



Directel Holdings Limited
直通電訊控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8337



2014

I N T E R I M R E P O R T

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

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

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

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

HIGHLIGHTS

- Turnover for the six months ended 30 June 2014 was approximately HK\$10,513,000, representing a decrease of approximately 65.6% as compared with the corresponding period in 2013.
- Loss attributable to shareholders of the Company for the six months ended 30 June 2014 was approximately HK\$6,961,000 while profit attributable to shareholders of the Company for the corresponding period in 2013 was approximately HK\$9,153,000.
- The Board does not recommend the payment of any dividend for the six months ended 30 June 2014.

UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2014

The board of Directors (the “Board”) of the Company is pleased to announce the unaudited consolidated financial statements of the Company and its subsidiaries (together referred to as the “Group”) for the three months and the six months ended 30 June 2014 (the “Relevant Periods”) together with the unaudited comparative figures for the respective corresponding period in 2013 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

| | Note | For the three months ended 30 June | | For the six months ended 30 June | |
|--|------|--|--|--|--|
| | | 2014 <i>HK\$'000</i> (Unaudited) | 2013 <i>HK\$'000</i> (Unaudited) | 2014 <i>HK\$'000</i> (Unaudited) | 2013 <i>HK\$'000</i> (Unaudited) |
| Turnover | 5 | 4,947 | 15,679 | 10,513 | 30,574 |
| Cost of sales | | (5,105) | (6,639) | (10,384) | (13,006) |
| Gross (loss)/profit | | (158) | 9,040 | 129 | 17,568 |
| Other revenue | | 4 | 6 | 8 | 32 |
| Administrative expenses | | (3,390) | (3,803) | (6,873) | (7,065) |
| (Loss)/profit from operations | | (3,544) | 5,243 | (6,736) | 10,535 |
| Finance (cost)/income | 6 | 557 | 333 | (202) | 447 |
| (Loss)/profit before taxation | 7 | (2,987) | 5,576 | (6,938) | 10,982 |
| Income tax | 8 | (9) | (937) | (23) | (1,829) |
| (Loss)/profit for the period attributable to equity shareholders of the Company | | (2,996) | 4,639 | (6,961) | 9,153 |
| (Loss)/earnings per share | 10 | | | | |
| – Basic and diluted (HK cents) | | (0.29) | 0.45 | (0.67) | 0.88 |

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

The Group had no components of comprehensive income other than “(Loss)/profit for the period attributable to equity shareholders of the Company” in the periods presented. Accordingly, no separate consolidated statement of profit or loss and other comprehensive income is presented as the Group’s “Total comprehensive income” was the same as the “(Loss)/profit for the period attributable to equity shareholders of the Company” in the periods presented.

CONSOLIDATED BALANCE SHEET

| | Note | As at 30 June 2014 HK\$'000 (Unaudited) | As at 31 December 2013 HK\$'000 (Audited) |
|--|------|---|---|
| Non-current assets | | | |
| Property, plant and equipment | 11 | 4,672 | 5,108 |
| Deferred tax assets | | 1,585 | 1,585 |
| Total non-current assets | | 6,257 | 6,693 |
| Current assets | | | |
| Inventories | 12 | 224 | 314 |
| Trade and other receivables | 13 | 36,453 | 36,329 |
| Income tax recoverable | | 1,371 | 1,394 |
| Cash at bank and on hand | 14 | 120,576 | 126,229 |
| Total current assets | | 158,624 | 164,266 |
| Current liabilities | | | |
| Trade and other payables | 15 | 6,682 | 7,453 |
| Total current liabilities | | 6,682 | 7,453 |
| Net current assets | | 151,942 | 156,813 |
| Total assets less current liabilities | | 158,199 | 163,506 |
| Non-current liabilities | | | |
| Deferred tax liabilities | | 803 | 803 |
| Total non-current liabilities | | 803 | 803 |
| Net assets | | 157,396 | 162,703 |
| Capital and reserves | | | |
| Share capital | 16 | 10,375 | 10,375 |
| Share premium | | 67,499 | 67,499 |
| Other reserve | | — | — |
| Warrant reserve | | 1,654 | — |
| Retained earnings | | 77,868 | 84,829 |
| Total equity | | 157,396 | 162,703 |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Share capital <i>HK\$'000</i> | Share premium <i>HK\$'000</i> | Other reserve <i>HK\$'000</i> | Warrant reserve <i>HK\$'000</i> | Retained earnings <i>HK\$'000</i> | Total equity <i>HK\$'000</i> |
|---|---|---|---|---|---|--|
| | (Unaudited) | | | | | (Unaudited) |
| | (Note 16) | | | | | |
| As at 1 January 2013 | 10,375 | 67,499 | — | — | 74,748 | 152,622 |
| Profit and total comprehensive income for the period | — | — | — | — | 9,153 | 9,153 |
| As at 30 June 2013 | <u>10,375</u> | <u>67,499</u> | <u>—</u> | <u>—</u> | <u>83,901</u> | <u>161,775</u> |
| As at 1 January 2014 | 10,375 | 67,499 | — | — | 84,829 | 162,703 |
| Issue of unlisted warrants | — | — | — | 2,000 | — | 2,000 |
| Expenses attributable to issue of unlisted warrants | — | — | — | (346) | — | (346) |
| (Loss) and total comprehensive income for the period | — | — | — | — | (6,961) | (6,961) |
| As at 30 June 2014 | <u>10,375</u> | <u>67,499</u> | <u>—</u> | <u>1,654</u> | <u>77,868</u> | <u>157,396</u> |

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

| | | For the six months ended 30 June | |
|---|------|-------------------------------------|-------------|
| | | 2014 | 2013 |
| | | HK\$'000 | HK\$'000 |
| | Note | (Unaudited) | (Unaudited) |
| Net cash (used in)/generated from operating activities | | (8,412) | 17,288 |
| Cash flows from investing activities | | | |
| Decrease in long term fixed deposits | | 73,979 | — |
| Other cash flows arising from investing activities | | 1,105 | 117 |
| Net cash generated from investing activities | | 75,084 | 117 |
| Cash flows from financing activities | | | |
| Net proceeds from issue of unlisted warrants | | 1,654 | — |
| Net cash generated from financing activities | | 1,654 | — |
| Net increase in cash and cash equivalents | | 68,326 | 17,405 |
| Cash and cash equivalents at 1 January | 14 | 52,250 | 108,858 |
| Cash and cash equivalents at 30 June | 14 | 120,576 | 126,263 |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

1. BACKGROUND OF THE COMPANY

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

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

2. BASIS OF PREPARATION

The interim financial report of the Group has been prepared in accordance with the applicable disclosure provisions of Chapter 18 of the Rules Governing the Listing of Securities on GEM of the Stock Exchange, and in compliance with International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”) issued by the International Accounting Standards Board (“IASB”). It was authorised for issue on 11 August 2014.

The interim financial report of the Group has been prepared in accordance with the same accounting policies adopted in the Group’s audited financial statements set out in the annual report for the year ended 31 December 2013, except for the accounting policy changes that are expected to be reflected in the 2014 annual financial statements. Details of these changes in accounting policies are set out in note 4.

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

The Group’s interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2013 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”).

The interim financial report for the six months ended 30 June 2014 is unaudited, but has been reviewed by the Company’s audit committee.

The financial information relating to the financial year ended 31 December 2013 that is included in the interim financial report as being previously reported information does not constitute the Group’s annual financial statements prepared under IFRS for that financial year but is derived from those financial statements. The Group’s financial information relating to the financial year ended 31 December 2013 which is included in the annual report for the year ended 31 December 2013 is available at the Company’s registered office. The independent auditor has expressed an unqualified opinion on those financial statements in the independent auditor’s report included in the annual report for the year ended 31 December 2013.

3. SEGMENT REPORTING

IFRS 8 “Operating Segments” 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.

4. CHANGES IN ACCOUNTING POLICIES

The IASB has issued certain amendments to IFRS and Interpretations that are first effective for the current accounting period of the Group and the Company. There have been no significant changes to the accounting policies adopted in the Group’s financial statements as a result of these developments.

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

5. TURNOVER

| | For the three months ended 30 June | | For the six months ended 30 June | |
|--|--|--|--|--|
| | 2014 <i>HK\$'000</i> (Unaudited) | 2013 <i>HK\$'000</i> (Unaudited) | 2014 <i>HK\$'000</i> (Unaudited) | 2013 <i>HK\$'000</i> (Unaudited) |
| Provision of telecommunications services | 4,938 | 15,555 | 10,458 | 30,320 |
| Provision of telesales dealership services | 9 | 124 | 55 | 254 |
| | <u>4,947</u> | <u>15,679</u> | <u>10,513</u> | <u>30,574</u> |

5. TURNOVER *(Continued)*

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 for each of the periods is as follows:

| | For the three months ended 30 June | | For the six months ended 30 June | |
|-----------------------------|--|--|--|--|
| | 2014 <i>HK\$'000</i> (Unaudited) | 2013 <i>HK\$'000</i> (Unaudited) | 2014 <i>HK\$'000</i> (Unaudited) | 2013 <i>HK\$'000</i> (Unaudited) |
| The largest customer | 2,033 | 5,339 | 4,239 | 10,418 |
| The second largest customer | — | 3,263 | — | 6,621 |
| The third largest customer | — | 2,562 | — | 4,905 |

6. FINANCE (COST)/INCOME

| | For the three months ended 30 June | | For the six months ended 30 June | |
|----------------------------------|--|--|--|--|
| | 2014 <i>HK\$'000</i> (Unaudited) | 2013 <i>HK\$'000</i> (Unaudited) | 2014 <i>HK\$'000</i> (Unaudited) | 2013 <i>HK\$'000</i> (Unaudited) |
| Interest income | 604 | 102 | 1,117 | 136 |
| Net foreign exchange (loss)/gain | (47) | 231 | (1,319) | 311 |
| | <u>557</u> | <u>333</u> | <u>(202)</u> | <u>447</u> |

7. (LOSS)/PROFIT BEFORE TAXATION

(Loss)/profit before taxation is arrived at after charging:

| | For the three months ended 30 June | | For the six months ended 30 June | |
|---|--|--|--|--|
| | 2014 <i>HK\$'000</i> (Unaudited) | 2013 <i>HK\$'000</i> (Unaudited) | 2014 <i>HK\$'000</i> (Unaudited) | 2013 <i>HK\$'000</i> (Unaudited) |
| (a) Staff costs: | | | | |
| Salaries, wages and other benefits | 872 | 854 | 1,784 | 1,705 |
| Contributions to defined contribution retirement plan | 33 | 32 | 68 | 65 |
| | <u>905</u> | <u>886</u> | <u>1,852</u> | <u>1,770</u> |
| (b) Other items: | | | | |
| Depreciation | 223 | 230 | 448 | 460 |
| Licence charges | 515 | 723 | 1,086 | 1,437 |
| Operating lease charges in respect of | | | | |
| – rental of properties | 141 | 141 | 282 | 287 |
| – rental of transmission lines | 258 | 260 | 516 | 518 |
| Auditors' remuneration | | | | |
| – audit services | 222 | 216 | 444 | 433 |
| – tax services | 20 | 22 | 39 | 40 |
| Utilities | 21 | 19 | 37 | 37 |
| Repair and maintenance | 229 | 261 | 461 | 508 |
| Cost of inventories | 172 | 197 | 335 | 354 |

8. INCOME TAX

| | For the three months ended 30 June | | For the six months ended 30 June | |
|-------------------------|--|--|--|--|
| | 2014 <i>HK\$'000</i> (Unaudited) | 2013 <i>HK\$'000</i> (Unaudited) | 2014 <i>HK\$'000</i> (Unaudited) | 2013 <i>HK\$'000</i> (Unaudited) |
| Current tax | | | | |
| – Hong Kong Profits Tax | 9 | 781 | 23 | 1,529 |
| Deferred tax | — | 156 | — | 300 |
| | <u>9</u> | <u>937</u> | <u>23</u> | <u>1,829</u> |

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 three months and the six months ended 30 June 2014 is calculated at 16.5% (three months and six months ended 30 June 2013: 16.5%) of the estimated assessable profits for the periods. The payments of dividends by Hong Kong companies are not subject to any Hong Kong withholding tax.

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. The Group did not recognise the potential unaudited deferred tax asset in respect of loss amounting to approximately HK\$9,585,000 (six month ended 30 June 2013: Nil) that can be carried forward against future taxable profit. The tax loss does not expire under current tax legislation.

9. DIVIDEND

The Board does not recommend any payment of an interim dividend for the six months ended 30 June 2014. No interim dividend was paid in respect of the six months ended 30 June 2013.

10. (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share for the three months ended 30 June 2014 is based on the unaudited loss attributable to ordinary equity shareholders of the Company of approximately HK\$2,996,000 (three months ended 30 June 2013: profit of approximately HK\$4,639,000) and the weighted average number of 1,037,500,000 ordinary shares in issue during the period (three months ended 30 June 2013: 1,037,500,000 ordinary shares).

The calculation of basic (loss)/earnings per share for the six months ended 30 June 2014 is based on the unaudited loss attributable to ordinary equity shareholders of the Company of approximately HK\$6,961,000 (six months ended 30 June 2013: profit of approximately HK\$9,153,000) and the weighted average number of 1,037,500,000 ordinary shares in issue during the period (six months ended 30 June 2013: 1,037,500,000 ordinary shares).

(b) Diluted (loss)/earnings per share

There were no potential dilutive ordinary shares for each of the three months and the six months ended 30 June 2013, and therefore, diluted earnings per share are the same as the basic earnings per share.

Diluted (loss) per share is the same as basic (loss) per share for the three months and the six months ended 30 June 2014 as the potential ordinary shares under the unlisted warrants have anti-dilutive effects on the basic (loss) per share.

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2014, the Group acquired items of property, plant and equipment with an aggregate cost of approximately HK\$12,000 (six months ended 30 June 2013: approximately HK\$19,000).

12. INVENTORIES

| | As at 30 June 2014 HK\$'000 (Unaudited) | As at 31 December 2013 HK\$'000 (Audited) |
|-------------------|--|---|
| SIM cards | 199 | 283 |
| Recharge vouchers | 25 | 31 |
| | 224 | 314 |

13. TRADE AND OTHER RECEIVABLES

| | As at 30 June 2014 HK\$'000 (Unaudited) | As at 31 December 2013 HK\$'000 (Audited) |
|------------------------------------|--|---|
| Trade receivables | | |
| – amounts due from third parties | 30,128 | 30,318 |
| less: allowance for doubtful debts | (15) | (38) |
| | 30,113 | 30,280 |
| Other receivables and prepayments | | |
| – other receivables | 4,472 | 4,345 |
| – deposits and prepayments | 1,868 | 1,704 |
| | 6,340 | 6,049 |
| | 36,453 | 36,329 |

Generally, provision of mobile phone services to the Group's major customers, including major mobile network operators and its dealers, are made in an open account with credit terms up to 30 days after the date of invoice. Subject to negotiations, credit terms could be extended to two to four months for certain customers with well-established trading and payment records on a case-by-case basis. Provision of mobile phone services to the Group's pre-paid users are made 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 of telesales dealership services are made in bullet payments within one to five months after rendering of services.

13. 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:

| | As at 30 June 2014 HK\$'000 (Unaudited) | As at 31 December 2013 HK\$'000 (Audited) |
|--------------------------------------|--|---|
| Within 1 month | 1,144 | 1,603 |
| Over 1 month but less than 3 months | 2,487 | 4,504 |
| Over 3 months but less than 6 months | 2,973 | 5,843 |
| Over 6 months but less than 1 year | 5,499 | 5,976 |
| Over 1 year | 18,010 | 12,354 |
| | 30,113 | 30,280 |

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

| | As at 30 June 2014 HK\$'000 (Unaudited) | As at 31 December 2013 HK\$'000 (Audited) |
|---|--|---|
| Current | 1,116 | 1,603 |
| Less than 1 month past due | 1,344 | 2,138 |
| 1 to 3 months past due | 2,008 | 5,405 |
| More than 3 months but less than 12 months past due | 8,474 | 9,687 |
| More than 12 months past due | 17,186 | 11,485 |
| | 30,128 | 30,318 |
| Less: allowance for doubtful debts | (15) | (38) |
| | 30,113 | 30,280 |

13. TRADE AND OTHER RECEIVABLES *(Continued)*

(b) Trade receivables that are not impaired

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

| | As at 30 June 2014 HK\$'000 (Unaudited) | As at 31 December 2013 HK\$'000 (Audited) |
|---|--|---|
| Neither past due nor impaired | 1,116 | 1,603 |
| Less than 1 month past due | 1,344 | 2,138 |
| 1 to 3 months past due | 2,008 | 5,405 |
| More than 3 months but less than 12 months past due | 8,474 | 9,686 |
| More than 12 months past due | 17,171 | 11,448 |
| | 28,997 | 28,677 |
| | 30,113 | 30,280 |

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 are of the view 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 30 June 2014 included amounts due from a mobile network operator in China ("that MNO") amounting to approximately HK\$27,602,000, of which HK\$7,991,000 and HK\$17,043,000 fell into "More than 3 months but less than 12 months past due" and "More than 12 months past due", respectively. The credit terms of 30 days were granted by the Group to that MNO as it is in line with the credit policy of the Group whilst the delay in settlement by that MNO renders the actual credit period longer than the contractual credit period, the Directors consider that (i) 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) the Group has been conducting constant and positive dialogue with that MNO in relation to the settlement of the outstanding balances. Taking into account the above, the Directors are confident that that MNO would fulfill its payment obligations and no impairment allowance is considered necessary as at 30 June 2014.

14. CASH AT BANK AND ON HAND

| | As at 30 June 2014 <i>HK\$'000</i> (Unaudited) | As at 31 December 2013 <i>HK\$'000</i> (Audited) |
|---|--|--|
| Cash and cash equivalents at end of period/year | | |
| Current and savings accounts | 19,967 | 20,749 |
| Fixed deposits – maturity within three months at acquisition | 100,598 | 31,479 |
| Cash on hand | 11 | 22 |
| | <u>120,576</u> | <u>52,250</u> |
| Cash and cash equivalents in the consolidated cash flow statement | 120,576 | 52,250 |
| Fixed deposits – maturity over three months at acquisition | — | 73,979 |
| | <u>—</u> | <u>73,979</u> |
| Cash at bank and on hand in the balance sheet | <u><u>120,576</u></u> | <u><u>126,229</u></u> |

15. TRADE AND OTHER PAYABLES

| | As at 30 June 2014 <i>HK\$'000</i> (Unaudited) | As at 31 December 2013 <i>HK\$'000</i> (Audited) |
|---------------------------------|--|--|
| Trade payables | | |
| – amount due to a related party | 62 | 80 |
| – amounts due to third parties | 2,859 | 3,672 |
| | <u>2,921</u> | <u>3,752</u> |
| Other payables | | |
| – accrued charges and deposits | 2,398 | 2,105 |
| – deferred income | 1,363 | 1,596 |
| | <u>3,761</u> | <u>3,701</u> |
| | <u><u>6,682</u></u> | <u><u>7,453</u></u> |

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

15. TRADE AND OTHER PAYABLES *(Continued)*

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

| | As at 30 June 2014 HK\$'000 (Unaudited) | As at 31 December 2013 HK\$'000 (Audited) |
|-------------------------------------|--|---|
| Within 1 month | 1,142 | 1,244 |
| Over 1 month but less than 3 months | 1,779 | 2,508 |
| | 2,921 | 3,752 |

16. SHARE CAPITAL

| | Note | As at 30 June 2014 | | As at 31 December 2013 | |
|-------------------------------------|-------------------|------------------------------------|---|----------------------------------|---|
| | | Number of shares (Unaudited) | Nominal value HK\$'000 (Unaudited) | Number of shares (Audited) | Nominal value HK\$'000 (Audited) |
| Authorised | (i) | 4,000,000,000 | 40,000 | 4,000,000,000 | 40,000 |
| Issued and fully paid | | | | | |
| At beginning and end of period/year | (i), (ii) & (iii) | 1,037,500,000 | 10,375 | 1,037,500,000 | 10,375 |

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.

16. SHARE CAPITAL *(Continued)*

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.

17. COMMITMENTS

(a) Capital commitments outstanding not provided for in the interim financial report were as follows:

| | As at 30 June 2014 HK\$'000 (Unaudited) | As at 31 December 2013 HK\$'000 (Audited) |
|----------------|--|---|
| Contracted for | 946 | 735 |

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

| | As at 30 June 2014 | | As at 31 December 2013 | |
|---------------------------------|--|--|-------------------------------------|--|
| | Properties HK\$'000 (Unaudited) | Transmission lines HK\$'000 (Unaudited) | Properties HK\$'000 (Audited) | Transmission lines HK\$'000 (Audited) |
| Within 1 year | 264 | 750 | 528 | 604 |
| After 1 year but within 5 years | — | 521 | — | 90 |
| | 264 | 1,271 | 528 | 694 |

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, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

18. 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 from 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.

18. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(b) Transactions

The Group entered into the following material related party transactions:

| | For the three months ended 30 June | | For the six months ended 30 June | |
|-------------------------------------|--|--|--|--|
| | 2014 <i>HK\$'000</i> (Unaudited) | 2013 <i>HK\$'000</i> (Unaudited) | 2014 <i>HK\$'000</i> (Unaudited) | 2013 <i>HK\$'000</i> (Unaudited) |
| Continuing after the Listing | | | | |
| Services rendered (i) | 283 | 358 | 603 | 725 |
| Rental of properties (ii) | 132 | 132 | 264 | 264 |

Notes:

- (i) Services rendered by related parties are related to telesales services, customer hotline services, built-in-secretarial services, development and maintenance of Company's website and data processing and billing management services.
- (ii) The Group leased certain properties under operating lease from a related party, Talent Information Engineering Co. Limited, at an aggregate monthly rental of approximately HK\$44,000 from 1 January 2012 to 31 December 2014.

The directors of the Company are of the opinion that the above transactions with related parties were conducted on terms and conditions that are mutually agreed in the ordinary course of the Group's business.

(c) Balances with a related party

As at the respective balance sheet dates, the Group had the following balances with a related party:

| | As at 30 June 2014 <i>HK\$'000</i> (Unaudited) | As at 31 December 2013 <i>HK\$'000</i> (Audited) |
|-------------------------------|--|--|
| Amount due to a related party | | |
| – trade | 62 | 80 |

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 15).

18. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(d) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Group's directors and certain of the individuals with highest emoluments, is as follows:

| | For the three months ended 30 June | | For the six months ended 30 June | |
|---|--|--|--|--|
| | 2014 <i>HK\$'000</i> (Unaudited) | 2013 <i>HK\$'000</i> (Unaudited) | 2014 <i>HK\$'000</i> (Unaudited) | 2013 <i>HK\$'000</i> (Unaudited) |
| Short-term employee benefits | 506 | 503 | 1,012 | 1,007 |
| Contributions to defined contributions retirement plan | 17 | 17 | 33 | 33 |
| | 523 | 520 | 1,045 | 1,040 |

19. 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 period ended 30 June 2014, 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.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

The performance of the Group was worsen for the six months ended 30 June 2014 compared to the corresponding period in 2013. The monthly average number of activated phone numbers decreased by approximately 50.2% to 108,209 in the first half year of 2014 when compared to the corresponding period in 2013 and the total number of activated phone numbers decreased by approximately 18.7% to 101,897 as of 30 June 2014 compared to 125,273 as of 31 December 2013.

The Group continues to face difficulties in the highly competitive mobile services industry particularly in the data access services and mobile communications applications. The increased popularity of smart mobile devices also led to a rapid growth of alternative means of communications (e.g. social networking applications) which had reduced the usage for traditional voice and short message services. The competitiveness of the Group’s business has been adversely affected and the average revenue per user (“ARPU”) of the Group showed a decreasing trend and the ARPU of the Group was approximately HK\$15.6 for the six months ended 30 June 2014, lower than approximately HK\$22.9 for the same period last year.

The volume of the Group’s airtime sold decreased from approximately 108.2 million minutes for the first half year of 2013 to approximately 44.8 million minutes for the first half year of 2014. The revenue derived from the provision of “One Card Multiple Number” service, Hong Kong local mobile phone services and resale of airtime to MNOs decreased from approximately HK\$30.3 million to approximately HK\$10.5 million during the same period. The Group’s revenue per minute of airtime sold decrease from approximately HK\$0.28 for the first half year of 2013 to approximately HK\$0.23 for the first half year of 2014.

FINANCIAL REVIEW

For the six months ended 30 June 2014, the turnover of the Group decreased to approximately HK\$10,513,000 compared to approximately HK\$30,574,000 for the corresponding period last year, represented a decrease of approximately 65.6%. The decrease in turnover was mainly attributable to the decrease in the monthly average number of activated phone numbers and decrease of airtime usage by users.

The Group's cost of sales decreased by approximately 20.2% to approximately HK\$10,384,000 for the six months ended 30 June 2014 compared to approximately HK\$13,006,000 for the corresponding period last year. The cost of sales in respect of the provision of mobile phone services and resale of airtime to MNOs decreased by approximately 19.0% compared to the first half year of 2013. Such decrease was mainly due to the decrease of airtime usage by users. The cost of sales in respect of the provision of telesales dealership services decreased by approximately 78.3% compared to the first half year of 2013, which was in line with the decrease in the revenue derived from the provision of telesales dealership services.

The gross profit of the Group for the six months ended 30 June 2014 decreased to approximately HK\$129,000 when compared to approximately HK\$17,568,000 for the corresponding period last year and the gross profit margin decreased to 1.2% for the six months ended 30 June 2014 from 57.5% for the corresponding period last year. The decline in gross profit and gross profit margin was mainly attributable to the decrease of airtime usage by users and the increase of average unit cost of Hong Kong airtime resulting from the requirement to satisfy the minimum monthly airtime purchase amount adopted by two MNOs.

The Group's administrative expenses for the six months ended 30 June 2014 decreased slightly by approximately 2.7% to approximately HK\$6,873,000 compared to approximately HK\$7,065,000 for the corresponding period last year.

For the six months ended 30 June 2013, the Group recorded finance income of approximately HK\$447,000. For the six months ended 30 June 2014, the Group incurred finance cost of approximately HK\$202,000. The finance cost incurred was mainly due to foreign exchange loss recorded arising from the movements in the exchange rate between Hong Kong dollars and Renminbi during the period.

The Group's income tax expense for the six months ended 30 June 2014 decreased by approximately 98.7% to approximately HK\$23,000 compared to approximately HK\$1,829,000 for the corresponding period last year. The decrease was mainly attributed to the decrease of operating profit.

The Group recorded a loss attributable to equity shareholders of the Company for the six months ended 30 June 2014 of approximately HK\$6,961,000 while it recorded a profit attributable to equity shareholders of the Company of approximately HK\$9,153,000 for the corresponding period last year. The loss was mainly due to the significant decrease of turnover.

BUSINESS OUTLOOK

Owing to the intensified competition in the mobile services industry particularly in the data access services and mobile communications applications, the Group is cautious and will respond proactively to the pressure and challenges of this ever-changing market. Going forward in the second half of 2014, the Group will continue to seek opportunities in existing business to broaden the Group's customer base and expand the Group's operations by means of strengthening relationship with existing dealers, exploring new qualifying dealers and maintaining its low cost strategy for its marketing activities. Also, the Group will execute its business plan continuously to expand the geographical coverage of mobile phone services provided by the Group through development and expansion of such services in Asia Pacific and the Group will provide a wider variety of value-added services for its users to increase the turnover by (i) promoting and encouraging the Group's users to utilise and enjoy 3G mobile data services and more value-added data communication services; and (ii) introducing RF-SIM in Hong Kong and Macau, to enhance the Group's overall competitiveness.

CAPITAL STRUCTURE

As at 30 June 2014, the Group had no outstanding loan or borrowing, and the gearing ratio (being ratio of total long term borrowings to equity) was therefore inapplicable. As at 30 June 2014, total equity attributable to equity holders of the Company amounted to approximately HK\$157,396,000 (31 December 2013: approximately HK\$162,703,000), which was primarily attributable to the proceeds from the Placing and earnings.

LIQUIDITY AND FINANCIAL RESOURCES

The Group normally finances its operations with internally generated cash flows and capital contribution from shareholders. As at 30 June 2014, the Group had net current assets of approximately HK\$151,942,000 (31 December 2013: approximately HK\$156,813,000), including cash and bank balances of approximately HK\$120,576,000 (31 December 2013: approximately HK\$126,229,000). The current ratio was 23.7 as at 30 June 2014, higher than 22.0 as at 31 December 2013.

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, the management monitors the related foreign currency risk exposure closely and will consider hedging significant foreign currency risk exposure should the need arise. As at 30 June 2014, the Group did not have any derivatives for hedging against the exchange rate risk.

PLEDGE OF ASSETS

As at 30 June 2014, 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 period ended 30 June 2014, 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 30 June 2014, the Group has no specific acquisition target. The Group did not have any material acquisition and disposals of subsidiaries and affiliated companies, and investment during the period under review.

STAFF AND REMUNERATION POLICY

As at 30 June 2014, the Group had 12 employees (31 December 2013: 13 employees). Remuneration is determined with reference to market terms and the performance, qualification and experience of individual employee. Year-end bonus based on individual performance will be paid to employees as recognition of and reward for their contributions. Other benefits include medical insurance, share option scheme and contributions to statutory mandatory provident fund scheme to its employees in Hong Kong.

DIVIDENDS

The Board does not recommend payment of any dividend for the six months ended 30 June 2014 (six months ended 30 June 2013: Nil).

SUBSCRIPTION OF WARRANTS

On 30 April 2014, the Company entered into an agreement (the "Subscription Agreement") with JD Edward Asset Management Company Limited (the "Subscriber") in relation to the subscription of 200,000,000 unlisted warrants (the "Warrant(s)") at the issue price of HK\$0.01 per Warrant, pursuant to which, the Company has conditionally agreed to issue and the Subscriber has conditionally agreed to subscribe for the Warrants. The Warrants will entitle the holders thereof to subscribe in cash up to an aggregate amount of HK\$32,960,000 (subject to adjustment) for up to initially 200,000,000 new shares to be allotted and issued upon exercise of the subscription rights attaching to the Warrants (the "Warrant shares") and each Warrant carry right to subscribe for one share at an initial subscription price of HK\$0.1648 per share, for a period of 60 months commencing from the date of issue of the Warrants. Based on the initial subscription price of HK\$0.1648 per Warrant Share, a maximum of 200,000,000 Warrant Shares will be allotted and issued by the Company. The completion of the subscription took place on 29 May 2014. For details of the subscription of the Warrants, please refer to the Company's announcement dated 30 April 2014, 8 May 2014 and 29 May 2014.

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

As at 30 June 2014, so far as it is known to the Directors, the Directors and the chief executive of the Company had the following interests and short positions in the shares, underlying shares or the debentures of the Company or any of its associated corporations within the meaning of part XV of the Securities and Futures Ordinance (the "SFO"), which would have to be notified to the Company and the Stock Exchange pursuant to the provision of Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions of which they were taken or deemed to have under such provisions of the SFO) and/or required to be entered in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules:

(i) Long position in shares of the Company:

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

Notes:

- (1) The 696,250,000 shares are owned by New Everich Holdings Limited ("New Everich") which is owned by Mr. Li Kin Shing and Ms. Kwok King Wa as to 54% and 46% respectively. Mr. Li Kin Shing is the spouse of Ms. Kwok King Wa. Accordingly, Mr. Li Kin Shing is deemed to be interested in the 696,250,000 shares under the SFO.
- (2) Mr. Pang Kwok Chau and Mr. Wong Kin Wa acquired 10,000,000 shares on 28 March 2012, respectively.

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

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

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

Save as disclosed above, as at 30 June 2014, none of the Directors nor the chief executives of the Company had any interests or short positions in any shares, underlying shares and/or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest and/or short positions which were taken or deemed to have under such provisions of the SFO), or which were recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or which would have to be notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

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

As at 30 June 2014, 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 30 June 2014, so far as it is known to the Directors, there was no other person (other than the Directors or chief executive of the Company) with interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which would be recorded in the register of the Company required to be kept under section 336 of the SFO or who are directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

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

SHARE OPTION SCHEME

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

The Share Option Scheme became unconditional after the listing of the Company's shares on GEM on 2 June 2010. The Company did not grant or cancel any options under the Share Option Scheme any time during the period under review, and as at 30 June 2014, there was no outstanding share option under the Share Option Scheme.

CODE ON 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 Corporate Governance Code contained in Appendix 15 to the GEM Listing Rules during the six months ended 30 June 2014.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

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

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

During the six months ended 30 June 2014, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any share of the Company.

COMPETING INTERESTS

During the six months ended 30 June 2014, save as disclosed below, none of the Directors or controlling shareholders of the Company nor their respective associates is considered to have interests in a business that competes or is likely to compete, either directly or indirectly, with the businesses of the Group other than those businesses where the Directors have been appointed or were appointed as directors to represent the interests of the Company and/or the Group.

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

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

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

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

AUDIT COMMITTEE

The Company has established an audit committee (“Audit Committee”) on 20 May 2010 with written terms of reference in compliance with the GEM Listing Rules. The 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.

The Audit Committee consists of the three independent non-executive Directors, namely, Ms. Lee Man Yee, Maggie, Mr. Chen Xue Dao and Mr. Chu, Howard Ho Hwa. Ms. Lee Man Yee, Maggie is the chairman of the Audit Committee. The Group’s unaudited results for the six months ended 30 June 2014 have been reviewed by the Audit Committee in accordance with Rule 5.30 of the GEM Listing Rules. The Audit Committee was of the opinion that such results complied with the applicable accounting standards and that adequate disclosures had been made.

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

Hong Kong, 11 August, 2014

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