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 Annual Report

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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.

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CORPORATE INFORMATION

CHAIRMAN AND NON-EXECUTIVE DIRECTOR

Li Kin Shing

EXECUTIVE DIRECTORS

Pang Kwok Chau
Li Wang

NON-EXECUTIVE DIRECTOR

Wong Kin Wa

INDEPENDENT NON-EXECUTIVE DIRECTORS

Chen Xue Dao
Chu, Howard Ho Hwa
Lee Man Yee, Maggie

AUTHORIZED REPRESENTATIVES

Pang Kwok Chau
Chan Wai Ching

COMPLIANCE OFFICER

Pang Kwok Chau

COMPANY SECRETARY

Chan Wai Ching, *CPA*

AUDIT COMMITTEE

Lee Man Yee, Maggie *(Chairman)*
Chen Xue Dao
Chu, Howard Ho Hwa

REMUNERATION COMMITTEE

Lee Man Yee, Maggie *(Chairman)*
Li Kin Shing
Chen Xue Dao

NOMINATION COMMITTEE

Lee Man Yee, Maggie *(Chairman)*
Pang Kwok Chau
Chen Xue Dao

REGISTERED OFFICE

Clifton House, 75 Fort Street
PO Box 1350,
Grand Cayman KY1-1108
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Office Nos. 1, 2, 14 and 15
37th Floor, Hong Kong Plaza
No. 188 Connaught Road West
Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Gilman Street Branch
136 Des Voeux Road
Central, Hong Kong

Citibank N.A.
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8 Connaught Place
Central, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

Appleby Trust (Cayman) Ltd.
Clifton House, 75 Fort Street
P.O. Box 1350, Grand Cayman KY1-1108
Cayman Islands

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tricor Investor Services Limited
26th Floor Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

COMPLIANCE ADVISOR

Guotai Junan Capital Limited
27/F., Low Block, Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

AUDITORS

KPMG
Certified Public Accountants
8th Floor Prince's Building
10 Chater Road
Central, Hong Kong

STOCK CODE

8337

CHAIRMAN'S STATEMENT

To all shareholders,

On behalf of the Board of Directors (the "Board") of Directel Holdings Limited (the "Company"), I am pleased to present the annual results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2012 to all the shareholders.

RESULTS OF THE YEAR

For the year ended 31 December 2012, the Group recorded revenue of approximately HK$71,780,000, representing a decrease of 0.7% as compared with last year. Profit for the year attributable to equity shareholders of the Company in 2012 amounted to approximately HK$22,130,000, representing a 3.9% decrease from the year of 2011. Basic and diluted earnings per ordinary share fell 4.5% to HK2.1 cents for 2012 as compared with HK2.2 cents for 2011.

The Board of Directors do not recommend the payment of a final dividend for the year ended 31 December 2012 (2011: Nil).

REVIEW FOR THE YEAR

Despite intensified competition in the telecommunications market, the Group's performance was fairly stable for the year of 2012 compared to 2011. The monthly average number of activated phone numbers increased by approximately 6.4% to 237,122 in the year of 2012 when compared to 2011. The volume of the Group's airtime sold increased from approximately 206.5 million minutes for the year of 2011 to approximately 242.4 million minutes for the year of 2012.

FUTURE PROSPECTS

To cope with the pressure and challenges of the ever-changing telecommunications market, the Group will continuously expand the geographical coverage of mobile phone services through development and expansion in Asia Pacific. Also the Group will provide a wider variety of value-added services for its users to increase the revenue through upgrading the Group's telecommunications equipment to be compatible with the 3G mobile networks of operators in Hong Kong and the PRC enabling the Group's users to enjoy 3G mobile data services which has been launched in the first quarter of 2012, and introducing RF-SIM in Hong Kong and Macau to broaden the customer base of the Group. I believe these plans, especially the introduction of RF-SIM, will enhance the Group's overall competitiveness, differentiate the Group from other competitors and assist the Group in capturing a larger share of the market.

I would like to take this opportunity to express my sincere gratitude to all our shareholders, customers and business partners for their ongoing trust and substantial support to the Group over the past years and to thank all of our staff for their valuable contribution and effort to the Group. We shall commit our best effort to bring a brighter performance in the coming year and at the same time, deliver fruitful rewards to our shareholders.

On behalf of the Board

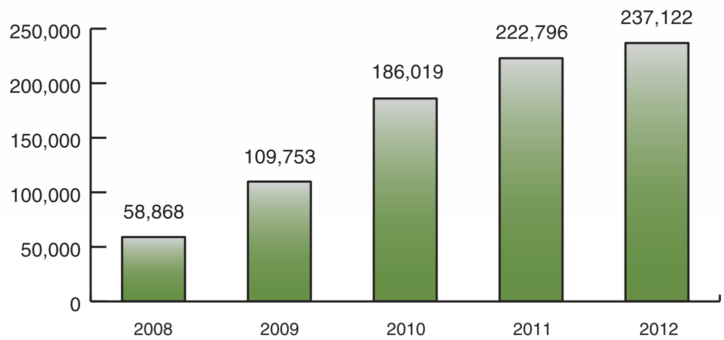
Li Kin Shing
Chairman

Hong Kong, 28 March 2013

BUSINESS REVIEW

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

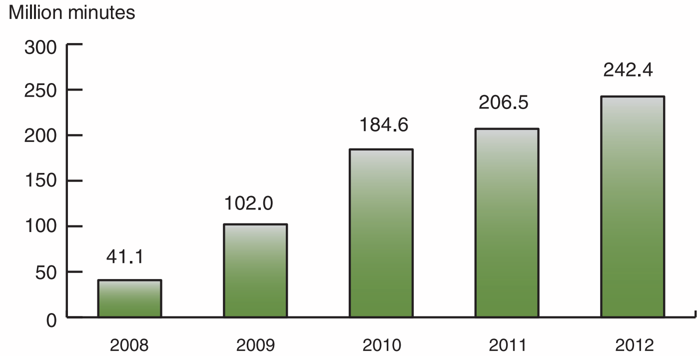
The Group's performance was fairly stable for the year ended 31 December 2012 compared to 2011. The monthly average number of activated phone numbers increased by approximately 6.4% to 237,122 in the year of 2012 when compared to 2011. However, the total number of activated phone numbers decreased by approximately 1.5% to 236,550 as of 31 December 2012 compared to 240,041 as of 31 December 2011.



Monthly average number of activated phone numbers

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 showed a decreasing trend. The ARPU of the Group was approximately HK$24.5 for the year ended 31 December 2012, lower than approximately HK$25.4 for the last year.

The volume of the Group's airtime sold increased from approximately 206.5 million minutes for the year of 2011 to approximately 242.4 million minutes for the year of 2012; 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$70.4 million to approximately HK$71.1 million during the same period. The Group's revenue per minute of airtime sold decrease from approximately HK$0.34 for the year of 2011 to approximately HK$0.29 for the year of 2012. 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.

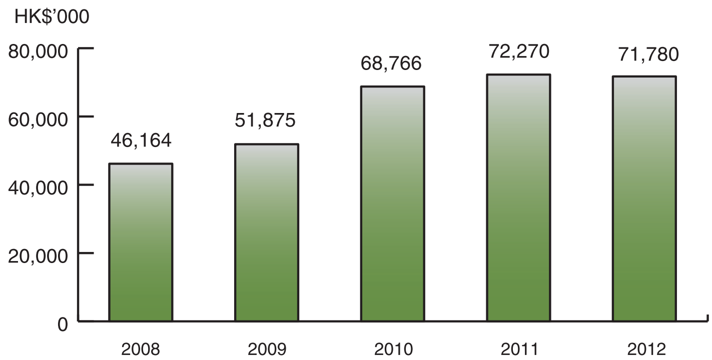


Volume of airtime sold

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2012, the turnover of the Group decreased to approximately HK$71,780,000 compared to approximately HK$72,270,000 for the last year, represented a decrease of approximately 0.7%. The decrease in turnover was mainly attributable to the decrease in ARPU which overweighed the effect of the increase of monthly average number of activated phone numbers.



Revenue

Cost of Sales

The Group's cost of sales increased by approximately 4.2% to approximately HK$29,604,000 for the year ended 31 December 2012 compared to approximately HK$28,415,000 for the last year. The cost of sales in respect of the provision of mobile phone services and resale of airtime to MNOs increased by approximately 8.4% compared to 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 54.8% compared to last year, which was in line with the decrease in the revenue derived from the provision of telesales dealership services.

Gross Profit

The gross profit of the Group for the year ended 31 December 2012 decreased to approximately HK$42,176,000 when compared to approximately HK$43,855,000 for the last year due to a slight decrease in gross profit margin to 58.8% for the year ended 31 December 2012 from 60.7% for the last year. The decrease in gross profit and gross profit margin was mainly attributable to the increased unit charges for IDD services by telecommunications services providers.

Administrative Expenses

The Group's administrative expenses for the year ended 31 December 2012 decreased by approximately 13.9% to approximately HK$15,760,000 compared to approximately HK$18,311,000 for the last year. The decrease was mainly attributable to the commission and consultancy fee of approximately HK$6,745,000 incurred in the year of 2011 while such expenses were approximately HK$2,110,000 in the year of 2012.

Finance Income

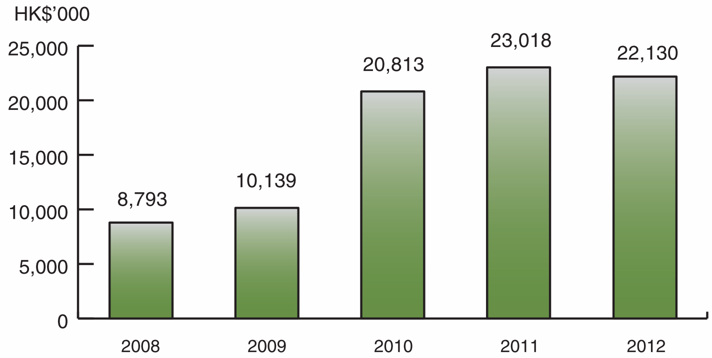
The Group's finance income for the year ended 31 December 2012 decreased by approximately 85.5% to approximately HK$278,000 when compared to approximately HK$1,922,000 for the last year. The decrease was mainly due to the foreign exchange loss recorded arising from the movements in the exchange rate between Hong Kong dollars and Renminbi during the year.

Income Tax

The Group's income tax expenses for the year ended 31 December 2012 increased by approximately 2.9% to approximately HK$4,608,000 compared to approximately HK$4,477,000 for the 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.

Profit Attributable to Shareholders

The Group's profit attributable to equity shareholders of the Company for the year ended 31 December 2012 decreased by approximately 3.9% to approximately HK$22,130,000 compared to approximately HK$23,018,000 for the last year. The decrease was mainly due to the decrease in gross profit and gross profit margin and the one-off fees payable for the application of transfer of listing to Main Board incurred in the year of 2012, while there was no such fee incurred in the year of 2011.



Profit attributable to shareholders

BUSINESS OUTLOOK

Despite the intensified competition in the telecommunications market, the Group is prudently optimistic and will respond proactively to the pressure and challenges of this ever-changing market. Going forward in the year of 2013, 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) further 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 more value-added data communication services; and (ii) introducing RF-SIM in Hong Kong and Macau, to enhance the Group's overall competitiveness.

COMPARISON OF BUSINESS PLAN WITH ACTUAL BUSINESS PROGRESS

The following is a comparison of the Group's business plan as set out in the Company's prospectus dated 28 May 2010 (the "Prospectus") with actual business progress for the year ended 31 December 2012:

	Business plan up to 31 December 2012 as set out in the Prospectus	**Actual business progress up to 31 December 2012**
Expanding the business of mobile phone services in other Asia Pacific territories		
Investment in the equipment	Investing in equipment to develop the business of "One Card Multiple Number" service in Macau from June 2010 and onwards; Investing in equipment to expand the business of "One Card Multiple Number" service in Taiwan from August 2010 and onwards; Investing in equipment to develop the business of "One Card Multiple Number" service in one to two additional countries in the Asia Pacific territories from May 2011 and onwards; Investing in equipment to develop the business of "One Card Multiple Number" service in other Asia Pacific territories from November 2011 and onwards.	The Group has liaised with several telecommunications equipment manufacturers in relation to the system upgrade, and accepted quotation in respect of the equipment from one of the manufacturers. Contract was signed and advance payment was made to the manufacturer. It is estimated that the capacity of new equipment can support the demand from Macau and Taiwan in the coming year. For the development in other countries in the Asia Pacific territories, the Group will invest in equipment depending on the market condition and customer demand.
Marketing	Marketing and promotion of the "One Card Multiple Number" service to enhance the popularity of such service in Macau, Taiwan and one to two additional countries in the Asia Pacific territories.	The Group is preparing a detailed marketing and promotion plan, and continues to monitor the customers' pattern in Macau and Taiwan closely. The Group has been at the negotiation stage with potential partnership MNOs and dealers in Macau and Taiwan and a dealer in Indonesia to explore local market. No agreement has been finalised yet.
Human resources	To hire staff responsible for sales and distribution.	The Group is searching for qualified people by itself and through agents. No new staff has been hired yet.

	Business plan up to 31 December 2012 as set out in the Prospectus	Actual business progress up to 31 December 2012
Upgrading the Group's telecommunications equipment to be compatible with the 3G mobile networks in Hong Kong and China		
Investment in the equipment	To upgrade the HLR data base system and roaming gateway, so that the Group's system for "One Card Multiple Number" service and Hong Kong local mobile phone services can be compatible with 3G platforms of Hong Kong network operators. After the completion of the first phase of the upgrade, the Group's users of "One Card Multiple Number" service and Hong Kong local mobile phone services can use 3G mobile data services in Hong Kong (while still using the 2G network when roaming in Mainland).	The Group has liaised with several telecommunications equipment manufacturers in relation to the system upgrade, and accepted quotation in respect of the equipment from the manufacturers. Contract was signed and payment was made to the manufacturers. The 3G mobile data services in Hong Kong has been launched in the first quarter of 2012 after the testing of system.
	Continue to upgrade the HLR data base system and roaming gateway, so that the Group's system for "One Card Multiple Number" service can be compatible with 3G platforms of China network operators. Upon the completion of the second phase of upgrade, the Group's users of "One Card Multiple Number" service can also use 3G mobile data services when roaming in Mainland.	The Group has been at the negotiation stage with a China network operator on the terms and conditions of data services in Mainland. No agreement has been finalised yet.
	The Group may consider to revise its plan tariffs with reference to the local telecommunications market in Hong Kong and Mainland.	The Group has been monitoring the data service tariffs in local market of Hong Kong and Mainland, and will review the tariffs from time to time.

	Business plan up to 31 December 2012 as set out in the Prospectus	Actual business progress up to 31 December 2012
Introducing RF-SIM to the Group's mobile phone services in Hong Kong and Macau		
Investment in the equipment	Investing in servers and application system in Hong Kong and Macau; and investing in BOSS system and equipment in Hong Kong.	The Group is at the negotiation stage on the purchase of equipment.
Purchase of specialised SIM cards for RF-SIM	To develop RF-SIM users' base in Hong Kong and Macau by (1) replacing ordinary SIM cards of existing users with RF-SIM cards free of charge or at a preferential price; (2) introducing to new users RF-SIM cards free of charge or at a preferential price or subsidies of usage fee; and (3) promoting to dealers or operators via existing sales channels.	Sample RF-SIM readers were tested with satisfactory results and the Group is at the negotiation stage on the purchase of SIM cards.
Purchase of RF-SIM card readers	Testing of RF-SIM readers in Hong Kong; purchase of RF-SIM card readers for (1) housing estates and car parks; (2) the delivery of commercial advertisements and coupons; and (3) receiving the coupons (Approximately 80% and 20% of the card readers will be placed in Hong Kong and Macau respectively).	The Group is at the negotiation stage on the purchase of RF-SIM readers.
Payment for technical fee for the system installation	Outsourcing costs to install card readers and system testing in shops and/or housing estates and/or car parks in Hong Kong and Macau.	The Group has liaised with several service providers and at the negotiation stage on the service fees.

	Business plan up to 31 December 2012 as set out in the Prospectus	Actual business progress up to 31 December 2012
Marketing	To announce the introduction of RF-SIM through promotion campaigns to replace ordinary SIM cards and introduce new users.	The Group is preparing a detailed marketing and promotion plan and it is expected to launch campaigns when RF-SIM cards are ready. The Group is at the negotiation stage with a dealer in transportation and retail industry on the promotion of RF-SIM e-coupon service. No agreement has been finalised yet.
Human resources	To hire additional staff to carry out promotion and maintenance.	The Group is searching for qualified people by itself and through agents. No new staff has been hired yet.

USE OF PROCEEDS

The net proceeds from the Placing were approximately HK$69.2 million, which was different from the estimated net proceeds of approximately HK$69.9 million as disclosed in the Company's announcement dated 1 June 2010 and the estimated net proceeds of approximately HK$49.8 million estimated on the assumption that the placing price would be the mid-point of the stated range as stated in the Prospectus. We intend to adjust the use of proceeds in the same manner and in the same proportion as shown in the Prospectus. As stated in the Prospectus, we plan to expand the business of mobile phone services in other Asia Pacific territories, upgrade the Group's telecommunications equipment to be compatible with the 3G mobile networks in Hong Kong and China and introduce RF-SIM to the Group's mobile phone services in Hong Kong and Macau in the forthcoming future. As at the date of this report, we do not anticipate any change to this plan. During the period between 2 June 2010, being the date of Listing, and 31 December 2012, there was no significant amount of usage made out of the net proceeds from the Placing as the Group needed more time to negotiate with suppliers and service providers for better terms. The net proceeds from the issue of new shares from the date of Listing to 31 December 2012 had been applied as follows:

	Adjusted use of proceeds in the same manner and proportion as stated in the Prospectus from 20 May 2010, being the latest practicable date as defined in the Prospectus, to 31 December 2012 *HK$ million*	Actual use of proceeds from the date of Listing to 31 December 2012 *HK$ million*
Expansion of mobile phone services in Macau, Taiwan and other Asia Pacific territories		
– Macau	8.9	1.0
– Taiwan	6.5	0.9
– other Asia Pacific territories	7.3	0.2
	22.7	2.1
Upgrading the Group's telecommunications equipment for compatible with the 3G mobile network operated by the Group's service operators in Hong Kong and the PRC	20.8	4.2
Development and implementation of RF-SIM business plans in Hong Kong and Macau	18.9	0.1
Working capital	6.8	4.8
Total	69.2	11.2

Notes:

The business objectives as stated in the Prospectus were based on the best estimation of the future market conditions made by the Group at the time of preparing the Prospectus. The use of proceeds was applied in accordance with the actual development of the market.

(1) Since the Listing on 2 June 2010, the Group proceeded to commence with its expansion and business development. The remaining proceeds were not fully applied by the end of December 2012 in order for the Group to negotiate with suppliers and service providers for better terms.

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

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

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

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

(6) The unused net proceeds as at 31 December 2012 have been placed as interest bearing deposits in banks in Hong Kong.

CAPITAL STRUCTURE

As at 31 December 2012, the Group had no outstanding loan or borrowing, and the gearing ratio (being ratio of total long term borrowings to equity) was therefore inapplicable. As at 31 December 2012, total equity attributable to equity holders of the Company amounted to approximately HK$152,622,000 (31 December 2011: approximately HK$130,492,000), which was primarily attributable to the proceeds from the Placing and earnings.

LIQUIDITY AND FINANCIAL RESOURCES

The Group normally finances its operations with internally generated cash flows and capital contribution from shareholders. As at 31 December 2012, the Group had net current assets of approximately HK$145,635,000 (31 December 2011: approximately HK$125,724,000), including cash and bank balances of approximately HK$108,858,000 (31 December 2011: approximately HK$73,797,000). The current ratio was 14.5 as at 31 December 2012, higher than 12.8 as at 31 December 2011.

FOREIGN EXCHANGE EXPOSURE

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily Renminbi ("RMB") and United States dollars ("US$"). The Group currently does not have hedging policy in respect of the foreign currency risk. However, management monitors the related foreign currency risk exposure closely and will consider hedging significant foreign currency risk exposure should the need arise. As at 31 December 2012, the Group did not have any derivatives for hedging against the exchange rate risk.

PLEDGE OF ASSETS

As at 31 December 2012, the Group did not have any pledges on its assets.

CONTINGENT LIABILITIES

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

As at the date of this report, there is a possibility that the Companies Registry may still take action against Elitel Limited in relation to the late registration and that Elitel Limited may be subject to a penalty in this respect, though no action has been taken by the Companies Registry against Elitel Limited to date. During the year ended 31 December 2012, no action has been taken against the Group by the Companies Registry in respect of this matter.

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

SIGNIFICANT ACQUISITION, DISPOSAL OR INVESTMENT

As at 31 December 2012, the Group has no specific acquisition target. The Group did not have any material acquisition and disposals of subsidiaries and affiliated companies, and investment during the year under review.

STAFF AND REMUNERATION POLICY

As at 31 December 2012, the Group had 12 employees (2011: 12 employees). Breakdown of the Group's staff by functions as at 31 December 2012 is as follows:

Function	As at 31 December 2012	As at 31 December 2011
Management	2	2
Financial and accounting	2	2
Sales and marketing	1	1
Information technology, repair and maintenance	3	3
Customer service	2	2
Administration and human resources	2	2
Total	12	12

The total staff remuneration including directors' remuneration paid or payable by the Group in 2012 was approximately HK$3,589,000 (2011: approximately HK$3,572,000). Remuneration paid to staff, including Directors, 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.

DISCLOSURE UNDER CHAPTER 17 OF THE GEM LISTING RULES

The Directors confirmed that they were not aware of any circumstances which would give rise to a disclosure requirement under Rules 17.22 to 17.24 of the GEM Listing Rules during the year.

DIRECTORS' REPORT

The Directors present their annual report together with the audited financial statements of the Group for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Its subsidiaries are principally engaged in the provision of mobile phone services. The Group also provides services of resale of airtime to MNOs and telesales dealership services. The principal activities and other particulars of its subsidiaries are set out in note 11 to the financial statements.

PRINCIPAL PLACE OF BUSINESS

The Company has established a principal place of business in Hong Kong at Office Nos. 1, 2, 14 and 15, 37th Floor, Hong Kong Plaza, No. 188 Connaught Road West.

FINANCIAL INFORMATION

Financial Summary

A summary of the consolidated income statement and the assets and liabilities of the Group for the last five financial years is set out on page 88 of this report.

Results and Dividends

The results of the Group for the year ended 31 December 2012 are set out in the consolidated income statement, page 42 of this report.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2012 (2011: Nil).

Major Customers and Major Suppliers

For the year ended 31 December 2012, the turnover attributable to the largest customer and the five largest customers accounted for approximately 31.0% and approximately 71.5% of the Group's turnover respectively.

For the year ended 31 December 2012, purchases from the largest supplier and the five largest suppliers accounted for approximately 23.7% and 81.5% of the Group's total purchases respectively.

None of the Directors, or any of their respective associates, or any shareholders (whom to the knowledge of the Directors own more than 5% of the issued share capital of the Company), had any interests in any of the Group's five largest customers or five largest suppliers during the year.

Share Capital

Details of movements in the share capital of the Company during the year are set out in note 18 to the financial statements.

Convertible Derivatives

The Group has not granted any convertible securities, futures, options, warrants or other similar rights during the year ended 31 December 2012.

Reserves

Details of movements in reserves of the Company and the Group during the year are set out in note 18 to the financial statements and the consolidated statement of changes in equity respectively.

Distributable Reserve and Share Premium

According to the articles of association of the Company and the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, after passing the review of debt paying ability of the Group, the share premium account can be attributed to shareholders. As at 31 December 2012, the Company had reserves of approximately HK$52,658,000 (As at 31 December 2011, HK$53,803,000) available for distribution to equity shareholders of the Company.

Property, Plant and Equipment

Details of movements in property, plant and equipment of the Group are set out in note 12 to the financial statements.

Continuing Connected Transactions

For the year ended 31 December 2012, approximately HK$1,649,000 under the category of the services provided by related parties and approximately HK$528,000 under the category of the rental of properties from related parties as disclosed in note 21 to the financial statements fell under the definition of continuing connected transactions under Chapter 20 of the GEM Listing Rules. Details are disclosed in note 21 to the financial statements.

Continuing connected transactions exempt from the reporting, announcement and independent Shareholders' approval requirements

A. Service agreement between China-Hongkong Telecom Limited ("China-HK Telecom") and China Elite Information Technology Ltd. in respect of data processing and billing management services.

B. Licence agreement between China-HK Telecom and Directel Limited in respect of RF-SIM.

C. Tenancy agreement between the Company and Talent Information Engineering Co., Limited in respect of the Company's office in Hong Kong.

During the year under review, the Group has obtained waiver from strict compliance with Chapter 20 of the GEM Listing Rules from the Stock Exchange for the following various continuing connected transactions as disclosed in the Prospectus.

Continuing connected transactions exempt from the independent Shareholders' approval requirements

D. Service agreements

   1. Service agreement between Elitel Limited and International Elite Limited – Macao Commercial Offshore (novated from its affiliated company, PacificNet Communications Limited – Macao Commercial Offshore ("PacificNet Communications"), on 1 October 2011) in respect of built-in secretary ("BIS") services; and

   2. Service agreement between China-HK Telecom and International Elite Limited – Macao Commercial Offshore (novated from its affiliated company, PacificNet Communications, on 1 October 2011) in respect of BIS and customer hotline services.

E. Service agreement between China-HK Telecom and International Elite Limited – Macao Commercial Offshore (novated from its affiliated company, PacificNet Communications, on 1 October 2011) in respect of telesales services.

Details of the above connected transactions are disclosed in note 21 to the financial statements and the Prospectus.

The Company, under Rule 20.42 (3) of the GEM Listing Rules, has applied for, and the Stock Exchange has granted to the Company, a waiver with respect to the continuing connected transactions as referred to in paragraphs D and E above from the announcement requirements under Rule 20.47 of the GEM Listing Rules, provided that the said continuing connected transactions are conducted in compliance with the conditions (including the respective proposed cap amounts) imposed by the Stock Exchange.

The continuing connected transactions had been entered into in accordance with the actual relevant agreements and pricing policies and have not exceeded the cap disclosed in the Prospectus.

The independent non-executive Directors have reviewed the continuing connected transactions and have confirmed that these continuing connected transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or on terms no less favorable to the Group than terms available with independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interest of the shareholders of the Company as a whole.

The auditors of the Company have performed certain procedures on such continuing connected transactions and have provided a letter to the Company stating that:

a. nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have not been approved by the Company's board of directors.

b. nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions.

c. with respect to the aggregate amount of each of the continuing connected transactions set out in paragraphs D and E, nothing has come to their attention that causes them to believe that the continuing connected transactions have exceeded the maximum aggregate annual value disclosed in the Company's prospectus dated 28 May 2010 in respect of each of the continuing connected transactions set out in paragraphs D and E.

The Directors confirm that the Group has complied with the disclosure requirements in accordance with Chapter 20 of the GEM Listing Rules.

THE PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to issue new shares on a pro-rata basis to existing shareholders of the Company.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from 8 May 2013 to 10 May 2013, both days inclusive. In order to ascertain the members' entitlement to the attendance of the forthcoming annual general meeting of the Company, all share transfers documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, namely Tricor Investor Services Limited at 26/F Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 7 May 2013.

DIRECTORS

The Directors who held office during the year and up to the date of this report were:

Chairman and Non-executive Directors

Li Kin Shing (李健誠)

Executive Directors

Pang Kwok Chau (彭國洲)
Li Wang (李宏)

Non-executive Directors

Wong Kin Wa (黃建華)

Independent Non-executive Directors

Chen Xue Dao (陳學道)
Chu, Howard Ho Hwa (朱賀華)
Lee Man Yee, Maggie (李敏怡)

In accordance with the Company's articles of association, Mr. Li Kin Shing, Mr. Wong Kin Wa and Mr. Chu, Howard Ho Hwa shall retire by rotation at the forthcoming annual general meeting of the Company, and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company.

Confirmation of Independence

The Company has received from each of its independent non-executive Directors an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules and considers that all the independent non-executive Directors are independent.

Directors' Service Contracts

Each of the executive Directors has entered into a service agreement with the Company. The terms and conditions of each of such service agreements are similar in all material aspects and are briefly described as follows:

(a) Each service contract is for an initial term of three years commencing on 1 May 2010. Each of these service contracts may be terminated by either party thereto giving to the other not less than three months' prior notice in writing.

(b) The annual remuneration (including director's fee, basic salary, allowance, non-cash benefit and retirement scheme contribution) payable to Mr. Pang Kwok Chau and Mr. Li Wang under their respective service agreements shall be approximately HK$645,000 and HK$223,000 respectively.

(c) Each of the executive Directors is entitled to a management bonus, the amount of which is determined with reference to the operating results of the Group and the performance of the executive Director; and

(d) Each of the executive Directors shall abstain from voting and not be counted in the quorum in respect of any resolution of the Board regarding the amount of annual salary and management bonus payable to himself.

Each of the non-executive Directors has entered into a service agreement with the Company. The terms and conditions of each of such service agreements are similar in all material aspects and are briefly described as follows:

(a) Each service contract is for an initial term of three years commencing on 1 May 2010. Each of these service contracts may be terminated by either party thereto giving to the other not less than three months' prior notice in writing.

(b) The annual director's fee payable to Mr. Li Kin Shing and Mr. Wong Kin Wa under their respective service agreement shall be HK$80,000 and HK$80,000 respectively.

(c) Each of the non-executive Directors is entitled to a management bonus, the amount of which is determined with reference to the operating results of the Group and the performance of the non-executive Director.

(d) Each of the non-executive Directors shall abstain from voting and not be counted in the quorum in respect of any resolution of the Board regarding the amount of annual salary and management bonus payable to himself.

Each of the independent non-executive Directors has entered into a service agreement with the Company under which each of them agreed to act as independent non-executive Director for a period of three years, commencing on 1 June 2010, unless terminated in accordance with the terms and conditions specified therein. The annual director's fee payable to Mr. Chen Xue Dao, Mr. Chu, Howard Ho Hwa and Ms. Lee Man Yee, Maggie under their respective service agreements shall be HK$80,000, HK$80,000 and HK$80,000 respectively.

None of the Directors, including those to be re-elected at the forthcoming annual general meeting, has a service agreement which is not determinable by the Group within one year without the payment of compensation (other than statutory compensation).

Contract of significance

Save for the service contracts of the Directors and the contracts under the paragraph named "Continuing Connected Transaction" as disclosed above and note 21 to the financial statements, no contract of significance in relation to the Group's business to which the Company, its subsidiaries and controlling shareholders and their controlled entities was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year under review or at any time during the year under review.

DIRECTORS AND SENIOR MANAGEMENT

The brief biographical details of Directors and senior management are set out in pages 37 to 39 of this report.

Emolument Policy

A remuneration committee is set up for reviewing the Group's emolument policy and structure for all remuneration of the directors and senior management having regard to the Group's operating results, individual performance and comparable market practices.

Directors' Remunerations and Five Employees with Highest Emolument

Details of directors' remunerations and five employees with highest emolument are set out in note 7 and note 8 to the financial statements.

No emoluments have been paid to the Directors as an inducement to join or upon joining the Group or as compensation for loss of office during the year ended 31 December 2012 (2011: Nil). No Director waived or agreed to waive any emoluments during the year ended 31 December 2012 (2011: Nil).

During the year ended 31 December 2012, no emoluments were paid by the Group to any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2011: Nil).

Staff Contribution Retirement Schemes

The amounts of contributions and details of the Group's defined contribution retirement schemes are set out in note 5(a) to the financial statements.

SHARE INTERESTS

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

As at 31 December 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 31 December 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 31 December 2012, so far as it is known to the Directors, the persons (other than the Directors or chief executive of the Company) with interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which would be recorded in the register of the Company required to be kept under section 336 of the SFO or who are directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group were as follows:

Long position in shares of the Company:

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

Notes:

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

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

Save as disclosed above, as at 31 December 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.

COMPETING INTERESTS

During the year ended 31 December 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.

SHARE OPTION SCHEME

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

The Share Option Scheme became unconditional after the listing of the Company's shares on GEM on 2 June 2010. The Company did not grant or cancel any options under the Share Option Scheme any time during the year, and as at 31 December 2012, there was no outstanding share option under the Share Option Scheme.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in this report, during the year ended 31 December 2012, 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.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

During the year ended 31 December 2012, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any share of the Company.

CORPORATE GOVERNANCE

The corporate governance report adopted by the Company is set out in pages 27 to 36 of this report.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public throughout the year ended 31 December 2012 and as at the date of this report.

INTEREST OF COMPLIANCE ADVISER

As at 31 December 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.

AUDITORS

KPMG will retire and being eligible, offer themselves for re-appointment as auditors of the Company at the forthcoming annual general meeting of the Company. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the said meeting.

On behalf of the Board

Li Kin Shing
Chairman

Hong Kong, 28 March 2013

CORPORATE GOVERNANCE PRACTICES

The Company has committed to maintaining high standards of corporate governance to protect the interests of the shareholders of the Company. In the opinion of the Directors, the Company has complied with all the code provisions as set out in the Code on Corporate Governance Practices (effective until 31 March 2012) during the period from 1 January 2012 to 31 March 2012 and the Corporate Governance Code and Corporate Governance Report (effective from 1 April 2012) during the period from 1 April 2012 to 31 December 2012 (collectively the "CG code") contained in Appendix 15 to the GEM Listing Rules throughout the year under review.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

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

BOARD OF DIRECTORS

The Company is governed by the Board, which is responsible for overseeing the overall strategy and development of the Company, as well as monitoring the internal control policies, succession planning, risk management, significant acquisitions, evaluating the financial performance of the Group and other significant operational and financial issues. The Board sets the overall strategies and directions for the Group with a view to developing its business and enhancing the shareholders value. The Board delegates to the Company's management the following duties: preparation of financial statements for the Board's review before their publication, formulation of business execution strategy, definition and enforcement of company policies, implementation of adequate internal control systems, and compliance with the relevant laws and regulations.

The Board currently comprises two executive Directors, two non-executive Directors and three independent non-executive Directors ("INEDs"). The term of appointment of non-executive Directors are set out in page 20 of this report and the biographical details of the Directors are set out in pages 37 to 39 of this report.

During the year ended 31 December 2012, the Board held six meetings. The attendances of individual at these Board meetings were as follows:

Name of Directors	Number of Meetings Attended
Mr. Li Kin Shing (李健誠) (Chairman and Non-Executive Director)	6/6
Mr. Pang Kwok Chau (彭國洲) (Executive Director and Chief Executive Officer)	6/6
Mr. Li Wang (李宏) (Executive Director)	6/6
Mr. Wong Kin Wa (黃建華) (Non-Executive Director)	5/6
Mr. Chu, Howard Ho Hwa (朱賀華) (Independent Non-Executive Director)	6/6
Mr. Chen Xue Dao (陳學道) (Independent Non-Executive Director)	6/6
Ms. Lee Man Yee, Maggie (李敏怡) (Independent Non-Executive Director)	6/6

In compliance with Rules 5.05(1) and (2) of the GEM Listing Rules, the Company has appointed sufficient number of INEDs with at least one of them having appropriate professional qualifications or accounting or related financial management expertise. The INEDs, together with the executive Director, ensure that the Board prepares its financial and other mandatory reports in strict compliance with the relevant standards and that appropriate systems are in place to protect the interest of the Company and its shareholders. The Company has received an annual confirmation of independence from each of the INEDs and considers that their independence is in compliance the GEM Listing Rules as at the date of this report.

The term of appointment of each non-executive director and independent non-executive director is for a period of three years, subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the articles of association of the Company.

In accordance with the articles of association of the Company, at each AGM one third of the Directors for the time being shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years. Such retiring Directors may, being eligible, offer themselves for re-election at the AGM. All Directors appointed by the Board to fill a casual vacancy shall hold office only until the first general meeting of shareholders after their appointment and be subject to re-election at such meeting and all Directors appointed by the Board as an addition to the existing Board shall hold office only until the next following AGM and shall then be eligible for re-election.

None of the Directors, including those to be re-elected at the forthcoming annual general meeting, has a service agreement which is not determinable by the Group within one year without the payment of compensation (other than statutory compensation).

Board meetings

The Board regularly meets in person or through other electronic means of communication at least four times every year to determine overall strategic direction and objectives and approve quarterly, interim and annual results, and other significant matters. Notice of regular Board meeting are duly given to all Directors, who are all given an opportunity to attend and include matters in the agenda for discussion. Apart from regular meetings, senior management from time to time provides Directors information on activities and development of the businesses of the Group. The company secretary records the proceedings of each Board meeting by keeping minutes, including the record of all decisions by the Board together with concerns raised and dissenting views expressed (if any). Draft of Board minutes are circulated to all Directors for comment and approval as soon as practicable after the meeting. All minutes are open for inspection at any reasonable time on request by any Director.

Pursuant to the code provision A.1.8 of the CG Code, appropriate insurance cover for the Directors' and officers' liabilities in respect of legal actions against the Directors and officers of the Company arising out of corporate activities of the Group has been arranged by the Company.

Each Director ensures that he/she can give sufficient time, commitments and attention to the affairs of the Company for the year.

The list of Directors and their role and function are published on the websites of The Stock Exchange and the Company.

DIRECTORS' TRAINING

As part of an ongoing process of directors' training, the Directors are updated with latest developments regarding the Listing Rules and other applicable regulatory requirements from time to time to ensure compliance of the same by all Directors. All Directors are encouraged to attend external forum or training courses on relevant topics which may count towards continuous professional development training. Continuing briefings and professional development to Directors will be arranged whenever necessary.

Pursuant to the revised CG Code which has come into effect on 1 April 2012, all directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the board remains informed and relevant. During the year and up to the date of this report, all Directors have participated in appropriate continuous professional development activities either by attending training courses or by reading materials relevant to the Company's business or to the Directors' duties and responsibilities.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Pursuant to the code provision A.2.1 of the CG Code, the roles of the Chairman and Chief Executive Officer are segregated and are held by Mr. Li Kin Shing and Mr. Pang Kwok Chau respectively to ensure their respective independence, accountability and responsibility. The Chairman is responsible for the Group's strategic planning and the management of the operations of the Board, while the Chief Executive Officer takes the lead in the Group's operations and business development. There is a clear division of responsibilities between the Chairman and Chief Executive Officer which provides a balance of power and authority.

NON-COMPETITION UNDERTAKING

Each of the Controlling Shareholders and Directel Limited (collectively, the "Covenantors" and each a "Covenantor") entered into a deed of non-competition undertaking with the Company on 24 May 2010 pursuant to which each of the Covenantors has, jointly and severally, among other things, irrevocably and unconditionally undertaken with the Company that at any time during the Relevant Period (as defined below), each of the Covenantors shall:

(i) 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 business then engaged and from time to time engaged by the Group in any territory, saved and except for the RF-SIM business in any territories outside Hong Kong and Macau (the "Restricted Business");

(ii) take all possible actions (including any acts and omissions) to procure that his/her/its associates (other than members of the Group) 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, the Restricted Business;

(iii) 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;

(iv) take all possible actions (including any acts and omissions) to procure that his/her/its associates (other than members of the Group) shall not, directly or indirectly, engage in, invest in, participate in, or attempt to participate in, whether on 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

(v) not, and procure that his/her/its associates (other than members of the Group) not, for the purpose of competing with the business then engaged and from time to time engaged by the Group, to solicit or endeavor to cause any employee, former employee, or then existing employee of the Company and the members of the Group to work for the Covenantors or his/her/its associates (other than members of the Group); and shall not, without the Company's consent, make use of any information pertaining to the business of the Group which may have come to his/her/its knowledge in his/her/its capacity, as the case may be, as the controlling shareholders or his/her/its associates.

The above restrictions do not apply in the following cases:

(i) each of the Covenantors and his/her/its associates (excluding members of the Group) may hold securities of any company which conducts or is engaged in any Restricted Business provided that (a) such securities are listed on a recognised stock exchange (as defined in the SFO); and (b) the aggregate number of securities held by the Covenantors and their respective associates (excluding members of the Group) do not exceed 5% of the issued shares of such company;

(ii) each of the Covenantors and his/her/its associates (excluding members of the Group) may invest in the Group; and

(iii) the interests of Mr. Li Kin Shing and Ms. Kwok King Wa, jointly and/or severally, in Directel Limited. The Company agreed that each of Mr. Li Kin Shing and Ms. Kwok King Wa may continue to hold such interests in Directel Limited.

Under the deed of non-competition undertaking, the Covenantors further undertake to the Company the following:

(i) the Covenantors shall allow, and shall procure that the relevant associates (excluding members of the Group) to allow, the Directors and the Company's auditors to have access to such financial records of such Covenantors and/or their respective associates as may be necessary for the Company to determine whether the terms of the deed of non-competition have been complied with;

(ii) the Covenantors shall allow, and shall procure that their associates (excluding members of the Group) to allow, the independent non-executive Directors to review, at least on an annual basis, the Covenantors' compliance with the deed of non-competition undertaking and the warrant, preferred warrant or right of first refusal set up by the Covenantors in current or future competitive business activities;

(iii) the Covenantors shall provide all information necessary for the annual review by the independent non-executive Directors in making a fair and reasonable assessment of the Covenantors' compliance with the deed of non-competition undertaking including but not limited to, (i) a list of listed companies in which he/she/it and/or his/her/its associates are beneficially interested or legally holds 5% or more shareholding interest and the nature of business of each of such companies; and (ii) a list of private companies in which he/she/it and/or his/her/its associates beneficially and/or legally holds and the nature of business of each of such companies;

(iv) without prejudicing the generality of paragraph (i) above, the Covenantors shall provide to the Company with a declaration annually for inclusion by the Company in its annual report, in respect of their compliance with the terms of the deed of non-competition undertaking and disclose such information in the corporate governance report under the annual report of the Company (any such disclosure would be consistent with the principles of making voluntary disclosures in the corporate governance report);

(v) the Company shall disclose decisions on matters reviewed by the independent non-executive Directors relating to the compliance and enforcement of the deed of non-competition undertaking either through the annual report, or by way of announcements to the public;

(vi) in the event the Covenantors or their associates (excluding members of the Group) were given any business opportunity that is or may involve in direct or indirect competition with the business of the Group, the Covenantors shall assist, and shall procure their relevant associates to assist, the Company in obtaining such business opportunity directly or in the event that such business opportunity relates to the provision of any service (s) which is/are supplementary to the core business of such Covenantors or the relevant associates, by ways of subcontracting or outsourcing in the terms being offered to the Covenantors or the relevant associates, or more favourable terms being acceptable to the Company if the Covenantors give up the business opportunity, it is deemed to give up such business opportunity and the Covenantors cannot involve in the business derived from such business activities; and

(vii) each of the Covenantors agrees to indemnify the Company from and against any and all losses, damages and costs which loss, damage or cost is resulted from any failure to comply with the terms of the deed of non-competition by the Covenantors or any of their respective associates.

For the above purpose, the "Relevant Period" means the period commencing from the date of the deed of non-competition undertaking and shall expire on the earlier of (i) the date on which the Covenantors (together with their respective associates), whether directly or indirectly, cease to be interested in 10% or more of the issued share capital of the Company; and (ii) the date on which the Shares cease to be listed on the Stock Exchange.

The independent non-executive Directors will review, at least on an annual basis, the compliance with the deed of non-competition undertaking by the Covenantors.

BOARD COMMITTEES

The Company has established three Board committees (the "Board Committees"), namely the Audit Committee, the Nomination Committee and the Remuneration Committee to assist the Board in discharging its duties and responsibilities. The Board Committees are provided with sufficient resources to discharge their duties and are able to obtain outside independent professional advice in connection with their duties at the Company's expenses.

AUDIT COMMITTEE

The Company has established an audit committee ("Audit Committee") on 20 May 2010 with written terms of reference in compliance with the GEM Listing Rules. The Audit Committee consists of the three independent non-executive Directors, namely, Ms. Lee Man Yee, Maggie, Mr. Chen Xue Dao and Mr. Chu, Howard Ho Hwa. Ms. Lee Man Yee, Maggie is the chairman of the Audit Committee.

During the year under review, the audit committee held four meetings. The attendance record of the meetings is as follows:

Name of Directors	Number of Meetings Attended
Ms. Lee Man Yee, Maggie (李敏怡) (Independent Non-Executive Director)	4/4
Mr. Chu, Howard Ho Hwa (朱賀華) (Independent Non-Executive Director)	4/4
Mr. Chen Xue Dao (陳學道) (Independent Non-Executive Director)	4/4

The primary duties of the Audit Committee are to review the Company's annual report and consolidated financial statements, half-yearly report and quarterly reports and to provide advice and comment thereon to the Board. The Audit Committee is also responsible for reviewing and supervising the financial reporting process and internal control of the Group.

During the year of 2012, the audit committee has (i) reviewed the quarterly and half-yearly results; (ii) reviewed the accounting policies adopted by the Group and issues related to accounting practice; (iii) met with external auditors to discuss on issues arising from the audit and financial reporting matters and reviewed the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement; and (iv) assisted the Board to evaluate on the effectiveness of financial reporting procedure and internal control.

The Group's audited results for the year ended 31 December 2012 have been reviewed by the Audit Committee and which was of the opinion that such results complied with the applicable accounting standards and that adequate disclosures had been made.

Auditors' Remuneration

For the year ended 31 December 2012, the remuneration paid/payable to the external auditors in respect of audit services amounted to approximately HK$866,000 (2011: HK$860,000), and non-audit services assignment amounted to approximately HK$443,000 (2011: HK$90,000). Auditors' remuneration for non-audit services includes remuneration paid/payable to KPMG for providing certain tax advisory service.

NOMINATION COMMITTEE

The Company has established a nomination committee on 20 May 2010 with written terms of reference. The nomination committee comprises one executive Director namely Mr. Pang Kwok Chau and two independent non-executive Directors namely Ms. Lee Man Yee, Maggie and Mr. Chen Xue Dao. Ms. Lee Man Yee, Maggie has been appointed as the chairman of the nomination committee. The nomination committee is mainly responsible for making recommendations to the Board on appointment of Directors and succession planning for the Directors.

The Board took into consideration criteria such as expertise, experience, the market situation and applicable laws and regulations when considering new director appointments. The Directors held a meeting on 28 March 2013 for the nominations of Directors. The attendance record of the meeting is as follows:

Name of Directors	Number of Meeting Attended
Mr. Pang Kwok Chau (彭國洲) (Executive Director)	1/1
Mr. Chen Xue Dao (陳學道) (Independent Non-Executive Director)	1/1
Ms. Lee Man Yee, Maggie (李敏怡) (Independent Non-Executive Director)	1/1

In the latest meeting, the nomination committee members considered and passed resolutions recommending that all the Directors shall be retained. In addition, resolutions were passed pursuant to the articles of association of the Company, and subject to the proposed arrangement being passed at the forthcoming annual general meeting, that Mr. Li Kin Shing, Mr. Wong Kin Wa and Mr. Chu, Howard Ho Hwa will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

Furthermore, the nomination committee has reviewed the annual confirmation of independence submitted by the independent non-executive Directors, assessed their independence and reviewed the structure, size and composition including the skills knowledge and experience of the Board.

REMUNERATION COMMITTEE

The Company has established a remuneration committee with written terms of reference in compliance with the CG Code as set out in Appendix 15 of the GEM Listing Rules. The remuneration committee comprises one non-executive Director, namely, Mr. Li Kin Shing and two independent non-executive Directors, namely Mr. Chen Xue Dao and Ms. Lee Man Yee, Maggie. Ms. Lee Man Yee, Maggie has been appointed as the chairman of the remuneration committee. The primary duties of the remuneration committee are, amongst other things, to review and determine the terms of remuneration packages, bonuses and other compensation payable to the Directors and senior management and to make recommendation to the Board on the Group's policy and structure for all remuneration of the Directors and senior management.

Remuneration committee held a meeting on 28 March 2013. The attendance record of the meeting is as follows:

Name of Directors	Number of Meeting Attended
Mr. Li Kin Shing (李健誠) (Non-Executive Director)	1/1
Ms. Lee Man Yee, Maggie (李敏怡) (Independent Non-Executive Director)	1/1
Mr. Chen Xue Dao (陳學道) (Independent Non-Executive Director)	1/1

Remuneration committee members have considered and reviewed the remuneration policy and structure of the Company and the terms of service contracts of all Directors and senior management. The remuneration committee members are of the opinion that the provisions of the service contracts of all Directors and senior management are fair.

Details of directors' remunerations and five employees with highest emolument are set out in note 7 and note 8 to the financial statements.

Pursuant to the code provision B.1.5 of the CG Code, the remuneration of the members of the senior management by band for the year ended 31 December 2012 is set out below:

In the band of	Number of individuals
HK$Nil - HK$1,000,000	10

INTERNAL CONTROL

The Board recognises the importance of maintaining an adequate and effective internal control system to safeguard the Group's assets against unauthorised use of disposition, and to protect the interests of shareholders of the Company. The Board assumes the overall responsibility for reviewing the adequacy and integrity of the Group's internal control system.

The Board has conducted a review of its system of internal control periodically to ensure the effective and adequate internal control system of the Group. The Board convened meeting periodically to discuss financial, operational and risk management control. The Directors are of the opinion that internal controls at present have been valid and adequate.

COMPANY SECRETARY

Ms. Chan Wai Ching was appointed as the company secretary of the Company since 6 August 2009. The biographical details of Ms. Chan is set out in the section of Profile of Directors and Senior Management on page 39 of this report. Up to the date of this report, Ms. Chan has undertaken not less than 15 hours of relevant professional training to update her skill and knowledge.

INVESTOR RELATIONS

The Board recognises the importance of good communications with all shareholders. The Company believes that maintaining a high level of transparency is a key to enhancing investor relations. It is committed to a policy of open and timely disclosure of corporate information to its shareholders and investors.

The Company updates its shareholders on its latest business developments and financial performance through its annual, interim and quarterly report and notices, announcements and circulars. The corporate website of the Company (www.directel.hk) provides a communication platform to the public and the shareholders.

The attendance of members of the Board to the general meetings held during the year ended 31 December 2012 are as follows:

Name of Directors	Number of Meeting Attended
Mr. Li Kin Shing (李健誠) (Chairman and Non-Executive Director)	0/1
Mr. Pang Kwok Chau (彭國洲) (Executive Director and Chief Executive Officer)	1/1
Mr. Li Wang (李宏) (Executive Director)	1/1
Mr. Wong Kin Wa (黃建華) (Non-Executive Director)	1/1
Mr. Chu, Howard Ho Hwa (朱賀華) (Independent Non-Executive Director)	0/1
Mr. Chen Xue Dao (陳學道) (Independent Non-Executive Director)	0/1
Ms. Lee Man Yee, Maggie (李敏怡) (Independent Non-Executive Director)	1/1

In accordance with Provision E.1.2 of the CG Code, the Chairman of the Board as well as chairman of the Audit Committee, Remuneration Committee and Nomination Committee, or in their absence, other members of the respective committees, and where applicable, the independent Board committee, should be available to answer questions at the shareholder's meetings. However, the Chairman of the Board was unable to attend the Company's 2011 annual general meeting as he had an important business engagement. Despite his absence, he had arranged for the Chief Executive Officer taking the chair of the meeting and answering shareholders' questions. No questions were raised by the shareholders at the meeting.

During the year ended 31 December 2012, there had been no significant change in the Company's constitutional documents.

SHAREHOLDERS' RIGHTS

Convening an extraordinary general meeting

Pursuant to article 64 of the articles of association of the Company, extraordinary general meetings of the Company (the "EGM(s)") shall also be convened on the requisition of one or more Shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the Company Secretary for the purpose of requiring an EGM to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within twenty one days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s), as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Putting enquiries to the Board

Shareholders may at any time make enquiries to the Board or make a request for the Company's information to the extent such information is publicly available. Any such questions shall be first directed to the Company Secretary at the Company's head office and principal place of business in Hong Kong at Office Nos. 1, 2, 14 and 15, 37th Floor, Hong Kong Plaza, No. 188 Connaught Road West.

Putting forward proposals at Shareholders' meeting

The procedures for shareholders to put forward proposals at general meeting include a written notice of proposals being submitted by shareholders, addressed to the Company Secretary of the Company at our head office. Specific enquiries by shareholders requiring the Board's attention can be sent in writing to the Company Secretary at the Company's head office. Other general enquiries can be directed to the Company through the Company's website.

FINANCIAL REPORTING

The Directors are responsible for the preparation of the financial statements for each financial year, which give a true and fair view of the financial position and operating results of the Group. The auditors are responsible to form an independent opinion based on the audit, on the financial statements prepared by the Directors and report the opinion solely to the shareholders of the Company.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

CHAIRMAN AND NON-EXECUTIVE DIRECTORS

Mr. Li Kin Shing (李健誠), aged 55, is the chairman and a non-executive Director. Mr. Li has over 23 years of experience in the telecommunications industry. Mr. Li is an executive director and chief executive officer of International Elite Ltd., a company listed on the Main Board and controlled by Mr. Li and his spouse Ms. Kwok King Wa. Mr. Li was the chief executive officer and president of ChinaCast Education Corporation, a limited liability company incorporated in the State of Delaware, US, whose shares are displayed on the Over the Counter Bulletin Board when he resigned from these positions on 2 February 2007 following the acquisition of ChinaCast Education Corporation by an Independent Third Party, in December 2006. Mr. Li has confirmed that there were no disagreements between Mr. Li and ChinaCast Education Corporation on any matter relating to the ChinaCast Education Corporation's operations, policies or practices that resulted in his resignation. ChinaCast Education Corporation is a for-profit, post-secondary education and e-learning services provider in China. Save as disclosed herein, Mr. Li has not been a director of any publicly listed company during the three years preceding the date of this report. He was appointed as the chairman and non-executive Director on 31 August 2009.

EXECUTIVE DIRECTORS

Mr. Pang Kwok Chau (彭國洲), aged 52, is the chief executive officer and an executive Director. He is responsible for the overall marketing strategic planning and direction of the Group. Mr. Pang obtained a craft certificate in radio servicing (無線電修理行業技能證書) after the completion of a two-year part-time evening course from a Technical Institute under the Education Department, Hong Kong in July 1979 immediately following his graduation from secondary school and has over 18 years of experience in the telecommunications industry, especially in international roaming operation. Since joining the Group, Mr. Pang has actively involved in the Group's business of "One Card Multiple Number" service in Hong Kong and the PRC. He has also involved in the Group's overall corporate governance since 2007. Before joining the Group as the general manager in 2001, Mr. Pang served as the manager of China-Hong Kong Telelink Company Limited since 1995. Mr. Pang has not been a director of any publicly listed company during the three years preceding the date of this report. He was appointed as an executive Director on 31 August 2009.

Mr. Li Wang (李宏), aged 42, is the executive Director. He is responsible for the overall management, corporate planning and business development of the Group. Mr. Li has over 9 years of experience in telecommunications industry. Mr. Li worked as a manager of a PRC telecommunications company namely, 廣州天龍信息工程公司 (Guangzhou Talent Information Engineering Company Limited) from 1993 to 1997 and was responsible for the management and promotion of pager and mobile telecommunications services business. Mr. Li then worked as a vice-general manager of 廣東直通電訊股份有限公司 (Guangdong Zhitong Telecommunications Limited) from 1997 to 1999, and gained experience in marketing of telecommunication service business. He also worked as a director of Directel Communications Limited from 1995 to 2000, a director of Target Link Enterprises Limited, a private company engaged in investment of software, from 1997 to 2004 and a director and a legal representative of 廣東直通投資有限公司 (Guangdong Zhitong Investment Ltd.) from 1992 to 2009. He is the brother of Mr. Li Kin Shing, the chairman and non-executive Director of the Company. Mr. Li has not been a director of any publicly listed company during the three years preceding the date of this report. He was appointed as an executive Director on 31 August 2009.

NON-EXECUTIVE DIRECTOR

Mr. Wong Kin Wa (黃建華), aged 45, is a non-executive Director. Mr. Wong obtained a diploma in auditing from Guangzhou Radio & TV University in 1988. Mr. Wong has over 12 years of finance and marketing experience, in particular in the telecommunications industry in Hong Kong and Macau. Mr. Wong is an executive director and chief financial officer of IEL, a company listed on the Main Board and controlled by Mr. Li Kin Shing and his spouse, Ms. Kwok King Wa. Before joining IEL in 2000, he was the manager of China-Hong Kong Telelink Co., Ltd. from 1997 to 1999. Mr. Wong joined Denway Motors Limited (駿威汽車有限公司) (previously known as Denway Investment Limited), a company listed on the Main Board, as the vice general manager of the Finance Department from 1993 to 1997. Save as disclosed herein, Mr. Wong has not been a director of any publicly listed company during the three years preceding the date of this report. He was appointed as a non-executive Director on 31 August 2009.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chen Xue Dao (陳學道), aged 70, was appointed as an independent non-executive Director on 20 May 2010. Mr. Chen is currently an honorary member of the China Institute of Communications (中國通信學會), honorary chairman of the Guangdong Institute of Communications (廣東省通信學會), honorary chairman of Guangdong Communication Industry Association (廣東省通信行業協會) and committee member of the Guangdong Provincial Association for Science and Technology (廣東省科學技術協會). Mr. Chen also holds the qualification of a senior engineer at Professor grade, and he has been granted the special subsidy by the State Council of the PRC for his prominent contributions to engineering science since 1992. Mr. Chen has been an independent non-executive Director of IEL, an independent director of Eastone Century Technology Holding Co., Ltd. (Guangdong) (廣東宜通世紀科技股份有限公司), a company listed in the Shenzhen Stock Exchange with stock code 300310, and an independent director of GCI Science & Technology Co., Ltd. (廣州傑賽科技股份有限公司), a company listed in the Shenzhen Stock Exchange with stock code 002544. Save as disclosed herein, Mr. Chen has not been a director of any publicly listed company during the three years preceding the date of this report.

Mr. Chu, Howard Ho Hwa (朱賀華), aged 48, was appointed as an independent non-executive Director on 20 May 2010. Mr. Chu has over 12 years of business experience and over 6 years of experience in corporate governance. Mr. Chu is currently the chief executive officer of mReferral Corporation (HK) Limited which is a leading mortgage referral company and is a joint venture of Midland Holdings Limited and Cheung Kong (Holdings) Limited. From March 2012 to June 2012, he was the chief financial officer of China Smart Electric Co. Ltd. From July 2009 to October 2011, he was the chief financial officer of Trony Solar Holdings Company Limited which is a publicly listed company on the Main Board of the Stock Exchange (stock code: 2468). From September 2010 to May 2012, he was an independent non-executive Director of China Kingstone Mining Holdings Limited which is a publicly listed company on the Main Board of the Stock Exchange (stock code: 1380). He has previously worked for Shanghai Century Acquisition Corporation, a company listed on the American Stock Exchange, and United Energy Group Limited, a company listed on the Stock Exchange. He was a director at ABN AMRO Asia Corporate Finance Ltd. and was also a director at the Hong Kong and Shanghai Banking Corporation Ltd. He is currently an independent non-executive Director of Weichai Power Co. Ltd. which is a publicly listed company on the Main Board of Stock Exchange (stock code: 2338). He obtained a master degree of business administration from the Columbia University and a bachelor degree of science from the University of Rochester in 1990 and 1986 respectively.

Ms. Lee Man Yee, Maggie (李敏怡), aged 42, was appointed as an independent non-executive Director on 20 May 2010. Ms. Lee has over 12 years of accounting, finance, taxation, audit and corporate governance experience and is a member of Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Ms. Lee obtained a diploma in business administration in the PRC from the Hong Kong Productivity Council. In the three years preceding the date of this report, Ms. Lee did not hold any directorship in listed public companies.

SENIOR MANAGEMENT

Ms. Chan Wai Ching (陳惠貞), aged 50, joined the Group in 2009 and was appointed as the company secretary of the Company on 6 August 2009. Ms. Chan has over 27 years of experience in accounting, finance, taxation and corporate governance and is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Ms. Chan holds a master degree of professional accounting from The Hong Kong Polytechnic University. Ms. Chan has been the qualified accountant and company secretary of IEL since June 2007.

Mr. Hui Luen Sing, Anthony (許聯星), aged 46, joined the Group in 2006 and has been the manager of the information technology and network department of the Group since 2006. He is responsible for the overall management and to provide advice on various information technology and network technical issues to the Group. Mr. Hui has more than 22 years of experience in telecommunications industry. Prior joining the Group, Mr. Hui has worked for several telecommunications service providers for over 11 years. Mr. Hui obtained a certificate in electronics from the Vocational Training Council and completed a certificate programme on supervisory of management for managers from The Hong Kong Management Association.

Mr. Li Chi Chung (李智聰), aged 39, joined the Group in 2011 and is the financial manager of the Group. He is responsible for the financial and accounting issues of the Group. Mr. Li has over 11 years of experience in accounting, finance, taxation and corporate governance and is an associate member of the Hong Kong Institute of Certified Public Accountant. Mr. Li holds a bachelor degree of arts in financial management and accounting from the Heriot-Watt University.

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Directel Holdings Limited
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Directel Holdings Limited ("the Company") and its subsidiaries (together "the Group") set out on pages 42 to 87, which comprise the consolidated and company balance sheets as at 31 December 2012, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

28 March 2013

CONSOLIDATED INCOME STATEMENT

For the Year ended 31 December 2012

	Note	2012 *HK$'000*	2011 *HK$'000*
Turnover	3	**71,780**	72,270
Cost of sales		**(29,604)**	(28,415)
Gross profit		**42,176**	43,855
Other income		**44**	29
Administrative expenses		**(15,760)**	(18,311)
Profit from operations		**26,460**	25,573
Finance income	4	**278**	1,922
Profit before taxation	5	**26,738**	27,495
Income tax	6(a)	**(4,608)**	(4,477)
Profit for the year attributable to equity shareholders of the Company		**22,130**	23,018
Earnings per share			
– Basic and diluted	10	**HK$0.021**	HK$0.022

The notes on pages 48 to 87 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the year are set out in note 18(c).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the Year ended 31 December 2012

The Group had no components of comprehensive income other than “Profit for the year attributable to equity shareholders of the Company” in the years presented. Accordingly, no separate consolidated statement of comprehensive income is presented as the Group’s “Total comprehensive income for the year” was the same as the “Profit for the year attributable to equity shareholders of the Company” in the years presented.

The notes on pages 48 to 87 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

At 31 December 2012

	Note	2012 HK$'000	2011 HK$'000
Non-current assets			
Property, plant and equipment	12	5,969	2,431
Deferred tax assets	17(b)	1,951	2,586
Total non-current assets		7,920	5,017
Current assets			
Inventories	13	303	321
Trade and other receivables	14	46,472	61,977
Income tax recoverable	17(a)	753	246
Cash and cash equivalents	15	108,858	73,797
Total current assets		156,386	136,341
Current liabilities			
Trade and other payables	16	10,730	10,532
Income tax payables	17(a)	21	85
Total current liabilities		10,751	10,617
Net current assets		145,635	125,724
Total assets less current liabilities		153,555	130,741
Non-current liabilities			
Deferred tax liabilities	17(b)	933	249
Total non-current liabilities		933	249
Net assets		152,622	130,492
Capital and reserves	18		
Share capital		10,375	10,375
Share premium		67,499	67,499
Other reserve		—	—
Retained earnings		74,748	52,618
Total equity		152,622	130,492

Approved and authorised for issue by the board of directors on 28 March 2013.

Mr. Pang Kwok Chau
Director

Mr. Li Wang
Director

The notes on pages 48 to 87 form part of these financial statements.

BALANCE SHEET

At 31 December 2012

	Note	2012 HK$'000	2011 HK$'000
Non-current assets			
Investments in subsidiaries	11	—	—
Total non-current assets		—	—
Current assets			
Amounts due from subsidiaries	14	1,237	12,472
Other receivables and prepayments	14	383	380
Income tax recoverable	17(a)	23	—
Cash and cash equivalents	15	63,308	52,841
Total assets		64,951	65,693
Current liabilities			
Other payables	16	1,918	1,436
Income tax payables	17(a)	—	79
Total current liabilities		1,918	1,515
Net current assets		63,033	64,178
Net assets		63,033	64,178
Capital and reserves	18		
Share capital		10,375	10,375
Share premium		67,499	67,499
Accumulated losses		(14,841)	(13,696)
Total equity		63,033	64,178

Approved and authorised for issue by the board of directors on 28 March 2013.

Mr. Pang Kwok Chau
Director

Mr. Li Wang
Director

The notes on pages 48 to 87 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Year ended 31 December 2012

	Note	Share capital HK$'000 Note 18(b)	Share premium HK$'000 Note 18(d)(i)	Other reserve HK$'000 Note 18(d)(ii)	Retained earnings HK$'000	Total equity HK$'000
Balance at 1 January 2011		10,375	67,499	—	34,788	112,662
Changes in equity for 2011:						
Profit and total comprehensive income for the year		—	—	—	23,018	23,018
Dividend approved in respect of the previous year	18(c)	—	—	—	(5,188)	(5,188)
Balance at 31 December 2011 and at 1 January 2012		**10,375**	**67,499**	**–**	**52,618**	**130,492**
Change in equity for 2012:						
Profit and total comprehensive income for the year		**–**	**–**	**–**	**22,130**	**22,130**
Balance at 31 December 2012		**10,375**	**67,499**	**–**	**74,748**	**152,622**

The notes on pages 48 to 87 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the Year ended 31 December 2012

	Note	2012 HK$'000	2011 HK$'000
Operating activities			
Profit before taxation		26,738	27,495
Adjustments for:			
Depreciation	5(b)	851	516
Allowance for doubtful debts	5(b)	48	11
Reversal of write down of inventories	13(b)	(7)	(89)
Interest income	4	(380)	(162)
		27,250	27,771
Change in inventories		25	(61)
Change in trade and other receivables		12,583	(22,404)
Change in trade and other payables		198	2,555
Cash generated from operations		40,056	7,861
Income tax paid		(3,860)	(6,271)
Net cash generated from operating activities		36,196	1,590
Cash flows from investing activities			
Interest received	4	380	162
Acquisition of property, plant and equipment		(1,515)	(2,154)
Net cash used in investing activities		(1,135)	(1,992)
Cash flows from financing activity			
Dividends paid	18(c)	–	(5,188)
Net cash used in financing activity		–	(5,188)
Net increase/(decrease) in cash and cash equivalents		35,061	(5,590)
Cash and cash equivalents at beginning of the year	15	73,797	79,387
Cash and cash equivalents at end of the year	15	108,858	73,797

The notes on pages 48 to 87 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

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 Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (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 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IAS") and interpretations, issued by the International Accounting Standards Board ("IASB").

These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Basis of preparation of financial statements

The consolidated financial statements for the year ended 31 December 2012 comprise the Company and its subsidiaries (together referred to as the "Group").

The measurement basis used in the preparation of the financial statements is the historical cost basis.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 23.

(c) Changes in accounting policies

The IASB has issued several amendments to IFRSs that are first effective for the current accounting period of the Group and the Company. The adoption of these developments did not have significant impact on the Group's results of operations and financial position.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (note 25).

(d) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date the control ceases.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, investments in subsidiaries are stated at cost less impairment losses (note 2(g)(ii)).

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Property, plant and equipment

Property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (note 2(g)(ii)).

Cost includes expenditures that are directly attributable to the acquisition of an asset.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

- Furniture and fixtures 5 years
- Facilities equipment 5-8 years
- Office equipment 5 years

Both the useful life of an asset and its residual value, if any, are reviewed annually.

(f) Operating lease charges

Leases of assets under which the lessor has not transferred substantially all the risks and rewards of ownership are classified as operating leases.

Where the Group has the use of assets under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made.

(g) Impairment of assets

(i) Impairment of trade and other receivables

Trade and other receivables that are stated at amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that come to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Impairment of assets *(Continued)*

(i) Impairment of trade and other receivables (Continued)

If any such evidence exists, any impairment loss is determined and recognised as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in espect of trade debtors included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Impairment of assets *(Continued)*

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

— Property, plant and equipment; and

— Investment in subsidiaries.

If any such indication exists, the asset's recoverable amount is estimated.

— Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the other assets in the cash-generating unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

— Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Growth Enterprise Market of Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with IAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 2(g)(i) and (ii)).

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the first-in, first-out formula and comprises all costs of purchase, and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(i) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (note 2(g)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(j) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(l) Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Income tax *(Continued)*

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company and the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(o) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Revenue from the provision of telecommunications services is recognised when the services have been rendered.

(ii) Revenue from the provision of telesales dealership services is recognised when the services have been rendered and the Group has obtained the rights to demand payment for the services rendered.

(iii) Interest income is recognised as it accrues using the effective interest method.

(p) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Related parties

(i) A person, or a close member of that person's family, is related to the Group if that person:

(1) has control or joint control over the Group;

(2) has significant influence over the Group; or

(3) is a member of the key management personnel of the Group or the Group's parent.

(ii) An entity is related to the Group if any of the following conditions applies:

(1) The entity and the Group are member of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(2) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(3) Both entities are joint ventures of the same third party.

(4) One entity is a joint venture of a third party and the other entity is an associate of the third party.

(5) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(6) The entity is controlled or jointly-controlled by a person identified in (i).

(7) A person identified in (i)(1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(r) Segment reporting

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

The financial information provided to the chief operating decision maker does not contain profit or loss information of each service line and the chief operating decision maker reviews the operating results of the Group as a whole. Therefore, the operations of the Group constitute one single reportable segment.

3 TURNOVER

The principal activities of the Group are the provision of telecommunications services. Turnover represents the sales value of services rendered to customers. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2012 *HK$'000*	2011 *HK$'000*
Provision of telecommunications services	**71,106**	70,402
Provision of telesales dealership services	**674**	1,868
	71,780	72,270

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

	2012 *HK$'000*	2011 *HK$'000*
The largest customer	**22,256**	22,216
The second largest customer	**16,536**	12,551
The third largest customer	**10,880**	8,566

4 FINANCE INCOME

	2012 *HK$'000*	2011 *HK$'000*
Interest income	**380**	162
Net foreign exchange (loss)/gain	**(102)**	1,760
	278	1,922

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Staff costs

	2012 *HK$'000*	2011 *HK$'000*
Salaries, wages and other benefits	3,446	3,429
Contributions to defined contribution retirement plan	143	143
	3,589	3,572

Staff costs include directors' remuneration (note 7).

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement plan administered by an independent trustee. Under the MPF Scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$25,000 (HK$20,000 prior to June 2012). Contributions to the plan vest immediately.

The Group has no other obligations for payment of retirement or other post-retirement benefits of employees other than the contribution described above.

(b) Other items

	Note	2012 *HK$'000*	2011 *HK$'000*
Depreciation	12	851	516
Licence charges		2,857	2,809
Operating lease charges in respect of			
– rental of properties	21(b)	528	528
– rental of transmission lines		1,033	709
Auditors' remuneration			
– audit services		866	860
– tax services		73	80
– other services		370	10
Utilities		75	69
Repair and maintenance		537	560
Allowance for doubtful debts	14(b)	48	11
Cost of inventories	13(b)	1,049	1,140

6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2012 *HK$'000*	2011 *HK$'000*
Current tax – Hong Kong Profits Tax		
Provision for the year	3,398	4,204
Over-provision in respect of prior year	(109)	(33)
	3,289	4,171
Deferred tax		
Origination and reversal of temporary differences	1,319	306
	1,319	306
	4,608	4,477

(i) Hong Kong Profits Tax

The Company's Hong Kong subsidiaries are subject to Hong Kong Profits Tax. In addition, whilst the Company and Elitel Limited are incorporated in the Cayman Islands, they are considered as having a presence in Hong Kong for tax purpose since they are primarily managed and controlled in Hong Kong. Accordingly, they are subject to tax on an entity basis on income arising in or derived from Hong Kong. The provision for Hong Kong Profits Tax for the year ended 31 December 2012 is calculated at 16.5% (2011: 16.5%) of the estimated assessable profits for the year. The payments of dividends by Hong Kong companies are not subject to any Hong Kong withholding tax.

(b) Reconciliation between tax expense and accounting profit at applicable tax rate:

	2012 *HK$'000*	2011 *HK$'000*
Profit before taxation	26,738	27,495
Notional tax on profit before taxation, calculated at the rate applicable to assessable profits in Hong Kong	4,412	4,537
Tax effect of non-deductible expenses	368	—
Tax effect of non-taxable income	(63)	(27)
Over-provision in prior year	(109)	(33)
Actual tax expense	4,608	4,477

7 DIRECTORS' REMUNERATION

Details of directors' remuneration disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance are as follows:

	2012				
	Directors' fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Contributions to retirement benefit plan *HK$'000*	Bonuses *HK$'000*	Total *HK$'000*
Executive Directors					
Pang Kwok Chau	80	487	26	52	645
Li Wang	80	126	7	10	223
Subtotal	160	613	33	62	868
Non-executive Directors					
Li Kin Shing	80	–	–	–	80
Wong Kin Wa	80	–	–	–	80
Subtotal	160	–	–	–	160
Independent Non-executive Directors					
Chen Xue Dao	80	–	–	–	80
Chu, Howard Ho Hwa	80	–	–	–	80
Lee Man Yee, Maggie	80	–	–	–	80
Subtotal	240	–	–	–	240
Total	560	613	33	62	1,268

7 DIRECTORS' REMUNERATION *(Continued)*

	2011				
	Directors' fees	Salaries, allowances and benefits in kind	Contributions to retirement benefit plan	Bonuses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive Directors					
Pang Kwok Chau	80	486	27	59	652
Li Wang	80	122	7	10	219
Subtotal	160	608	34	69	871
Non-executive Directors					
Li Kin Shing	80	—	—	—	80
Wong Kin Wa	80	—	—	—	80
Subtotal	160	—	—	—	160
Independent Non-executive Directors					
Chen Xue Dao	80	—	—	—	80
Chu, Howard Ho Hwa	80	—	—	—	80
Lee Man Yee, Maggie	80	—	—	—	80
Subtotal	240	—	—	—	240
Total	560	608	34	69	1,271

During the current and prior years, there were no amounts paid or payable by the Group to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the current and prior years.

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, one (2011: one) is a director whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other four individuals with highest emoluments are as follows:

	2012 *HK$'000*	2011 *HK$'000*
Salaries and other emoluments	1,147	1,078
Contributions to defined contribution retirement plan	59	55
Bonuses	20	9
	1,226	1,142

An analysis of the emoluments of the four individuals with the highest emoluments is within the following band:

	2012 *Number of individuals*	2011 *Number of individuals*
HK$Nil – HK$1,000,000	4	4

During the current and prior years, there were no amounts paid or payable by the Group to any of the highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the current or prior years.

9 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a loss of approximately HK$1,145,000 (2011: profit of approximately HK$424,000) which has been dealt with in the financial statements of the Company.

10 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of approximately HK$22,130,000 (2011: approximately HK$23,018,000) and the weighted average of 1,037,500,000 (2011: 1,037,500,000) ordinary shares of the Company as follows:

Weighted average number of ordinary shares

	Note	**2012** ***Number of shares***	2011 *Number of shares*
Issued ordinary shares at 1 January and 31 December	18(b)	**1,037,500,000**	1,037,500,000
Weighted average number of ordinary shares at 1 January and 31 December		**1,037,500,000**	1,037,500,000

(b) Diluted earnings per share

There were no potential dilutive ordinary shares during the current and prior years. Therefore, diluted earnings per share are the same as the basic earnings per share.

11 INVESTMENTS IN SUBSIDIARIES

	2012	2011
	HK$'000	*HK$'000*
Unlisted shares, at cost	—	—

At 31 December 2012, the Company has direct or indirect interests in the following subsidiaries, which are private companies or, if established/incorporated outside Hong Kong, have substantially the same characteristics as a Hong Kong private company. The amount of unlisted shares, at cost, is HK$16 (2011: HK$16).

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company	Place and date of incorporation/ establishment	Particulars of issued and fully paid up capital	Proportion of ownership interest Direct	Proportion of ownership interest Indirect	Principal activity
*Elitel Limited	Cayman Islands 30 August 2001	2 shares of US$1 each	100%	—	Provision of telecommunications services
*China-Hongkong Telecom Limited	Hong Kong 5 September 2001	100 shares of HK$1 each	—	100%	Provision of telecommunications services
*Directel Communications Limited	Hong Kong 20 April 1995	5,000,000 shares of HK$1 each	—	100%	Provision of telecommunications services

* KPMG are not the statutory auditors of these companies.

12 PROPERTY, PLANT AND EQUIPMENT

	The Group			
	Furniture and fixtures	Facilities equipment	Office equipment	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cost:				
At 1 January 2011	6	14,078	295	14,379
Additions	—	2,108	46	2,154
At 31 December 2011	6	16,186	341	16,533
Additions	—	4,281	108	4,389
At 31 December 2012	6	20,467	449	20,922
Accumulated depreciation:				
At 1 January 2011	6	13,338	242	13,586
Charge for the year	—	487	29	516
At 31 December 2011	6	13,825	271	14,102
Charge for the year	—	812	39	851
At 31 December 2012	6	14,637	310	14,953
Net book value:				
At 31 December 2012	—	5,830	139	5,969
At 31 December 2011	—	2,361	70	2,431

13 INVENTORIES

(a) Inventories in the balance sheet comprise:

	The Group	
	2012	2011
	HK$'000	*HK$'000*
SIM cards	269	280
Recharge vouchers	34	41
	303	321

(b) The analysis of the amount of inventories recognised as an expense and included in the profit or loss is as follows:

	The Group	
	2012	2011
	HK$'000	*HK$'000*
Carrying amount of inventories sold	1,056	1,229
Reversal of write down of inventories	(7)	(89)
	1,049	1,140

14 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2012	2011	2012	2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade receivables				
– amounts due from third parties	39,478	41,972	–	—
less: allowance for doubtful debts (note 14(b))	(104)	(90)	–	—
	39,374	41,882	–	—
Amounts due from subsidiaries	–	—	1,237	12,472
Other receivables and prepayments				
– other receivables	3,072	8,730	13	12
– deposits and prepayments	4,026	11,365	370	368
	7,098	20,095	383	380
	46,472	61,977	1,620	12,852

Generally, provision of mobile phone services to the Group's major customers, including major mobile network operators and their dealers, are made in an open account with credit terms up to 30 days after the date of invoice. Subject to negotiations, credit terms can be extended to two to four months for certain customers with well-established trading and payment records on a case-by-case basis. Provision of mobile phone services to the Group's pre-paid users are made with payment in advance, whereas post-paid users are made in an open account with credit terms up to 12 days after the date of invoice. Payments for provision for telesales dealership services are made in bullet payments within one to five months after rendering of services. Further details on the Group's credit policy are set out in note 19(a).

The amounts due from subsidiaries are unsecured, interest free and repayable on demand.

14 TRADE AND OTHER RECEIVABLES *(Continued)*

(a) Ageing analysis

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

	The Group	
	2012 *HK$'000*	2011 *HK$'000*
Within 1 month	**5,011**	7,416
Over 1 month but less than 3 months	**9,361**	10,036
Over 3 months but less than 6 months	**7,590**	6,902
Over 6 months but less than 1 year	**6,825**	8,936
Over 1 year	**10,587**	8,592
	39,374	41,882

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

	The Group	
	2012 *HK$'000*	2011 *HK$'000*
Current	**5,011**	7,416
Less than 1 month past due	**4,906**	7,018
1 to 3 months past due	**8,537**	9,750
More than 3 months but less than 12 months past due	**11,766**	9,139
More than 12 months past due	**9,258**	8,649
	39,478	41,972
Less: allowance for doubtful debts	**(104)**	(90)
	39,374	41,882

14 TRADE AND OTHER RECEIVABLES *(Continued)*

(b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly (see note 2(g)(i)).

The movements in the allowance for doubtful debts during the current and prior years are as follows:

	The Group	
	2012	2011
	HK$'000	*HK$'000*
At 1 January	**90**	123
Impairment loss recognised	**48**	11
Uncollectible amounts written off	**(34)**	(44)
At 31 December	**104**	90

At 31 December 2012, the Group's trade debtors of approximately HK$104,000 (2011: approximately HK$90,000) were individually determined to be impaired. The individually impaired receivables related to invoices that were default in payment and management assessed that the receivables are not expected to be recovered. Consequently, specific allowances for doubtful debts of approximately HK$104,000 (2011: approximately HK$90,000) were recognised. The Group does not hold any collateral over these balances.

(c) Trade receivables that are not impaired

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

	The Group	
	2012	2011
	HK$'000	*HK$'000*
Neither past due nor impaired	**5,011**	7,416
Less than 1 month past due	**4,906**	7,018
1 to 3 months past due	**8,537**	9,750
More than 3 months but less than 12 months past due	**11,765**	9,136
More than 12 months past due	**9,155**	8,562
	34,363	34,466
	39,374	41,882

14 TRADE AND OTHER RECEIVABLES *(Continued)*

(c) Trade receivables that are not impaired *(Continued)*

Trade receivables that were neither past due nor impaired relate to customers for whom there was no recent history of default.

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

In particular, the trade receivables as at 31 December 2012 included amounts due from a mobile network operator in China ("that MNO") amounting to HK$23,040,000, of which HK$10,178,000 and HK$8,838,000 fell into "More than 3 months but less than 12 months past due" and "More than 12 months past due" respectively. The credit terms of 30 days were granted by the Group to that MNO as it is in line with the credit policy of the Group and aims 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 year ended 31 December 2012.

The Directors are willing to extend the credit terms to that MNO generally and accept the lengthy and fluctuating actual credit period as the Directors consider 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 ongoing business relationship with that MNO; (iii) the Group has been able to receive amounts due from that MNO without any disputes or balances requiring to be written off; and (iv) there have been changes of relevant management of that MNO which extended their repayment process. Taking into account the above, the Directors are confident that that MNO would fulfill its payment obligations and no impairment allowance is considered necessary as at 31 December 2012.

As at the date of issue of these financial statements, the balances in relation to transactions conducted during the period from May 2011 to December 2011 have been fully settled by that MNO, which represented the oldest balances of these outstanding trade receivables.

15 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash at bank and on hand	**108,858**	73,797	**63,308**	52,841

16 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade payables				
– amounts due to a related party	**129**	110	**–**	—
– amounts due to third parties	**5,493**	5,425	**–**	—
	5,622	5,535	**–**	—
Other payables				
– Accrued charges and deposits	**3,139**	3,149	**1,918**	1,436
– Deferred income	**1,969**	1,848	**–**	—
	5,108	4,997	**1,918**	1,436
	10,730	10,532	**1,918**	1,436

The amounts due to a related party are unsecured, interest free and repayable on demand.

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

	The Group	
	2012	2011
	HK$'000	*HK$'000*
Within 1 month	**4,446**	3,307
Over 1 month but less than 3 months	**1,176**	2,228
	5,622	5,535

17 INCOME TAX IN THE BALANCE SHEETS

(a) Current taxation in the balance sheets represents:

	The Group		The Company	
	2012	2011	2012	2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Provision for Hong Kong Profits Tax for the year	3,398	4,204	37	46
Provisional Profits Tax paid	(4,130)	(4,398)	(60)	—
	(732)	(194)	(23)	46
Balance of Hong Kong Profits Tax provision relating to prior year	—	33	—	33
	(732)	(161)	(23)	79

Reconciliation to the balance sheets:

	The Group		The Company	
	2012	2011	2012	2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Income tax recoverable	(753)	(246)	(23)	—
Income tax payable	21	85	—	79
	(732)	(161)	(23)	79

17 INCOME TAX IN THE BALANCE SHEETS *(Continued)*

(b) Deferred tax assets and liabilities recognised:

The components of deferred tax assets/ (liabilities) recognised in the balance sheet and the movements during the current and prior years are as follows:

	The Group		
Deferred tax arising from:	**Unutilised tax losses** *HK$'000*	**Depreciation allowances in excess of the related depreciation** *HK$'000*	**Total** *HK$'000*
At 1 January 2011	2,711	(68)	2,643
Charged to profit or loss	(125)	(181)	(306)
At 31 December 2011	2,586	(249)	2,337
Charged to profit or loss	(635)	(684)	(1,319)
At 31 December 2012	1,951	(933)	1,018

Deferred tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through future taxable profit is probable.

Reconciliation to the balance sheet

	The Group	
	2012 *HK$'000*	2011 *HK$'000*
Net deferred tax assets	**1,951**	2,586
Net deferred tax liabilities	**(933)**	(249)
	1,018	2,337

18 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below.

The Company	Note	Share capital HK$'000 Note 18 (b)	Share premium HK$'000 Note 18 (d) (i)	Accumulated losses HK$'000	Total equity HK$'000
Balance at 1 January 2011		10,375	67,499	(8,932)	68,942
Changes in equity for 2011:					
Profit and total comprehensive income for the year		—	—	424	424
Dividends approved in respect of the previous year	18(c)	—	—	(5,188)	(5,188)
Balance at 31 December 2011 and 1 January 2012		**10,375**	**67,499**	**(13,696)**	**64,178**
Change in equity for 2012:					
Profit and total comprehensive income for the year		**–**	**–**	**(1,145)**	**(1,145)**
Balance at 31 December 2012		**10,375**	**67,499**	**(14,841)**	**63,033**

(b) Share capital

	Note	As at 31 December 2012 Number of shares	As at 31 December 2012 Nominal value HK$'000	As at 31 December 2011 Number of shares	As at 31 December 2011 Nominal value HK$'000
Authorised:	(i)	**4,000,000,000**	**40,000**	4,000,000,000	40,000
Issued and fully paid:					
At beginning and end of year	(i), (ii) & (iii)	**1,037,500,000**	**10,375**	1,037,500,000	10,375

18 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(b) Share capital *(Continued)*

Notes:

(i) The Company was incorporated on 28 July 2009 with an authorised share capital of HK$50,000 divided into 5,000,000 shares of HK$0.01 each, and 100 shares of HK$0.01 each were allotted and issued at par to New Everich Holdings Limited ("New Everich").

On 7 September 2009, the Company allotted and issued 100 shares of HK$0.01 each to New Everich pursuant to a share swap agreement entered into among the Company, Mr. Li Kin Shing, Ms. Kwok King Wa and Elitel Limited.

By the written resolutions of the shareholders passed on 20 May 2010, the authorised share capital of the Company was increased by HK$39,950,000 by the creation of 3,995,000,000 shares of HK$0.01 each.

(ii) On 2 June 2010, 287,500,000 ordinary shares of HK$0.01 each were issued by way of placing at a price of HK$0.30 per share for cash consideration of HK$86,250,000 (the "Placing"). The excess of the placing price over the par value of the shares issued was credited to the share premium account. Part of the proceeds of HK$2,875,000, being the par value of the shares issued, was credited to the Company's share capital account. The remaining proceeds of HK$83,375,000 after set off by share issuance expenses of approximately HK$8,376,000 were credited to the share premium account.

(iii) On 2 June 2010, pursuant to the written resolutions of the shareholders passed on 20 May 2010, an amount of HK$7,499,998 standing to the credit of share premium account of the Company was capitalised by issue and allotment of 749,999,800 ordinary shares of HK$0.01 each credited as fully paid at par to the shareholders whose names appeared on the register of members of the Company as at the close of business of 20 May 2010 upon the Placing.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(c) Dividends

Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year:

	2012 *HK$'000*	2011 *HK$'000*
Final dividends in respect of the previous financial year, approved and paid during the year, of HK0.5 cents per ordinary share in the year 2011	–	5,188

18 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(d) Nature and purpose of reserves

The nature and purpose of reserves are set out below:

(i) Share premium

The share premium represents the difference between the par value of the shares of the Company and proceeds received from the issuance of the shares of the Company net of share issuing expenses. The application of the share premium account of the Company is governed by the Companies Law (Revised) of the Cayman Islands, under which the balance of share premium account of the Company can be distributed as dividends provided that immediately following the date on which dividend is proposed to be distributed, the Company would be in a position to pay off its debts as they fall due in the ordinary course of business.

(ii) Other reserve

Pursuant to the group reorganisation to rationalise the Group's structure in the preparation of the Listing (the "Reorganisation"), 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 on 7 September 2009. Since then, the Company became the holding company of the Group.

As the companies that took part in the Reorganisation were controlled by the same group of ultimate shareholders, Mr. Li Kin Shing and Ms. Kwok King Wa (referred to as the "Controlling Shareholders"), before and after the Reorganisation, there was a continuation of risks and benefits to the Controlling Shareholders. Accordingly, the Reorganisation is considered as a business combination under common control, and merger accounting has been applied in the accounting of the Reorganisation. The consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement of the Group include the results of operations of the Group as if the Reorganisation had been in existence and remained unchanged throughout the entire periods presented.

The difference between the nominal value of the entire issued share capital of Elitel Limited of US$2 (equivalent to HK$16) and the nominal value of the 100 shares allotted and issued by the Company was treated as an equity movement and recorded in "Other reserve" amounting to HK$15.

(e) Distributability of reserves

At 31 December 2012, the aggregate amount of reserves available for distribution to the equity shareholders of the Company was approximately HK$52,658,000 (2011: HK$53,803,000).

18 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurate with the level of risk.

The Group actively and regularly reviews and manages its capital structure, monitors the return on capital, and makes adjustments to the capital structure in light of changes in economic conditions.

There were no changes in the Group's approach to capital management during the current and prior years.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

19 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity and currency risks arises in the normal course of the Group's business.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis.

Credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the balance sheet date, 59% (2011: 60%) and 98% (2011: 98%) of the total trade and other receivables was due from the Group's largest debtor and the five largest debtors respectively.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated balance sheet. The Group does not provide any guarantees which would expose the Group to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 14.

19 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(b) Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

All financial liabilities as disclosed in the balance sheets are required to be settled within one year or on demand and the total contractual undiscounted cash flow of these financial liabilities equal their carrying amounts in the balance sheets.

(c) Currency risk

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily Renminbi ("RMB") and United States dollars ("US$"). The Group currently does not have hedging policy in respect of the foreign currency risk. However, management monitors the related foreign currency risk exposure closely and will consider hedging significant foreign currency risk exposure should the need arise.

The following table details the Group's exposure at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in Hong Kong dollars ("HK$"), translated using the spot rate at the year end date.

The Group — **Exposures to foreign currencies** *(expressed in HK$'000)*

	2012		2011	
	US$	*RMB*	*US$*	*RMB*
Trade and other receivables	—	26,812	—	33,696
Cash and cash equivalents	22	—	29	—
Trade and other payables	(67)	—	(243)	—
Net exposures	(45)	26,812	(214)	33,696

19 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(c) Currency risk *(Continued)*

Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise if foreign exchange rates to which the Group has significant exposure at the balance sheet date had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies.

	2012		2011	
	Increase/ (decrease) in foreign exchange rates	**Effect on profit after tax and retained profits** *HK$'000*	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profit *HK$'000*
RMB	**5%**	**1,119**	5%	1,407
	(5%)	**(1,119)**	(5%)	(1,407)

The sensitivity analysis assumes that the changes in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the balance sheet date. The analysis is performed on the same basis for 2011.

(d) Fair values

The fair values of the Group's financial instruments are not materially different from their carrying amounts. Fair value estimates are made at a specific point in time and are based on relevant market information and information about the financial assets and liabilities. These estimates are subjective in nature, involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

20 COMMITMENTS

(a) Capital commitments outstanding at 31 December 2012 not provided for in the financial statements were as follows:

	The Group	
	2012	2011
	HK$'000	*HK$'000*
Contracted for	**1,064**	1,862

(b) At 31 December 2012, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group			
	2012		2011	
	Properties	**Transmission Lines**	Properties	Transmission lines
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Within 1 year	**528**	**868**	528	675
After 1 year but within 5 years	**528**	**278**	1,056	684
	1,056	**1,146**	1,584	1,359

The Group is the lessee in respect of a number of properties and transmission lines held under operating lease agreements. The leases typically run for an initial period of one to three years (2011: one to seven years), with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

21 MATERIAL RELATED PARTY TRANSACTIONS

(a) Relationship between the Group and related parties

(i) Controlling Shareholders of the Group

- Li Kin Shing
- Kwok King Wa

(ii) Subject to common control of the Controlling Shareholders

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

21 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(b) Transactions

Particulars of significant related party transactions entered into by the Group during the current year are as follows:

Related party	Note	2012 *HK$'000*	2011 *HK$'000*
China Elite Information Technology Ltd.			
– Data processing and billing management*	(i)	**360**	360
Talent Information Engineering Co., Ltd.			
– Rental of properties*	(ii)	**528**	528
PacificNet Communications Ltd. – Macao Commercial Offshore			
– Built-in secretarial and customer hotline services*	(i)	**–**	741
– Telesales services*	(i)	**–**	1,103
International Elite Limited – Macao Commercial Offshore			
– Built-in secretarial and customer hotline services*	(i)	**666**	170
– Telesales services*	(i)	**623**	190

* Continuing connected transactions pursuant to Chapter 20 of the GEM Listing Rules. The disclosures required by Chapter 20 of the GEM Listing Rules are provided in section "Continuing Connected Transactions" of the Directors' Report.

Notes:

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

(ii) The Group has leased certain properties from a related party under operating leases at an aggregate monthly rental of HK$44,000 for the period from 1 January 2012 to 31 December 2014.

The directors 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.

21 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(c) Balances with a related party

At 31 December 2012, the Group had the following balance with a related party:

	2012	2011
	HK$'000	*HK$'000*
Amount due to a related party		
– trade	129	110

Notes: The amount due to a related party is unsecured, interest free and repayable on demand and is included in "Trade and other payables" (note 16).

(d) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Group's directors as disclosed in note 7 and certain of the individuals with highest emoluments as disclosed in note 8, are as follows:

	2012	2011
	HK$'000	*HK$'000*
Short-term employee benefits	2,039	2,022
Contributions to defined contribution retirement plan	73	72
	2,112	2,094

Total remuneration is included in "staff costs" (note 5(a)).

22 CONTINGENT LIABILITIES

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

As at the date of issue of these financial statements, there is a possibility that the Companies Registry may still take action against Elitel Limited in relation to the late registration and that Elitel Limited may be subject to a penalty in this respect, though no action has been taken by the Companies Registry against Elitel Limited to date. During the year ended 31 December 2012, no action has been taken against the Group by the Companies Registry in respect of this matter.

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

23 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the financial statements. The following principal accounting policies involve the most significant judgements and estimates used in the preparation of the financial statements.

(a) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives. The Group reviews annually the useful life of an asset. The depreciation expense for future periods is adjusted if there are significant changes from previous estimation.

(b) Impairments

In considering the impairment loss that may be required for certain property, plant and equipment of the Group, recoverable amount of these assets needs to be determined. The recoverable amount is the greater of the fair value less costs to sell and the value in use. It is difficult to precisely estimate selling price because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to items such as level of turnover and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of items such as turnover and operating costs.

Impairment loss for bad and doubtful debts is assessed and provided based on the directors' regular review of ageing analysis and evaluation of collectability. A considerable level of judgement is exercised by the directors when assessing the credit worthiness and past collection history of each individual customer.

An increase or decrease in the above impairment loss would affect the net profit in future years.

(c) Recognition of deferred tax assets

Deferred tax assets are recognised in respect of unused tax losses and deductible temporary differences and can only be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax losses and deductible temporary differences can be utilised. Management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

24 IMMEDIATE AND ULTIMATE CONTROLLING PARTIES

At 31 December 2012, the directors consider the immediate parent and ultimate controlling parties of the Group to be New Everich Holdings Limited and the Controlling Shareholders as mentioned in note 21(a)(i), respectively.

25 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2012

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and five new standards which are not yet effective for the year ended 31 December 2012 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
IFRS 10, Consolidated financial statements	1 January 2013
IFRS 12, Disclosure of interests in other entities	1 January 2013
IFRS 13, Fair value measurement	1 January 2013
IAS 27, Separate financial statements (2011)	1 January 2013
Revised IAS 19, Employee benefits	1 January 2013
Annual Improvements to IFRSs 2009-2011 Cycle	1 January 2013
Amendments to IFRS 7, Financial instruments: Disclosures – Disclosures – Offsetting financial assets and financial liabilities	1 January 2013
Amendments to IAS 32, Financial instruments: Presentation – Offsetting financial assets and financial liabilities	1 January 2014
IFRS 9, Financial instruments	1 January 2015

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

FINANCIAL SUMMARY

(Expressed in Hong Kong dollars)

	For the years ended 31 December				
	2012	2011	2010	2009	2008
	$'000	*$'000*	*$'000*	*$'000*	*$'000*
Results					
Turnover	**71,780**	72,270	68,766	51,875	46,164
Cost of sales	**(29,604)**	(28,415)	(27,683)	(25,594)	(24,738)
Gross profit	**42,176**	43,855	41,083	26,281	21,426
Other income	**44**	29	698	2	97
Administrative expenses	**(15,760)**	(18,311)	(17,617)	(18,020)	(11,948)
Profit from operations	**26,460**	25,573	24,164	8,263	9,575
Net finance income/(costs)	**278**	1,922	1,172	2,786	(1,143)
Profit before taxation	**26,738**	27,495	25,336	11,049	8,432
Income tax	**(4,608)**	(4,477)	(4,523)	(910)	361
Profit for the year attributable to equity shareholders of the Company	**22,130**	23,018	20,813	10,139	8,793

	At 31 December				
	2012	2011	2010	2009	2008
	$'000	*$'000*	*$'000*	*$'000*	*$'000*
Assets and Liabilities					
Total assets	**164,306**	141,358	123,100	31,903	54,217
Total liabilities	**(11,684)**	(10,866)	(10,438)	(17,928)	(50,381)
Total equity	**152,622**	130,492	112,662	13,975	3,836