Directel

Directel Holdings Limited

直通電訊控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8337

First Quarterly Report 2011

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

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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 the GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

HIGHLIGHTS

- Turnover for the three months ended 31 March 2011 was approximately HK$16,288,000, representing an increase of approximately 17.9% as compared with the corresponding period in 2010.
- Profit attributable to shareholders of the Company for the three months ended 31 March 2011 was approximately HK$3,497,000, representing an increase of approximately 62.7% as compared with the corresponding period in 2010.
- The Board does not recommend the payment of any dividend for the three months ended 31 March 2011.

UNAUDITED FIRST QUARTERLY RESULTS FOR THE THREE MONTHS ENDED 31 MARCH 2011

The board of Directors (the "Board") of the Company is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (together referred to as "the Group") for the three months ended 31 March 2011 together with the unaudited comparative figures for the corresponding period in 2010 as follows:

CONSOLIDATED INCOME STATEMENT

	Note	For the three months ended 31 March 2011 HK$'000 (Unaudited)	2010 HK$'000 (Unaudited)
Turnover	4	16,288	13,814
Cost of sales		(7,917)	(6,042)
Gross profit		8,371	7,772
Administrative expenses		(4,501)	(4,841)
Profit from operations		3,870	2,931
Finance income	5	279	20
Profit before taxation	6	4,149	2,951
Income tax	7	(652)	(801)
Profit for the period attributable to equity shareholders of the Company		3,497	2,150
Earnings per share	8		
– Basic and diluted		HK$0.003	HK$0.003

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.

NOTES TO THE UNAUDITED QUARTERLY FINANCIAL REPORT

1. BACKGROUND OF THE COMPANY

Directel Holdings Limited ("the Company") was incorporated in the Cayman Islands on 28 July 2009 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company has established a place of business in Hong Kong and was registered in Hong Kong under Part XI of the Companies Ordinance as a non-Hong Kong company on 25 September 2009. On 2 June 2010, the Company listed its shares with a par value of HK$0.01 each on the GEM of the Stock Exchange (the "Listing").

The Company and its subsidiaries are principally engaged in provision of telecommunications services.

2. BASIS OF PREPARATION

The quarterly financial report has been prepared in compliance with the applicable disclosure provisions of Chapter 18 of the Rules Governing the Listing of Securities on GEM of the Stock Exchange and in accordance with substantially the same accounting policies adopted in the Group's audited financial statements set out in the annual report for the year ended 31 December 2010, except for the accounting policy changes that are expected to be reflected in the 2011 annual financial statements. Details of these changes in accounting policies are set out in note 3.

The quarterly financial report contains first quarterly consolidated income statement, consolidated statement of comprehensive income and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the financial performance of the Group since the 2010 annual financial statements. The quarterly financial report 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 ("IFRSs").

The quarterly financial report has not been audited nor reviewed by the Company's auditors, but has been reviewed by the Company's audit committee.

3. CHANGES IN ACCOUNTING POLICIES

The International Accounting Standards Board 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 IFRSs (2010)
- Revised IAS24, Related party disclosures

The adoption of these developments has no material impact on the Group's financial statements as the amendments are consistent with policies currently adopted by the Group.

4. TURNOVER

	For the three months ended 31 March	
	2011	2010
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Provision of telecommunications services	**15,469**	12,958
Provision of telesales dealership services	**819**	856
	16,288	13,814

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

5. FINANCE INCOME

	For the three months ended 31 March	
	2011	2010
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Interest income from bank deposits	**17**	—
Net foreign exchange gain	**262**	20
	279	20

6. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	For the three months ended 31 March	
	2011	2010
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
(a) Staff costs:		
Salaries, wages and other benefits	**837**	738
Contributions to defined contribution retirement plan	**32**	31
	869	769
(b) Other items:		
Depreciation	**252**	332
Licence charges	**571**	441
Operating lease charges in respect of		
– rental of properties	**146**	142
– rental of transmission lines	**107**	65
Auditors' remuneration		
– annual audit services	**222**	150
Utilities	**16**	14
Repair and maintenance	**139**	127
Bad debts written off	**4**	43
Listing expenses	**–**	1,540

7. INCOME TAX

	For the three months ended 31 March	
	2011	2010
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current tax		
– Hong Kong Profits Tax	**610**	772
Deferred tax	**42**	29
Total income tax expense	**652**	801

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 ended 31 March 2011 is calculated at 16.5% (three months ended 31 March 2010: 16.5%) of the estimated assessable profits for the period. The payments of dividends by Hong Kong companies are not subject to any Hong Kong withholding tax.

8. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the three months ended 31 March 2011 is based on the unaudited profit attributable to ordinary equity shareholders of the Company of approximately HK$3,497,000 (three months ended 31 March 2010: approximately HK$2,150,000) and the weighted average number of 1,037,500,000 ordinary shares in issue during the period (three months ended 31 March 2010: 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 ended 31 March 2010 and 2011, and therefore, diluted earnings per share are the same as the basic earnings per share.

9. MOVEMENT OF EQUITY

	Share capital *HK$'000* (Unaudited)	Share premium *HK$'000* (Unaudited)	Other reserve *HK$'000* (Unaudited)	Retained earnings *HK$'000* (Unaudited)	Total *HK$'000* (Unaudited)
As at 1 January 2010	—	—	—	13,975	13,975
Profit for the period and total comprehensive income for the period	—	—	—	2,150	2,150
As at 31 March 2010	—	—	—	16,125	16,125
As at 1 January 2011	10,375	67,499	—	34,788	112,662
Profit for the period and total comprehensive income for the period	—	—	—	3,497	3,497
As at 31 March 2011	10,375	67,499	—	38,285	116,159

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is a mobile virtual network operator ("MVNO") which is principally engaged in the provision of mobile phone services. The Group does not have its own telecommunications network infrastructure and its business mainly involves the trading of the airtime sourced from two mobile network operators ("MNOs") in Hong Kong and one MNO in the PRC, and subsequently sold the airtime through different channels and in various forms to users, dealers or MNOs. The Group's mobile phone services include "One Card Multiple Number" service and Hong Kong local mobile phone services. The Group also provides services of resale of airtime to MNOs, telesales dealership services and other services.

The Group's performance kept improving for the three months ended 31 March 2011 compared to the corresponding period in 2010. The monthly average number of activated phone numbers increased by approximately 38.7% to 213,161 in the three months ended 31 March 2011 when compared to the corresponding period in 2010. However, total number of activated phone numbers decreased by approximately 8.3% to 212,074 as of 31 March 2011 compared to 231,166 as of 31 December 2010.

Owing to the fierce competition in the mobile phone services industry in Hong Kong and the greater popularity of mobile phone usage, the competitiveness of the Group's business has been adversely affected and the average revenue per user ("ARPU") of the Group had showed a decreasing trend. The ARPU of the Group was approximately HK$23.1 for the three months ended 31 March 2011, lower than approximately HK$26.5 for the same period last year. 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.

The volume of the Group's airtime sold increased from approximately 36.8 million minutes for the three months ended 31 March 2010 to approximately 44.2 million minutes for the three months ended 31 March 2011; and the revenue derived from "One Card Multiple Number" service, Hong Kong local mobile phone services and resale of airtime to MNOs increased from approximately HK$13.0 million to approximately HK$15.5 million during the same period. The Group's revenue per minute of airtime was approximately HK$0.35 for the three months ended 31 March 2011, which remained stable as compared to approximately HK$0.35 for the three months ended 31 March 2010.

FINANCIAL REVIEW

For the three months ended 31 March 2011, the turnover of the Group increased to approximately HK$16,288,000 compared to approximately HK$13,814,000 for the corresponding period last year, represented an increase of approximately 17.9%. The increase in turnover was mainly attributable 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 31.0% to approximately HK$7,917,000 for the three months ended 31 March 2011 compared to approximately HK$6,042,000 for the corresponding period last year. The cost of sales in respect of the provision of mobile phone services and resale of airtime to MNOs increased by approximately 42.6% compared to the first quarter of 2010. Such increase was mainly due to the increase in airtime usage by users, increased unit charges for IDD services by telecommunications services providers and additional interconnection fees for cross-border networks charged by an affiliate of MNO. The cost of sales in respect of the provision of telesales dealership services decreased by approximately 26.6% compared to the first quarter of 2010, which was in line with the decrease in the related turnover in the first quarter of 2011 resulting from the reduction in the amount of telesales outsourced by the Group's customers.

The gross profit of the Group for the three months ended 31 March 2011 increased to approximately HK$8,371,000 compared to approximately HK$7,772,000 for the corresponding period last year, and the gross profit margin decreased to 51.4% for the three months ended 31 March 2011 from 56.3% for the corresponding period last year. The decrease in gross profit margin was mainly attributable to the decrease of margin from provision of telecommunications services resulting from increased cost while the sales price generally remained stable in the first quarter of 2011.

The Group's administrative expenses for the three months ended 31 March 2011 decreased by approximately 7.0% to approximately HK$4,501,000 compared to approximately HK$4,841,000 for the corresponding period last year. The decrease was mainly attributable to the listing expenses incurred of approximately HK$1,540,000 in the first quarter of 2010, while no such expenses incurred for the three months ended 31 March 2011.

The Group's finance income for the three months ended 31 March 2011 increased by approximately 1,295.0% to approximately HK$279,000 compared to approximately HK$20,000 for the corresponding period last year. The increase was mainly due to more foreign exchange gain was recorded arising from the movements in the exchange rate between Hong Kong dollars and Renminbi during the period.

The Group's income tax for the three months ended 31 March 2011 decreased by approximately 18.6% to approximately HK$652,000 compared to approximately HK$801,000 for the corresponding period last year. The decrease was mainly attributable to the higher effective tax rate in the first quarter of 2010 as the listing fee incurred was not tax deductible.

The Group's profit attributable to equity shareholders of the Company for the three months ended 31 March 2011 increased by approximately 62.7% to approximately HK$3,497,000 compared to approximately HK$2,150,000 for the corresponding period last year. The increase was mainly due to the improvement of gross profit and no more one-off listing expenses incurred in the first quarter of 2011, while there was approximately HK$1,540,000 in the corresponding period of 2010.

USE OF PROCEEDS

As stated in the Company's prospectus dated 28 May 2010 (the "Prospectus"), the Group plans to (i) expand the business of mobile phone services in other Asia Pacific territories; (ii) upgrade the Group's telecommunications equipment to be compatible with the 3G mobile networks in Hong Kong and China; and (iii) 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, the Group does not anticipate any change to this plan. During the three months ended 31 March 2011, the proceeds from the Listing were applied by the Company in accordance with the Directors' assessment of the development of the market condition:

(1) Since the Listing on 2 June 2010, the Group proceeded to commence with its expansion and business development. The remaining proceeds were partially applied by the end of March 2011 after the Group negotiated 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 MNO partners 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 contracted with telecommunications equipment manufacturer in relation to the system upgrade, and made advance payment in respect of the equipment to the manufacturer;

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

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

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

BUSINESS OUTLOOK

Following the recovery of the global economy since the fourth quarter of 2009, the Group is optimistic and sees enormous opportunities and challenges in the market. Going forward in the second quarter of 2011, 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 technology and applications in Hong Kong and Macau.

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 three months ended 31 March 2011 and prior years, 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.

DIVIDENDS

The Board does not recommend the payment of any dividend for the three months ended 31 March 2011 (three months ended 31 March 2010: Nil).

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

As at 31 March 2011, 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 Holdings Limited ("New Everich") which is owned by Mr. Li Kin Shing and Ms. Kwok King Wa as to 54% and 46% respectively. Mr. Li Kin Shing is the spouse of Ms. Kwok King Wa. Accordingly, 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 31 March 2011, 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 31 March 2011, 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%

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 31 March 2011, 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 right 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 31 March 2011, there was no outstanding share option under the Share Option Scheme.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, the Company has complied with all the code provisions as set out in Appendix 15 to the GEM Listing Rules during the three months ended 31 March 2011.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

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

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

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

COMPETING INTERESTS

During the three months ended 31 March 2011, save as disclosed below, none of the Directors 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 the International Elite Ltd., which its strategy is to concentrate on the application of the RF-SIM intellectual property rights in the PRC. Nevertheless, Mr. Li Kin Shing, Ms. Kwok King Wa and Directel Limited (as Covenantors) executed a deed of non-competition undertaking in favour of the Company on 24 May 2010 pursuant to which the Covenantors have undertaken to the Company inter alia, that (i) the Covenantors shall not, directly or indirectly, engage in, invest in, participate in, or attempt to participate in, whether on his/her/its own account or with each other or in conjunction with or on behalf of any person or company, any business which will or may compete with the RF-SIM business of the Group in Hong Kong and Macau; and (ii) in the event the Covenantors or their associates were given any business opportunities that is or may involve in direct or indirect competition with the business of the Group, the Covenantors shall assist the Company in obtaining such business opportunities in the terms being offered to the Covenantors, or more favourable terms being acceptable to the Company.

INTEREST OF COMPLIANCE ADVISER

As at 31 March 2011, as notified by the Company's compliance adviser, Guotai Junan Capital Limited ("Compliance Adviser"), except for the agreement entered into between the Company and the Compliance Adviser dated 28 May 2010, neither the Compliance Adviser nor any of its directors, employees or associates had any interests in relation to the Group as notified to the Group pursuant to Rule 6A.32 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 three months ended 31 March 2011 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, 12 May, 2011

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.