OVERVIEW

Our Group was founded in 1974 as one of the first paging operators in Hong Kong. In the past 40 years, we have been actively engaged in the telecommunications and related business in Hong Kong.

Our principal business currently comprises:

(i) Retail sales of mobile phones of various brands and pre-paid SIM cards — We sell mobile phones of various brands and local pre-paid SIM cards for mobile voice services at our shops in Hong Kong. We currently sell seven international renowned brands of mobile phones at our network of shops in Hong Kong comprising 51 shops.

(ii) Distribution of mobile phones — We are currently a distributor of mobile phones of two international renowned brands in Hong Kong and we distribute the mobile phones of these two brands to wholesalers and retailers. We obtained non-exclusive distribution right of mobile phones of these two international renowned brands in Hong Kong in 2007 and 2010 respectively. The terms of such distribution rights continue year to year until terminated.

(iii) Provision of paging and other telecommunications services — We have been providing paging services in Hong Kong since 1974 and in Macau since 1977 and are one of the paging operators in Hong Kong and the only paging operator in Macau according to the Industry Report. Our principal services include the traditional message paging services which allow users to receive messages, and the Mobitex based services which allow users to receive and send messages. Our paging services also support self-entry of message through the Internet and support "one-to-many" paging services which are used by entities such as disciplinary forces, hospitals, logistics companies, construction companies, property agency, hotels and property management companies and banks. We have designed a series of specific devices for our Mobitex based services and "Mango" is the name of the series of such devices. The current models of devices of our "Mango" series for Mobitex based services include "Mango Combo" and "Mango Deluxe". As at 31 December 2013, we had about 50,800 and 13,800 users for our paging and Mobitex based services respectively. We also provide other telecommunications services including data services (which provide users with continuously updated stock data and gaming data of The Hong Kong Jockey Club through the Internet or mobile apps), IDD, international call forwarding, and "One card two numbers" services.

(iv) Provision of operation services to our associate, NWM — Our wholly owned subsidiary, TDM, provides operation services to NWM for a services fee. NWM is an MVNO which provides services in the brand name of "New World Mobility" ("新世界傳動網") and is our associate owned as to 40% by TDM and as to 60% by CSL. The operation services we provide to NWM include sales management services, marketing operation services, customer services, billing, payment and debt collection services, and customer data compilation and analysis services. We provide sales and customers services to NWM Subscribers at our shops in Hong Kong.

As at the Latest Practicable Date, we have 51 shops in Hong Kong and a service centre in Macau.

For the two financial years ended 31 March 2012 and 2013 and the nine months ended 31 December 2013, we had a total revenue of HK$840.2 million, HK$1,091.1 million and HK$890.5 million and a net profit of HK$6.9 million, HK$50.4 million and HK$67.7 million, respectively. The following table sets out a breakdown of our total revenue during the Track Record Period according to our four major streams of business:

	Year ended 31 March				**Nine months ended 31 December**			
	2012		**2013**		**2012**		**2013**	
	HK$'000	%	*HK$'000*	%	*HK$'000* *(unaudited)*	%	*HK$'000*	%
Retail sales of mobile phones and pre-paid SIM cards	163,819	19.5	479,775	44.0	369,312	45.3	353,862	39.8
Distribution of mobile phones	383,863	45.7	318,971	29.2	229,553	28.1	316,355	35.5
Paging and other telecommunications services	237,462	28.2	179,147	16.4	139,058	17.0	102,414	11.5
Provision of operation services to NWM	55,037	6.6	113,196	10.4	77,917	9.6	117,844	13.2
Total	840,181	100.0	1,091,089	100.0	815,840	100.0	890,475	100.0

COMPETITIVE STRENGTHS

The Directors believe that the following competitive strengths of our Group have contributed to our success to date.

We have experienced management

Our executive Directors have served our Group for 23 years to 36 years and participated in the business development of our Group. They thus have extensive experience in the telecommunications business including but not limited to paging services, mobile and other telecommunications services, distribution and retail sales of mobile phones and telecommunications accessories, as well as the operation of the front end and back end of telecommunications business. Their experience and expertise have contributed to the growth of our Group, and continue to enable our Group to respond effectively to rapid changes and keen competition in the telecommunications market.

We have established a foothold in the telecommunications market

We have established a foothold in the Hong Kong telecommunications market. We had approximately 50,800 users of our paging services and approximately 13,800 users of our Mobitex based services as at 31 December 2013. About 50% of our paging services subscribers have subscribed for our services for more than five years. As cellular technologies become more affordable and more available, advanced telecommunications services began to displace paging as a commercial product. However, paging services now exist largely as niche products for their simplicity, high reliability, and low cost. In 2013, we have taken 74.63% and 100% of market share (in terms of number of users) in Hong Kong and Macau markets respectively.

We have used our existing brand name "Telecom Digital" ("電訊數碼") for more than 12 years and the brand name of "Mango" for our Mobitex based services since 2002. Our established brand names help us attracting customers and marketing our products and services.

We have extensive network of shops in Hong Kong

As at the Latest Practicable Date, we had a total of 51 shops in Hong Kong. Our shops, the gross areas of which range from approximately 50 sq.ft. to approximately 1,100 sq.ft., are generally at locations with high pedestrian flow in different districts in Hong Kong. The extensive network of our shops enables us to provide efficient and quality services to our customers as well as serves an effective means to market our services and goods.

The map below shows the locations of our shops in Hong Kong as at the Latest Practicable Date:

Our business model comprises various operations generating synergy

We sell mobile phones and pre-paid SIM cards and distribute mobile phones of international renowned brands. In addition, we are also engaged in provision of paging and other telecommunications services and provide operation services to NWM. The integration of these operations has formed a business model which brings synergies and operational efficiency. Specifically, we can leverage on our network of shops and customer base to cross-sell various telecommunications products and services. Our marketing, advertising and branding effort benefits our sales of various products and services as a whole. Moreover, our back office resources, such as our administrative staff, customer service team, billing system, as well as IT system also support and contribute to the development of our various business operations.

OUR BUSINESS STRATEGIES

We intend to continue to focus on the telecommunications market in Hong Kong in which we have extensive experience and expertise. We believe that the continuous development of the telecommunications technology will result in sustained increasing demand for our services and products.

We will endeavour to achieve our business objective and adopt the following business strategies.

Strengthen our business of retail sales of mobile phones by expanding our shops network and opening flagship stores

While we expect that the proportion of our revenue from paging and other telecommunication services would reduce gradually, we expect our operation of retail sales and distribution of mobile phones would together contribute a larger portion of our revenue in the future. We believe that it is important for us to continue to strengthen our market competitiveness by expanding our network of shops. As at the Latest Practicable Date, we have 51 shops. We target to expand our shops network in Hong Kong to 52 shops, 56 shops and 61 shops as at 31 March 2015, 2016 and 2017, respectively. We plan to open about 10 new shops in the coming three years in order to achieve our expansion plan on our shops network.

In determining whether to open an additional new shop in a place, we first study the performance of our existing shop in the same or nearby district in terms of the amount of retail sales, the queuing time of shop visitors, the number of customers visiting our shops for our customer services, the number of existing and new customers of NWM's mobile services, the market demand for mobile phones and/or our paging and other telecommunication services, the flow of people in the district, the expected benefit (such as improvement in customer service quality and potential market penetration as brought by additional shop visitors), as well as the rental and staff cost to operate the shop. We perform feasibility study for opening new shops based on the aforesaid information and assess whether it is worthwhile to open a new shop in a specific location. Regarding the location of a new shop, we will select the premises for lease situated on the street level at prime shopping areas or within shopping malls with high flow of people.

Moreover out of the 10 new shops, two of which are intended to be our flagship stores with larger floor area. The flagship stores would showcase our products and services. More importantly, the flagship stores would provide more enhanced customer experience. In our flagship stores, we shall provide customer services include management of customer accounts, arrangement for repair and maintenance of devices, training courses and interest groups for new products and services for customers. We believe that the flagship stores would further enhance customer experience and satisfaction as well as the corporate image of our Group.

Total capital expenditure for refurbishment of the 10 new shops (including flagship stores) is estimated at about HK$5 million. We intend to finance such capital expenditure by the net proceeds from the Placing in about 36 months after Listing. The investment costs, comprising primarily equipment, leasehold improvement, furniture and fixtures, of a new shop is estimated to be approximately HK$500,000.

Moreover, we also need to recruit additional sales force to operate these new shops. We intend to spend HK$5 million of our net proceeds from the Placing to finance the additional staff cost for such new shops for the coming 22 months after Listing.

During the years ended 31 March 2012 and 2013 and the nine months ended 31 December 2013, our average monthly revenue per shop were approximately HK$445,000, HK$988,000 and HK$1,048,000 respectively. Such average monthly revenue per shop is calculated based on summation of our revenue from two out of our four business segments (being retail sales of mobile phones and pre-paid SIM cards and provision of operation services to NWM), divided by the number of shops as of the respective year/period end. We use the revenue of these two segments to calculate the average monthly revenue per shop because our operations carried out in our shops are mainly related to these two segments, while our customer service for paging and other telecommunication services is mainly provided through customer hotline and online payment platform. During the Track Record Period, our averagely monthly revenue per shop increased mainly due to the increase in revenue of our retail sales of mobile phones, as well as the increase in subscribers of NWM's mobile services (which therefore led to increase in revenue of NWM and thus our revenue from provision of operation services to NWM). We will monitor the operation of each of our shops to avoid over-saturation of shops. However, there is no assurance that the feasibility study that we conduct for opening new shops is accurate due to over-saturation of the market as a result of our new shop or new shops of our competitors. Based on our experience during the Track Record Period, it is estimated that a new shop will break even, i.e. its monthly revenue is at least equal to its monthly expenses, in about one to two months after its commencement of business. Depending on the rentals of the shop, the investment in a shop will be recovered in 3 to 17 months after its commencement of business based on the total investment costs for a shop and as estimated based on the monthly revenue and expenses per shop during the Track Record Period.

Expanding our head office and logistics vehicle fleet to cope with our growth of business

In order to support the growth of our businesses and to enhance our operational efficiency, we plan to expand our head office in Hong Kong. We intend to purchase office premises in Hong Kong as our head office. We believe that purchasing our own premises rather than renting premises for our head office will let us have a greater flexibility for catering our expansion. As at the Latest Practicable Date, we have not yet identified a specific property to acquire. Nevertheless, as we currently rent premises as our head office in Kowloon Bay, we plan to acquire the premises for expansion of office in Kowloon Bay district. We currently intend to acquire premises of about 8,000 sq.ft. in about 12 months after Listing. With a larger office, we can cater a larger logistics team and technicians to cope with the growth our business. Total capital expenditure for the purchase of premises and the expansion of our office is estimated at about HK$86.8 million. We intend to finance such capital expenditure by the net proceeds of HK$54.0 million from the Placing and the remaining by bank mortgage loan.

We also plan to purchase additional trucks to enhance our logistics vehicle fleet along with the expansion of our distribution and retail business. Currently, we have 10 trucks in our logistics vehicle fleet. We plan to purchase 10 new trucks to replace five of our existing and aged trucks and to expand our logistics fleet. Total capital expenditure for addition of trucks is estimated at about HK$2.0 million. We intend to finance such capital expenditure by the net proceeds from the Placing within 24 months after Listing.

Enhance management capability and efficiency by implementing an ERP system

We believe that an enhancement of our management capability and efficiency could increase our competitiveness. We plan to implement a group-wide ERP system, which are specifically designed to improve the efficiency of our resource planning and reduce the operating costs of our operations by allowing us to have a more effective communication and data flow among our different operation functions, enhancing our ability to accumulate and analyse our operational data, and thus providing support to our customer services, distribution, retail sales, human resources and finance and accounting operations.

We plan to implement ERP system construction in two phases. The first phase will focus on the integration of IT systems used in our retail outlets. The second phase will gradually integrate our purchasing, selling, logistics, and financing operations in various sectors of our business, so as to allow for synchronisation and simultaneous operation of our various systems. Upon completion, our ERP information system will provide statistical data for our business strategy analysis. It will give us instant access to key business information such as inventory records, sales information, market trends and customer needs, and performs accounting and financial analysis.

The ERP system will thus provide us with a solid platform for efficient management, an excellent source of statistical data for our business strategy analysis, a platform for better internal communication and efficient management and a strong foundation for future business development, thereby making revenue-generating and cost-saving impact on us. The total investment for the ERP system is estimated at approximately HK$5.0 million. We intend to finance such capital expenditure by the net proceeds from the Placing in 24 months after Listing.

SCOPE OF BUSINESS

During the Track Record Period, our scope of business included:

1. Retail sales of mobile phones and pre-paid SIM cards

2. Distribution of mobile phones

3. Provision of paging and other telecommunications services

4. Provision of operation services to NWM

1. Retail sales of mobile phones and pre-paid SIM cards

We offer mobile phones of seven brands including Samsung, LG, Sony, Sharp, HTC, Lenovo and Motorola for sale at our shops. We also sell pre-paid SIM cards for voice mobile services.

Prior to December 2012, we sold an immaterial amount of mobile phone accessories. Starting from December 2012, in order to avoid competition with TSO, which has also been selling accessories for mobile phones and personal electronic products of certain brands at its service centres, we ceased to engage in the sale of the accessories and agreed to allow TSO to sell the accessories at our retail shops on a consignment basis. Further details of the consignment of accessories are in "Continuing Connected Transactions — A. Non-exempt Continuing Connected Transactions — 4. Transactions with TSO" in this prospectus.

The following table sets out the breakdown of revenue of our retail sales business of mobile phones and pre-paid SIM cards during the Track Record Period:

	Year ended 31 March				**Nine months ended 31 December**			
	2012		**2013**		**2012**		**2013**	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000* *(unaudited)*	*%*	*HK$'000*	*%*
Sale of mobile phones	146,938	89.7	457,621	95.4	353,336	95.7	339,273	95.9
Consignment fee received from TSO	—	—	590	0.1	3	0.1	1,188	0.3
Sale of pre-paid SIM cards	16,881	10.3	21,564	4.5	15,973	4.2	13,401	3.8
Total	163,819	100.0	479,775	100.0	369,312	100.0	353,862	100.0

Suppliers

Suppliers involved in our retail business include two international renowned brands with which we have distributorship agreements. Mobile phones of these two brands sold in our retail business are sourced from our distribution business. Such inter-segment sales are eliminated in full on combined financial statements as set out in note 8 to the Accountants' Report. For mobile phones of other brands, we procure merchandise from the brands or their designated distributors. We also purchase pre-paid rechargeable SIM cards for voice mobile services from CSL. We have not entered into any supply agreement of fixed term with the supplier for our retail business. Generally we are required to settle the payment for mobile phones and pre-paid SIM cards upon receipt of the goods or with a credit term within 15 days to 30 days of the invoice.

Our purchasing policy is to provide a range of quality products at market price. We continuously review new and existing products with a view to maintaining a range of high quality, brand-name consumer electronic products within our product mix. We source merchandise only from a pre-qualified list of suppliers who meet our quality standards. In general, if the suppliers have available stock, it takes two to three days from submitting an order to a supplier to receiving the ordered goods. Procurement decisions are based on inventory levels and movement, expected sales and lead times of the products. In this regard, our sales reporting and inventory monitoring system can provide us the number of units of mobile phones we sell and the inventory level, and we can monitor our retail sales of mobile phones every day as well as the inventory levels of the products in stores and warehouses, and consult our suppliers from time to time about the delivery time of the goods.

Customers and sales and marketing activities

During the two years ended 31 March 2012 and 2013 and the nine months ended 31 December 2013, we sold 58,000 units, 132,300 units and 98,700 units of mobile phones under our retail sales of mobile phones, respectively.

For our retail operations, our profitability depends to a large extent on the price competitiveness of the products we offer. Our primary pricing policy is to offer the products at market prices. We review the selling prices of the products regularly and make adjustments based on the recommended retail price and discount range set by our suppliers, the expected profit margin on individual products determined by management, the prices set by our competitors and the anticipated market trends and expected demand from customers. For the mobile phones we sell under our retail operation, there is no difference between the pricing policy on the brands of mobile phones of which we have the distribution rights and the pricing policy on the other brands of mobile phones.

We primarily market our mobile phones and other telecommunication products to visitors at our shops by displaying their demo units. Our customer services staff at the shops also explain to visitors the features and specifications of the products. We also run regular sales promotion campaigns, including seasonal sales and festival sales. Our sales promotions include direct discounts and gifts such as accessories, coupons and movie tickets. All retail sales are made through immediate payment.

We conduct our retail business of mobile phones mainly at our shops. As disclosed in the paragraph headed "4. Provision of operation services to NWM" in this section, TDM (being our wholly-owned subsidiary) provides operation services to NWM which include, among others, sale management services pursuant to which TDM offers, markets and sells NWM's mobile services under the brand of "New World Mobility ("新世界傳動網")" at our Group's shops. Since it is common for mobile service operators in Hong Kong to offer handset bundle tariff plans to customers, as our own promotional and marketing strategy to benefit both our retail sale of mobile phones and NWM's mobile services business, we offer sales discount on selected mobile phone models to NWM Subscribers as well as subscribers for our Group's paging or Mobitex based services. Such promotional and marketing activities are planned and carried out solely at our own discretion and we plan such activities mainly based on market trend and demand for various types of mobile phones. Generally, the discount we offer to NWM Subscribers ranges from HK$300 to HK$1,600 or from approximately 8% to 40% for different models of mobile phones. Such discount is usually the same for both new and existing NWM Subscribers. Such discounts are determined by us after taking into account of the discount prices offered by other mobile services providers to their subscribers, discount prices offered by other retailers, as well as the popularity of the brands and models of the mobile phones and the period of time for which the models have been launched to the market. We do not provide mobile phones on a zero-price basis to NWM Subscribers. We do not receive rebate from NWM for handsets sold to NWM Subscribers at a discounted price. For the handsets sold at a discounted price, we record such discounted price as our revenue.

Set out below is the breakdown of revenue from sale of mobile phones in our retail business to NWM Subscribers and to other customers respectively:

	Year ended 31 March				Nine months ended 31 December	
	2012		2013		2013	
	HK$'000		*HK$'000*		*HK$'000*	
New NWM Subscribers *(Note 1)*	80,411	54.7%	245,199	53.6%	97,687	28.8%
Existing NWM Subscribers *(Note 2)*	45,210	30.8%	194,328	42.5%	225,265	66.4%
Other customers	21,318	14.5%	18,094	4.0%	16,321	4.8%
Total	146,939	100%	457,621	100%	339,273	100%

Notes:

1. A new subscriber for NWM's mobile services who enters into the mobile service agreement with NWM for a term of 12 months is entitled to purchase mobile phones of designated models from our Group at a discounted price.

2. Our Group also sells mobile phones of designated models to existing NWM Subscribers at various discounted prices so long as they extend their service agreements with NWM for a further term.

The mobile phones we sell under our retail operation are covered by the "defective on arrival" return arrangement and protected by the warranty offered by the manufacturers. We do not extend or separately provide warranty on the mobile phones we sell under our retail operation.

2. Distribution of mobile phones

Currently we distribute mobile handsets of two international renowned brands to Independent Third Parties, which include household electrical appliances retailers, mobile phones retailers and wholesalers. One of the brands is a multinational mobile phone manufacturing company headquartered in Tokyo, Japan, and is a wholly-owned subsidiary of another Tokyo-based global enterprise which is engaged in a broad range of businesses, including the electronic business, entertainment businesses and financial services business. It has a market share of approximately

3.18% (by unit of shipment) in Hong Kong for the year ended 31 December 2013 pursuant to the Industry Report as referred to on page 66 of this prospectus. The other one is a global enterprise, headquartered in Korea and engaged in consumer electronics, mobile communications and home appliances. It has a market share of approximately 5.25% (by unit of shipment) in Hong Kong and was the second largest Korean brand of mobile phones in Hong Kong (in term of unit of shipment) for the year ended 31 December 2013 pursuant to the Industry Report as referred to on page 66 of this prospectus.

We obtained the non-exclusive distribution right of mobile phones of these two international renowned brands in Hong Kong in 2007 and 2010 respectively. The terms of such distribution rights continue year to year until terminated. The two international renowned brands have the right to appoint other distributors in Hong Kong, but currently, we are the only distributor which directly procures mobile phones from them for distribution purpose in Hong Kong.

The major terms of the relevant supply agreements between these two brands and us include:

Distribution — The suppliers authorise us to distribute and sell their designated models of mobile phones to other retailers in Hong Kong on a non-exclusive basis.

Pricing — The prices of the mobile phones sold by the suppliers to us are determined after arm's length negotiation between the suppliers and us with reference to the prices of the mobile phones to be resold by us to retailers as determined by the suppliers. In case of reduction in the prices of the mobile phones sold by the suppliers to us, the suppliers will provide a retrospective reduction in the price for affected mobile phones still on the stock in our warehouse. The suppliers will also provide a retrospective reduction in price for affected mobile phones still on the stock at the possession of our distribution customers which have been invoiced within a specified period of time prior to the date of the price reduction. The payment of such stock compensation is made by way of debit notes issued by us to the suppliers and credit notes issued by us to our distribution customers.

We also sell mobile phones of these two suppliers in our retail business. The primary pricing policy for retail sales of mobile phones of these two suppliers is to offer the mobile phones at market prices, which is the same as the policy for retail sales of mobile phones of other brands. Further details of the pricing policy for retail sales of mobile phones are set out in the above sub-paragraph headed "Scope of business — 1. Retail sales of mobile phones and pre-paid SIM cards — Customers and sale and marketing activities" in this section of this prospectus.

Payment and settlement — We are required to settle the payment to the two suppliers in Hong Kong dollars within 15 days to 30 days from the date of invoice.

Minimum purchase target — No minimum purchase target is set by the suppliers. Our purchase orders placed with the suppliers are based on the purchased orders placed by the retailers with us and our own retail sales.

Sales return policy — One supplier allows us to sell back to it such stocks which have been purchased by us for more than 90 days. The other supplier allows us to return defective products to it within one month from delivery.

Defective on arrival — The suppliers as manufacturer of the mobile handsets provide a "defective on arrival" policy to the end users of the handsets. If a defective handset is returned by an end user to the retailer being our customer within 10 days from the date of the original purchase by the end user, but no later than a month from the handset's date of production, it will be considered as defective on arrival ("DOA"). In the event of a DOA handset, we return to the supplier the defective handset in the original box with all accessories included in the kit together with the original receipt and fault report, and are entitled to replace such defective handset with a new handset and claim replacement (or reimbursement, at the supplier's sole discretion) within 10 business days following the approval of the DOA claim presented by us.

Warranty — The suppliers as manufacturer of the mobile handsets also provide warranty to the end users of the handsets in addition to the above DOA policy. In the case of valid and timely claims by end users under the warranty, the suppliers will at their own expense repair or replace the defective handsets. They are responsible for providing or procuring the provision of in-warranty and out-of-warranty services to the end users. Generally the warranty provided by the suppliers has a term of one-year and does not cover operational or functional error of the handsets caused by any network system, or any negligent handling or misuse of the handset by the end user.

Delivery — The suppliers are responsible for the delivery of the products to us at their own costs. We are responsible for the delivery of products from us to the retailers.

Our suppliers under our distribution operation benefit from our distribution logistics, warehousing management, and repackaging service. We separately charge the suppliers for storage of the handsets to be distributed to our customers in our warehouse and any re-packaging or labelling work. The suppliers are generally required to settle our charges within 14 days from the date of invoice. On the other hand, our distribution operation also complements our retail operation by providing a stable and reliable supply source of mobile phones.

Our operation flow

We source mobile phones from the sales offices of such international manufacturers located in Hong Kong. The purchasing process is supported by our management information system to facilitate better inventory control and tracking of sales. Therefore our management and our suppliers are able to monitor and achieve an optimal level of inventory. Procurement decisions are based on inventory levels and movement, expected sales and lead times of the products. In this regard, our sales reporting and inventory monitoring system provides us the number of units of mobile phones we sell and the inventory level, and we make reference to our retail sales of mobile phones every day, monitor the inventory levels of the products in warehouses, and consult our suppliers from time to time about the delivery time of the goods. In general, if the suppliers have available stocks, it takes approximately 7 to 14 days from placing an order to a supplier to receiving the ordered goods.

Generally our customers place with us purchase orders which set out the models and amount of the mobile phones they intend to purchase. We arrange the delivery of the goods to the customers on the same day or the following day on which we receive the purchase orders. We also issue our invoices to the customers together with our delivery notes upon the delivery of the goods to the customers.

Customers

Under our distribution business, we, as the authorised distributor of our two suppliers, sell mobile phones of such two international renowned brands to household electrical appliances retailers, mobile phones wholesalers and retailers in Hong Kong. We have not entered into supply contracts of fixed term with these customers. However we entered into agreements with these customers which set out the payment terms of the sale and purchase of mobile phones and stipulate that the title of mobile phones passes only upon payment. The payment term ranges from immediate payment to 30 days credit term.

During the two years ended 31 March 2012 and 2013 and the nine months ended 31 December 2013, we sold 189,500 units, 140,200 units and 115,500 units of mobile phones under our distribution sale of mobile phones, respectively.

3. Paging and other telecommunications services

During the Track Record Period, our paging and other telecommunications services can be broadly categorised into (A) data services, which primarily relate to delivery of data; and (B) voice services, which primarily relate to voice calls, as follows:

A. Data services:

i. Paging services
ii. Mobitex based services
iii. Smartphone apps
iv. Information broadcasting through Internet

B. Voice services:

v. "One card two numbers" services
vi. IDD and international call forwarding services

The following table sets out a breakdown of our revenue from our paging and other telecommunications services during the Track Record Period:

	Year ended 31 March				Nine months ended 31 December			
	2012		2013		2012		2013	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000* (*unaudited*)	*%*	*HK$'000*	*%*
Paging	173,106	72.9	125,149	69.9	97,739	70.3	69,263	67.6
Mobitex based services	47,121	19.8	36,630	20.4	28,708	20.6	19,486	19.0
Smartphone apps	3,895	1.7	4,344	2.4	3,011	2.2	3,464	3.4
Others *(Note)*	13,340	5.6	13,024	7.3	9,600	6.9	10,201	10.0
Total	237,462	100.0	179,147	100.0	139,058	100.0	102,414	100.0

Note: Others include information broadcasting services via Internet, "One card two numbers" services, IDD and international call forwarding services.

The following table sets out the approximate number of subscribers (rounded down to nearest hundreds) for our paging and telecommunications services during the Track Record Period:

	As at		
	31 March 2012	**31 March 2013**	**31 December 2013**
Data services			
Number of users of our paging services	74,300	58,900	50,800
Number of users of our Mobitex based services	21,200	16,300	13,800
Number of users of our smartphone apps	58,500	36,100	39,800
Number of users of our information broadcasting services via Internet	N/A	100	100
Voice services			
Number of users of our "One card two numbers" services	400	300	300
Number of users of our IDD and/or international call forwarding services	85,100	99,000	101,600

A. Data services

i. *Paging services*

Our services

We have been providing paging services in Hong Kong and Macau since 1974 and 1977, respectively. TDD, one of our wholly owned operating subsidiaries, currently provides paging services in Hong Kong and holds a PRS Licence. Telecom Macau, another one of our wholly owned operating subsidiaries, currently provides paging services in Macau and holds the relevant licences granted by the Macau government to possess wireless telecommunications equipment and install and use wireless telecommunications bases for paging services.

— Message paging

Paging generally means sending of messages by a paging system to pagers that receive and display text messages. Operators at call centres personally answer incoming telephone calls directed to them by the automatic distribution system, and are responsible for entering the paging messages into the operating system or responding to message retrieval enquiries from subscribers. The paging system sends messages to the pager of the subscriber for the paging services and the subscriber's pager alerts him or her and displays the message.

Our paging services support self-entry of message through the Internet at our website at www.telecomdigital.cc. Moreover, we can provide remote access terminals to corporate customers so that such customers can install the relevant software at their own terminals and transmit messages through such terminals by themselves to the designated user accounts at their own discretion. As such, messages can be sent to pagers without going through our operators, thereby keeping such messages highly confidential. Our paging services also support "one-to-many" paging services by which messages can be sent to an individual pager or a selected group of pagers. With these characteristics, our paging services are used by entities such as disciplinary forces, hospitals, logistics companies, construction companies, property agency, hotels, property management companies and banks.

Our popular models of pagers include:

Model number: C-RX88C

Colour display pager with vibrating alert

- Storage of 100 personal and 300 group messages

Model number: C-RX288t

Black and white display pager with vibrating alert

- storage of 100 personal and 300 group messages

— Personal call answering service — "My Number"

Since mobile phones and SMS are widely used, we also provide modified paging services, and designated such services as "My Number" services so that subscribers can read paging messages on their mobile phones without pagers. A subscriber can forward any missed or unattended calls to the designated paging number. Our operators at the call centres answer such missed or unattended calls, record messages from the callers, and send the messages to the subscribers by way of SMS so that the subscriber does not miss any message from any caller when he does not answer the call.

— Information broadcasting through pagers

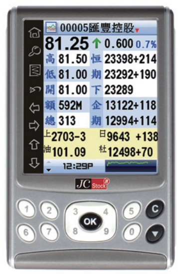
Apart from message paging, we also offer information broadcasting services through pagers. Information broadcasting services involve the transmission of continuously updated information from sources simultaneously to a group of subscribers. Our information broadcasting services primarily cover (i) prices of securities quoted on the Stock Exchange; (ii) gaming information of the Hong Kong Jockey Club including odds and results of horse racing and football matches; and (iii) forex information provided by a forex trading company. Such information from the respective sources is relayed to us in digital format through an online connection and is automatically processed and transmitted to the relevant subscribers.

The low radiofrequency used by paging systems leads to good coverage which may be advantageous in certain circumstances. For example, pagers are still in use in places where the operation of the radio transmitters contained in mobile phones is problematic or prohibited. One such type of location is a hospital complex, where sensitive medical equipment is protected from possible interference by radio transmitters and where there is a greater need of assurance for a timely delivery of a message. In addition, paging provides an effective means for an entity to disseminate messages to various groups of persons who may be working at different locations. In this light, our paging services are used by disciplinary forces, logistics companies, construction companies, property agency, hotels and property management companies.

As at 31 December 2013, we had approximately 50,800 users of our paging services and are one of the paging operators in Hong Kong.

We have designed the pagers used by the subscribers of our paging services. More dedicated pagers are designed for receiving information such as stock price and odds of horse racing and football matches. Such dedicated pagers include 揀股王 ("JC Stock II"), 英皇外匯機 ("Emperor Forex Pager"), "Go Go", "Win Win", and 波霸 ("Power Goal").

揀股王 JC Stock II	Primarily cover information on stock trading, horse racing and football matches including:



- data on Hong Kong listed companies including trading price, profits, assets, dividend ratio
- comparison of the data on Hong Kong listed companies
- chart diagram on trading price of listed shares
- stock market information
- information on horse racing (including odds, race card and winnings)
- information on football matches (including fixtures, odds and results)

英皇外匯機 Emperor Forex Pager	Primarily cover information on forex and indexes including:

- rates of major currencies including Hong Kong dollars, US dollars, Euros, Japanese Yen, British Pound, Swiss Franc
- Hang Seng Index, futures indexes and global indexes

Go Go	Primarily cover information on football and horse racing matches including:

- fixtures, odds and results of football matches; goal alert
- odds and results of horse racing matches

Win Win

Primarily cover information on football matches including:

- updated fixtures and football matches results of different countries
- historical performance of football teams
- odds of football matches
- football news
- goal in chosen football matches

波霸 Power Goal

Primarily cover information on football and horse racing matches including:

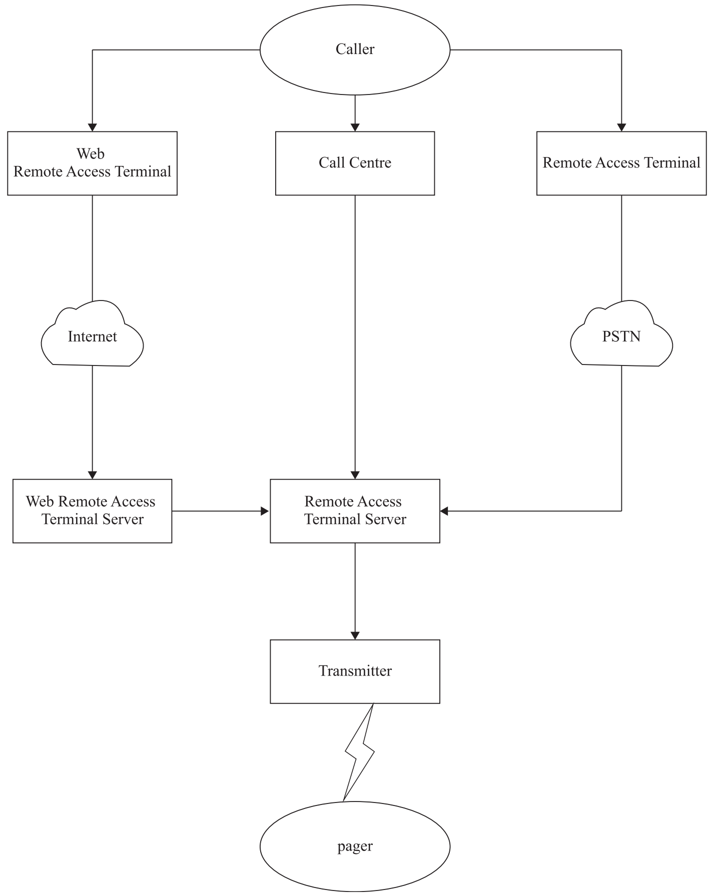
- fixtures, odds and results of football matches; goal alert
- odds and results of horse racing matches

In addition to pagers, we also designed a device which is able to have the function of a general mobile phone as well as a pager and is named as "Mango Phone". The paging function of "Mango Phone" enables it to receive the information and data broadcast by our paging network.

Mango Phone

- provide updated market price on Hong Kong listed stocks and indices
- get continuously updated information and odds on horse racing and football matches

Our operation flow



When a caller calls and the operator completes the input of the message, the message is transformed to a digital format which is distributed via telephone lines to the transmission sites located throughout Hong Kong and via satellite to the transmission sites located in Pearl River Delta. The transmission sites then transmit the signal by means of very high frequency (VHF) and ultra high frequency (UHF) radio waves to the pager which recognises the radio message with the same frequency and matching code.

We have installed transmitters at 121 cell sites in Hong Kong so as to provide extensive radio coverage of the populated areas of Hong Kong. Our cell sites accommodate our transmitters for both our paging services and Mobitex based services. Our Group does not engage third party service providers for set-up, operation and maintenance of cell sites located in Hong Kong. Such cell sites in Hong Kong are maintained by our own engineers and technicians. The operating costs of the cell sites in Hong Kong incurred by our Group amounted to approximately HK$24.0 million, HK$24.8 million and HK$16.7 million for the two financial years ended 31 March 2012 and 2013 and the nine months ended 31 December 2013, respectively.

We have entered into an agreement with an Independent Third Party in the PRC pursuant to which 132 cell sites in certain Pearl River Delta areas (including Shenzhen, Dongguan, Swatow, Zhuhai, Guangzhou) are provided to us so that subscribers of our paging services can receive messages in such places. Salient terms of the agreement between the service provider and us are as follows:

- *Obligations of the service provider* — The service provider is responsible for the maintenance of the cell sites in the PRC.
- *Service fees* — The service fees we pay for the services is determined by the cost of the maintenance of the cell sites incurred by the service provider plus a mark-up of 6%. For the two financial years ended 31 March 2012 and 2013 and the nine months ended 31 December 2013, such service fees paid by us amounted to approximately HK$3.8 million, HK$2.1 million and HK$1.6 million, respectively.
- *Payment term* — The monthly service fee shall be paid within 10 days from the date of the monthly invoice issued to us.
- *Term and termination* — The agreement commenced on 1 January 2014 and expires at the end of December 2015. We may terminate the agreement at any time by giving at least one month's advance notice in writing to the service provider.

For the purpose of transmitting messages from Hong Kong to certain Pearl River Delta areas, we have also engaged a satellite service provider, which is an Independent Third Party, to provide us a satellite link for a monthly charge so that our service provider in the PRC can receive paging messages from us and transmit the same in the Pearl River Delta area as mentioned above. Salient terms of the agreement between the service provider and us are as follows:

- *Obligations of the service provider* — The service provider provides satellite link form Hong Kong to Shenzhen.
- *Service fees* — We have to pay a monthly service fee of US$2,650. For the two financial years ended 31 March 2012 and 2013 and the nine months ended 31 December 2013, such service fees paid by us amounted to approximately HK$199,000, HK$232,000 and HK$186,000, respectively.
- *Payment term* — The monthly service fee shall be paid in advance on the first day of every month.

- *Term and termination* — The current agreement commenced from 1 November 2013 and expires on 31 October 2014. Either party may terminate the agreement at any time by giving at least 30 days' advance notice in writing to the other party.

Suppliers and service providers involved

We have established our paging system and network of shops in Hong Kong. However, in order to effectively manage our costs while growing our business, we have gradually chosen to source certain services from third party service providers which provide us set-up, operation and maintenance of cell sites in the PRC, call centre services, as well as the manufacture, repair and refurbishment of our pagers and Mango Devices. This structure offers us cost advantages and flexibility in dealing with competition. Moreover, we source data on the stock market, horse racing and football matches from the primary sources for the operation of our service of information broadcasting through pagers.

Since July 1999, we have engaged an Independent Third Party, which is principally engaged in provision of outsourcing service of customer relationship management and operates its customer relationship management service centres in Guangzhou, to operate the call centre for our paging services. Salient terms of the agreement between the service provider and us are as follows:

- *Obligations of the service provider* — The service provider is responsible for the operation of our 24 hour paging service hotline. It assigns a designated team of operators to handle calls in respect of our paging services.

- *Our obligations* — We provide, at our own costs, to the service provider the standard and qualification required for the recruitment, training and management of the operators.

- *Service fees* — The service fees we pay for the call centre service is determined by the number of seats of operators exclusively dedicated to us, i.e. workstations that are not shared with others, times a fixed rate, both of which were mutually agreed between the service provider and us. For the two financial years ended 31 March 2012 and 2013 and the nine months ended 31 December 2013, such service fees paid by us amounted to approximately HK$7.3 million, HK$8.9 million and HK$4.2 million, respectively.

- *Payment term* — The monthly service fee becomes due on the date of the invoice which is issued to us at the end of every month.

- *Term and termination* — The agreement commenced on 1 March 2014 and expires at the end of February 2017. Either party may terminate the agreement at any time by giving at least 90 days' advance notice in writing to the other party.

Since mid-2013, we rent the pagers to our customers and the pagers are returned to us upon termination of the subscription for our paging services. We also arrange repairing and maintenance services to the subscribers for their pagers. The pagers were manufactured by Radiotex and were repaired and refurbished by TSO. Both Radiotex and TSO are associates of our Controlling Shareholders and thus our connected persons. Please refer to the section headed "Continuing Connected Transactions" in this prospectus for further details.

Moreover we entered into agreements with the following Independent Third Parties which provide us information and data for the information broadcasting operation of our paging business as well as our Mobitex based services and other data services:

Data and information provider	Data and information provided	Subscription fees
HKEx Information Services Limited	securities and derivatives market data including bid/ask, high/low, last traded price, cumulative turnover and volume, etc.	a monthly fee comprising a fixed amount and a variable amount with reference to the data used and the number of our relevant subscribers
HSI Services Limited	real time Hang Seng family of Indexes	a fixed annual fee, and a quarterly fee comprising a fixed amount and an amount determined by the number of our services subscribers on a variable rate with reference to the number of our service subscribers
Dow Jones & Co. Inc	global equities news and market talk	a fixed quarterly fee
Finet Holdings Limited	Finet Hong Kong newswire headlines and full story	an one-time fixed fee plus a monthly fee

Data and information provider	Data and information provided	Subscription fees
China Investment Information Services Ltd.	real time and end-of market information on B shares, derivatives and indexes	a fixed annual fee
The Hong Kong Jockey Club	football betting related information (including match list result, match result, odds, team list, league list, player list, etc.) and horse race betting related information (including odds, will-pay, pool investment, race results, race information on horse, jockey and trainer, etc.) and Mark-Six lottery results and information	a fixed annual fee
Asia Sports Information Technology Company Limited	information on football matches of various football leagues including fixtures, match analysis, real time score, match results	a fixed monthly fee

We enter into agreements with the Hong Kong Jockey Club for provision of horse racing and football match data every year. The agreements between the other information services providers and us are continuous contracts which are automatically renewable from year to year. The payment terms given by the above information services providers generally range from 10 days to 60 days.

Customers and sales and marketing activities

The subscribers for our paging services include individuals as well as entities such as disciplinary forces, hospitals, logistics companies, construction companies, property agency, hotels, property management companies and banks. As at 31 December 2013, approximately two-thirds of the users were individual subscribers and approximately one-third of the user accounts were subscribed by corporate customers.

Currently, for individual customers, the tariff plan for our message paging services is HK$98 per month (exclusive of the registration fee of HK$398 and the first annual government licence administrative fee of HK$15). Depending on whether the subscriber subscribes for information and data on all of or either one of stock market and horse racing and football matches, the tariff plans for our information broadcast services range from HK$680 per year to HK$298 per month (exclusive of the registration fee of HK$398 to HK$680). Depending on the choice of the phone number made by the subscriber, the tariff plans for our "My Number" services range from HK$28 to HK$48 per month.

For corporate customers of our paging services, the terms of our services are usually for a fixed term, which range from one year to three years. The monthly services charge offered to corporate customers ranges from approximately HK$68 to HK$268 per user account (exclusive of the annual government licence administrative fee of HK$15), depending on the scope of services, the type of the pagers used as well as the total number of users.

Monthly payment advices are sent to individual subscribers of our paging services. Monthly, quarterly or annual invoices or payment notices are sent to corporate subscribers of our paging services in accordance with the service agreements. A credit term of 30 days is generally given to the corporate customers for our paging services.

We primarily market our paging services to visitors at our shops by displaying our various kinds of pagers and distributing leaflets on our various paging services which show the tariff plans and scope of services. Our customer services staff at the shops also market our paging services and explain to visitors details of our paging services.

We also conduct direct marketing to existing subscribers for our services by way of paging broadcast. Our direct sales team visit potential corporate clients to market our paging services by explaining to them the features of our paging services which can provide them an effective and economical means to communicate with their staff.

ii. ***Mobitex based services***

Our services

We market our Mobitex based services under the brand name of "Mango". Our Mobitex based services apply the technology of Mobitex to provide two-way communication services to users whereby through our specially designed "Mango" series devices, subscribers for our Mobitex based services do not only receive constantly updated information and data of the stock market and odds and results of horse racing and football matches, which is the same as our paging services, but can also (i) send betting entries to the betting system of the Hong Kong Jockey Club, if they have betting accounts with the Hong Kong Jockey Club; and (ii) send their transaction instructions of stock investment to TD Securities, if they have securities trading accounts with TD Securities.

Our specially designed devices for Mobitex based services include "Mango Deluxe" and "Mango Combo".

Mango Deluxe

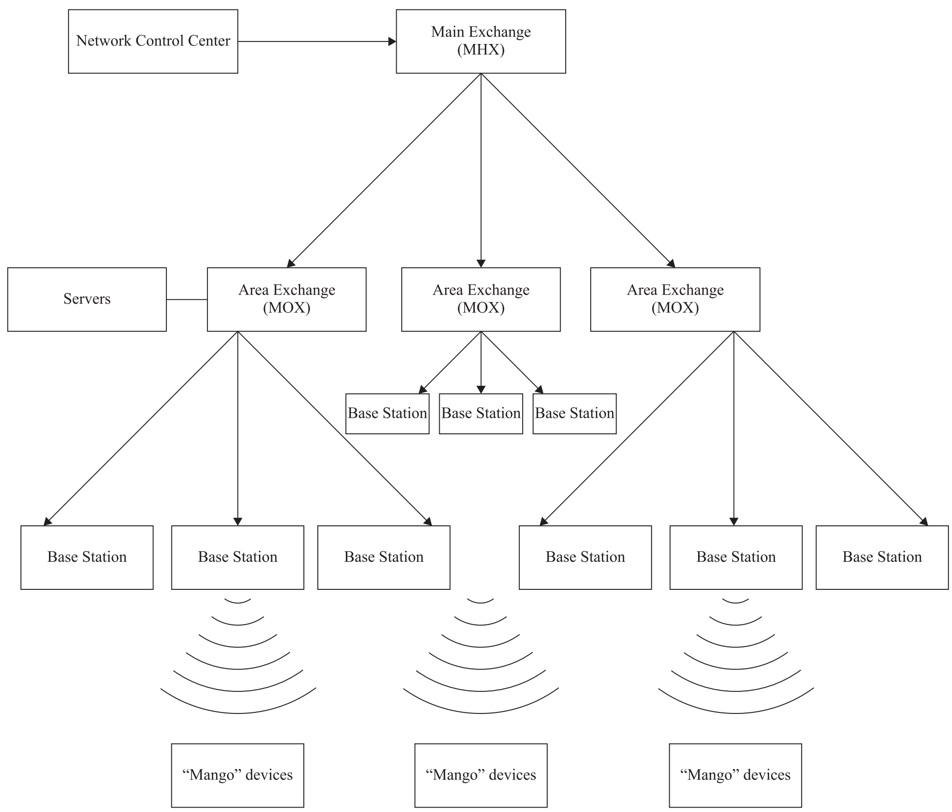
- colour touch screen
- get continuously updated information and odds on horse racing and football matches
- enable subscribers to place bets on horse racing and football matches, buy Mark-Six, and trade Hong Kong listed shares
- enable subscribers to transfer funds between their designated account and betting account
- provide updated market price on Hong Kong listed stocks and indices and enable subscribers to conduct securities trading via TD Securities
- enable users to check cash and securities balances on stock accounts and status of transaction orders
- provide access to e-mail, SMS and with dairy function

Mango Combo

- get continuously updated information and odds on horse racing and football matches
- enable subscribers to place bets on horse racing and football matches, buy Mark-Six, and trade Hong Kong listed shares
- enable subscribers to transfer funds between their designated account and betting account
- provide updated market price on Hong Kong listed stocks and indices and enable subscribers to conduct securities trading via TD Securities
- enable users to check cash and securities balances on stock accounts and status of transaction orders
- provide access to e-mail, SMS and with dairy function

Our operation flow

Our Mobitex based services are interactive mobile data services over the Mobitex network. Mobitex is an Open Systems Interconnection Model based open standard, national public access wireless packet-switched data network. As a wireless data technology, it was developed in the beginning of the 1980s. In the mid-1990s Mobitex gained consumer popularity by providing two-way data communication services. Our Mobitex network transmit messages by means of radio waves of approximately 800 MHz.



The Mobitex technology uses a hierarchy of switches and base stations to route data packets to and from end users. A Mobitex network generally comprises the following:

- *Mobile terminals* — The mobile terminals (which, under our Mobitex based services, are Mango Deluxe and Mango Combo) communicate with the base stations.

- *Base stations* — The base stations communicate with the mobile terminals roamed in to them. The base stations are connected to local switches (MOX), which route traffic to other regions. The main function of the base stations is to route traffic in their coverage area. It schedules the traffic on the radio path so that the usage of radio media is as efficient as possible.

- *Servers* — In Mobitex, the servers for user applications are called fixed terminals (or FSTs). They are connected to the local level of switches (MOXs), via Transmission Control Protocol/Internet Protocol (TCP/IP). This is the hardware that is running the actual application.

- *Switches* — The area (MOX) and main exchange switch (MHX) handle switching and routing and provide connection points between wireless devices and fixed terminals. The switch also provides an important gateway function to other networks.

- *Network Control Centre* — The entire network is supervised and managed from the Mobitex network management centre (NCC). The NCC handles all operation and maintenance tasks, including network configuration, alarm handling, subscriber administration and billing information. Individual base stations and other network components can be reconfigured from this central site, which minimises the need for costly and time-consuming site visits.

Suppliers and service providers involved

Similar to our paging services, the Stock Exchange, the Hong Kong Jockey Club and other information and data suppliers also provide data on the stock market, horse racing and football matches and other information for our Mobitex based services.

In addition, in order to enable our subscribers to receive and send data with the use of our Mobitex based services when they are in certain areas in the PRC, we have engaged an Independent Third Party, which operates a Mobitex network in the PRC, to provide us the roaming services for wireless data communication. As such, subscribers of our Mobitex based services can receive and send messages in Dongguan, Swatow, Zhuhai, Guangzhou, Shenzhen, Shanghai and Beijing. Salient terms of the agreement between the service provider and us are as follows:

- *Obligations of the service provider* — The service provider is responsible for the maintenance of the wireless data communication network in the PRC, which network first receives the data required to be broadcast in the PRC from our network in Hong Kong and then transmits such data via satellite to transmitters in various areas in the PRC.

- *Our obligations* — We provide to the service provider with the model number and device number of the Mango Device of the subscriber who subscribes for roaming services in the PRC.

- *Service fees* — The service fees we pay for the roaming service is determined by the number of subscribers for roaming services with a minimum monthly charge of RMB10,000. For the two financial years ended 31 March 2012 and 2013 and the nine months ended 31 December 2013, such service fees paid by us amounted to approximately HK$281,000, HK$270,000 and HK$202,000, respectively.

- *Payment term* — The service fees are determined at the end of every two months and such service fees for every two months are payable in the following month.

- *Term and termination* — The current agreement commenced from 1 January 2014 and expires on 31 December 2014. Either party can terminate the agreement if the other party is liquidated, or is unable to perform its duties under the agreement as a result of revocation of its licences, or does not perform its duties under the agreement, or commits a breach of the provisions of the agreement without remedying the same within the period of time specified by the non-defaulting party.

Customers and our sales and marketing activities

The subscribers for our Mobitex based services are mostly individual customers. As at 31 December 2013, we had about 13,800 users of our Mobitex based services.

Depending on whether the subscriber subscribes for information and data on all of or either one of stock market and horse racing and football matches as well as the type of the Mobitex device used, the tariff plans for our Mobitex based services range from HK$99 per month to HK$298 per month (exclusive of the registration fee of HK$198 to HK$398).

Payment advice is sent to subscribers for our Mobitex based services every month in respect of payment of monthly subscription fee.

We primarily market our Mobitex based services to visitors at our shops by displaying our various kinds of Mobitex devices and distributing leaflets on our Mobitex based services which shows the tariff plans and scope of services. Our customer services staff at the shops also market our Mobitex based services and explain to visitors details of the services. We also market our Mobitex based services by advertisements on light public buses and mass media such as television, newspaper, etc. When the horse racing season starts, we set up promotion booth at the racecourses.

iii. *Smartphone apps*

We have developed two applications for smartphones, namely "TD Stock Pro" and "Mango Pro", which were launched to the market in 2010 and 2012, respectively. These two apps can be downloaded by the users from mobile apps stores to their smartphones. During the Track Record Period, there were approximately 114,000 and 45,000 times of download of "TD Stock Pro" and "Mango Pro". As at 31 December 2013, there were approximately 3,100 subscribers for the services of "TD Stock Pro" and "Mango Pro".

Screen shots of "TD Stock Pro" are shown below:

"TD Stock Pro" allows subscribers to have access to real time trading prices of Hong Kong listed stocks. It also provides useful data such as average closing price for the preceding 10 to 25 days, and price charts for the past period ranging from a week to the two years, and shares of top 20 gainers and losers. It also allows subscribers to trade shares and check the details of their securities accounts with the use of smartphones. Moreover subscribers can read news on the financial market. The current monthly subscription fee for the services ranges from HK$128 to HK$298.

Screen shots of "Mango Pro" are shown below:

The application "Mango Pro" enables subscribers to have access to real-time information on odds of horse racing and football matches provided by the Hong Kong Jockey Club as well as the data on past horse racing and football matches. It also allows subscribers to place bets with the use of smartphones. The current monthly subscription fee for the services is HK$38.

Payment advice is sent to subscribers of our smartphone apps every month in respect of payment of monthly subscription fee.

We market "TD Stock Pro" and "Mango Pro" by advertisements on mass media such as television, newspaper, etc. We also market the two apps to visitors at our shops by displaying our mobile phones which have installed the two apps and distributing leaflets on the two apps which shows the tariff plans and scope of services. Our customer services staff at the shops also market the apps and explain to visitors details and functions of the apps.

iv. *Information broadcasting via Internet*

We currently provide two services of information broadcasting via Internet, namely, "RaceMate" and "Racing Odds". "RaceMate" is a software which enables the users to use their personal computers to obtain information on horse racing matches for analysis use for an annual subscription fee of HK$6,000. It does not only update its comprehensive database (both races and track work) over the Internet every day, but also serves as an analytical tool for odds and results of horse racing. "RaceMate" provides the users with a mechanism for evaluating the returns of his own prediction model via the real dividends of past races, and enables the users to improve the effectiveness of his prediction model by modifying the model from time to time.

"Racing Odds" is an online service we provide to subscribers. Users can use their personal computer to obtain real time horse racing odds supplied by the Hong Kong Jockey Club for an annual subscription fee of HK$3,000.

B. Voice services

v. *"One card two numbers" services*

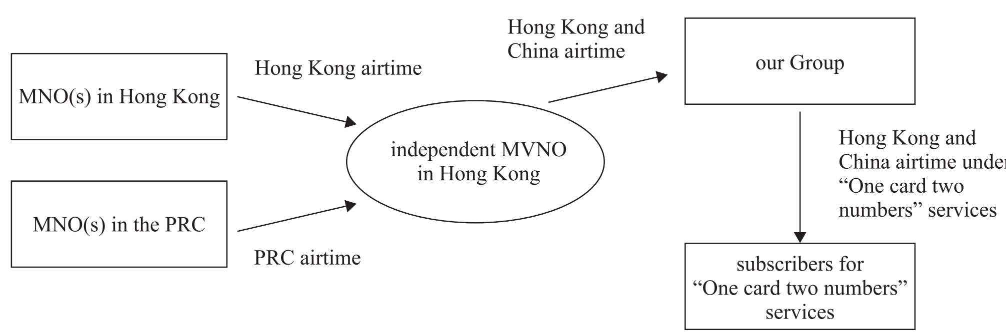
Our services

We have been providing "One card two numbers" services since 2002. Under the "One card two numbers" services, the subscribers can simultaneously possess mobile phone numbers of Hong Kong and the PRC in one single SIM card. If the subscriber is in Hong Kong, the mobile handset of the subscriber automatically switches to a local mobile phone number of Hong Kong, whereas if he is in the PRC, his mobile handset automatically switches to a local mobile phone number of the PRC. Therefore when the subscriber makes phone calls in Hong Kong or China, local calls dialed and received are only subject to local telephone charges but not the higher charges for international roaming services. In addition, people in Hong Kong (or the PRC, as the case may be) can call the subscriber by dialing the subscriber's local numbers in Hong Kong (or the PRC, as the case may be) to avoid paying charges for IDD services. Furthermore, it is not necessary for the subscriber to switch SIM cards or rely on the call-forwarding services when he travels between Hong Kong and China.

Our "One card two numbers" services had been launched to the market for about 12 years. The increased popularity of smart mobiles led to a rapid growth of alternative means of communications (e.g. social networking applications) which had reduced the usage for traditional voice services. Accordingly, we had only approximately 400, 300 and 300 users of our "One card two numbers" services as at 31 March 2012 and 2013 and 31 December 2013, respectively.

Our operation flow and supplier involved

We have entered into an agreement with an independent MVNO pursuant to which the independent MVNO agrees to provide Hong Kong and PRC airtime to us so that we can resell the airtime to the subscribers under the "One card two numbers" services. The following diagram illustrates the relationship among the independent MVNO, other MNOs, the subscribers and us:



At the end of every month, the airtime supplier for our "One card two numbers" services issues an invoice to us for the airtime used by our subscribers under the services in that month. We are required to pay the charges within 30 days from the date of invoice.

Customers and our sales and marketing activities involved in "One card two numbers" services

Our "One card two numbers" post-paid plans are designed for people who frequently travel between Hong Kong and the PRC. The charging scheme of these plans is based on different tariffs of each of Hong Kong and the PRC and is settled by the subscribers monthly.

Currently, our basic tariff plans for "One card two numbers" services comprise monthly fees of HK$28, HK$50, HK$80, HK$140 and HK$280, which provide a basic Hong Kong airtime of 50 minutes, 300 minutes, 500 minutes, 1,000 minutes and 2,000 minutes. Receiving calls in Hong Kong from the PRC is subject to a charge of HK$1 per minute, whereas receiving calls in the PRC from Hong Kong and the PRC is subject to charges ranging from HK$0.65 to HK$1.7 per minute. Making calls in Hong Kong to PRC numbers spend the basic airtime covered by the tariff plan and is subject to an additional IDD charge of HK$0.15 per minute, whereas making calls in the PRC to PRC and Hong Kong numbers is subject to charges ranging from HK$0.65 to HK$3 per minute.

Payment advice is sent to subscribers of our "One card two numbers" services every month in respect of payment of monthly subscription fee.

Our customer services staff at the shops market the services by explaining to visitors details of the services.

vi. ***International direct dialing and international call forwarding services***

Our services

We provide IDD service to both residential and business customers. Our IDD prefix call number is 1551 and our IDD service allows subscribers to make IDD calls to more than 230 overseas destinations.

In respect of our international call forwarding services, when the subscribers for such services are abroad, they can forward their incoming calls to a designated overseas number through our system, and they do not need to pay expensive mobile international roaming charges when they answer calls to their Hong Kong numbers.

To set up the service, the subscriber is required to register with us an overseas mobile or fixed-line telephone number to which calls are to be forwarded. Upon leaving Hong Kong, the subscriber can activate the service by calling our service hotline and forward his mobile or fixed-line phone number to his personal international call forwarding number.

Major suppliers and service providers involved in IDD and international call forwarding services

We installed an interactive voice response system (IVRS) in 2003 and entered into agreements with various telecommunications services providers, which are all Independent Third Parties, for international call termination capacity so that such service providers provide us international telephone communication services between Hong Kong and outbound termination points, by conveying our PSTN international voice traffic from the point of connection of the service providers' system to various destinations abroad, and we can send the voice traffic from our IDD services subscribers to the service providers for termination in other countries.

The fees we paid to the service providers are calculated at the prescribed rates per minutes and determined by the IDD airtime used by our subscribers. The service providers issue invoices monthly to us which set out, in respect of each destination of the IDD calls, the number of calls delivered, the amount of minutes billed, and the rate billed per minute for each call.

Customers and our sales and marketing activities involved in our IDD and international call forwarding services

Our customer services staff at the shops market the services by explaining to visitors details of the services.

Payment advice is sent to subscribers of our IDD and international call forwarding services every month in respect of payment of monthly subscription fee.

4. Provision of operation services to NWM

We co-operated with P Plus Communications Limited ("P Plus") and acted as the wholesaler of its mobile services from 1997. SmarTone Mobile Communications Limited ("SmarTone") acquired P Plus in 1998. From 1998 to 2004, we purchased airtime from SmarTone so as to provide our mobile services. In April 1999, we started to use the brand name "Rabbit" in relation to our mobile services. We had also purchased airtime from New World PCS Limited from 2001 to 2003 and from CSL since 2003. After years of business relationship between TDM and CSL, both parties considered that it was beneficial to modify their business relationship by forming a joint venture to carry on the mobile services business in a synergic manner by utilising the retail operations of TDM and the mobile network infrastructure of CSL. By formation of a joint venture, CSL nor we were required to make substantial investment on separate operations or mobile network infrastructure. Accordingly, TDM and CSL established a joint venture via NWM and entered into the related Shareholders Agreement in October 2008.

Upon the establishment of the joint venture, the subscribers for our then mobile services, which we provided under the brand name of "Rabbit", were transferred to NWM. Since then, we have not directly provided mobile services. Nonetheless, TDM is still an MVNO and is licensed to purchase airtime or network services from MNOs should TDM wish to directly engage in the provision of mobile services again.

NWM provides mobile services in Hong Kong. The principal mobile services provided by NWM to subscribers are mobile voice and data services for which NWM offers various tariff plans. According to the Industry Report, it is estimated that NWM has approximately 682,400 subscribers for mobile voice and data services and a market share of approximately 4.0%, in terms of subscriber numbers, as of 31 December 2013.

Salient terms of the Shareholders Agreement

- Date

  15 October 2008

- Signing parties

  NWM, CSL and TDM

- Capital contributions

  The issued share capital of NWM upon the contribution by CSL and us and as at the Latest Practicable Date amounted to HK$41.6 million, to which CSL contributed HK$25.0 million (or 60%) in cash and TDM contributed HK$16.6 million (or 40%) in cash.

  Upon formation of the joint venture, NWM becomes a non-wholly owned subsidiary of CSL and a 40%-owned associate of our Group.

- Board composition

  The board of NWM comprises 10 directors, of which CSL appointed six directors and TDM appointed four directors.

- Transfer of shares of NWM

  A shareholder must not transfer any of its shares of NWM except with the prior consent of the other shareholder which consent may be withheld in absolute discretion.

- Change of control

  It would be a default on the Shareholders Agreement if a change of control occurs in relation to TDM without the prior written consent of CSL. For the purpose of this clause, as defined in the Shareholders Agreement, change of control to TDM would occur if our Group ceases to have 50% or more of the voting securities of TDM. If such default event occurs, NWM would grant to the non-defaulting shareholder the right to buy or nominate a buyer to buy all customer contracts of NWM at the exit value as agreed by the shareholders of NWM.

  On the other hand, there is no provision in the Shareholders Agreement restricting any change of control in CSL.

- Term and termination

  The Shareholder Agreement does not have a definite term. It continues to have effect until (i) the parties agree to terminate the agreement; (ii) NWM is wound up by an order of a court; or (iii) NWM is wound up as a result of deadlocks (which deadlock arises when, in relation to a matter requiring a unanimous directors' resolution (as mentioned below), the requisite unanimity is not obtained after three successive attempts and the expiry of 18 months following the first attempt). Our Directors confirmed that since the signing of the Shareholders Agreement and up to the Latest Practicable Date, there was not any material disagreement between CSL and TDM.

- General manager

  As at the Latest Practicable Date, NWM has five employees comprising a general manager, a financial manager, a business analyst and two operation supporting executives. The general manager is appointed by and reports to the board of NWM and manages NWM on a day-to-day basis. He is assisted by the other four staff of NWM and is responsible for budget and business plan management, financial management, network and operation resources management, marketing planning and product development.

- Operation services provided by TDM to NWM

  The operation of NWM is undertaken by TDM. The operation services TDM provides to NWM in consideration of monthly services fee under the Shareholders Agreement include:

  (a) *Sale management services* — TDM offers, markets and sells NWM's mobile services under the brand of "New World Mobility" ("新世界傳動網") at our Group's shops. Our Group is responsible for managing our shops and for the payment of any cost incurred in connection with our shops, including but not limited to, staff cost, rental cost and utilities expenses.

  (b) *Marketing operation services* — TDM provides necessary support to NWM in relation to the execution of marketing plans prepared by NWM and such support includes distribution of marketing materials and marketing of NWM's mobile services through TDM's sales and customer services channels at the cost of TDM. TDM also provides necessary support for evaluating the performance of marketing plans such as statistics or database analysis.

  (c) *Customer services* — TDM is responsible for addressing customer enquiries by providing a customer services hotline to address questions from customers or potential customers. In this regard, TDM gives its staff trainings and information on the user plans and other relevant services information of NWM.

(d) *Billing, payment and debt collection services* — TDM is responsible for the preparation and distribution of monthly invoices to customers for mobile services and the collection of the subscription fees and charges from customers.

(e) *Customer data compilation and analysis services* — TDM prepares and makes available to NWM a monthly report detailing customer data information and statistics such as user plans subscribed by customers and their payment history and total and breakdown of their invoices.

The monthly service fee comprises (i) an amount which is primarily based on the number of NWM's mobile service subscribers and the tariff plans, and is arrived at by multiplying the various prescribed rates for each type of tariff plans and the number of the subscribers under the relevant tariff plan; and (ii) an amount which is based on the amount of advertising or promotional services provided by TDM to NWM. The monthly service fee is paid within 20 business days after the date of the invoice.

- Network services provided by CSL to NWM

  CSL supplies network services to NWM to enable NWM to provide mobile services to its consumer customers. NWM pays to CSL a monthly network charges within 20 business days after the date of invoice.

- CSL grants NWM the right to use the trademarks "New World Mobility" and "新世界傳動網" on a royalty-free basis in Hong Kong during the term of the Shareholders Agreement, whereas TDM granted NWM the right to use the trademarks "Telecom Digital" and "Rabbit" on a royalty-free basis in Hong Kong from the day following the date of the Shareholders Agreement up to 30 June 2009.

- Unanimous directors' resolution is required for matters including (i) any shareholders of NWM or their respective related company or related parties shall enter into or vary any contract or arrangement with NWM; (ii) any addition, change or variation of the tariff plans of NWM's mobile services, or calculation of the service fee and the network charges payable by NWM to our Group and CSL respectively; and (iii) approval and adoption of material budget and capital expenditure.

- Unanimous shareholders' resolution is required for matters such as merger or amalgamation, assets disposal, winding up, entering into guarantee or indemnity, creating encumbrances, change in business, equity structure, board composition, company name, memorandum and article of association.

- Non-competition

  For the purpose of promoting the commercial objectives of NWM, we undertake to NWM that while TDM is a shareholder of NWM and for two years from the date TDM ceases to be a shareholder of NWM, we will not, directly or indirectly: (a) knowingly solicit, for the purposes of selling mobile services similar to the business of NWM, anyone who was a customer of NWM at any time within such previous two years; (b) entice away from NWM any employee or anyone who was at any time during such previous two years, an adviser to NWM; nor (c) at any time use a logo or business name substantially identical or deceptively similar to a trademark or business name owned or used by NWM (i.e. "New World Mobility" and "新世界傳動網" at present).

- The Shareholders Agreement is governed by Hong Kong law and is subject to the non-exclusive jurisdiction of Hong Kong courts.

Potential change in shareholders of the holding company of CSL

Pursuant to the joint announcement (the "Joint Announcement") of PCCW Limited (stock code: 0008), the HKT Trust and HKT Limited (stock code: 6823) dated 20 December 2013, HKT Limited ("HKT") conditionally agreed to purchase all the issued share capital of CSL New World Mobility Limited ("CSLNW"), of which CSL is an indirect wholly owned subsidiary ("HKT Transaction") at the purchase price of US$2,425,000,000 (equivalent to approximately HK$18,866,500,000), subject to certain adjustments as described in the Joint Announcement.

The principal activities of HKT and its subsidiaries are the provision of telecommunications and related services which include local telephony, local data and broadband, international telecommunications, mobile, customer premises equipment sale, outsourcing, consulting and contact centres. In particular, China Unicom (Hong Kong) Operations Limited, which is an MVNO, is using the network of HKT for its mobile services.

CSLNW is engaged, through its subsidiaries and joint venture interests, primarily in the provision of mobile telecommunications services through 4G, 3G and 2G networks, and the sale of mobile telecommunications products, to customers in Hong Kong under three brand names: "1O1O", "one2free" and "New World Mobility".

As stated in the circular of HKT Limited dated 31 December 2013, HKT has made an application to the Communications Authority for consent to the change in carrier licencee which would result from the completion of the proposed acquisition. HKT has stated in its application that HKT would make the following commitments if desired by the Communications Authority:

(a) HKT would continue to provide wholesale services now provided by CSL and HKT (e.g. MVNO, resale and network sharing arrangements);

(b) HKT and CSL would acquire not more than a total of 2 x 15 MHz of 3G spectrum in the 1.9-2.2 GHz band ("3G Spectrum") upon expiry of the existing assignment of the 3G Spectrum in October 2016. HKT and CSL would not participate in the auction for the 3G Spectrum (see Note); and

(c) HKT would fulfil all of CSL's licence and customer contract obligations.

Note: With regard to (b) above, HKT offered to commit that it would not seek to exercise its right of first refusal to be re-assigned the spectrum in 1920.3–1925.3 MHz paired with 2110.3–2115.3 MHz bands; HKT and CSL offered to commit that they would return the spectrum in the 1930.2–1935.1 MHz paired with 2120.2–2125.1 MHz. and 1935.1–1940.0 MHz paired with 2125.1–2130 MHz upon expiry of the existing assignment in October 2016; and HKT and CSL offered to commit that they would not participate in the auction for the 3G Spectrum.

On 2 May 2014, the Communications Authority issued its consent pursuant to Section 7P of the Telecommunications Ordinance for the proposed acquisition. According to the "Final Decision of the Communications Authority — Application for prior consent under section 7P of the Telecommunications Ordinance in respect of the Proposed Acquisition of CSL New World Mobility Limited by HKT Limited" (the "Decision"), the Communications Authority issued the following directions to HKT and CSLNW:

(i) to divest 29.6 MHz of 3G spectrum upon expiry of the existing assignment on 21 October 2016 (the "Divestment Direction");

(ii) to refrain from participating in any 3G spectrum auctions for five years from 2 May 2014;

(iii) to inform the Communications Authority and other mobile network operators of any planned closure of base transceiver stations for five years from 2 May 2014, unless extended by the Communications Authority taking into account market conditions at the time;

(iv) to continue providing wholesale network access to MVNOs based on the existing MVNO Agreements (as defined below), for three years from 2 May 2014, regardless of any reduction in network capacity of Hong Kong Telecommunications (HKT) Limited and CSL pursuant to the Divestment Direction or any closure of base transceiver station sites post-merger. In particular:

— CSL and HKT shall continue to give effect to their respective MVNO Agreements and keep the terms and conditions (including price and service levels) unchanged, or no less favourable than those in the existing MVNO Agreements, until the expiry date of each relevant MVNO Agreement; and

— if any MVNO Agreement expires within three years from 2 May 2014, CSL and HKT shall, at the discretion of the MVNO concerned, enter into a new agreement on terms and conditions no less favourable than those in the existing MVNO Agreement for a term expiring no earlier than the date falling on three years from 2 May 2014. (the "MVNO Direction");

(v) to continue giving effect to the existing 3G network capacity sharing agreement between HKT and China Mobile Hong Kong Company Limited until the expiry of the agreement or earlier termination thereof in accordance with its terms;

(vi) to procure compliance by entities within the HKT and CSLNW groups with the directions until the expiration of all the directions set out in paragraphs (i) to (v) above; and

(vii) to provide written compliance reports to the Communications Authority every six months until the expiry of all the directions set out in paragraphs (i) to (v) above.

In respect of the MVNO Direction, it is stated in the Decision that the Communications Authority has considered it important CSL and HKT following the HKT Transaction (the "Merged Entity") should continue to honour the wholesale access agreements that HKT and CSL respectively have with MVNOs, to ensure that at least in the short term that the MVNOs would not be deprived of access to network capacity they currently rely on in supplying their own retail mobile services. Accordingly, the Communications Authority has issued the MVNO Direction as mentioned above whereby HKT and CSL be directed to continue providing wholesale network access to MVNOs based on the existing agreements with them for a term expiring no earlier than the date falling on three years from 2 May 2014. As defined in the Decision, MVNO Agreement means an agreement for wholesale access entered into between HKT or CSL and an MVNO for the provision of MVNO services as set out in the MVNO's UCL or SBO Licence, which is in forces on 2 May 2014. The Shareholders Agreement is an existing agreement entered into between CSL, TDM and NWM (as an MVNO) and the Shareholders Agreement falls within the definition of MVNO Agreement as defined in the Decision.

In light of the above directions of the Communications Authority, particularly the MVNO Direction, our Directors expect that the Divestment Direction will not adversely affect the business operation or financial performance of our Group or that of NWM. In this regard, the spectrum resources of HKT, CSL and other mobile service operators are analysed as below:

Mobile service operators	**Subscriber market share[1]**	**Number of existing subscribers[3] (Approximate)**	**Spectrum[1] (Approximate) MHz**	**Average spectrum resources per subscriber[4] (Approximate) Hz**
HKT	11–12%	1,710,610	96	56.1
CSL	19–20%	2,851,000	137.6	48.3
HKT/CSL (Merged Entity)	**31%**	**4,419,050**	**233.6[5]**	**52.9**
HKT/CSL (Merged Entity, excluding the CDMA 2000 spectrum and the spectrum related to the Divestment Direction)	**31%**	**4,419,050**	**189[6]**	**42.8**
Other three major mobile service operators	68%	9,693,390	376.4	being 31.2, 39.3 and 58.1 respectively
Total	Approx 100% (14.255 million)[2]	14,255,000	610	42.8
Total (excluding the CDMA 2000 spectrum)	Approx 100% (14.255 million)[2]	14,255,000	595[7]	41.7

Notes:

1. Information extracted from the application made by HKT to the Communications Authority for prior consent under section 7P of the Telecommunications Ordinance in respect of the HKT Transaction.

2. The subscriber numbers are based on 6/2013 OFCA and public data, after subtracting out from the MNOs both MVNO and reseller numbers, and thus representing post-paid plus activated pre-paid.

3. Calculated by multiplying 14.255 million subscribers by the respective subscriber market share of the mobile service operators.

4. Calculated by dividing the spectrum resources by the number of subscribers of the respective mobile service operators.

5. Being the aggregate spectrum resources that would be held by HKT and CSL after the HKT Transaction (i.e. 96 + 137.6 MHz).

6. Being the aggregate spectrum resources that would be held by HKT and CSL after the HKT Transaction by excluding the CDMA 2000 spectrum (15 MHz) which is only used by inbound roamers and not HKT customers, and the 29.6 MHz of 3G spectrum to be divested by HKT and CSLNW pursuant to the Divestment Direction (i.e. 96 + 137.6 – 15 – 29.6 MHz).

7. Being the aggregate spectrum resources that are held by the MNOs in Hong Kong at present and excluding the CDMA 2000 spectrum (15 MHz) which is only used by inbound roamers and not HKT customers.

Based on the table above, spectrum resources per subscriber of the Merged Entity (after the HKT Transaction and calculated by excluding the CDMA 2000 spectrum (15 MHz) which is only used by inbound roamers and not HKT customers, and the 29.6MHz of 3G spectrum to be divested by HKT and CSLNW pursuant to the Divestment Direction) is estimated at about 42.8 Hz. Such figure is close to the average spectrum resources per subscriber in the overall Hong Kong market and is within the range of spectrum resources available per subscriber of the other mobile service operators in Hong Kong. Based on the above, the Directors believe that CSL and HKT will have sufficient spectrum to fulfill all CSL's licence and customer contract obligations following the Divestment Direction and that the Divestment Direction will not adversely affect the business operation or financial performance of our Group or that of NWM.

The completion of the HKT Transaction took place on 14 May 2014. As at the Latest Practicable Date, we have not been informed by HKT of any potential change on the business and operation of NWM. Furthermore, pursuant to the Shareholders Agreement, unanimous directors' resolution is required if, among others, (i) any shareholders of NWM or their respective related company or related parties shall enter into or vary any contract or arrangement with NWM; or (ii) there is any addition, change or variation of the tariff plans of NWM's mobile services, or calculation of the service fee and the network charges payable by NWM to our Group and CSL respectively. Based on the above and in particular, the MVNO Direction, our Directors consider that the HKT Transaction will not lead to material adverse change on the operation of NWM nor the termination of the Shareholders Agreement.

HKT (under the "PCCW-HKT" mobile brand) and the CSLNW group (under the "1O1O", "one2free" and "New World Mobility" brand) are currently two of the five network-based providers of mobile telecommunications services in Hong Kong. According to the Industry Report, as compared to the other two brands owned by CSLNW (i.e. "1O1O" and "one2free") which seem to target at high-end market and the brand owned by HKT which is more neutral in market positioning, NWM targets at the mid to low-end market and offers relatively more economical tariff plans and voice only plans. As stated in HKT's circular to its shareholders dated 31 December 2013, following the completion of the HKT Transaction, HKT intended to reorganise the business of CSLNW and its subsidiaries by combining and integrating it with HKT's existing mobile telecommunications business in order to unlock and make optimal use of available operational synergies and efficiencies. The board of HKT expects the enlarged HKT group would be able to strengthen multi-brand strategy by providing tailored pricing plans targeted at various customer segments with different data and voice requirements. The Directors expect that such intention of HKT would not have material adverse impact on the Group's operation.

Our Reliance on NWM

We share 40% of the results of NWM. We also receive service income from NWM for providing operation services to it. During the two financial years ended 31 March 2013 and the nine months ended 31 December 2013, the service income received by us from NWM amounted to approximately HK$55.0 million, HK$113.2 million and HK$117.8 million, representing 6.6%, 10.4% and 13.2% of our total revenue. We also recorded a negative segment result of HK$44.4 million and HK$26.5 million for the years ended 31 March 2012 and 2013, and a positive segment result of HK$7.1 million for the nine months ended 31 December 2013. The negative segment results in the first two years was mainly because the customer base of NWM in the years ended 31 March 2012 and 2013 was relatively small and our service income from the provision of operation services cannot cover our costs (which mainly included manpower involved in administrative work). For further details, please refer to the paragraph headed "Financial Information — Selected line items in the combined statements of profit or loss and other comprehensive income — Segment results".

To the best knowledge of the Directors after making reasonable enquiries, the Directors noted that among the 17 MVNOs in Hong Kong, China Motion Telecom (HK) Limited and China Unicom (Hong Kong) Operations Limited provide post-paid mobile voice and data services as NWM does, while the rest of the MVNOs are providing other various telecommunication services such as "One card two numbers", sales of pre-paid phone cards, roaming, and web-based/cloud-based services. Each of China Motion Telecom (HK) Limited and China Unicom (Hong Kong) Operations Limited relies on a single MNO to supply Hong Kong airtime for its mobile business. China Motion Telecom (HK) Limited is using the network of CSL for its mobile services; while China Unicom (Hong Kong) Operations Limited is using the network of HKT for its mobile services. Thus the Directors consider that the reliance of NWM on the provision of airtime and network services solely from CSL is consistent with the industry practice.

While NWM, as a subsidiary of CSL, relies on CSL for the provision of network services, NWM also relies on us for its operation. NWM maintains a minimal number of headcount and it is TDM who is responsible for the operation of NWM under the Shareholders Agreement. Such operation services provided by TDM to NWM include sales management, marketing operation, customer service, billing, payment and debt collection, and customer data compilation and analysis. On this basis, the Directors consider that the reliance on CSL to provide Hong Kong airtime to NWM is equally mutual and complementary.

In the unlikely event that our current business relationship with CSL is terminated, we need to modify our business model in running telecommunications business and may need to seek collaboration with other MNOs apart from CSL. Such alternative collaboration with other MNOs may involve, among others, forming joint venture with other MNOs and replicating the business model of NWM in providing mobile services; or purchasing airtime (and/or network services) from other MNOs and providing mobile services by ourselves as an MVNO. In the event that we purchase airtime from other MNOs and engage in the business of provision of mobile services by ourselves (rather than through our associate), we shall record the relevant subscription fees from the subscribers for our services as our revenue, and record the cost of purchase of airtime as our cost of operation. We shall record 100% of the results of operation, as compared to our current 40% share of the results of NWM as our associate. Other than the above, we do not foresee there would be substantial changes in our operation. This is because, at present, we are already undertaking nearly all operation-related activities for the business of NWM. As disclosed above, we are providing comprehensive operation services to NWM ranging from sales management services to billing services and customer data compilation services. Indeed, NWM has merely five employees. The day-to-day operation of NWM is mainly dealt with by our Group pursuant to the Shareholders Agreement. On this basis, our Directors consider that we would be able to modify our business model should the Shareholders Agreement be terminated.

There is no guarantee that we can successfully modify our business model in this circumstance. Nevertheless, given that (i) our Directors are experienced in the industry; (ii) we have the experience of engaging in the mobile business by purchasing airtime from MNOs other than CSL in the past as disclosed earlier in this sub-section; (iii) we have been collaborating with CSL in relation to the operation of NWM for years and we have not experienced material dispute with CSL so far; (iv) there are currently other MVNOs in Hong Kong engaged in the business of provision of mobile or voice services by purchasing airtime from MNOs, proving that such business model is commercially viable; (v) it is the policy of the Communications Authority that an MNO operating in the 1.9–2.2 GHz band for 3G services is obliged to open 30% of its network capacity to MVNOs which are not affiliated to any MNO in accordance with the licensing conditions; and (vi) in the event that a non-affiliated MVNO and an MNO cannot agree with each other on the terms of interconnection, either of them may call upon the Communications Authority to intervene in the dispute and to determine the terms of interconnection, our Directors are of the view that there would not be material obstacles to modifying our business model in such circumstance.

According to the information from the Communications Authority, at present, HKT, CSL and Hutchison Telephone Company Limited are the principal active providers of wholesale access services to MVNOs. While China Mobile Hong Kong Company Limited or SmarTone Mobile Communications Limited are also potential source of wholesale network access, the Merged Entity would be the primary source of wholesale access for MVNOs following completion of the HKT Transaction. As such, according to the Decision, the Communications Authority has considered it important the Merged Entity should continue to honour the wholesale access agreements that HKT and CSL respectively have with MVNOs, to ensure that at least in the short term that the MVNOs would not be deprived of access to network capacity they currently rely on in supplying their own retail mobile services. Accordingly, the Communications Authority has issued the MVNO Direction as mentioned above.

Other than the service income from the provision of operation services to NWM and the share of results of NWM, we do not record any other income from NWM. Nevertheless, our revenue of retail operation has been primarily derived from the sale of mobile phones at discounted price to NWM Subscribers. The following table sets out the amounts of our revenue, segment results and sharing of results of an associate during the Track Record Period, generated in connection with our business co-operation with NWM:

	Year ended 31 March		**Nine months ended 31 December**
	2012	**2013**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
Revenue			
— Sales of mobile phones to NWM Subscribers	125,621	439,527	322,952
Percentage of the Group's Revenue	15.0%	40.3%	36.3%
— Service income from provision of operation services to NWM	55,037	113,196	117,844
Percentage of the Group's Revenue	6.6%	10.4%	13.2%
Segment results			
— Sales of mobile phones to NWM Subscribers *(Note)*	5,933	28,327	27,483
Percentage of the aggregate result of all the Group's segments	31.0%	62.4%	44.7%
— Service income from provision of operation services to NWM	(44,395)	(26,475)	7,134
Percentage of the aggregate result of all the Group's segments	Not applicable	Not applicable	11.6%
Share of results of an associate (NWM)	—	12,983	16,836
Percentage of the Group's profit before tax	—	23.8%	23.2%

Note: Please note that these segment results figures set out above are for information only and have been arrived at based on proportion of certain operation expenses of the relevant operation.

As a promotional and marketing strategy of our Group, we offer sales discount on selected mobile phone models to NWM subscribers as well as subscribers for our Group's paging or Mobitex based services. Such promotional and marketing activities are planned and carried out solely at our discretion and we plan such activities mainly based on market trend and demand for various types of mobile phones. We do not provide mobile phones on a zero-price basis and we do not receive rebate from NWM for such sales discount. Since it is common for mobile service operators in Hong Kong to offer handset bundle tariff plans to customers, our Directors consider that such marketing strategy is in line with market practice. Our Directors also consider that such marketing strategy is equally mutual and complementary between NWM and us because this marketing strategy does not only attract customers for our retail operation, but also help NWM to attract new subscribers and to retain existing subscribers.

In the unlikely event that our current business relationship with CSL is terminated, we also need to modify our marketing strategy. It may no longer be commercially sensible for us to offer sales discount on mobile phones to NWM Subscribers. As mentioned above, we may seek alternative collaboration with other MNOs to provide mobile services in the event that our current business relationship with CSL is terminated. In such circumstances, we may also modify our marketing strategy and consider offering sales discounts to the then subscribers of mobile services. To compete with other mobile phones retailers in Hong Kong, we may also modify our marketing strategy by, for examples, offering sales discount to other targeted customer groups, enhancing customer experience and services, and broadening our product mix to attract a wider customer base. As disclosed in the paragraph headed "Our business strategy" above, we intend to open certain flagship stores to provide more enhanced customer experience. In our flagship stores, we may showcase a wide range of products and services, and provide customer services including management of customer accounts, arrangement for repair and maintenance of devices, training courses and interest groups for new products and services.

There is no guarantee that we can successfully modify our marketing strategy for our retail operation in such circumstances. In the event that we cannot successfully or timely modify our marketing strategy, our business and financial performance may be materially and adversely affected.

MAJOR CUSTOMERS OF OUR GROUP

The tables below set forth details of our relationship with the top five customers during the Track Record Period.

For the nine months ended 31 December 2013

Rank	Background	Goods or services provided	Approximate years of relationship (rounded to the nearest whole year) up to 31 December 2013
1st	NWM	Provision of operation services	5 years
2nd	Customer A — trading of mobile phones	Sale of mobile phones under our distribution business	2 years
3rd	Customer B — a home appliance chain store whose retail chain network of approximately 1,600 retail stores covers Hong Kong (where 29 retails stores are located), Japan (Tokyo and Osaka) and the PRC	Sale of mobile phones under our distribution business	11 years
4th	Customer C — a Hong Kong based trading company that specialises in the distribution of major brands of GSM and UMTS handset models	Sale of mobile phones under our distribution business	3 years
5th	Customer D — trading of mobile phones	Sale of mobile phones under our distribution business	1 year

For the financial year ended 31 March 2013

Rank	Background	Goods or services provided	Approximate years of relationship (rounded to the nearest whole year) up to 31 March 2013
1st	NWM	Provision of operation services	4 years
2nd	Customer A	Sale of mobile phones under our distribution business	2 years
3rd	Customer B	Sale of mobile phones under our distribution business	10 years
4th	Customer C	Sale of mobile phones under our distribution business	2 years

Rank	Background	Goods or services provided	Approximate years of relationship (rounded to the nearest whole year) up to 31 March 2013
5th	Customer E — a Hong Kong based home appliance company which is engaged in the retail and distribution businesses of home appliance and has 12 retail stores in Hong Kong	Sale of mobile phones under our distribution business	10 years

For the financial year ended 31 March 2012

Rank	Background	Goods or services provided	Approximate years of relationship (rounded to the nearest whole year) up to 31 March 2012
1st	NWM	Provision of operation services	3 years
2nd	Customer B	Sale of mobile phones under our distribution business	9 years
3rd	Customer A	Sale of mobile phones under our distribution business	1 year
4th	Customer C	Sale of mobile phones under our distribution business	1 year
5th	Customer F — a Hong Kong based company which is engaged in the retail and wholesale of mobile phones and accessories in Hong Kong	Sale of mobile phones under our distribution business	9 years

For the two financial years ended 31 March 2012 and 2013 and for the nine months ended 31 December 2013, the aggregate revenue attributable to the five largest customers of our Group amounted to approximately HK$226.6 million, HK$316.7 million and HK$329.7 million, respectively, representing approximately 27.0%, 29.0% and 37.0% of our total revenue, respectively. For each of the same periods, the revenue attributable to the largest customer of our Group amounted to approximately HK$66.8 million, HK$132.3 million and HK$131.0 million, respectively, representing approximately 8.0%, 12.1% and 14.7% of our total revenue, respectively.

Save that the Cheung Brothers, who are Directors, are also the Controlling Shareholders and thus have an indirect interest in NWM through our Company, to the Directors' best knowledge, none of the Directors or their associates, or any Shareholders who own more than 5% of our Company's issued share capital, had any interest in any of the five largest customers of our Group during the Track Record Period.

CUSTOMER SERVICE

Our shops

Our shops, all of which show our "Telecom Digital" logo, provide customer services to subscribers of our paging services who can make enquiries on our services and products, and pay the subscription fees at our shops. Enquires on services, products and account balances are handled by our customer service staff at our shops. Subscribers can also arrange the replacement of defective pagers for repaired and refurbished pagers at our shops. We also offer to sell mobile phones, pre-paid SIM cards and accessories at our shops. As we also collect service fees on behalf of NWM from the subscribers of its mobile services at our shops under the Shareholders Agreement, our shops also show the "New World Mobility" ("新世界傳動網") logo.

We had 41 shops, 50 shops and 50 shops in Hong Kong as at 31 March 2012, 31 March 2013 and 31 December 2013 respectively. As at the Latest Practicable Date, we had 51 shops in Hong Kong and one service centre in Macau. Three of our shops, which are located in Tsim Sha Tsui, Causeway Bay and Sheung Shui and are specifically named as "M-Zone", have an aggregate floor area of more than 2,700 sq.ft. and provide a more comfortable environment to our customers.

Location	Number of our shops	Total gross floor area
Hong Kong Islands	10	3,096 sq.ft.
Kowloon	16	4,343 sq.ft.
New Territories	25	6,673 sq.ft.

All of our shops are operated by our staff who serve the subscribers of our paging and other telecommunications services and of NWM's mobile services as well as the purchasers of telecommunications products.

Hotline

We have a 24-hour customer hotline service to address all customer-related issues, ranging from pre-service enquiries to general post-service enquiries and maintenance. Such 24-hour hotline is operated by our own customer service staff and supported by an independent customer service provider.

The service provider is principally engaged in provision of call centre services in Shenzhen, the PRC. The service provider has the necessary networking equipment and communication lines, computer and telephone system, as well as customer relationship programme to provide the hotline services to us. We provide the service provider the required materials and information on the services and products of our Group and NWM so that the service provider can train its hotline operators to provide quality customer service to our customers. We also set certain standards to supervise the quality of the hotline services, which include the minimum time to answer a call and resolve any issue raised by the customer, as well as the customer satisfaction.

Customer complaints

We strive to improve the customer experience and satisfaction. Our front end staff at our shop or operators of our service hotline gather and record material relevant information from the customers for their complaints and endeavour to resolve customer queries or complaints. If our front end staff or hotline operators cannot resolve the complaints, they may pass the information to the supervisors who are responsible to assist them to solve the complaint cases. Our customer service department is responsible for making analysis and improvement proposal based on the complaint records, and provides coaching and on-job training to the relevant staff and hotline operators during daily works. During the Track Record Period, we received in the ordinary course of our business customer complaints with respect to our services and goods provided and offered. However none of the complaints had a material adverse effect on our business and operations.

MARKETING AND BRAND

Under the brand of "Telecom Digital" ("電訊數碼"), we offer various goods and services in our shops to provide convenience and accessibility for our customers.

Our website, www.telecomdigital.cc, serves as an effective promotional platform for our services and goods as well as a communication channel with our customers. It sets out the scope, features and costs of our telecommunications services and is an exchange forum through which customers can lodge their enquiries and comments.

We carry out various advertising and promotional activities, which comprise:

(i) advertising campaigns by way of television commercials, radio commercials, newspaper advertisements, magazine advertisements, posters and advertising on the public transportation and Internet;

(ii) advertising in entertainment events in Hong Kong including premiere screenings and sports tournaments; and

(iii) direct marketing to existing subscribers for our services by way of paging broadcast.

We also run regular sales promotion campaigns, including seasonal sales and festival sales. Our sales promotions include direct discounts and gifts such as accessories and movie tickets. These promotions target specific categories of merchandise with the aim of tackling categorical inventory issues and counter-adjusting to festival or cyclical demands.

For the two financial years ended 31 March 2012 and 2013 and the nine months ended 31 December 2013, our expenses on sales promotion amounted to HK$3.0 million, HK$4.0 million and HK$7.6 million respectively.

PRODUCT LIFE CYCLE AND SEASONALITY

Mobile phones are the primary goods we sell at our shops. The product life cycle of a particular model of mobile phone depends on the level of competition, the launching of new mobile phones and the pace of technological development. Due to keen competition amongst mobile phone manufacturers, new models of mobile phones with new features are being put to the market every 3 to 6 months to stimulate consumers' demand. According to the Industry Report, mobile phone users usually upgrade or replace their smartphones with new models every 12 to 18 months and more users are changing from using featured phones to smartphones. During the Track Record Period, the average per unit price of mobile phones generally demonstrated an increasing trend. Such increase was mainly driven by the strong demand for smartphones as stimulated by the frequent update of models in smartphones. As disclosed in the section headed "Financial information" in this prospectus, the average per unit price of mobile phones sold in our retail business was about HK$2,533, HK$3,459 and HK$3,437 for each of the years ended 31 March 2012, 2013 and the nine months ended 31 December 2013 respectively.

The demand for our services and merchandise fluctuates and generally does not fall into any specific pattern during a year, and is not subject to seasonal factor. Apart from the increase in price of mobile phones as discussed above, the price of our services did not fluctuate materially during the Track Record Period.

CASH MANAGEMENT

Revenue from corporate clients is generally settled by cheque. For revenue from the general public, we accept payment at our shops by cash, credit card, EPS (Electronic Payment Services) or Octopus, we also accept payment by posting of cheque, PPS (Payment by Phone Service) system via internet or telephone and online banking. All of our retail sales and subscription fees are denominated in Hong Kong dollars. For the two financial years ended 31 March 2012 and 2013 and the nine months ended 31 December 2013, the average daily amount of cash received by us in our operations were approximately HK$585,000, HK$973,000 and HK$1,165,000, respectively.

We have adopted strict internal control procedures for the handling of cash at our shops, including:

- handling of cash by cashiers only;
- prohibition on the making of any payment from cash proceeds without any official source document;
- daily reconciliation of sales recorded by the point of sale system and actual cash proceeds;
- daily deposits of cash received at our shops on a business day. Cash received at our shops during public holidays will be deposited on the following business day;

- use of sequentially-numbered sales invoices to check against sales amounts and cash proceeds; and
- monthly checks by the accounting staff of the head office on cash proceeds against the records of deposit of cash, as well as the sales invoices to ensure that sales are properly recorded by the point of sale and the billing system.

There had not been any incident of misappropriation of cash from sales or loss of cash during the Track Record Period.

MAJOR SUPPLIERS OF OUR GROUP

The tables below set forth details of our relationship with the top five suppliers during the Track Record Period.

For the nine months ended 31 December 2013

Rank	Background	Goods or services provided	Approximate years of relationship (rounded to the nearest whole year) up to 31 December 2013
1st	Supplier A — a multinational mobile phone manufacturing company headquartered in Tokyo, Japan, and is a wholly owned subsidiary of another Tokyo-based global enterprise which is engaged in a broad range of businesses, including the electronic business, entertainment businesses and financial services business, and generated a sales and operating revenue of US$22,979 million and an income before income taxes of US$855 million for the three months ended 31 December 2013 — has a market share of approximately 3.18% (by unit of shipment) in Hong Kong for the year ended 31 December 2013 pursuant to the Industry Report as referred to on page 66 of this prospectus	Purchase of mobile phones for our distribution business	3 years

Rank	Background	Goods or services provided	Approximate years of relationship (rounded to the nearest whole year) up to 31 December 2013
2nd	Supplier B — an IT company which focuses on mobile and wireless sectors in Hong Kong and the PRC and whose product range includes PDA, PDA phones, smartphones, accessories and related connectivity and software development products	Purchase of mobile phones for our retail business	3 years
3rd	Supplier C — a global enterprise, headquartered in Korea and engaged in consumer electronics, mobile communications and home appliances with five business units — home entertainment, mobile communications, home appliance, air conditioning and energy solutions and vehicle components, and generated consolidated revenues of US$13.35 billion and an operating profit of US$471.47 million for the three months ended 31 March 2014 — has a market share of approximately 5.25% (by unit of shipment) in Hong Kong for the year ended 31 December 2013 pursuant to the Industry Report as referred to on page 66 of this prospectus	Purchase of mobile phones for our distribution business	7 years
4th	HKEx Information Services Limited	Provision of information and data on Hong Kong stock market	11 years
5th	Supplier D — an international corporation which, having operations in 300 cities in 32 countries, is engaged in computer, communication and consumer electronic business and provides integrated services to supply chain of hi-tech business	Purchase of mobile phones for our retail business	1 year

For the financial year ended 31 March 2013

Rank	Background	Goods or services provided	Approximate years of relationship (rounded to the nearest whole year) up to 31 March 2013
1st	Supplier A	Purchase of mobile phones for our distribution business	2 years
2nd	Supplier B	Purchase of mobile phones for our retail business	2 years
3rd	Supplier C	Purchase of mobile phones for our distribution business	6 years
4th	HKEx Information Services Limited	Provision of information and data on Hong Kong stock market	11 years
5th	CSL	Purchase of pre-paid rechargeable SIM cards and recharge vouchers for voice and data mobile services	4 years

For the financial year ended 31 March 2012

Rank	Background	Goods or services provided	Approximate years of relationship (rounded to the nearest whole year) up to 31 March 2012
1st	Supplier A	Purchase of mobile phones for our distribution business	1 year
2nd	Supplier E — a global technology enterprise, headquartered in the US, and the portfolio of which formerly included converged mobile devices such as smartphones and tablets; wireless accessories; end-to-end video and data delivery; and management solutions, including set-tops and data-access devices	Purchase of mobile phones for our distribution business	10 years
3rd	Supplier C	Purchase of mobile phones for our distribution business	5 years
4th	Supplier B	Purchase of mobile phones for our retail business	1 year
5th	HKEx Information Services Limited	Provision of information and data on Hong Kong stock market	10 years

During the Track Record Period, we did not experience any material dispute with any of our major suppliers or any material disruption to our operations as a result of any shortage in the supply of merchandise nor any termination of distribution rights granted by our suppliers which had a material adverse effect on our operations and financial results.

For the years ended 31 March 2012 and 2013 and the nine months ended 31 December 2013, the aggregate purchases attributable to our five largest suppliers amounted to approximately HK$525.3 million, HK$640.6 million and HK$536.8 million, respectively, representing approximately 76.5%, 73.5% and 76.6% of our total purchases, respectively. For each of the same periods, the purchases attributable to our largest supplier amounted to approximately HK$262.0 million, HK$283.0 million and HK$248.8 million, respectively, representing approximately 38.2%, 32.5% and 35.5% of our total purchases, respectively.

During the Track Record Period, our purchases were all settled in Hong Kong dollars and most of them were settled by cheques or telegraphic transfers. Most of our purchases are settled on a monthly basis and in arrears. We were offered average credit period of 30 days on purchase of goods.

To the Directors' best knowledge, none of the Directors or their associates, or any Shareholders who own more than 5% of our Company's issued share capital, had any interest in any of the five largest suppliers of our Group during the Track Record Period.

LOGISTICS AND INVENTORY CONTROL

We consider an effective logistics and inventory management system is a key factor of the success of our distribution business. As at the Latest Practicable Date, we leased two warehouses with an approximate total area of 16,900 sq.ft.. Our suppliers deliver products directly to our warehouses which are equipped with security systems.

Our warehouses are also equipped with management information system to assist procurement, delivery and inventory management. We deliver the products from the suppliers to our shops or our customers by our own logistics team (comprising 22 staff and 10 trucks).

In order to minimise inventory carrying costs, while at the same time ensuring timely delivery of merchandise to our customers and maintaining a variety of merchandise at our shops, we have a policy to maintain an optimal level of inventory at our warehouses. The average inventory turnover days of our merchandise was 25 days, 25 days and 33 days for the two financial years ended 31 March 2012 and 2013 and the nine months ended 31 December 2013, respectively. Our shops employ an information system which captures inventory movement. Furthermore, each of the models of merchandise we offer is coded with a unique item code for identification in our point of sale system, which, in turn, is linked with our management information system. Cashiers input the model or item code of the merchandise being sold (as the case may be) and our management information system records the data instantly. With this system in place, the inventory level of a particular model of merchandise can be monitored and controlled.

Our inventory control team and sales managers keep close track of stock movement and helps minimise obsolete stock through conducting promotional activities, selling such products at greater discount to market such products.

We make full provision for obsolete merchandise based on our inventory ageing analysis of different categories of merchandise. The management of our Group assesses the net realisable value and reviews an ageing analysis at the end of the reporting period and makes allowance for obsolete and slow-moving items identified that are no longer suitable for sale or use. Our Group's quantitative basis to determine allowance for inventories is based on the assessment of the net realisable value. The management estimates the net realisable value for inventories based primarily on the latest invoice prices and current market conditions.

For the two financial years ended 31 March 2012 and 2013 and the nine months ended 31 December 2013, the provision for allowances for inventories (included in cost of inventories sold) was approximately HK$3.5 million, HK$2.2 million and nil, respectively.

We do not have goods return policy for unsold obsolete goods because (i) any such goods return policy cannot be unilaterally formulated by us without the consent of the various suppliers; and (ii) the mobile phones we sell under our distribution and retail operations, which generally comprise 80% to 90% of the our inventory, are not slow-moving goods and are not likely to become obsolete or not suitable for use or sale.

During the Track Record Period, we have not experienced any shortage of goods nor theft of loss of goods which caused material adverse impact on our operations and financial performance.

STAFF AND TRAINING

As at the Latest Practicable Date, we had approximately 443 full-time employees. We provide our full-time employees with medical benefit scheme, provident fund scheme, and employee insurance scheme.

Our Company has conditionally adopted the Share Option Scheme under which certain eligible participants may be granted options to acquire Shares. Our Directors believe that the Share Option Scheme will assist in our recruitment and retention of quality executives and employees. A summary of the principal terms of the Share Option Scheme is set out in the section headed "D. Share Option Scheme" in Appendix V to this prospectus.

We provide trainings to the front end and back end staff. Training provided to front end staff include coaching and monitoring of customer reception skill, and measures necessary to ensure a consistent level of service quality. They receive ongoing trainings on the specific product and service knowledge, problem solution, our policy and practices, the professionalism in respect of handling inquiry, compliant and claims handling, and new product launch training.

We strive to provide employees with a safe and healthy environment. We have issued guidelines to employees to reinforce their awareness in this regard. Each employee that joins our Group is also given a copy of our staff manual. Our employees maintain good hygiene standards and safe working practices in the offices, shops, cell sites and warehouses where they work as well as for delivery of goods. Our Directors confirm that there were no material accidents, health injuries or any non-compliance incidents with the relevant laws and regulations during the Track Record Period and up to the Latest Practicable Date.

Our Directors believe that our Group maintains good working relationships with our employees. Our Group has not encountered any difficulty in the recruitment and retention of staff for our operations or experienced any material disruption of our operations as a result of labour disputes during the Track Record Period.

QUALITY CONTROL

We understand that customer loyalty will be lost if customers are dissatisfied with the quality of service and products offered by us. Failures to maintain service or product quality can lead to customer complaints, return of products and detriment to our reputation.

In particular, for our paging services, we use certain performance indicators to measure the quality of our service:

(i) 99% of incoming calls are handled within 30 seconds of the call; and

(ii) 99% of the messages are transmitted within 40 seconds.

Moreover we adopt the following quality control policies to assure the quality of our paging services:

(i) Daily call records are reviewed by operation supervisor weekly. If the measurement result is below the required standards for our paging services, operation manager will adjust the allocation of resources of operators so as to ensure the compliance with the required standards.

(ii) All incidents of system failure or interruption are recorded in writing in a log book. Operation supervisor reviews fault report on paging system. If the measurement result is below the required standards for our paging services, operation manager will discuss with the system manager on the events of system failure, identify and qualify the possible hazards (such as hardware breakdown, software or system breakdown, suspension or interruption of electricity or air-conditioning supply) to sort out short-term and long-term solutions.

Manufacturers of mobile phones provide warranty on the products they supply to us for our distribution and retail operations. End users can return defective products to the manufacturers for replacement within generally a week after the purchase. We also adopt the following quality control policies on the products to be sold by us:

(i) we adopt a stringent supplier selection policy and only purchase from suppliers approved by us so as to reduce the risk arising from product quality problems;

(ii) our warehouses perform a series of checks upon the receipt of the merchandise of, among others, the appearance, packaging, specification and brand logo, etc.;

(iii) our sales staff perform inspections of the appearance and packaging of merchandise on a sampling basis; and

(iv) if any defects are detected, the relevant product will be returned to the supplier for replacement.

During the Track Record Period, we have not encountered any service or product quality issues which caused material adverse impact on our operations and financial performance.

MANAGEMENT INFORMATION SYSTEM

We believe that an efficient management information system significantly improves procurement, inventory and logistics management, and financial and cash management, and help us to minimise costs of maintaining inventory, and improve our overall sales performance. Our management information system is interconnected with our terminals in the headquarters office and the terminals in the shops. During our Track Record Period, each of the years ended 31 March 2012, 2013 and the nine months ended 31 December 2013, our capital expenditure on management information system amounted to approximately HK$1.0 million, HK$2.9 million and HK$6.2 million, respectively.

Our management information system team comprises 41 staff as at the Latest Practicable Date. The duties of our management information system team include (i) planning, execution, monitoring, control and closure of projects relating to our systems; (ii) administration of database engine and servers, system monitoring and improvement of the system performance and capacity; (iii) planning, co-ordination and implementation of security measures to safeguard the database; and (iv) provide on-going help-desk support and maintenance relating to the systems.

All of our shops are equipped with a standard management information system which enables us to analyse and record sales details, and to track inventory on a timely basis. We also use our information system to identify fast and slow moving products, analyse the sales trend of different products based on the historical data of stock orders and selling data, and improve our product mix.

In addition, our established management information system has the functions of billing and customer management functions, and allows activation and suspension of services and management of customer information. In particular, we can analyse the usage pattern of the services subscribers with the use of the system which accordingly facilitates our development or modification of our services and marketing strategies to cope with the rapid changing environment of the telecommunications industry.

During the Track Record Period, we have not encountered any information system error which caused material adverse impact on our operations and financial performance.

We intend to apply part of the proceeds from the Placing to implement an ERP system to integrate our purchasing, selling, logistics, and financing operations in various sectors of our business. We believe that an upgraded management information system will also facilitate even better exchange of information between the headquarters and our shops, and allow us to improve our data analysis to support more in-depth decision-making.

RESEARCH AND DEVELOPMENT

As mentioned above, our management information system team comprises 41 staff as at the Latest Practicable Date. They also carry out research and development of our telecommunications services. During the Track Record Period, our management information system team successfully developed and launched two apps for smartphones, namely TD Stock-Pro and Mango Pro, for subscribers to have access to information and data on securities market and horse racing and football matches; and also improved our billing system.

BUSINESS CONTINGENCY AND DISASTER RECOVERY

We have developed business contingency and disaster recovery plans to cover the situation of any material breakdown or accidental damage to our key networks and other operating equipment. Adequate alarm systems are implemented in our network operations to detect any system outage or equipment malfunction and are supplemented by the emergency call-out of experienced technical staff. We have also implemented controls to protect customer data including rigorous back-up routines and the use of multiple data centres in some of our operations. For example, in case of hardware failure, standby paging servers will be activated to replace the server which fails, and functioning spare parts are always available for backup use; and in case of software or system failure, designated hardware technicians as well as system engineers, who are assigned to standby in case of emergency, are responsible to examine and solve the problem.

These plans are reviewed and modified when the business and regulatory environment require. For example, in case of breakdown of paging services arising from failure or disruption of the public switched telephone network, a unique Internet paging account will be provided to hospital customers, so that such customers can dispatch the message through Internet. We have a monthly maintenance procedure for all major equipment in the core networks and service platforms. We have not experienced any material outage or major breakdown of, or accidental damages to, our network systems or operations.

COMPETITION

Paging and other telecommunications business

In respect of our data services (i.e. mainly paging services and Mobitex based services), we compete with various alternative wireless data service providers as well as other paging and telecommunications operators.

With the rapid development of information technology, nowadays there are numerous ways of wireless communication and there is an enormous sea of published information available. Nevertheless, our paging service, with the characteristic of low radio frequency and support one-to-many paging as well as self-entry of messages, are still needed by specific types of clients such as disciplinary forces and hospitals. We are one of the paging operators in Hong Kong and the only paging operator in Macau. Our other data services (including Mobitex based services and smartphones applications) provide constantly updated stock market and gaming data to users. Although there are other sources of data available, our services provide an additional channel to the users with tailor made setting to a certain extent.

In respect of our voice services (i.e. "One card two numbers" services, IDD and international call forwarding services), we face keen competition. Similar services are provided by other MNOs and MVNOs. As such, the market players mainly compete on pricing.

Distribution and retail sales of mobile phones

In respect of our businesses of distribution and retail sales of mobile phones, we face intensive competition primarily from other distributors and retailers of such products in Hong Kong which exist in a large quantity. We compete with these competitors largely on price, range of products, service quality and sales network coverage. The barriers to entry, however, exist as the costs and time required for establishing strong brand awareness and a distribution network are significant. Moreover, we create competitive edge by offering various types of telecommunications services and products and having a well-established distribution channel.

Hong Kong mobile service market

NWM, being our 40%-owned associate, is engaged in the provision of mobile service. Competition in the mobile service industry in Hong Kong is keen and is dominated by five other major mobile service providers. The mobile service operators compete with each other on pricing, value-added services, coverage of signals, brand names and customer services. According to the Industry Report, the tariff plans currently offered by the other mobile service providers range from HK$51 to HK$508 whereas the tariff plans currently offered by NWM range from HK$28 to HK$200, thus in terms of the price range of the tariff plans, the tariff plans currently offered by NWM are relatively more economical as compared to those offered by other mobile service providers. The industry scale effect, requirement of special equipment, characteristics of public welfare and uncertainty and risk are entry barriers in the mobile industry.

Please refer to the section headed "Industry overview" for details of the competition landscape of the businesses that we engage in.

INSURANCE

We maintain insurance policies in respect of our operations in Hong Kong and Macau. These policies include coverage in respect of losses or damages in respect of buildings, machinery, equipment and inventories. We also maintain employees' compensation and public liability insurances.

We consider our insurance policies to be adequate and in line with industry norms. No significant claims under these insurance policies have been made by our Group during the Track Record Period.

PROPERTY

We rent premises for our office premises, shops, cell sites and warehouses. Our rental expenses for our rented properties were HK$39.6 million, HK$48.9 million and HK$39.6 million for the two financial years ended 31 March 2012 and 2013 and the nine months ended 31 December 2013, respectively.

Our tenancy agreements typically have an initial term from one year to three years. We did not have significant difficulties in renewing our tenancy agreements in a timely manner during the Track Record Period.

As at the Latest Practicable Date, we rented a total of 180 properties in Hong Kong, comprising office premises, shops, cell sites and warehouses. As at the Latest Practicable Date, we have 51 shops in Hong Kong, the gross floor area of which ranges from approximately 50 sq.ft. to 1,100 sq.ft.. We also rent premises for our service centre and eight cell sites in Macau. As at the Latest Practicable Date, we rent 20 premises from our connected persons as our office premises, shops and cell sites. Please refer to the section headed "Continuing connected transactions" in this prospectus for details.

The following table sets forth the expiration of our tenancy agreements for our shops and cell sites in Hong Kong and Macau as at the Latest Practicable Date:

	Year in which the tenancy agreement expires	**Number of tenancy agreements for our shops**	**Number of tenancy agreements for our cell sites**
Hong Kong	2014	20	9
	2015	18	27
	2016	8	50
	2017	5	12
	Other type 1 *(Note 1)*	—	7
	Other type 2 *(Note 2)*	—	16
Macau	2017	1	—
	Other *(Note 1)*	—	8

Notes:

1. These tenancy agreements may be terminated with two months' notice or three months' notice or are without fixed expiry dates.

2. With regard to 18 of those leased/licensed properties for cell sites the tenancy/licence agreements for which have already expired, the subsidiaries of our Group continue to retain possession of those cell sites in respect of which our Group has continued to pay monthly rent/licence fees which were accepted by the relevant landlords/licensors.

In respect of the tenancy agreements which have expired in the calendar year 2014 and renewed, other than the increment in rentals, such tenancy agreement have been renewed at substantially the same terms. In respect of the tenancy agreements in Hong Kong which have expired and will expire in the calendar year 2014, having considered the original rental amount under these agreements and the actual and expected increase in rental rates upon their renewal, the actual and expected increase in rental rates for the agreements renewed and expected to be renewed in aggregate will amount to less than 1% of our Group's revenue for the financial year ended 31 March 2013. Therefore, our Directors believe that the potential impact of the actual and expected increase in rental rates for the renewals which has taken place and is expected to take place will be insignificant to our Group.

In respect of the tenancy agreements which will expire within one year, our Group currently intends to negotiate with the relevant landlords on renewal of the relevant tenancies three months before the expiry thereof. However, in some cases, the landlords have their own practice on renewal procedures whereby they only give us an offer to renew the agreements in the month before the expiry of the agreements and sign the new formal agreements with us within one or two months after the expiry of the agreements. Thus the tenancy agreements may not be renewed before or upon expiry but can only be renewed in months after the expiry. Moreover, if the tenancies cannot be renewed and are terminated, our Group will identify suitable locations near the original premises, enter into tenancy agreements on terms similar to the original agreements and at market rates, and relocate the relevant shops or cell sites to the alternative premises. Our Directors believe that we are generally able to relocate our shops or cell sites to other comparable properties without incurring substantial additional costs, and are therefore of the view that none of the properties occupied by our Group is material or crucial to our operations.

As at the Latest Practicable Date, we had tenancies/licences to possess and use 121 properties in Hong Kong for our cell sites. The tenancy agreements/licence agreements for 16 of those leased/licensed properties for cell sites have already expired. The subsidiaries of our Group continue to retain possession of those cell sites in respect of which our Group has continued to pay monthly rent/licence fees which are accepted by the respective relevant landlords/licensors (the "**Arrangements**"). Under Hong Kong law, the respective Arrangements are terminable at will by the respective relevant landlords/licensors of those cell sites, and the respective relevant landlords/licensors would be entitled to terminate the same at any time. We are in the process of negotiating the renewal of the tenancy/licence agreements for 15 out of those 16 leased/licensed properties with the landlords/licensors and expect to enter into new agreements to renew all of them by the end of June 2014.

In respect of the remaining expired agreement, the relevant landlord is not willing to commit to a fixed term tenancy agreement despite our effort to negotiate with him. Accordingly, in order to have more secured tenure on the leased properties, we intend to relocate the relevant cell site by the end of 2014. We consider that there will not be any material difficulties to identify suitable locations near the original premises, and we will enter into tenancy agreement on terms similar to the original agreement and at market rates, and then relocate the cell site to the alternative premises by establishing the new cell site before moving out of the original cell site. The relocation cost for the cell site is expected to be less than HK$20,000. Thus there will not be any material adverse effect on our operations and financial performance. However, our operation may be adversely affected if we cannot relocate to desirable locations in a timely manner when the landlord terminates the tenancy with a short notice. Our Controlling Shareholders have agreed to indemnify us against all claims, demands, cost, expenses, fines, actions and liabilities suffered or incurred by us due to the termination of the tenancies/licences of such cell sites the tenancy/licence agreement for which have already expired. Please refer to the section headed "E. Other information — 1. Estate duty, tax and other indemnities" in Appendix V to this prospectus for further information about the indemnity.

During the Track Record Period, we owned an investment property which is a residential unit in Macau. In March 2014, we disposed of such investment property to an Independent Third Party at a cash consideration of HK$6.0 million.

Pursuant to Rules 8.01A and 8.01B of the GEM Listing Rules, the Directors confirm that as of 31 December 2013, none of the properties owned or leased by us has a carrying amount of 15% or more of our consolidated total assets, we are not required by Chapter 8 of the GEM Listing Rules to value or include in this prospectus any valuation report of our property interests. Accordingly, pursuant to section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong), this prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Companies Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies Ordinance, which requires a valuation report with respect to all our Group's interests in land or buildings.

LICENCES

The following table sets out the licences of the members of our Group which have material revenue contributions to our Group's overall revenue for the two years ended 31 March 2013 and the nine months ended 31 December 2013:

Type of licence	Licence number	Name of the licencee	Issuing authority	Validity
PRS Licence	081	TD2	OFCA	20 December 2011 – 19 December 2014[(Note 1)]
PRS Licence	098	TDD	OFCA	1 July 2008 – 30 June 2018

Type of licence	Licence number	Name of the licencee	Issuing authority	Validity
SBO Licence (ETS Licence, IAS Licence and IVANS Licence)	226	TDD	OFCA	1 June 2013 – 31 May 2014(Note 2); 1 June 2014 – 31 May 2015
SBO Licence (MVNO Licence)	1097	TDM	OFCA	1 November 2013 – 31 October 2014(Note 2, 3)
Government authorisation	010/98	Telecom Macau	DSRT	Unlimited duration unless suspended or revoked
Holding licence	01/91	Telecom Macau	DSRT	Unlimited duration unless suspended or revoked
Type homologation licence	112/11	Telecom Macau	DSRT	22 August 2011 to 22 August 2021
Type homologation licence	015/10	Telecom Macau	DSRT	25 January 2010 to 25 January 2020
Type homologation licence	101/09	Telecom Macau	DSRT	4 May 2009 to 4 May 2019
Type homologation licence	228/07	Telecom Macau	DSRT	3 September 2007 to 3 September 2017
Type homologation licence	076/06	Telecom Macau	DSRT	23 May 2006 to 23 May 2016
Type homologation licence	133/05	Telecom Macau	DSRT	23 June 2005 until 23 June 2015
Station licence	010-98-3	Telecom Macau	DSRT	Valid until 9 April 2014(Note 4, 5)
Station licence	010-98-12	Telecom Macau	DSRT	Valid until 15 May 2018
Station licence	010-98-14	Telecom Macau	DSRT	Valid until 15 May 2018
Station licence	010-98-15	Telecom Macau	DSRT	Valid until 9 November 2018

Type of licence	Licence number	Name of the licencee	Issuing authority	Validity
Station licence	010-98-16	Telecom Macau	DSRT	Valid until 6 March 2018
Station licence	010-98-19	Telecom Macau	DSRT	Valid until 2 July 2014 *(Note 4, 6)*
Station licence	010-98-27	Telecom Macau	DSRT	Valid until 25 October 2015
Station licence	010-98-28	Telecom Macau	DSRT	Valid until 13 March 2017
Station licence	010-98-5	Telecom Macau	DSRT	Valid until 9 April 2014 *(Note 4, 5)*
Station licence	010-98-7	Telecom Macau	DSRT	Valid until 7 April 2015
Station licence	010-98-9	Telecom Macau	DSRT	Valid until 7 April 2015
Station licence	010-98-13	Telecom Macau	DSRT	Valid until 7 April 2015
Station licence	010-98-21	Telecom Macau	DSRT	Valid until 7 April 2015
Station licence	010-98-24	Telecom Macau	DSRT	Valid until 7 April 2015
Station licence	010-98-26	Telecom Macau	DSRT	Valid until 7 April 2015
Station licence	010-98-29	Telecom Macau	DSRT	Valid until 7 April 2015
Station licence	033-94-1	Telecom Macau	DSRT	Valid until 10 September 2014 *(Note 4, 7)*
Station licence	033-94-2	Telecom Macau	DSRT	Valid until 5 March 2015

Notes:

1. Under the OFCA public radio communications services licensing regime, a PRS Licence will be valid for ten years and, subject to the discretion of the OFCA, may be extended for a further period of up to three years. At the end of the extension, the PRS Licence must be re-applied if the licencee wishes to hold the licence. Provided that the grant of a PRS Licence is always subject to the discretion of the OFCA, according to the Company's Hong Kong legal advisers, as long as TD2 does not apply for additional bandwidth and complies with all the relevant requirements for both maintaining and re-applying for the PRS Licence under the applicable laws of Hong Kong, there are no foreseeable legal impediments for TD2 to re-apply its PRS Licence in 2014. The request for re-applying of this PRS Licence will be submitted to the OFCA in June 2014. Procedure for the re-applying is expected to be completed in September or October 2014.

2. Under the OFCA services based operator licensing regime, a SBO Licence will be valid for one year and may, at the discretion of the OFCA, be renewed on an annual basis. Provided that the grant of a SBO Licence is always subject to the discretion of the OFCA, according to the Company's Hong Kong legal advisers, as long as TDD and TDM comply with all the relevant requirements for both maintaining and renewing the SBO Licence under the applicable laws of Hong Kong, there are no foreseeable legal impediments for TDD and TDM to renew their SBO Licences in 2014.

3. The request for the renewal of this SBO Licence will be submitted to the OFCA in September 2014. Procedure for the renewal is expected to be completed in October 2014.

4. According to the laws of Macau, station licences are valid for five years and their renewal must be requested to the DSRT at least 30 days before expiry, through the submission of a standard application form, copies of the licences which are being renewed and proof of payment of the inspection fee. Renewal is preceded by an inspection of the equipments done by the DSRT of which a report is drafted concluding with the recommendation to approve or refuse renewal. According to the Company's Macau legal advisers, under the applicable laws of Macau, as long as the Macau government authorisation is valid, there are no legal impediments for Telecom Macau to renew any of its station licences which expire in 2014.

5. The request for the renewal of this station licence was submitted to the DSRT on 11 March 2014. Mandatory inspection was conducted on 21 May 2014. The renewal is expected to be completed within June 2014.

6. The request for the renewal of this station licence will be submitted to the DSRT by 2 June 2014. Procedure for the renewal should be completed in July 2014.

7. The request for the renewal of this station licence will be submitted to the DSRT by 10 August 2014. Procedure for the renewal should be completed in September 2014.

For laws and regulations governing the licences of the members of our Group, please refer to the section head "Laws and Regulations" in this prospectus.

INTELLECTUAL PROPERTY RIGHTS

Currently, we conduct our business primarily using trade marks of "Telecom Digital" and "Mango".

As at the Latest Practicable Date, our Group has registered seven trademarks in Hong Kong, two trademarks in the PRC and registered ten domain names in Hong Kong. Our Group had also submitted applications for registration of two trademarks in Hong Kong. The applications were still being processed as at the Latest Practicable Date. Information relating to the intellectual property rights of our Company is set out in the section headed "B. Further information about our business — 2. Intellectual property rights" in Appendix V to this prospectus.

During the Track Record Period, there had not been any pending or threatened claims against our Group, nor has any claim been made by our Group against third parties, with respect to the infringement of intellectual property rights owned by our Group or third parties. As at the Latest Practicable Date, our Group was not aware of any infringement (i) by it of any intellectual property rights owned by any third party; or (ii) by any third party of any intellectual property rights owned by our Group.

REGULATORY COMPLIANCE AND LEGAL PROCEEDINGS

Our Group confirms that during the Track Record Period and as at the Latest Practicable Date, our Group was not engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim is known to the Directors to be pending or threatened by or against our Group, that would have a material adverse effect on its operation results or financial condition. Further, save as disclosed in the paragraph headed "Non-compliance with the Predecessor Companies Ordinance" in this section, our Group has obtained all licences, permits, approvals and certificates necessary to conduct its business operations and has complied with all applicable laws, rules and regulations in all material respects.

NON-COMPLIANCE WITH THE PREDECESSOR COMPANIES ORDINANCE

During the due diligence process for the purpose of the Listing, it was discovered that we had not fully complied with the statutory requirements in sections (i) 111; and (ii) 122 of the Predecessor Companies Ordinance (corresponding to sections (i) 576, 610 and 612; and (ii) 429, 431 and 610 of the New Companies Ordinance) (the "Non-compliances"). The Non-compliances arose mainly due to the lack of a professional company secretary who gives advice to the Group in the past. Further, the directors of the relevant subsidiaries were not familiar with, and were not made aware of, the specific requirements of the Predecessor Companies Ordinance and New Companies Ordinance. To avoid further non-compliances, we have taken additional measures to improve our corporate governance and internal controls to ensure full compliance with applicable rules and regulations. Please refer to the paragraph headed "Internal control measures to prevent occurrence of non-compliance matters after the Listing" below in this section for further information.

Upon identification of the Non-compliances, our Group has taken certain steps to rectify the same where possible. The Companies Registry has not yet taken any action or levied any penalty against our Company up to the Latest Practicable Date. However, it is possible that the Companies Registry may prosecute our Group and the relevant Directors in the future. Regarding the Non-compliances under sections 111 and 122, we have been advised by Mr. Leung Wai Keung Richard (the "Counsel") that due to the recent legal development of applications to rectify the non-compliances of similar nature, which the Court would dismiss the application if it considered that the non-compliances were very trivial, rectification by court application might not be necessary.

Counsel was engaged to issue a legal opinion on the issue relating to the Non-compliances with the Predecessor Companies Ordinance. The Directors understand and the Counsel advised that if our Group and the Directors are prosecuted for possible offences arising from past section 111 defaults, the amount of fine is likely to be roughly HK$3,000 for each company and for each director in respect of each company; and the chance of imprisonment on the Directors is remote given, amongst other things, that (i) it was the first offence (not prosecuted before) of the relevant subsidiaries and the directors; and (ii) the breaches were not committed wilfully. Accordingly, no provision has been made in our Group's financial information.

According to the Counsel's advice, based on pure mathematical summation, if all of our 6 Hong Kong subsidiaries are prosecuted and convicted, the estimated probable penalty to be imposed on each of (i) the relevant officers of our Hong Kong subsidiaries; and (ii) our 6 Hong Kong subsidiaries, on company level under section 111 of the Predecessor Companies Ordinance, would be a total fine of HK$105,000.

Counsel has also advised that the breaches of sections 111 and 122 of the Predecessor Companies Ordinance are very minor in terms of gravity. In case of prosecution, there is a time bar defence under Section 351A of the Predecessor Companies Ordinance for some of the breaches if the offence in question is committed over three years and more than 12 months after the date on which evidence sufficient in the opinion of the Secretary of Justice to justify the proceedings come to his knowledge in question. Even if there were convictions from the magistrates, the likelihood of the imposition of a maximum sentence would be extremely remote. It would be extremely unlikely that custodial sentences would be imposed on any directors of our Hong Kong subsidiaries, and there are mitigating factors in favour of our Hong Kong subsidiaries and their respective directors which would reduce any fines that may be imposed by the sentencing magistrate.

In addition, the Controlling Shareholders have entered into a Deed of Indemnity with and in favour of our Group to provide indemnities in respect of monetary fines, settlements payments and any associated costs and expenses which would be incurred or suffered by them in connection with, among others, the Non-compliances occurred on or before the Listing Date. As such, our Directors believe that the Non-compliances will not have a material impact on our Group's operation.

The details of the Non-compliances are set out below.

1. Section 111 of the Predecessor Companies Ordinance

Contrary to section 111 of the Predecessor Companies Ordinance (corresponding to sections 576, 610 and 612 of the New Companies Ordinance), each of TDD, TDC, Carries Technology, TSN, TD2 and Mango, respectively, failed to hold annual general meetings in certain years. Under section 111, the company and every officer who is in default shall be liable to a fine of HK$50,000.

Name of subsidiary	Year(s) of occurrence	Rectification action
TDD	1999–2001, 2003, 2006	We have been advised by the Counsel that based on recent legal development, the Court is likely to dismiss our Group's application to rectify. However, these non-compliances are very minor in terms of gravity; in the event of conviction, the likelihood of the imposition of a maximum sentence would be extremely remote; it would be extremely unlikely that custodial sentences would be imposed on any directors of our respective Hong Kong subsidiaries; and there are mitigating factors in favour of our Hong Kong subsidiaries and their respective directors which would reduce the amount of fines that may be imposed by the sentencing magistrate.
TDC	1990–2001	
Carries Technology	1987–1991, 1994–1996, 2001, 2004	
TSN	1999–2001, 2006	
TD2	2002, 2003	
Mango	2002, 2003	

2. Section 122 of the Predecessor Companies Ordinance

Contrary to section 122 of the Companies Ordinance (corresponding to sections 429, 431, 610 of the New Companies Ordinance), in certain years our Hong Kong subsidiaries failed to lay their audited accounts at their respective annual general meetings and/or failed to lay audited accounts made up to a date falling not more than nine months before the date of the relevant annual general meeting. The maximum penalty in respect of each offence against our respective Hong Kong subsidiaries' directors under section 122 is a fine of HK$300,000 and 12 months' imprisonment.

Name of subsidiary	Relevant financial year(s) ended in	Rectification action
TDD	2000, 2001, 2003, 2006	We have been advised by the Counsel that based on recent legal development, the Court is likely to dismiss our respective Hong Kong subsidiaries' directors' application to rectify. However, these non-compliances are very minor in terms of gravity; in the event of conviction, the likelihood of the imposition of a maximum sentence would be extremely remote; it would be extremely unlikely that custodial sentences would be imposed on any directors of our respective Hong Kong subsidiaries; and there are mitigating factors in favour of our Hong Kong subsidiaries and their respective directors which would reduce the amount of fines that may be imposed by the sentencing magistrate.
TDC	1991–2001	
Carries Technology	1988–1991, 1994–1999, 2001, 2004	
TSN	2000, 2001, 2006	
TD2	2003, 2004	
Mango	2003, 2004	

INTERNAL CONTROL MEASURES TO PREVENT OCCURRENCE OF NON-COMPLIANCE MATTERS AFTER THE LISTING

In order to improve our corporate governance and to prevent recurrence of any non-compliance in the future, our Group has adopted the following measures:

(1) we have appointed Guotai Junan Capital as our compliance advisor upon Listing to advise our Group on compliance matters in accordance with Rule 6A.19 of the GEM Listing Rules;

(2) our Directors and other members of the senior management of our Group attended trainings conducted by our Company's Hong Kong legal advisers on 5 March 2014 on the ongoing obligations, duties and responsibilities of directors of publicly listed companies under the New Companies Ordinance, the Securities and Futures Ordinance and the GEM Listing Rules;

(3) we have designated Mr. Cheung King Fung Sunny as our compliance officer to assist our Board to identify, assess and manage the risks associated with our operation from time to time to ensure due compliance of laws, rules and regulations applicable to our Group;

(4) an audit committee with written terms of reference in accordance with Appendix 15 to the GEM Listing Rules have been established since 20 May 2014 to review the internal control systems and procedures for compliance with the requirements of the GEM Listing Rules and the New Companies Ordinance;

(5) our company secretary and compliance officer will act as the principal channel of communication between members of our Group and our Company in relation to legal, regulatory and financial reporting compliance matters of our Group as well as the chief coordinator to oversee the internal control procedures in general. Upon receipt of any queries or reports on legal, regulatory and financial reporting compliance matters, our company secretary and the compliance officer will look into the matter and, if considered appropriate, seek advice, guidance and recommendation from professional advisers and report to relevant members of our Group and/or our Board;

(6) we will provide our Directors, senior management and employees involved with training, development programmes and/or updates regarding the legal and regulatory requirements applicable to the business operations of our Group from time to time on a regular basis; and

(7) we will appoint Hong Kong legal advisers externally to advise us on compliance with the GEM Listing Rules and the applicable Hong Kong laws and regulations.

DIRECTORS' AND THE SOLE SPONSOR'S VIEWS ON INTERNAL CONTROL MEASURES

Having considered the enhanced internal control measures as set out above, our Directors are of the view, and the Sole Sponsor concurs that the various internal control measures adopted by our Group are adequate and effective. Taking into account (i) the aforesaid non-compliances mainly involved failing to convene annual general meetings and/or failing to lay audited accounts at annual general meetings due to the lack of a professional company secretary to give advice to the Group about the Predecessor Companies Ordinance in the past; (ii) the aforesaid non-compliances did not involve intentional misconduct, fraud, dishonesty or corruption on the part of our Directors; and (iii) our Directors have taken appropriate steps and measures, including engaging external professionals and attending trainings, to ensure compliance with the requirements of the GEM Listing Rules and other applicable rules and regulations, our Directors are of the view, and the Sole Sponsor concurs, that these Non-compliances do not reflect a material defect in the integrity or experience of the Directors. Our Directors are therefore of the view, and the Sole Sponsor concurs, that our Directors are suitable to act as the Company's directors. Furthermore, given the Counsel's opinion disclosed in the paragraph headed "Non-compliance with the Predecessor Companies Ordinance " in this section and the Deed of Indemnity given in favour of us by the Controlling Shareholders, our Directors are of the view, and the Sole Sponsor concurs, that non-compliances identified do not affect our suitability for listing.