Directel Holdings Limited
直通電訊控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8337

2012
Third Quarterly Report

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

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

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

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

HIGHLIGHTS

- Turnover for the nine months ended 30 September 2012 was approximately HK$54,499,000, representing an increase of approximately 6.1% as compared with the corresponding period in 2011.
- Profit attributable to shareholders of the Company for the nine months ended 30 September 2012 was approximately HK$17,425,000, representing an increase of approximately 8.8% as compared with the corresponding period in 2011.
- The Board does not recommend the payment of any dividend for the nine months ended 30 September 2012.

UNAUDITED THIRD QUARTERLY RESULTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2012

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 and the nine months ended 30 September 2012 together with the unaudited comparative figures for the respective corresponding period in 2011 as follows:

CONSOLIDATED INCOME STATEMENT

		For the three months ended 30 September		For the nine months ended 30 September	
		2012	2011	**2012**	2011
		HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	Note	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)
Turnover	4	**17,616**	18,246	**54,499**	51,389
Cost of sales		**(7,585)**	(6,711)	**(22,238)**	(21,193)
Gross profit		**10,031**	11,535	**32,261**	30,196
Other revenue		**7**	—	**39**	—
Administrative expenses		**(4,173)**	(4,057)	**(11,211)**	(12,733)
Profit from operations		**5,865**	7,478	**21,089**	17,463
Finance (cost)/income	5	**(19)**	964	**(23)**	1,678
Profit before taxation	6	**5,846**	8,442	**21,066**	19,141
Income tax	7	**(1,130)**	(1,393)	**(3,641)**	(3,126)
Profit for the period attributable to equity shareholders of the Company		**4,716**	7,049	**17,425**	16,015
Earnings per share	8				
– Basic and diluted		**HK$0.005**	HK$0.007	**HK$0.017**	HK$0.015

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 CONSOLIDATED 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 2011, except for the accounting policy changes that are expected to be reflected in the 2012 annual financial statements. Details of these changes in accounting policies are set out in note 3.

The quarterly financial report contains consolidated third quarterly 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 2011 annual financial statements. The consolidated 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 ("IFRS").

The quarterly financial report has not been audited 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. There have been no significant changes to the accounting policies adopted in the Group's financial statements as a result of these developments.

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

4. TURNOVER

	For the three months ended 30 September		For the nine months ended 30 September	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Provision of telecommunications services	**17,447**	17,887	**54,056**	49,752
Provision of telesales dealership services	**169**	359	**443**	1,637
	17,616	18,246	**54,499**	51,389

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 (COST)/INCOME

	For the three months ended 30 September		For the nine months ended 30 September	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Interest income from bank deposits	**99**	46	**301**	110
Net foreign exchange (loss)/gain	**(118)**	918	**(324)**	1,568
	(19)	964	**(23)**	1,678

6. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	For the three months ended 30 September		For the nine months ended 30 September	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
(a) Staff costs:				
Salaries, wages and other benefits	**850**	840	**2,551**	2,525
Contributions to defined contribution retirement plan	**33**	33	**98**	98
	883	873	**2,649**	2,623
(b) Other items:				
Depreciation	**227**	46	**616**	456
Bad debts written off	**—**	—	**19**	9
Licence charges	**723**	607	**2,140**	1,819
Operating lease charges in respect of				
– rental of properties	**146**	132	**439**	396
– rental of transmission lines	**247**	128	**717**	365
Auditors' remuneration				
– annual audit services	**236**	222	**599**	633
– other compliance services	**10**	—	**10**	10
Utilities	**20**	20	**55**	53
Repair and maintenance	**129**	93	**406**	372
Cost of inventories	**305**	311	**807**	799

7. INCOME TAX

	For the three months ended 30 September		For the nine months ended 30 September	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Current tax				
– Hong Kong Profits Tax	**969**	1,360	**3,169**	3,026
Deferred tax	**161**	33	**472**	100
Total income tax expense	**1,130**	1,393	**3,641**	3,126

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

8. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the three months ended 30 September 2012 is based on the unaudited profit attributable to ordinary equity shareholders of the Company of approximately HK$4,716,000 (three months ended 30 September 2011: approximately HK$7,049,000) and the weighted average number of 1,037,500,000 ordinary shares in issue during the period (three months ended 30 September 2011: weighted average number of 1,037,500,000 ordinary shares).

The calculation of basic earnings per share for the nine months ended 30 September 2012 is based on the unaudited profit attributable to ordinary equity shareholders of the Company of approximately HK$17,425,000 (nine months ended 30 September 2011: approximately HK$16,015,000) and the weighted average number of 1,037,500,000 ordinary shares in issue during the period (nine months ended 30 September 2011: weighted average number of 1,037,500,000 ordinary shares).

(b) Diluted earnings per share

There were no potential dilutive ordinary shares for each of the three months and the nine months ended 30 September 2011 and 30 September 2012, 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 equity *HK$'000* (Unaudited)
As at 1 January 2011	10,375	67,499	–	34,788	112,662
Profit and total comprehensive income for the period	–	–	–	16,015	16,015
Dividend declared in respect of the previous year	–	–	–	(5,188)	(5,188)
As at 30 September 2011	10,375	67,499	–	45,615	123,489
As at 1 January 2012	**10,375**	**67,499**	**–**	**52,618**	**130,492**
Profit and total comprehensive income for the period	**–**	**–**	**–**	**17,425**	**17,425**
As at 30 September 2012	**10,375**	**67,499**	**–**	**70,043**	**147,917**

10. TRADE RECEIVABLES

Trade receivables that were past due but not impaired relate to a number of independent customers that have a good repayment track record with the Group. Based on past experience, management are of the view that no impairment allowance is required in respect of these balances as there has been no significant change in credit quality of such customers and the balances are still considered fully recoverable.

In particular, the balance of trade receivables due from a mobile network operator in China ("that MNO") as at 31 December 2010 and 2011 were approximately RMB21,350,000 and RMB20,266,000, respectively. The actual credit period calculated up to 30 September 2012 rendered to that MNO for the year ended 31 December 2010 and 2011 ranged from approximately 420 to 812 days and 272 to 632 days, respectively.

The following table sets forth the aging analysis of that MNO by billing date as of 31 December 2011 and 30 September 2012, respectively:

	As at 30 September 2012 *RMB'000*	As at 31 December 2011 *RMB'000*
Within 1 month	**888**	1,153
Over 1 month but less than 3 months	**1,685**	2,102
Over 3 month but less than 6 months	**2,611**	3,910
Over 6 month but less than 1 year	**6,061**	7,068
Over 1 year	**16,973**	6,033
	28,218	20,266

The credit terms of 30 days were granted by the Group to that MNO as it is in line with the credit policy of the Group and aiming to expedite the settlement of the contract sums by that MNO so as to minimize the credit risk exposed to the Group. Although the delay in settlement by that MNO renders the actual credit period to that MNO longer than the contractual credit period, to the best knowledge of the Directors, the Directors consider that the repayment pattern of that MNO is in line with the industry practice as other similar telecommunications service providers in the industry during the three years ended 31 December 2011.

The Directors were willing to extend the credit terms to that MNO generally and accept the lengthy and fluctuating actual credit period as the Directors took into account that (i) the MNO, being a subsidiary of a company which is listed on the Main Board of the Stock Exchange and the New York Stock Exchange, is a reputable company in China; (ii) the Group has established long term business relationship with that MNO; (iii) the Group has been able to receive amounts due from that MNO during the three years ended 31 December 2011 without any disputes; and (iv) there have been changes of senior management of that MNO whom the Group contacted for the settlement. Taking into account the above, the Directors are confident that that MNO would fulfill its payment obligations and no impairment allowance is considered necessary as at 30 September 2012.

As at the date of the report, an amount of approximately RMB12,021,000 has been settled by that MNO. The amount is in relation to transactions in the period from July 2010 to April 2011, which represented the most aged balance of the outstanding trade receivables. The Group does not hold any collateral over these balances.

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 nine months ended 30 September 2012 compared to the corresponding period in 2011. The monthly average number of activated phone numbers increased by approximately 8.1% to 237,769 in the nine months ended 30 September 2012 when compared to the corresponding period in 2011 and the total number of activated phone numbers increased by approximately 0.2% to 240,597 as of 30 September 2012 compared to 240,041 as of 31 December 2011.

Owing to the fierce competition in the mobile services industry in Hong Kong and the greater popularity of mobile phone usage, the competitiveness of the Group's business has been adversely affected and the average revenue per user ("ARPU") of the Group had showed a decreasing trend. Nevertheless, the ARPU of the Group was approximately HK$24.7 for the nine months ended 30 September 2012, higher than approximately HK$24.1 for the same period last year. Such increase was mainly attributable to the relatively higher ARPU of most newly activated mobile phone numbers which belong to "One Card Multiple Number" services plans.

The volume of the Group's airtime sold increased from approximately 142.6 million minutes for the nine months ended 30 September 2011 to approximately 180.1 million minutes for the nine months ended 30 September 2012; and the revenue derived from the provision of "One Card Multiple Number" service, Hong Kong local mobile phone services and resale of airtime to MNOs increased from approximately HK$49.8 million to approximately HK$54.1 million during the same period. The Group's revenue per minute of airtime sold decreased from approximately HK$0.35 for the nine months ended 30 September 2011 to approximately HK$0.30 for the nine months ended 30 September 2012. Such decrease was mainly attributable to the relatively lower ARPU of majority activated mobile phone numbers which belong to Hong Kong local mobile phone services plans.

FINANCIAL REVIEW

For the nine months ended 30 September 2012, the turnover of the Group increased to approximately HK$54,499,000 compared to approximately HK$51,389,000 for the corresponding period last year, representing an increase of approximately 6.1%. The increase in turnover was mainly attributable to the increase in the monthly average number of activated phone numbers.

The Group's cost of sales increased by approximately 4.9% to approximately HK$22,238,000 for the nine months ended 30 September 2012 compared to approximately HK$21,193,000 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 10.3% compared to the corresponding period last year. Such increase was mainly due to the increase in airtime usage by users and increased unit charges for IDD services by telecommunications services providers. The cost of sales in respect of the provision of telesales dealership services decreased by approximately 61.2% compared to the first nine months of 2011, which was in line with the decrease in the revenue derived from the provision of telesales dealership services.

The gross profit of the Group for the nine months ended 30 September 2012 increased to approximately HK$32,261,000 when compared to approximately HK$30,196,000 for the corresponding period last year and the gross profit margin increased to 59.2% for the nine months ended 30 September 2012 from 58.8% 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 nine months ended 30 September 2012 decreased by approximately 12.0% to approximately HK$11,211,000 compared to approximately HK$12,733,000 for the corresponding period last year. The decrease was mainly attributable to the commission and consultancy fee incurred of approximately HK$3,836,000 for the nine months ended 30 September 2011, while there was approximately HK$1,395,000 incurred for the nine months ended 30 September 2012.

For the nine months ended 30 September 2011, the Group recorded finance income of approximately HK$1,678,000. For the nine months ended 30 September 2012, the Group incurred finance cost of approximately HK$23,000. The finance cost incurred was mainly due to foreign exchange loss recorded arising from the movements in the exchange rate between Hong Kong dollars and Renminbi during the period.

The Group's income tax expenses for the nine months ended 30 September 2012 increased by approximately 16.5% to approximately HK$3,641,000 compared to approximately HK$3,126,000 for the corresponding period last year. The increase was mainly attributed to the improvement of operation profit, while the fee incurred for the application of transfer of listing to Main Board was not tax deductible.

The Group's profit attributable to equity shareholders of the Company for the nine months ended 30 September 2012 increased by approximately 8.8% to approximately HK$17,425,000 compared to approximately HK$16,015,000 for the corresponding period last year. The increase was mainly due to the improvement of gross profit and operating profit.

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 nine months ended 30 September 2012, 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 not fully applied by the end of September 2012 in order for the Group to negotiate with suppliers and service providers for better terms;

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

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

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

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

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

BUSINESS OUTLOOK

The Group is optimistic and sees enormous opportunities and challenges in the market. Going forward in the fourth quarter of 2012, the Group will continue to seek opportunities in existing business to broaden the Group's customer base and expand the Group's operations by means of strengthening relationship with existing dealers, exploring new qualifying dealers and maintaining its low cost strategy for its marketing activities. Also, the Group will execute its business plan continuously to expand the geographical coverage of mobile phone services provided by the Group through development and expansion of such services in Asia Pacific and the Group will provide a wider variety of value-added services for its users to increase the revenue derived from users' airtime usage through (i) upgrading the Group's telecommunications equipment to be compatible with the 3G mobile networks operated by the Group's service operators in Hong Kong and the PRC as a MVNO enabling its users to enjoy 3G mobile data services; and (ii) introducing RF-SIM in Hong Kong and Macau, to enhance the Group's overall competitiveness.

The Board announced that the Company had submitted a formal application form to the Stock Exchange on 11 May 2012 for the proposed transfer of listing of its shares from GEM to the Main Board (the "Proposed Transfer"). The Directors believe that the listing of the shares on the Main Board will help to enhance the profile of the Group and increase the trading liquidity of the shares and recognitions by attracting larger institutional and retail investors. The Directors also consider that the listing of the shares on the Main Board will be beneficial to the future growth, financial flexibility and business development of the Group. On 12 October 2012, the Company received a letter from the Stock Exchange and it stated that the Listing Committee of the Stock Exchange decided to reject the Company's formal application for the Proposed Transfer (the "Decision"). Pursuant to Rule 2B.07 of the Rules Governing the Listing of Securities on the Stock Exchange, the Company has the right to have the Decision reviewed by the Listing (Review) Committee (the "Review"). After seeking legal and financial advices and having due consideration, the Board decided to apply for the Review and an application for the Review has been submitted by the Company to the Stock Exchange on 22 October 2012. As at the date of this report, an approval has not yet been granted by the Stock Exchange and there is no assurance that such approval will be obtained from the Stock Exchange. The Company will make further announcement as and when there are material developments in relation to the aforesaid matter.

CONTINGENT LIABILITIES

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

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

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

During the nine months ended 30 September 2012, no claims had been made against the Group by the Companies Registry in respect of Elitel Limited's failure to register as a non-Hong Kong company under Part XI of the Hong Kong Companies Ordinance.

DIVIDENDS

The Board does not recommend payment of any dividend for the nine months ended 30 September 2012 (nine months ended 30 September 2011: Nil).

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

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

(i) Long position in shares of the Company:

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

Notes:

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

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

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

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

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

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

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

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

Long position in shares of the Company:

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

Notes:

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

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

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

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

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

SHARE OPTION SCHEME

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

The Share Option Scheme became unconditional after the listing of the Company's shares on GEM on 2 June 2010. The Company did not grant or cancel any options under the Share Option Scheme any time during the period under review, and as at 30 September 2012, there was no outstanding share option under the Share Option Scheme.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, the Company has complied with all the code provisions as set out in Appendix 15 to the GEM Listing Rules during the nine months ended 30 September 2012.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

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

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

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

COMPETING INTERESTS

During the nine months ended 30 September 2012, save as disclosed below, none of the Directors or controlling shareholders of the Company nor their respective associates is considered to have interests in a business that competes or is likely to compete, either directly or indirectly, with the businesses of the Group other than those businesses where the Directors have been appointed or were appointed as directors to represent the interests of the Company and/or the Group.

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

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

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

The Directors confirm that as China-Hongkong Telecom Limited, a wholly-owned subsidiary of the Company, has obtained the exclusive licence of the operation rights of RF-SIM intellectual property rights in Hong Kong and Macau and since the services provided by the Group are mainly in Hong Kong and Macau, there will be no direct competition between the services provided by Directel Limited, which are in territories other than the PRC, Hong Kong and Macau. There will also be no direct competition between the services provided by IEL, which its strategy is to concentrate on the application of the RF-SIM intellectual property rights in the PRC. Nevertheless, Mr. Li Kin Shing, Ms. Kwok King Wa and Directel Limited (as Covenantors) executed a deed of non-competition undertaking in favour of the Company on 24 May 2010 pursuant to which the Covenantors have undertaken to the Company inter alia, that (i) the Covenantors shall not, directly or indirectly, engage in, invest in, participate in, or attempt to participate in, whether on his/her/its own account or with each other or in conjunction with or on behalf of any person or company, any business which will or may compete with the RF-SIM business of the Group in Hong Kong and Macau; and (ii) in the event the Covenantors or their associates were given any business opportunities that is or may involve in direct or indirect competition with the business of the Group, the Covenantors shall assist the Company in obtaining such business opportunities in the terms being offered to the Covenantors, or more favourable terms being acceptable to the Company.

INTEREST OF COMPLIANCE ADVISER

As at 30 September 2012, as notified by the Company's compliance adviser, Guotai Junan Capital Limited ("Compliance Adviser"), except for the agreement entered into between the Company and the Compliance Adviser dated 28 May 2010, neither the Compliance Adviser nor its directors, employees or associates had any interests as notified to the Group pursuant to Rule 6A.32 of the GEM Listing Rules and all Directors and controlling shareholders and their respective associates as referred to in Rule 11.04 of the GEM Listing Rules.

AUDIT COMMITTEE

The Company has established an audit committee ("Audit Committee") on 20 May 2010 with written terms of reference in compliance with the GEM Listing Rules. The 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 nine months ended 30 September 2012 have been reviewed by the Audit Committee in accordance with Rule 5.30 of the GEM Listing Rules. The Audit Committee was of the opinion that such results complied with the applicable accounting standards and that adequate disclosures had been made.

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

Hong Kong, 8 November, 2012

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