

Interim Report 2003

NETEL TECHNOLOGY (HOLDINGS) LIMITED

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CHARACTERISTICS OF GEM

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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspaper. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange takes no responsibility for the contents of this announcement, makes no representation as to its accuracy or completeness and expressly, disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

This announcement, for which the directors of Netel Technology (Holdings) Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to Netel Technology (Holdings) Limited. The directors of Netel Technology (Holdings) Limited, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this announcement is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this announcement misleading; and (iii) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded bases and assumption that are fair and reasonable.

CHAIRMAN'S STATEMENT

INTERIM RESULTS

The board of directors ("Board") of Netel Technology (Holdings) Limited (the "Company") is pleased to announce the unaudited condensed combined result of the company and its subsidiaries (the "Group") for the three months and six months ended 30 November 2002. The turnover and the net profit of the Group for the six months ended 30 November 2002 (the "Interim Period") amounted to approximately HK\$22,977,000 and HK\$4,146,000 respectively.

OPERATION REVIEW

In October 2002, Lotus Club opened another outlet in Yuen Long New Territories. This is the fourth Lotus Club outlet operated by the Group in Hong Kong. The target market segment is overseas workers in Hong Kong. This Lotus Club outlet helps the Group to cultivate direct customer base and customer loyalty and to increase the gross profit margin. We expect a "chain effect" to increase our sales when more outlets of Lotus Club are opened in Hong Kong and overseas countries.

The Group has expanded the central IP hub gateway and prepares to increase the sales of Netel Virtual Phone ("NVP") gateway in the beginning of 2003. In addition, the billing system integration in the central site has been completed.

The Group's cost of IDD will be further reduced by voice over internet protocol ("VoIP") application. The profit margin of the Group's prepaid telephone cards will also be improved by direct sales to end-users through Lotus Club outlets. The Group is pursuing to implement similar business models in overseas countries where telecom markets are under development and this strategy will expand our earning potentials in the VoIP and IDD markets.

APPRECIATION

I wish to express my sincere thanks to our staff and professionals who contributed a lot to our successful listing of the shares of the Company on the GEM of the Stock Exchange.

James Ang
Chairman
Hong Kong, 14 January 2003

FINANCIAL INFORMATION

FINANCIAL REVIEW

The Group achieved turnover of approximately HK\$22,977,000 for the Interim Period, comparing with a turnover of HK\$38,784,000 for the corresponding period in the previous year. The decrease was mainly attributable to (i) the decrease of sale of telecommunication equipment by approximately HK\$5,550,000 as a result of the Group's business strategy to focus on long distance call services segment; and (ii) the gradual change of the Group's distribution channels of prepaid telephone cards from third party dealers to self-operating Lotus Club outlets. The Directors anticipate that the initial effect of the change is the decrease in turnover; however it will couple with increased profit margin and customer loyalty. Management expects the Group's turnover and market share will gradually increase once the new strategy is fully implemented and more outlets are established.

The Group also recorded a growth in gross profit during the Interim Period. The increase was mainly attributable to successful negotiation of better terms from the suppliers, reduction of Universal Services Contribution and higher efficiency and utilisation of the Group's network.

The increase of administrative expenses of the Group from HK\$3,066,000 in the six months ended 30 November 2001 to HK\$5,249,000 in the Interim Period was mainly attributable to the increase in rents, rates and outlet overheads as a result of increase in number of Lotus Club outlets from 2 to 4.

LIQUIDITY, FINANCIAL RESOURCES AND TREASURY POLICIES

During the Interim Period, the Group's operations were financed principally by the internal resources and banking facilities. The Group achieved better performance in terms of its liquidity ratios with current ratio of 1.04 and gearing ratio of 2.71 as at 30 November 2002, comparing with 0.89 and 85.2 as at 31 May 2002 respectively. The gearing ratio was calculated based on the total liabilities over the shareholders' equity as at the balance sheet dates. As at 30 November 2002, the Group had cash at bank and in hand and bank overdraft of approximately HK\$3,256,000 and HK\$1,114,000 respectively (31 May 2002: HK\$3,102,000 and HK\$2,069,000 respectively). As at 30 November 2002, the Group had total liabilities amounted to approximately HK\$17,630,000 (At 31 May 2002: HK\$31,013,000) including short-term bank loans of HK\$709,000 (At 31 May 2002: HK\$994,000), trust receipt loans of HK\$1,319,000 (At 31 May 2002: HK\$2,241,000) and finance leases obligation of HK\$2,174,000 (At 31 May 2002: HK\$2,796,000). All the borrowings are denominated in Hong Kong dollar with interest rate ranging from 8% to 12% p.a. The short-term bank loans are repayable within one year and long-term bank loans are repayable within five years.

The Group adopts conservative treasury policies in managing its cash and financial matters, all the Group's treasury activities are centralised and carried out in Hong Kong. The Group's liquidity and financing arrangement are regularly reviewed by the directors of the Company (the "Directors") and senior management.

FINANCIAL INFORMATION

CAPITAL COMMITMENT AND CONTINGENT LIABILITIES

The Group did not have any significant capital commitments and contingent liabilities as at 30 November 2002 and 31 May 2002.

MATERIAL ACQUISITION/DISPOSALS AND SIGNIFICANT INVESTMENT

Save as disclosed in the subsection headed "Group reorganisation" in the section headed "Statutory and general information" in Appendix IV to the prospectus of the Company dated 16 December 2002 (the "Prospectus"), the Group had no material acquisition, disposals and investment during the Interim Period (six months ended 30 November 2001: Nil). Save as disclosed in the Prospectus, the Group currently has no concrete plan for material acquisition or disposal of capital investment.

EXPOSURE ON EXCHANGE RATE FLUCTUATION

Most of the Group's purchases and expenses were denominated in Hong Kong dollar and the Group's revenue was denominated in Hong Kong dollar during the Interim Period. Therefore, the Group was not exposed to any significant fluctuations in exchange rates and related hedges during the Interim Period.

BANKING FACILITIES AND PLEDGE OF ASSETS

As at 30 November 2002, the Group had aggregate banking facilities of approximately HK\$8,600,000 for overdrafts and loan financing. Unused facilities as at the same date approximately amounted to HK\$3,425,000. The Group's banking facilities are secured by bank deposits of HK\$3,000,000 held by the Group, guarantees by the Directors and legal charge over two properties beneficially owned by the Directors. The assets held under finance leases are the telecommunication equipment with book cost of approximately HK\$4,051,000.

FINANCIAL INFORMATION

BUSINESS REVIEW AND OUTLOOK

The Group continues to take advantage of its prepaid telephone cards system that combines traditional long distance network with an advanced internet telephony technology. Since the Group's prepaid telephone cards system has been operated as a PSTN switch with VoIP functions, it enables the Group to provide a robust, reliable and quick prepaid product. The architecture is designed to include a backbone switching mechanism that offers an integration of circuit-switched and packet-switched networks, automatically detects and adopts the best routing available having regard to routing costs, connection stability and QoS. With the simultaneous use of VoIP and PSTN switching, the Group is able to achieve lower routing costs through the VoIP function whilst retaining relatively stable connections and QoS offered by the PSTN platform.

During the Interim Period, the Group has placed more focus on the long distance call services business segment. The long distance call services business segment contributed approximately 100% and 86% of the turnover of the Group during the Interim Period and the corresponding period in the previous year respectively. With the opening of a new retail outlet in Yuen Long New Territories in October 2002, it shows clear intention of the Group to widen the distribution channels of the prepaid telephone cards through opening up additional sales outlets and the successful model of Lotus Club in Hong Kong will be copied into other countries. Hong Kong has remained the principle geographical area from which the Group's turnover was derived. Approximately 100% and 96% of the turnover of the Group was generated from the Hong Kong market during the Interim Period and corresponding period in previous year respectively. It is also the Group's business strategy to increase the outbound traffic to international network in the near future with an aim to expand the wholesale business of international call routing service.

As at 30 November 2002, the Group employed 23 full time staff (including two **executive** Directors) and there **was** no significant change in number of staff during the Interim Period. The Group offers a comprehensive remuneration and employees' benefit package to its employees. Such packages includes participation in provident fund and medical schemes.

CONDENSED COMBINED PROFIT & LOSS ACCOUNTS

The unaudited result of the Group for the Interim Period and three months ended 30 November 2002 and comparative figures for the corresponding periods in previous year are as follows:

	Note	For the three months ended 30 November		For the six months ended 30 November	
		2002 HK\$'000 (Unaudited)	2001 HK\$'000 (Unaudited)	2002 HK\$'000 (Unaudited)	2001 HK\$'000 (Unaudited)
Turnover		10,692	17,119	22,977	38,784
Cost of sales		(4,520)	(14,304)	(12,684)	(33,955)
Gross profit		6,172	2,815	10,293	4,829
Other revenues		28	30	158	60
Selling and marketing expenses		(373)	(492)	(701)	(1,039)
Administrative expenses		(2,481)	(1,636)	(5,249)	(3,066)
Profit from operations	3	3,346	717	4,501	784
Finance costs		(184)	(205)	(355)	(347)
Profit for the period		3,162	512	4,146	437
Earnings per share - Basic	6	0.86 cents	0.16 cents	1.16 cents	0.13 cents

CONDENSED COMBINED BALANCE SHEETS

	Note	As at 30 November 2002 HK\$'000 (Unaudited)	As at 31 May 2002 HK\$'000 (Audited)
NON-CURRENT ASSETS			
Fixed assets	9	6,986	6,557
CURRENT ASSETS			
Inventories		394	422
Due from shareholders		-	11,626
Accounts receivable	10	9,222	7,267
Prepayment and deposits		4,271	2,403
Pledged bank deposits	14	3,000	3,000
Cash at bank and in hand		256	102
TOTAL CURRENT ASSETS		17,143	24,820
CURRENT LIABILITIES			
Accounts payable	11	10,574	14,760
Accrued expenses and other payables		1,740	6,164
Current portion of long-term liabilities		989	1,595
Short-term bank loan, secured		709	994
Trust receipt loans, secured		1,319	2,241
Bank overdraft, secured		1,114	2,069
TOTAL CURRENT LIABILITIES		16,445	27,823
NET CURRENT ASSETS/(LIABILITIES)		698	(3,003)
		7,684	3,554
CAPITAL AND RESERVES			
Combined share capital	13	7,715	7,715
<u>Reserves</u>		(1,216)	(7,351)
SHAREHOLDERS' EQUITY		6,499	364
NON-CURRENT LIABILITIES			
Long-term liabilities		1,185	1,201
Due to a related company	12	-	1,989
		7,684	3,554

CONDENSED COMBINED CASH FLOW STATEMENTS

	For the six months ended 30 November	
	2002	2001
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash inflow/(outflow) from operating activities	4,144	(2,893)
Net cash (outflow)/inflow from returns on investment and servicing of finance	(196)	29
Net cash outflow investing activities	(1,010)	(2,709)
Net cash inflow/(outflow) before financing activities	2,938	(5,573)
Net cash (outflow)/inflow from financing activities	(907)	354
Increase/(decrease) in cash and cash equivalent	2,031	(5,219)
Cash and cash equivalent at beginning of the period	(4,208)	(537)
Cash and cash equivalent at the end of the period	(2,177)	(5,756)
Analysis of balances of cash and cash equivalents		
Bank balances and cash	256	451
Trust receipt loans repayable within three months	(1,319)	(1,689)
Bank overdrafts	(1,114)	(4,518)
	(2,177)	(5,756)

COMBINED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

The movements in shareholders' equity for the Interim Period and corresponding period in the previous year are as follows:

	Combined share capital HK\$'000 (Unaudited)	Combined share premium HK\$'000 (Unaudited)	Combined accumulated losses HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
As at 1 June 2002	7,715	31,610	(38,961)	364
Profit for the Interim Period	-	-	4,146	4,146
Waiver of amount due to a related company	-	-	1,989	1,989
As at 30 November 2002	7,715	31,610	(32,826)	6,499

	Combined share capital HK\$'000 (Unaudited)	Combined share premium HK\$'000 (Unaudited)	Combined accumulated losses HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
As at 1 June 2001	7,035	-	(43,560)	(36,525)
Profit for the <u>period</u>	-	-	437	437
As at 30 November 2001	7,035	-	(43,123)	(36,088)

NOTES TO THE UNAUDITED COMBINED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The Company was incorporated in [the](#) Cayman Islands on 9 September 2002 and registered as an exempted company with limited liability under the Companies Law of the Cayman Islands. By the resolutions of the [shareholder](#) of the Company dated 4 December 2002, the placing of the Company's shares were approved. The shares of the Company ("Shares") were listed on the GEM of the Stock Exchange of Hong Kong Limited on 20 December 2002.

Subsequent to 30 November 2002 and on 4 December [2002](#), the Company became the holding company of the other companies comprising the Group pursuant to a Group reorganisation (the "Reorganisation"). The Reorganisation involved companies under common control, and the Company and its subsidiaries resulting from the Reorganisation are regarded as a continuing Group.

The combined results and combined cash flows of the Group for the Interim Period, including the results and cash flows of the companies now comprising the Group as if the current Group structure had been in existence throughout the Interim Period, or from their respective dates of incorporation or acquisition by the immediate holding company, whichever is the shorter.

The combined balance sheets of the Group as at 31 May 2002 and 30 November 2002 as detailed above have been prepared to present the assets and liabilities of the Group as at respective dates, as if the current group structure had been in existence at these dates.

The unaudited condensed combined results of the Group are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 2.125 "Interim Reporting" issued by the Hong Kong Society of Accountants, and Chapter 18 of the Listing Rules of the GEM of the Stock Exchange (the "GEM Listing Rules").

The accounting policies and methods of computation used in the preparation of the interim financial statements are consistent with those used in the preparation of the Accountants' Report as disclosed in Appendix I of the Prospectus.

NOTES TO THE UNAUDITED COMBINED FINANCIAL STATEMENTS

2. SEGMENT INFORMATION

The Group is principally engaged in the provision of long distance call services and trading of telecommunication equipment.

Primary reporting format – business segment

	Six months ended 30 November 2002		
	Sales of equipment HK\$'000 (Unaudited)	Long distance call services HK\$'000 (Unaudited)	Group HK\$'000 (Unaudited)
Turnover	63	22,914	22,977
Segment results	39	4,304	4,343
Other revenues			158
Operating profit			4,501
Finance costs			(355)
Profit attributable to shareholders			4,146
Segment assets	923	23,206	24,129
Segment liabilities	389	17,241	17,630
Capital expenditures	-	1,010	1,010
Depreciation	-	581	581

NOTES TO THE UNAUDITED COMBINED FINANCIAL STATEMENTS

2. SEGMENT INFORMATION (CONTINUED)

	Six months ended 30 November 2001		
	Sales of equipment HK\$'000 (Unaudited)	Long distance call services HK\$'000 (Unaudited)	Group HK\$'000 (Unaudited)
Turnover	5,613	33,171	38,784
Segment results	879	(155)	724
Other revenues			60
Operating profit			784
Finance costs			(347)
Profit attributable to shareholders			437
Segment asset	890	23,750	24,640
Segment liabilities	1,759	58,969	60,728
Capital expenditures	-	278	278
Depreciation	-	534	534

NOTES TO THE UNAUDITED COMBINED FINANCIAL STATEMENTS

2. SEGMENT INFORMATION (CONTINUED)

Secondary reporting format –geographical segment

	Six months ended 30 November 2002			
	Turnover	Segment results	Total assets	Capital expenditures
	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Hong Kong	22,945	4,324	24,097	1,010
Mainland China	7	4	7	-
Other countries	25	15	25	-
	<u>22,977</u>	<u>4,343</u>	<u>24,129</u>	<u>1,010</u>
Other revenues		<u>158</u>		
Profit from operations		<u>4,501</u>		

	Six months ended 30 November 2001			
	Turnover	Segment results	Total assets	Capital expenditures
	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Hong Kong	37,370	<u>401</u>	23,750	278
Mainland China	327	<u>131</u>	327	-
Other countries	1,087	<u>192</u>	563	-
	<u>38,784</u>	<u>724</u>	<u>24,640</u>	<u>278</u>
Other revenues		<u>60</u>		
Profit from operations		<u>784</u>		

NOTES TO THE UNAUDITED COMBINED FINANCIAL STATEMENTS

3. PROFIT FROM OPERATIONS

Profit from operations for the Interim Period is stated after charging / (crediting) the followings:

	For the three months ended 30 November		For the six months ended 30 November	
	2002 HK\$'000 (Unaudited)	2001 HK\$'000 (Unaudited)	2002 HK\$'000 (Unaudited)	2001 HK\$'000 (Unaudited)
Charging:				
Auditors' remuneration	75	75	150	150
Cost of inventories sold	359	2,582	789	3,890
Depreciation				
- owned assets	215	454	433	373
- leased assets	75	80	148	161
Operating lease rental in respect of land and buildings	578	344	1,208	674
Operating lease rental in respect of equipment	-	12	2	20
Provision for doubtful debts	35	125	87	250
Staff costs (including directors' emoluments)	1,071	1,194	2,213	2,360
Crediting:				
Gain on disposal of fixed assets	-	-	-	(62)

4. TAXATION

- (i) No provision for Hong Kong profits tax has been made for the Interim [Period as](#) the Group has sufficient tax loss brought forward to set off the estimated assessable profits.
- (ii) During the Interim Period, there was no material unprovided deferred tax assets / liabilities which are expected to be crystallised in the foreseeable future.

NOTES TO THE UNAUDITED COMBINED FINANCIAL STATEMENTS

5. INTERIM DIVIDENDS

No dividend has been paid, declared and proposed by the companies now comprising the Group since their respective dates of incorporation or acquisition by the Group during the Interim Period (six months ended 30 November 2001: Nil).

6. EARNINGS PER SHARE

The calculation of earnings per share for the three months period and six months ended 30 November 2001 and 2002 is based on the unaudited combined profits for the period and on the weighted average of 357,200,000 shares (2001: 325,744,000 shares) deemed to be in issue.

In determining the weighted average number of shares deemed to be in issue, it is assumed that the Reorganisation had been completed on 1 June 2001.

No diluted earnings per share is presented as there is no dilutive potential share during the three months period and six months ended 30 November 2001 and 2002.

7. DIRECTORS' REMUNERATION

Details of directors' remuneration are as follows:

	For the six months ended 30 November	
	2002	2001
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Fees	-	-
Basic salaries, allowances and other benefits	360	360
Discretionary bonuses	-	-
	<u>360</u>	<u>360</u>
Number of executive directors	<u>2</u>	<u>2</u>

NOTES TO THE UNAUDITED COMBINED FINANCIAL STATEMENTS

8. RETIREMENT BENEFITS

The Group participates in Mandatory Provident Fund ("MPF"), managed by an independent approved MPF trustee, which provides benefits to all the Group's employees. In accordance with the Mandatory Provident Fund Scheme Ordinance (the "MPF Ordinance"). The Group's contributions are 5% of the employee's relevant income as defined in the MPF Ordinance up to a maximum of HK\$1,000 per employee per month. The employees also contribute a corresponding amount to the MPF scheme from 31 December 2000 if their relevant income is more than HK\$4,000 per month. The MPF contributions are fully and immediately vested with the employees as accrued benefits once they are paid.

9. FIXED ASSETS

	Leasehold improvement HK\$'000 (Unaudited)	Furniture and office equipment HK\$'000 (Unaudited)	Computer and software HK\$'000 (Unaudited)	Telecom- munication equipment HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
COST					
As at 1 June 2002	256	358	400	7,649	8,663
Additions	-	649	24	337	1,010
As at 30 November 2002	256	1,007	424	7,986	9,673
ACCUMULATED DEPRECIATION					
As at 1 June 2002	103	134	219	1,650	2,106
Charge for the period	26	99	58	398	581
As at 30 November 2002	129	233	277	2,048	2,687
NET BOOK VALUE					
As at 30 November 2002	127	774	147	5,938	6,986
As at 31 May 2002	153	224	181	5,999	6,557

NOTES TO THE UNAUDITED COMBINED FINANCIAL STATEMENTS

10. ACCOUNTS RECEIVABLE

Majority of the Group's sales are entered into on credit terms ranging from 30 to 90 days. The aging analysis of accounts receivable is as follows:-

	As at 30 November 2002 HK\$'000 (Unaudited)	As at 31 May 2002 HK\$'000 (Audited)
Within 30 days	1,282	1,501
31– 60 days	672	1,370
61 – 90 days	1,553	811
91 – 180 days	3,742	1,897
181 – 365 days	1,649	1,981
Over 365 days	911	207
	<hr/>	<hr/>
	9,809	7,767
Less: provision for doubtful debts	(587)	(500)
	<hr/>	<hr/>
	9,222	7,267
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NOTES TO THE UNAUDITED COMBINED FINANCIAL STATEMENTS

11. ACCOUNTS PAYABLE

The aging analysis of accounts payable is as follows:-

	As at 30 November 2002 HK\$'000 (Unaudited)	As at 31 May 2002 HK\$'000 (Audited)
Within 30 days	4,524	3,649
31– 60 days	1,356	1,430
61 – 90 days	2,159	907
91 – 180 <u>days</u>	704	1,487
181 – 365 days	514	3,595
Over 365 days	1,317	3,692
	10,574	14,760

12. AMOUNT DUE TO A RELATED COMPANY

The balance represents amount due to Richmond Group Limited ("RGL") which was unsecured, interest-free and repayable by twelve equal monthly installment starting from June 2003. Subsequent to 31 May 2002, RGL has agreed to waive the full amount due by the Group and the balance of HK\$1,989,000 was taken to reserve.

13. COMBINED SHARE CAPITAL

At 30 November 2002, the Reorganisation has not yet been completed and accordingly the share capital of Netel Phone Limited, the holding company of the Group immediately prior to the completion of the Reorganisation is presented in lieu of the share capital of the Company for the purpose of this report.

14. PLEDGE OF ASSETS

As at 30 November 2002, bank deposits of HK\$3,000,000 (as at 31 May 2002: HK\$3,000,000) were pledged to banks for securing banking facilities granted to the Group.

NOTES TO THE UNAUDITED COMBINED FINANCIAL STATEMENTS

15. COMMITMENTS UNDER OPERATING LEASES

At 30 November 2002, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	As at 30 November 2002		As at 31 May 2002	
	Land and buildings HK\$'000 (Unaudited)	Equipment HK\$'000 (Unaudited)	Land and buildings HK\$'000 (Audited)	Equipment HK\$'000 (Audited)
<u>Within</u> one year	1,605	121	1,896	121
In the second to fifth year	77	363	532	423
	<u>1,682</u>	<u>484</u>	<u>2,428</u>	<u>544</u>

16. CONTINGENT LIABILITIES

As at 30 November 2002, the Group had no significant contingent liabilities.

17. ULTIMATE HOLDING COMPANY

The Directors regard Nanette Profits Limited ("Nanette"), a company incorporated in the British Virgin Islands, as being the ultimate holding company.

18. SUBSEQUENT EVENT

Subsequent to 30 November 2002, the share of the Company was successfully listed on GEM of the Stock Exchange on 20 December 2002. The Company offered 22,800,000 Shares by placing to raise HK\$22,800,000 (the "Placing"). Net proceeds of the Placing were approximately HK\$17,000,000 after deducting all relevant expenses, which will mainly be used for the expansion of the Lotus Club in Hong Kong and overseas, the research and development of new products as well as for additional marketing and promotional activities as disclosed in the Prospectus.

OTHER INFORMATION

SPONSOR'S INTEREST

Subsequent to 20 December 2002 and immediately after completion of the Placing, the Company's sponsor, Tai Fook Capital Limited ("Tai Fook"), its directors, employees or associates did not have any interest in the Shares of the Company, or any right to subscribe for or to nominate persons to subscribe for the Share .

Pursuant to the Sponsor's agreement dated 16 December 2002 entered into between the Company and Tai Fook, Tai Fook will receive a fee for acting as the Group's retained sponsor for the period from 20 December 2002 to 31 May 2005.

DIRECTORS' AND CHIEF EXECUTIVE INTEREST IN SHARES

Immediately after the completion of the Placing and the Reorganisation, the interests of the Directors and chief executive in the equity or debt securities of the Company or any associated corporations (within the meaning of the SDI Ordinance) which will have to be notified to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance (including interests which they are taken or deemed to have under Section 31 of, or Part 1 of the Schedule to, the SDI Ordinance) once the Shares are listed, or which will be required, pursuant to Section 29 of the SDI Ordinance, to be entered in the register referred to therein once the Shares are listed, or which will be required pursuant to the provisions in the GEM Listing Rules governing securities transactions by directors of listed companies (Rule 5.40 to 5.59) to be notified to the Company and the Stock Exchange once the Shares are listed, will be as follows:

Name of Directors	Type of Interest	No. of Shares
Mr. James Ang ("Mr. Ang")	Corporate	204,272,000 (Note)
Ms. Yau Pui Chi, Maria (spouse of Mr. Ang)	Family	204,272,000 (Note)

Note: These Shares are registered as to 192,200,000 Shares in the name of Nanette, 5,692,000 Shares in the name of Benevolent Trading Limited ("Benevolent") and 6,380,000 Shares in the name of Cyber Wealth Company Group Limited ("Cyber Wealth"). Mr. Ang is the beneficial owner of the entire issued share capital of Nanette, Benevolent and Cyber Wealth and is deemed to be interested in the shares registered in the name of such companies.

OTHER INFORMATION

RIGHTS OF DIRECTORS AND EMPLOYEES TO ACQUIRE SHARES

During the six months ended 30 November 2002 and up to the date of listing of the Company on 20 December 2002, neither the Directors nor the employees of the Group was granted options to subscribe for Shares. As at 30 November 2002 and up to the date of listing of the Company on 20 December 2002, neither the Directors nor the employees of the Group had any rights to acquire Shares.

SUBSTANTIAL SHAREHOLDERS

Immediately after the completion of the Placing, the followings are the only persons who will be interested in 10% or more of the Shares in issue:

Name	Number of shares	Approximate Percentage of holding after listing
Nanette (Note)	192,200,000	50.58%
Mr. Ang	204,272,000	53.76%

Note: Nanette is a company incorporated in the [British Virgin Islands](#) with limited liability and beneficially wholly-owned by Mr. Ang.

PURCHASE, SALE OR REPURCHASE OF THE COMPANY'S SHARES

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Shares during the Interim Period and immediately after completion of the Placing.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) had any interest in a business, which competes or may compete with the business of the Group.

OTHER INFORMATION

SHARE OPTION SCHEME

The Company had no share **option** scheme as of 30 November 2002. Pursuant to written resolution of the sole shareholder of the Company dated 4 December 2002, the Company has conditionally adopted the share option scheme whereby eligible participants of the scheme **when** the Board considers, in its sole discretion, have contributed to the Group, may be granted option to subscribe for Shares.

AUDIT COMMITTEE

Subsequent to 30 November 2002, the Group established an Audit Committee on 4 December 2002 with written terms of reference in compliance with Rules 5.23 to 5.25 of the GEM Listing Rules. The Audit Committee reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited condensed account for the six months ended 30 November 2002.

BOARD PRACTICES AND PROCEDURES

Since 20 December 2002, the date of listing of the Company on the GEM of the Stock Exchange of Hong Kong Limited, the Company has **complied** with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules.

By order of the Board
Netel Technology (Holdings) Limited
James Ang
Chairman

Hong Kong, 14 January 2003

The announcement and a copy of the interim report will appear on the GEM website at www.hkgem.com.