Directel Holdings Limited
直通電訊控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8337

Interim Report 2010

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.

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This report, for which the directors (the "Director(s)") of Directel Holdings Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange ("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

- The Company's shares were listed on GEM of the Stock Exchange on 2 June 2010.
- Turnover for the six months ended 30 June 2010 was approximately HK$29,942,000, representing an increase of approximately 27.0% as compared with the corresponding period in 2009.
- Profit attributable to shareholders of the Company for the six months ended 30 June 2010 was approximately HK$6,503,000, representing a decrease of approximately 9.2% as compared with the corresponding period in 2009 due to one-off listing expenses of approximately HK$2,780,000. Profit attributable to shareholders of the Company before listing expenses was approximately HK$9,283,000, representing an increase of approximately 29.7% as compared with the corresponding period in 2009.
- The Board does not recommend the payment of any dividend for the six months ended 30 June 2010.

UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2010

The board of Directors (the "Board") of the Company is pleased to announce the unaudited consolidated financial statements of the Company and its subsidiaries (the "Group") for the three months and the six months ended 30 June 2010 (the "Relevant Periods") together with the unaudited comparative figures for the respective corresponding period in 2009 as follows:

CONSOLIDATED INCOME STATEMENT

		For the three months ended 30 June		For the six months ended 30 June	
		2010	2009	2010	2009
	Note	*HK$'000* (Unaudited)	*HK$'000* (Unaudited)	*HK$'000* (Unaudited)	*HK$'000* (Unaudited)
Turnover	4	16,128	12,404	29,942	23,571
Cost of sales		(6,391)	(6,486)	(12,434)	(12,413)
Gross profit		9,737	5,918	17,508	11,158
Other revenue		–	–	–	2
Administrative expenses		(4,532)	(2,792)	(9,408)	(5,187)
Profit from operations		5,205	3,126	8,100	5,973
Finance income	5	131	2,688	151	2,600
Profit before taxation	6	5,336	5,814	8,251	8,573
Income tax	7	(844)	(988)	(1,748)	(1,414)
Profit for the period attributable to equity shareholders of the Company		4,492	4,826	6,503	7,159
Earnings per share	9				
– Basic and diluted		HK$0.006	HK$0.006	HK$0.008	HK$0.010

The notes on pages 8 to 24 form part of this interim financial report.

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.

The notes on pages 8 to 24 form part of this interim financial report.

CONSOLIDATED BALANCE SHEET

	Note	As at 30 June 2010 *HK$'000* (Unaudited)	As at 31 December 2009 *HK$'000* (Audited)
Non-current assets			
Property, plant and equipment	10	1,145	1,837
Deferred tax assets		2,765	2,814
Total non-current assets		3,910	4,651
Current assets			
Inventories	11	1,521	1,473
Trade and other receivables	12	27,419	20,967
Cash	13	78,317	4,812
Total current assets		107,257	27,252
Current liabilities			
Trade and other payables	14	(9,398)	(10,458)
Current tax payables		(3,239)	(7,134)
Total current liabilities		(12,637)	(17,592)
Net current assets		94,620	9,660
Total assets less current liabilities		98,530	14,311
Non-current liabilities			
Deferred tax liabilities		(178)	(336)
Total non-current liabilities		(178)	(336)
Net assets		98,352	13,975
Capital and reserves			
Share capital	15	10,375	—
Share premium		67,499	—
Other reserve		—	—
Retained earnings		20,478	13,975
Total equity		98,352	13,975

The notes on pages 8 to 24 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Share capital *HK$'000* (Unaudited) (Note 15)	Share premium *HK$'000* (Unaudited)	Other reserve *HK$'000* (Unaudited)	Retained earnings *HK$'000* (Unaudited)	Total *HK$'000* (Unaudited)
As at 1 January 2009		–	–	–	3,836	3,836
Total comprehensive income for the period		–	–	–	7,159	7,159
As at 30 June 2009		–	–	–	10,995	10,995
As at 1 January 2010		–	–	–	13,975	13,975
Capitalisation issue	*15(b)*	7,500	(7,500)	–	–	–
Shares issued under Placing, net of share issuing expenses	*15(c)*	2,875	74,999	–	–	77,874
Total comprehensive income for the period		–	–	–	6,503	6,503
As at 30 June 2010		10,375	67,499	–	20,478	98,352

The notes on pages 8 to 24 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Note	For the six months ended 30 June 2010 HK$'000 (Unaudited)	2009 HK$'000 (Unaudited)
Net cash used in operating activities		(4,399)	(20,654)
Net cash generated from investing activities		30	21,676
Net cash generated from/(used in) financing activities		77,874	(912)
Net increase in cash		73,505	110
Cash at 1 January	13	4,812	11,207
Cash at 30 June	13	78,317	11,317

The notes on pages 8 to 24 form part of this interim financial report.

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

2. BASIS OF PREPARATION

Pursuant to the group reorganisation (the "Reorganisation"), the Company allotted and issued 100 shares to New Everich Holdings Limited pursuant to a share swap agreement entered into among the Company, Mr. Li Kin Shing, Ms. Kwok King Wa and Elitel Limited and became the holding company of the Group on 7 September 2009. Details of the Reorganisation are set out in the prospectus of the Company dated 28 May 2010 (the "Prospectus").

The Group is regarded as a continuing entity resulting from the Reorganisation under common control and has been accounted for on the basis of merger accounting. The interim results of the Group for the three months and the six months ended 30 June 2009 shown as comparatives in this interim financial report have been prepared as if the current group structure had been in existence throughout the periods presented, or since the respective dates of incorporation or establishment of the group companies, rather than from the date when the Company became the holding company of the Group pursuant to the Reorganisation.

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on GEM of the Stock Exchange, including compliance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board ("IASB"). It was authorised for issue on 10 August 2010.

The interim financial report has been prepared in accordance with substantially the same accounting policies adopted in the accountants' report included in the Prospectus, except for the accounting policy changes that are expected to be reflected in the 2010 annual financial statements. Details of these changes in accounting policies are set out in note 3.

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

This 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 2009 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 2010 is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", issued by the Hong Kong Institute of Certified Public Accountants. KPMG's independent review report to the Board is included on pages 25 to 26.

The financial information relating to the financial year ended 31 December 2009 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 2009 which is included in the Prospectus is available at the Company's registered office. The independent auditor has expressed an unqualified opinion on those financial statements in the accountants' report included in the Prospectus.

3. 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. Of these, the following developments are relevant to the Group's financial statements:

- **Improvements to IFRS (2009)**

  The improvements to IFRS (2009) have had no material impact on the Group's financial statements as the amendments were consistent with policies already adopted by the Group.

4. TURNOVER

	For the three months ended 30 June		For the six months ended 30 June	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Provision of telecommunications services	**15,228**	10,547	**28,186**	19,513
Provision of telesales dealership services	**900**	1,845	**1,756**	3,555
Others	**—**	12	**—**	503
	16,128	12,404	**29,942**	23,571

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

	For the three months ended 30 June		For the six months ended 30 June	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
The largest customer	**2,824**	1,836	**5,609**	4,009
The second largest customer	**2,481**	1,302	**3,985**	2,928
The third largest customer	**1,858**	1,181	**3,708**	1,980

Substantially all of the Group's external customers and property, plant and equipment are located in Hong Kong.

5. FINANCE INCOME

	For the three months ended 30 June		For the six months ended 30 June	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Finance income				
Interest income from bank deposits	**16**	—	**16**	1
Net foreign exchange gain	**115**	2,688	**135**	2,599
	131	2,688	**151**	2,600

6. 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	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
(a) Staff costs:				
Salaries, wages and other benefits	**567**	604	**1,305**	1,159
Contributions to defined contribution retirement plan	**31**	27	**62**	53
	598	631	**1,367**	1,212
(b) Other items:				
Depreciation	**332**	367	**699**	733
Bad debts written off	**13**	50	**56**	50
Licence charges	**601**	590	**1,042**	1,152
Operating lease charges in respect of				
– rental of properties	**132**	120	**264**	240
– rental of transmission lines	**87**	50	**162**	99
Auditors' remuneration				
– annual audit services	**180**	30	**330**	30
– other compliance services	**7**	7	**7**	7
Utilities	**17**	14	**30**	26
Repair and maintenance	**81**	48	**207**	113
Cost of inventories	**256**	172	**470**	664

7. INCOME TAX

	For the three months ended 30 June		For the six months ended 30 June	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Current tax -				
Hong Kong Profits Tax	**921**	686	**1,857**	851
Deferred tax	**(77)**	302	**(109)**	563
Total income tax expense	**844**	988	**1,748**	1,414

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 2010 is calculated at 16.5% (three months and six months ended 30 June 2009: 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.

8. DIVIDEND

The Board does not recommend any payment of an interim dividend for the six months ended 30 June 2010. No interim dividend was paid in respect of the six months ended 30 June 2009.

9. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the three months ended 30 June 2010 is based on the unaudited profit attributable to ordinary equity shareholders of the Company of approximately HK$4,492,000 (three months ended 30 June 2009: approximately HK$4,826,000) and the weighted average number of 796,064,000 ordinary shares in issue during the period (2009: weighted average number of 750,000,000 ordinary shares after adjusting for the capitalisation issue in 2010).

The calculation of basic earnings per share for the six months ended 30 June 2010 is based on the unaudited profit attributable to ordinary equity shareholders of the Company of approximately HK$6,503,000 (six months ended 30 June 2009: approximately HK$7,159,000) and the weighted average number of 796,064,000 ordinary shares in issue during the period (2009: weighted average number of 750,000,000 ordinary shares after adjusting for the capitalisation issue in 2010).

(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 2009 and 30 June 2010, and therefore, diluted earnings per share are the same as the basic earnings per share.

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2010, the Group acquired an item of property, plant and equipment with an aggregate cost of approximately HK$8,000 (six months ended 30 June 2009: approximately HK$77,000).

11. INVENTORIES

	As at 30 June 2010 *HK$'000* (Unaudited)	As at 31 December 2009 *HK$'000* (Audited)
SIM cards	1,510	1,465
Recharge vouchers	11	8
	1,521	1,473

12. TRADE AND OTHER RECEIVABLES

	As at 30 June 2010 *HK$'000* (Unaudited)	As at 31 December 2009 *HK$'000* (Audited)
Trade receivables	23,929	19,843
Less: allowance for doubtful debts	(140)	(302)
	23,789	19,541
Other receivables	1,626	63
Deposits and prepayments	2,004	1,363
	27,419	20,967

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 a few months after the date of services rendered.

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 2010 *HK$'000* (Unaudited)	As at 31 December 2009 *HK$'000* (Audited)
Neither past due nor impaired	3,587	2,942
Less than 1 month past due	3,335	4,137
1 to 3 months past due	3,003	3,241
More than 3 months but less than 12 months past due	9,439	5,131
More than 12 months past due	4,425	4,090
	20,202	16,599
	23,789	19,541

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

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

13. CASH

	As at 30 June 2010 *HK$'000* (Unaudited)	As at 31 December 2009 *HK$'000* (Audited)
Cash at bank and on hand	13,317	4,812
One-month term deposits	65,000	—
	78,317	4,812

14. TRADE AND OTHER PAYABLES

	As at 30 June 2010 *HK$'000* (Unaudited)	As at 31 December 2009 *HK$'000* (Audited)
Trade payables	2,825	5,668
Other payables	2,429	—
Accrued charges and deposits	3,272	4,191
Deferred income	872	599
	9,398	10,458

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 2010 *HK$'000* (Unaudited)	As at 31 December 2009 *HK$'000* (Audited)
Within 1 month	**1,220**	1,923
Over 1 month but less than 3 months	**1,017**	1,225
Over 3 months but less than 6 months	**—**	1,123
Over 6 months but less than 1 year	**—**	809
Over 1 year	**588**	588
	2,825	5,668

15. SHARE CAPITAL

	Note	As at 30 June 2010 Number of shares (Unaudited)	As at 30 June 2010 Nominal value HK$ (Unaudited)	As at 31 December 2009 Number of shares (Audited)	As at 31 December 2009 Nominal value HK$ (Audited)
Authorised	(a)	4,000,000,000	40,000,000	5,000,000	50,000

	Note	As at 30 June 2010 Number of shares (Unaudited)	As at 30 June 2010 Nominal value HK$ (Unaudited)	As at 31 December 2009 Number of shares (Audited)	As at 31 December 2009 Nominal value HK$ (Audited)
Issued and fully paid					
At beginning of period/year	(a)	200	2	200	2
Capitalisation issue	(b)	749,999,800	7,499,998	–	–
Issue of new shares by Placing	(c)	287,500,000	2,875,000	–	–
At end of period/year		1,037,500,000	10,375,000	200	2

Notes:

(a) 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.

(b) Pursuant to the written resolutions 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.

(c) 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 as set off by share issuance expenses of approximately HK$8,376,000 were credited to the share premium account.

The application of the share premium account of the Company is governed by the Companies Law (Revised) of the Cayman Islands.

All the shares issued during the period rank pari passu in all respects with the then existing shares.

16. COMMITMENTS

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

	As at 30 June 2010		As at 31 December 2009	
	Properties	**Transmission lines**	Properties	Transmission lines
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
	(Unaudited)	**(Unaudited)**	(Audited)	(Audited)
Within 1 year	**528**	**171**	528	241
After 1 year but within 5 years	**264**	**64**	528	140
	792	**235**	1,056	381

The Group is the lessee in respect of a number of properties and transmission lines held under operating lease agreements. The leases typically run for an initial period of one to two years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

17 MATERIAL RELATED PARTY TRANSACTIONS

(a) Relationship between the Group and related parties

(i) Ultimate shareholders of the Group

- Li Kin Shing
- Kwok King Wa

(ii) Subject to common control from ultimate shareholders

- China Elite Energy Limited
- China Elite Information Technology Ltd.
- Directel Communications Services Limited
- Directel Limited
- Fastary Limited
- International Elite Limited - Macao Commercial Offshore
- International Elite Ltd.
- PacificNet Communications Limited - Macao Commercial Offshore
- Sunward Telecom Limited (incorporated in the BVI)
- Sunward Telecom Limited (incorporated in the Cayman Islands)
- Talent Group (International) Limited
- Talent Information Engineering Co. Limited
- Target Link Enterprises Limited
- Winet Engineering Limited
- Xiamen Elite Electric Co., Ltd.

(iii) Related parties of ultimate shareholders

- Guangzhou Zhitong Mobile Telecommunications Limited
- Guangdong Zhitong Telecommunications Limited
- Shenzhen Zhitong Mobile Telecommunications Limited

(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	
		2010	2009	**2010**	2009
		HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Continuing after the Listing					
Services rendered	(i)	**1,146**	2,086	**2,325**	4,117
Rental of properties	(ii)	**132**	120	**264**	240

Notes:

(i) Services rendered by related parties are related to telesales services, customer hotline services, Built-in-Secretarial services and data processing and billing management services.

(ii) The Group leased certain properties under operating lease from a related party, Talent Information Engineering Co. Limited, at an aggregate monthly rental of approximately HK$40,000 from 1 July 2006 to 31 August 2009 and then at an aggregate monthly rental of HK$44,000 from 1 September 2009 to 31 December 2011 (with an option to renew for another three years).

The directors 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.

	For the three months ended 30 June		For the six months ended 30 June	
	2010	2009	2010	2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Discontinued upon the Listing				
Cash advances to related parties	–	2,156	–	7,336
Repayment of cash advances from related parties	–	18,850	22	29,721
Cash advance from an ultimate shareholder	–	–	5,752	–
Repayment of cash advances to related parties	–	848	–	912
Repayment of cash advances to an ultimate shareholder	5,752	632	5,752	632

(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 2010	As at 31 December 2009
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Amount due from a related party – non-trade	–	22
Amount due to a related party – trade	363	2,369

(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	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Short-term employee benefits	**505**	363	**953**	698
Contributions to defined contributions retirement plan	**18**	16	**35**	31
	523	379	**988**	729

18. CONTINGENT LIABILITIES

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

As at the date of this report, the Companies Registry was still considering whether to take any action against Elitel Limited in relation to its possible breaches of the Companies Ordinance in respect of its failure to register promptly under Part XI of the Companies Ordinance. Elitel Limited may be subject to certain penalty in this respect.

The Group did not recognise any provision in respect of the abovementioned issue as the amount of the obligation cannot be measured with sufficient reliability.

During the six months ended 30 June 2010, no claims had been made against the Group by the Companies Registry in respect of Elitel Limited's failure to register as a non-Hong Kong company under Part XI of the Companies Ordinance.

REVIEW REPORT

KPMG

REVIEW REPORT TO THE BOARD OF DIRECTORS OF DIRECTEL HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 3 to 24 which comprises the consolidated balance sheet of Directel Holdings Limited as of 30 June 2010 and the related consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and condensed consolidated cash flow statement for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim financial reporting" issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2010 is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim financial reporting".

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
10 August 2010

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 was fairly strong for the six months ended 30 June 2010 compared to the corresponding period in 2009. Total number of activated phone numbers increased by approximately 21.1% to 173,828 as of 30 June 2010 compared to 143,483 as of 31 December 2009. The monthly average number of activated phone numbers increased by approximately 71.7% to 161,768 in the first half year of 2010 when compared to the corresponding period in 2009.

Owing to the fierce competition in the mobile services industry in Hong Kong and the greater popularity of mobile phone usage, the competitiveness of the Group's business has been adversely affected and the ARPU of the Group and the revenue per minute of airtime sold had showed a decreasing trend. The ARPU of the Group was approximately HK$27.3 for the six months ended 30 June 2010, lower than approximately HK$29.8 for the same period last year.

The volume of the Group's airtime sold increased from approximately 36.8 million minutes for the first half year of 2009 to approximately 78.4 million minutes for the first half year of 2010; and the revenue derived from "One Card Multiple Number" service, Hong Kong local mobile phone services and resale of airtime to MNOs increased from approximately HK$19.5 million to approximately HK$28.2 million during the same period. The Group's revenue per minute of airtime sold decreased from approximately HK$0.53 for the first half year of 2009 to approximately HK$0.36 for the first half year of 2010. Such decrease was mainly attributable to the relatively lower ARPU of most newly activated mobile phone numbers which belong to Hong Kong local mobile phone services plans and the cancellation of domestic roaming fees when making international long distance calls in the PRC since 1 January 2010 under the rules and regulations promulgated by the relevant authorities of the PRC in December 2009.

FINANCIAL REVIEW

For the six months ended 30 June 2010, the turnover of the Group increased to approximately HK$29,942,000 compared to approximately HK$23,571,000 for the corresponding period last year, represented an increase of approximately 27.0%. The increase in turnover was mainly attributed to the increase in the monthly average number of activated phone numbers which overweighed the decrease in the Group's ARPU.

The Group's cost of sales increased by approximately 0.2% to approximately HK$12,434,000 for the six months ended 30 June 2010 compared to approximately HK$12,413,000 for the corresponding period last year, in which the cost of sales in respect of the provision of mobile phone services and resale of airtime to MNOs increased by approximately 17.8% whereas the cost of sales in respect of the provision of telesales dealership services decreased by approximately 43.2%. The cost of sales was in line with the respective changes regarding the revenue derived from the Group's provision of mobile phone services and resale of airtime to MNOs as well as provision of telesales dealership services.

The gross profit of the Group for the six months ended 30 June 2010 increased to approximately HK$17,508,000 compared to approximately HK$11,158,000 for the corresponding period last year due to an improvement in gross profit margin to 58.5% for the six months ended 30 June 2010 from 47.3% 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 2010 increased by approximately 81.4% to approximately HK$9,408,000 compared to approximately HK$5,187,000 for the corresponding period last year. The increase was mainly attributable to the listing expenses incurred of approximately HK$2,780,000 in the first half year of 2010.

The Group's finance income for the six months ended 30 June 2010 decreased by approximately 94.2% to approximately HK$151,000 compared to approximately HK$2,600,000 for the corresponding period last year. The decrease was mainly attributed to the foreign exchange gain arising from foreign currency transactions, where in June 2009 the Group fully settled the balances with certain third parties and related parties denominated in RMB with reference to the historical exchange rate in prior years when such balances were made, while no such transaction incurred in the first half year of 2010.

The Group's income tax for the six months ended 30 June 2010 increased by approximately 23.6% to approximately HK$1,748,000 compared to approximately HK$1,414,000 for the corresponding period last year. The increase was mainly attributed to the improvement of operation profit, while the listing fee incurred was not tax deductible.

The Group's profit attributable to equity shareholders of the Company for the six months ended 30 June 2010 decreased by approximately 9.2% to approximately HK$6,503,000 compared to approximately HK$7,159,000 for the corresponding period last year. The decrease was mainly due to one-off listing expenses incurred of approximately HK$2,780,000.

COMPARISON OF BUSINESS PLAN WITH ACTUAL BUSINESS PROGRESS

The following is a comparison of the Group's business plan as set out in the Prospectus with actual business progress for the six months ended 30 June 2010:

	Business plan up to 30 June 2010 as set out in the Prospectus	**Actual business progress up to 30 June 2010**
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	The Company has liaised with two telecommunications equipment manufacturers in relation to the system upgrade, and obtained quotation in respect of the equipment from one of the manufacturers
Marketing	Marketing and promotion of the "One Card Multiple Number" service to enhance the popularity of such service in Macau	The Company is preparing a detailed marketing and promotion plan, and continues to monitor the customers' pattern in Macau closely
Human resources	To hire staff responsible for sales and distribution	The Company is searching for qualified people by itself and through agents.
Upgrading the Group's telecommunications equipment to be compatible with the 3G mobile networks in Hong Kong and China		
Investment in the equipment	No business plan scheduled in the period until second half year of 2010.	The Company has liaised with two telecommunications equipment manufacturers in relation to the system upgrade, and obtained quotation in respect of the equipment from one of the manufacturers.

	Business plan up to 30 June 2010 as set out in the Prospectus	Actual business progress up to 30 June 2010
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	The Company 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 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.	The Company 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	Sample RF-SIM readers were tested with satisfactory results
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	The Company has liaised with several service providers and at the negotiation stage on the service fees
Marketing	To announce the introduction of RF-SIM through promotion campaigns to replace ordinary SIM cards and introduce new users	The Company is preparing a detailed marketing and promotion plan and it is expected to launch campaigns when RF-SIM cards are ready.
Human resources	To hire additional staff to carry out promotion and maintenance	The Company is searching for qualified people by itself and through agents

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 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 2010, there was no significant amount of usage made out of the net proceeds from the Listing 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 2010 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 2010	**Actual use of proceeds from the date of Listing to 30 June 2010**
	HK$ million	*HK$ million*
Expansion of mobile phone services in Macau, Taiwan and other Asia Pacific territories		
– Macau	1.8	0.0
– Taiwan	0.0	0.0
– other Asia Pacific Territories	0.0	0.0
	1.8	0.0
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	0.0	0.0
Development and implementation of RF-SIM business plans in Hong Kong and Macau	2.2	0.0
Working capital	1.8	0.5
Total	5.8	0.5

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 were 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 2010 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 is at the negotiation stage on the partnership terms with potential partnership MNOs and dealers in Macau and Taiwan.

(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 liaised with two telecommunications equipment manufacturers in relation to the system upgrade, and obtained quotation in respect of the equipment from one of the manufacturers.

(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) The unused net proceeds as at 30 June 2010 have been placed as interest bearing deposits in banks in Hong Kong.

BUSINESS OUTLOOK

Following the recovery of the global economy since the fourth quarter of 2009, the Group is optimistic and sees enormous opportunities and challenges in the market. Going forward in the second half of 2010, 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 to broaden the customer base of the Group.

CAPITAL STRUCTURE

As at 30 June 2010, 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 2010, total equity attributable to equity holders of the Company amounted to approximately HK$98,352,000 (31 December 2009: approximately HK$13,975,000), 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 2010, the Group had net current assets of approximately HK$94,620,000 (31 December 2009: approximately HK$9,660,000), including cash balance of approximately HK$78,317,000 (31 December 2009: approximately HK$4,812,000). The current ratio was 8.5 as at 30 June 2010, higher than 1.5 as at 31 December 2009. The increase was mainly due to the funds raised from the Placing.

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 2010, the Group did not have any derivatives for hedging against the exchange rate risk.

PLEDGE OF ASSETS

As at 30 June 2010, the Group did not have any pledges on its assets.

CONTINGENT LIABILITIES

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

As at the date of this report, the Companies Registry was still considering whether to take any action against Elitel Limited in relation to its possible breaches of the Companies Ordinance in respect of its failure to register promptly under Part XI of the Companies Ordinance. Elitel Limited may be subject to certain penalty in this respect.

The Group did not recognise any provision in respect of the abovementioned issue as the amount of the obligation cannot be measured with sufficient reliability.

During the six months ended 30 June 2010, no claims had been made against the Group by the Companies Registry in respect of Elitel Limited's failure to register as a non-Hong Kong company under Part XI of the Companies Ordinance.

Further details are set forth in the "Risk Factors" section of the Prospectus.

SIGNIFICANT ACQUISITION, DISPOSAL OR INVESTMENT

As at 30 June 2010, 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 2010, the Group had 13 employees (31 December 2009: 13 employees). Remuneration is determined with reference to market terms and the performance, qualification and experience of individual employee. Year-end bonus based on individual performance will be paid to employees as recognition of and reward for their contributions. Other benefits include medical insurance, share option scheme and contributions to statutory mandatory provident fund scheme to its employees in Hong Kong.

DIVIDENDS

The Board does not recommend payment of any dividend for the six months ended 30 June 2010 (2009: Nil).

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

As at 30 June 2010, 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:

Long position in shares of the Company:

Name of Director	Nature of Interest / Capacity	Number of Ordinary Shares	Percentage of Shareholding
Mr. Li Kin Shing	Interest of controlled corporation Beneficial owner	716,250,000 *(Note)*	69.04%
Ms. Kwok King Wa	Interest of controlled corporation Beneficial owner	716,250,000 *(Note)*	69.04%

Note:

The 716,250,000 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, each of Mr. Li Kin Shing and Ms. Kwok King Wa is deemed to be Interested in the 716,250,000 shares under the SFO.

Save as disclosed above, as at 30 June 2010, 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 2010, 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 5% 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	Capacity	Number of Ordinary Shares	Percentage of Shareholding
New Everich *(Note 1)*	Beneficial owner	716,250,000 *(Note 2)*	69.04%
Cam Global Funds SPC	Beneficial owner	61,600,000	5.94%

Notes:

(1) New Everich, a company incorporated on 23 April 2009 under the laws of the BVI with limited liability, is owned by Mr. Li Kin Shing and Ms. Kwok King Wa as to 54% and 46% respectively.

(2) The 716,250,000 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, each of Mr. Li Kin Shing and Ms. Kwok King Wa is deemed to be interested in the 716,250,000 shares under the SFO.

Save as disclosed above, as at 30 June 2010, 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 5% 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 2010, 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 from the date of Listing up to 30 June 2010.

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

Save as disclosed in the Prospectus, during the six months ended 30 June 2010, 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 2010, save as disclosed below, none of the Directors nor management shareholders (as defined under the GEM Listing Rules) 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 or management shareholders (as defined under the GEM Listing Rules) 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, a management shareholder and a substantial shareholder of the Company, and Ms. Kwok King Wa, a controlling shareholder, a management shareholder and a substantial shareholder of the Company and the spouse of Mr. Li Kin Shing, respectively. According to the GEM Listing Rules, Directel Limited is an associate of Mr. Li Kin Shing and Ms. Kwok King Wa and thus a connected person.

Upon the assignment of the RF-SIM intellectual property rights in Hong Kong and Macau, Directel Limited is the legal and beneficial owner of the RF-SIM intellectual property rights in Hong Kong and Macau. Further, Directel Limited is the licensee of the operation rights of RF-SIM intellectual property rights 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 in addition to its owned RF-SIM intellectual property rights in Hong Kong and Macau. 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.

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

INTEREST OF COMPLIANCE ADVISER

As at 30 June 2010, 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 2010 have been reviewed by the Audit Committee in accordance with Rule 5.30 of the GEM Listing Rules 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, 10 August, 2010

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.