Balance at 31 December 2013	**10,375**	**67,499**	**—**	**84,829**	**162,703**

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

2. BASIS OF PREPARATION

The annual results set out in this announcement do not comprise the consolidated financial statements for the year ended 31 December 2013 but are extracted from the audited consolidated financial statements of the Group for the year ended 31 December 2013.

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 the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited.

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.

IFRS 8 introduces a "management approach" to segment reporting, i.e. the identification of segments and the preparation of segment information must be based on the internal reports that the entity's chief operating decision maker reviews regularly in allocating resources to segments and in assessing their performance.

2. BASIS OF PREPARATION *(Continued)*

The financial information provided to the chief operating decisions 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.

3. CHANGES IN ACCOUNTING POLICIES

The IASB has issued a number of new IFRSs and amendments to IFRSs 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:

- Amendments to IAS 1, *Presentation of financial statements*
- IFRS 10, *Consolidated financial statements*
- IFRS 12, *Disclosure of interests in other entities*
- IFRS 13, *Fair value measurement*
- Amendments to IFRS 7, *Disclosure – Offsetting financial assets and financial liabilities*

Amendments to IAS 1, Presentation of financial statements

The Group has chosen to use the new titles "statement of profit or loss" and "statement of profit or loss and other comprehensive income" as introduced by the amendments in these financial statements.

IFRS 10, Consolidated financial statements

IFRS 10 replaces the requirements in IAS 27, *Consolidated and separate financial statements*, relating to the preparation of consolidated financial statements and SIC-12, *Consolidation – Special purpose entities*. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

As a result of the adoption of IFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over an investee. The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013.

3. CHANGES IN ACCOUNTING POLICIES *(Continued)*

IFRS 12, Disclosure of interests in other entities

IFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required in IFRS 12 are generally more extensive than those previously required by the respective standards. To the extent that the requirements are applicable to the Group, the Group has provided those disclosures in the consolidated financial statements.

IFRS 13, Fair value measurement

IFRS 13 replaces existing guidance in individual IFRSs with a single source of fair value measurement guidance. IFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. The adoption of IFRS 13 does not have any material impact on the fair value measurements of the Group's assets and liabilities.

Amendments to IFRS 7 – Disclosures – Offsetting financial assets and financial liabilities

The amendments introduce new disclosures in respect of offsetting financial assets and financial liabilities. Those new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32, *Financial instruments: Presentation* and those that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments and transactions, irrespective of whether the financial instruments are set off in accordance with IAS 32.

As a result of the amendments to IFRS 7, the Group has expanded its disclosures about offsetting of the financial instruments and provided those disclosures in the consolidated financial statements.

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

4. TURNOVER

	2013	2012
	HK$'000	*HK$'000*
Provision of telecommunications services	**50,339**	71,106
Provision of telesales dealership services	**543**	674
	50,882	71,780

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

	2013	2012
	HK$'000	*HK$'000*
The largest customer	**17,416**	22,256
The second largest customer	**9,440**	16,536
The third largest customer	**6,918**	10,880

5. FINANCE INCOME

	2013	2012
	HK$'000	*HK$'000*
Interest income	**570**	380
Net foreign exchange gain/(loss)	**415**	(102)
	985	278

6. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

	2013	2012
	HK$'000	*HK$'000*
(a) Staff costs		
Salaries, wages and other benefits	**3,507**	3,446
Contributions to defined contribution retirement plan	**145**	143
	3,652	3,589
(b) Other items		
Depreciation	**920**	851
Licence charges	**2,320**	2,857
Operating lease charges in respect of		
– rental of properties	**528**	528
– rental of transmission lines	**1,079**	1,033
Auditors' remuneration		
– audit services	**887**	866
– tax services	**76**	73
– other services	**10**	370
Utilities	**78**	75
Repair and maintenance	**948**	537
(Reversal of write down of)/allowance for doubtful debts	**(66)**	48
Cost of inventories	**741**	1,049

7. INCOME TAX

	2013	2012
	HK$'000	*HK$'000*
Current tax – Hong Kong Profits Tax	**1,998**	3,289
Deferred tax	**236**	1,319
	2,234	4,608

The Company's Hong Kong subsidiaries are subject to Hong Kong Profits Tax. In addition, whilst the Company and Elitel Limited are incorporated in the Cayman Islands, they are considered as having a presence in Hong Kong for tax purpose since they are primarily managed and controlled in Hong Kong. Accordingly, they are subject to tax on an entity basis on income arising in or derived from Hong Kong. The provision for Hong Kong Profits Tax for the year ended 31 December 2013 is calculated at 16.5% (2012: 16.5%) of the estimated assessable profits for the year. The payments of dividends by Hong Kong companies are not subject to any Hong Kong withholding tax.

8. DIVIDENDS

The Board does not recommend the payment of a final dividend for the year ended 31 December 2013 (2012: Nil).

9. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of approximately HK$10,081,000 (2012: approximately HK$22,130,000) and the weighted average of 1,037,500,000 (2012: 1,037,500,000) 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 2013, the Group acquired property, plant and equipment with an aggregate cost of approximately HK$59,000 (2012: approximately HK$4,389,000).

11. INVENTORIES

	2013	2012
	HK$'000	*HK$'000*
SIM cards	**283**	269
Recharge vouchers	**31**	34
	314	303

12. TRADE AND OTHER RECEIVABLES

	2013	2012
	HK$'000	*HK$'000*
Trade receivables	**30,318**	39,478
less: allowance for doubtful debts	**(38)**	(104)
	30,280	39,374
Other receivables and prepayments	**6,049**	7,098
	36,329	46,472

Generally, provision of mobile phone services to the Group's major customers, including major mobile network operators and their dealers, are made in an open account with credit terms up to 30 days after the date of invoice. Subject to negotiations, credit terms can 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 with 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 for provision for telesales dealership services are made in bullet payments within one to five months after rendering of services.

12. TRADE AND OTHER RECEIVABLES *(Continued)*

(a) Ageing analysis

Included in trade receivables are trade debtors (net of allowance for doubtful debts) with the following ageing analysis by billing date as of the balance sheet date:

	2013	2012
	HK$'000	*HK$'000*
Within 1 month	**1,603**	5,011
Over 1 month but less than 3 months	**4,504**	9,361
Over 3 months but less than 6 months	**5,843**	7,590
Over 6 months but less than 1 year	**5,976**	6,825
Over 1 year	**12,354**	10,587
	30,280	39,374

Included in trade receivables are trade debtors with the following ageing analysis by due date as of the balance sheet date:

	2013	2012
	HK$'000	*HK$'000*
Current	**1,603**	5,011
Less than 1 month past due	**2,138**	4,906
1 to 3 months past due	**5,405**	8,537
More than 3 months but less than 12 months past due	**9,687**	11,766
More than 12 months past due	**11,485**	9,258
	30,318	39,478
Less: allowance for doubtful debts	**(38)**	(104)
	30,280	39,374

12. TRADE AND OTHER RECEIVABLES *(Continued)*

(b) Trade receivables that are not impaired

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

	2013	2012
	HK$'000	*HK$'000*
Neither past due nor impaired	**1,603**	5,011
Less than 1 month past due	**2,138**	4,906
1 to 3 months past due	**5,405**	8,537
More than 3 months but less than 12 months past due	**9,686**	11,765
More than 12 months past due	**11,448**	9,155
	28,677	34,363
	30,280	39,374

Trade receivables that were neither past due nor impaired relate to 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. The Group does not hold any collateral over these balances.

In particular, the trade receivables as at 31 December 2013 included amounts due from a mobile network operator in China ("that MNO") amounting to approximately HK$23,723,000, of which HK$8,659,000 and HK$11,328,000 fell into "More than 3 months but less than 12 months past due" and "More than 12 months past due", respectively. The credit terms of 30 days were granted by the Group to that MNO as it is in line with the credit policy of the Group whilst the delay in settlement by that MNO renders the actual credit period longer than the contractual credit period, the Directors consider that (i) that MNO, being a subsidiary of a company which is listed on the Main Board of the Stock Exchange and the New York Stock Exchange, is a reputable company in China; (ii) the Group has established long term ongoing business relationship with that MNO; (iii) the Group has been able to receive amounts due from that MNO without any disputes or balances requiring to be written off; and (iv) the Group has been conducting constant and positive dialogue with that MNO in relation to the settlement of the outstanding balances. Taking into account the above, the Directors are confident that that MNO would fulfill its payment obligations and no impairment allowance is considered necessary as at 31 December 2013.

13. CASH AT BANK AND ON HAND

	2013	2012
	HK$'000	*HK$'000*
Current and savings accounts	**20,749**	59,268
Fixed deposits – maturity within three months at acquisition	**31,479**	49,578
Cash on hand	**22**	12
Fixed deposits – maturity over three months at acquisition	**73,979**	—
Cash at bank and on hand	**126,229**	108,858

14. TRADE AND OTHER PAYABLES

	2013	2012
	HK$'000	*HK$'000*
Trade payables	**3,752**	5,622
Other payables	**3,701**	5,108
	7,453	10,730

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

	2013	2012
	HK$'000	*HK$'000*
Within 1 month	**1,244**	4,446
Over 1 month but less than 3 months	**2,508**	1,176
	3,752	5,622

15. COMMITMENTS

(a) Capital commitments outstanding at 31 December 2013 not provided for in the financial statements were as follows:

	2013	2012
	HK$'000	*HK$'000*
Contracted for	**735**	1,064

(b) At 31 December 2013, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2013		2012	
	Properties	**Transmission lines**	Properties	Transmission lines
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Within 1 year	**528**	**604**	528	868
After 1 year but within 5 years	**—**	**90**	528	278
	528	**694**	1,056	1,146

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 three years (2012: one to three 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 performance of the Group was weakened for the year ended 31 December 2013 compared to 2012. The monthly average number of activated phone numbers decreased by approximately 19.5% to 190,833 in the year of 2013 when compared to 2012 and the total number of activated phone numbers decreased by approximately 47.0% to 125,273 as of 31 December 2013 compared to 236,550 as of 31 December 2012.

The Group continued to face difficulties in the highly competitive mobile services industry particularly in the data access services and mobile communications applications. The increased popularity of smart phone devices also led to a rapid growth of alternative means of communications (e.g. social networking applications) which had reduced the usage for traditional voice and short message services. The average revenue per user ("ARPU") of the Group showed a decreasing trend and the ARPU of the Group was approximately HK$21.6 for the year ended 31 December 2013, lower than approximately HK$24.5 for the last year.

The volume of the Group's airtime sold decreased from approximately 242.4 million minutes for the year of 2012 to approximately 191.3 million minutes for the year of 2013; 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 decreased from approximately HK$71.1 million to approximately HK$50.3 million during the same period. The Group's revenue per minute of airtime sold decreased from approximately HK$0.29 for the year of 2012 to approximately HK$0.26 for the year of 2013.

FINANCIAL REVIEW

Turnover

For the year ended 31 December 2013, the turnover of the Group decreased to approximately HK$50,882,000 compared to approximately HK$71,780,000 for the last year, represented a decrease of approximately 29.1%. The decrease in turnover was mainly attributable to the decrease in the monthly average number of activated phone numbers and decrease of airtime usage by users.

Cost of Sales

The Group's cost of sales decreased by approximately 15.2% to approximately HK$25,106,000 for the year ended 31 December 2013 compared to approximately HK$29,604,000 for the last year. The cost of sales in respect of the provision of mobile phone services and resale of airtime to MNOs decreased by approximately 14.6% compared to last year. Such decrease was mainly due to the decrease of airtime usage by users. The cost of sales in respect of the provision of telesales dealership services decreased by approximately 36.3% 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 2013 decreased to approximately HK$25,776,000 compared to approximately HK$42,176,000 for the last year and the gross profit margin decreased to 50.7% for the year ended 31 December 2013 from 58.8% for the last year. The decline in gross profit and gross profit margin was mainly attributable to the decrease of airtime usage by users and the increased unit charge for IDD services by telecommunications services providers.

Administrative Expenses

The Group's administrative expenses for the year ended 31 December 2013 decreased by approximately 8.1% to approximately HK$14,489,000 compared to approximately HK$15,760,000 for the last year. The decrease was mainly attributable to the fee incurred for the application of transfer of listing to Main Board of the Stock Exchange for the year ended 31 December 2012, while no such expenses were incurred for the year ended 31 December 2013.

Finance Income

The Group's finance income for the year ended 31 December 2013 increased by approximately 254.3% to approximately HK$985,000 when compared to approximately HK$278,000 for the last year. The finance income incurred was mainly due to the increase in interest income and 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 expenses for the year ended 31 December 2013 decreased by approximately 51.5% to approximately HK$2,234,000 compared to approximately HK$4,608,000 for the last year. The decrease was mainly attributed to the decrease of operating profit.

Profit Attributable to Shareholders

The Group's profit attributable to equity shareholders of the Company for the year ended 31 December 2013 decreased by approximately 54.4% to approximately HK$10,081,000 compared to approximately HK$22,130,000 for the last year. The decrease was mainly due to the decrease in gross profit and operating profit.

BUSINESS OUTLOOK

Owing to the intensified competition in the mobile services industry particularly in the data access services and mobile communications applications, the Group is cautious and will respond proactively to the pressure and challenges of this ever-changing market. Going forward in the year of 2014, 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 turnover by (i) promoting and encouraging the Group's users to utilise and enjoy 3G mobile data services and 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 2013, 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 2013, total equity attributable to equity holders of the Company amounted to approximately HK$162,703,000 (31 December 2012: approximately HK$152,622,000), 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 2013, the Group had net current assets of approximately HK$156,813,000 (31 December 2012: approximately HK$145,635,000), including cash and bank balances of approximately HK$126,229,000 (31 December 2012: approximately HK$108,858,000). The current ratio was 22.0 as at 31 December 2013, higher than 14.5 as at 31 December 2012.

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") and United States dollars ("US$"). The Group currently does not have hedging policy in respect of the foreign currency risk. However, management monitors the related foreign currency risk exposure closely and will consider hedging significant foreign currency risk exposure should the need arise. As at 31 December 2013, the Group did not have any derivatives for hedging against the exchange rate risk.

PLEDGE OF ASSETS

As at 31 December 2013, the Group did not have any pledges on its assets.

CONTINGENT LIABILITIES

Elitel Limited, a wholly owned subsidiary of the Company, has previously failed to register as a non-Hong Kong company within the prescribed time limit under Part XI of the Hong Kong Companies Ordinance, that is, within one month of establishment of the place of business in Hong Kong in November 2002. Elitel Limited has subsequently notified the Companies Registry regarding such matter and rectified the late registration in October 2009.

As at the date of this announcement, there is a possibility that the Companies Registry may still take action against Elitel Limited in relation to the late registration and that Elitel Limited may be subject to a penalty in this respect, though no action has been taken by the Companies Registry against Elitel Limited to date. During the year ended 31 December 2013, no action has been taken against the Group by the Companies Registry in respect of this matter.

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.

SIGNIFICANT ACQUISITION, DISPOSAL OR INVESTMENT

As at 31 December 2013, 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 year under review.

STAFF AND REMUNERATION POLICY

As at 31 December 2013, the Group had 13 employees (2012: 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 the payment of a final dividend for the year ended 31 December 2013 (2012: Nil).

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from 7 May 2014 to 9 May 2014, 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 (to be changed to Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong with effect from 31 March 2014) not later than 4:30 p.m. on 5 May 2014.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in this announcement, during the year ended 31 December 2013, 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 2013, there was no outstanding share option under the Share Option Scheme.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has committed to maintaining high standards of corporate governance to protect the interests of the shareholders of the Company. During the year ended 31 December 2013, the Company has complied with the code provisions as set out in the Corporate Governance Code and Corporate Governance Report (the "CG Code") contained in Appendix 15 to the GEM Listing Rules except for the deviations from code provisions A.6.7 and E.1.2.

In accordance with provision A.6.7 of the CG Code, all independent non-executive Directors and non-executive Directors should attend general meetings and develop a balanced understanding of the views of shareholders. Due to conflicting business schedule, Mr. Chen Xue Dao and Mr. Chu, Howard Ho Hwa, the independent non-executive Directors, were unable to attend the annual general meeting of the Company held on 10 May 2013.

In accordance with provision E.1.2 of the CG Code, the Chairman of the Board as well as chairman of the Audit Committee, Remuneration Committee and Nomination Committee, or in their absence, other members of the respective committees, and where applicable, the independent Board committee, should be available to answer questions at the shareholder's meetings. However, the Chairman of the Board was unable to attend the Company's 2012 annual general meeting as he had an important business engagement. Despite his absence, he had arranged for the Chief Executive Officer taking the chair of the meeting and answering shareholders' questions. No questions were raised by the shareholders at the meeting.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

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

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

During the year ended 31 December 2013, 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 2013, 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.

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 2013, the audit committee has (i) reviewed the quarterly and half-yearly results; (ii) reviewed the accounting policies adopted by the Group and issues related to accounting practice; (iii) met with external auditors to discuss on issues arising from the audit and financial reporting matters and reviewed the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement; and (iv) assisted the Board to evaluate on the effectiveness of financial reporting procedure and internal control.

The Group's audited results for the year ended 31 December 2013 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, 27 March, 2014

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.