NETEL TECHNOLOGY (HOLDINGS) LIMITED

THIRD QUARTERLY REPORT 2002/03

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CHARACTERISTICS OF GEM OF 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 the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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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 newspapers. 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 users.

The Stock Exchange takes no responsibility for the contents of this report, 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 report.

This report, for which the directors of Netel collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to Netel. The directors of Netel, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this report 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 report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded bases and assumption that are fair and reasonable.

"Benevolent"	Benevolent Trading Limited
"Board"	the board of the Directors
"Company"	Netel Technology (Holdings) Limited
"Cyber Wealth"	Cyber Wealth Company Group Limited
"Directors"	the directors of Netel Technology (Holdings) Limited
"EBITDA"	Earnings before interests, tax, depreciation and amortisation
"GEM"	The Growth Enterprise Market
"GEM Listing Rules"	The Rules Governing the Listing of Securities on the Growth Enterprise Market
"Group"	Netel Technology (Holdings) Limited and it subsidiaries
"Mr. Ang"	Mr. James Ang
"Nanette"	Nanette Profits Limited
"Netel"	Netel Technology (Holdings) Limited
"Reogranisation"	Group reorganisation
"SDI Ordinance"	the Securities (Disclosure of Interests) Ordinance
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Tai Fook"	Tai Fook Capital Limited
"USC"	Universal Services Contribution charged by PCCW
"VoIP"	Voice over Internet Protocol

CHAIRMAN'S STATEMENTS

I am pleased to announce the results of Netel and its subsidiaries (collectively referred to as the "Group") for the third quarter and the nine months ended 28 February 2003.

Within the quarter, on 20 December 2002, the Company was listed on the Stock Exchange. This marks a significant milestone in the future development of the Group. Ever since the listing of the Group, Netel's name has been becoming eye-catching in the telecommunication arena. The result is very obvious: international telecom operators are more willing to conduct business with us and we are getting better bargaining power because of both the listing status and the better financial strengths.

Amidst the miserable economic environment that affected most economic activities and spending sentiments, and a continual competitive market environment under the third quarter, Netel still delivered encouraging revenue and EBITDA growth this quarter. Revenue recorded a steady 9.4% growth over the last quarter and EBITDA for this quarter reached HK$1.4 million.

Key third quarter achievements include:

- 9.4% growth in revenue over the previous quarter.
- 80% increase in carrier sales revenue and 5.9% increase in end-user sales revenue over the previous quarter.
- 55% growth in gross profit over the previous quarter and gross profit margin increasing from 26.2% to 37.2%, if the USC reduction of HK$3.4 million were excluded from the previous quarter.
- The Group started to deliver stable EBITDA. The EBITDA for this quarter amounted to HK$1.4 million.
- Profit attributable to shareholders for this quarter amounted to HK$1.1 million as compared to a loss of HK$0.2 million for the previous quarter if the USC reduction were excluded (a profit of HK$3.2 million after included the USC reduction).

- For the nine month period ended 28 February, the gross profit margin increased from 14.9% for 2002 to 42.2% for 2003, EBITDA increased from HK$1.5 million to HK$6.5 million, and profit attributable to shareholders increased from HK$0.1 million to HK$5.2 million.

- IDD outgoing minutes increased 12% over the previous quarter to 12.4 million minutes.

FINANCIAL REVIEW

Netel's unaudited consolidated revenue for the three months ended 28 February 2003 amounted to HK$11.7 million, an increase of 9.4% over the previous quarter. Carrier sales grew by 80% to HK$0.9 million and the end-user direct sales grew by 5.9% to HK$10.8 million over the previous quarter. As in the previous quarter, a USC reduction of HK$3.4 million was included in deriving the gross profit whereas Netel has not recorded any USC reduction during this quarter, the profit margin for this quarter should have increased from 23.7% to 37.2% on the basis that the USC reduction was excluded from the previous quarter. The increase was mainly attributable to costs reduction via the increasing use of VoIP and the increase in direct marketing of Lotus Club in Hong Kong.

The Group started to deliver stable EBITDA and profit attributable to shareholders. EBITDA for the quarter amounted to HK$1.4 million as compared to HK$0.3 million before USC reduction for the previous quarter. Profit attributable to shareholders for the quarter amounted to HK$1.1 million as compared to HK$3.2 million for the previous quarter.

The Group recorded HK$34.7 million revenue for the nine-month period, as compared with HK$54.8 million for the previous period. The decrease was mainly due to less equipment sales, less reliance on third party distributors for selling prepaid telephone cards and higher market competition on prepaid telephone cards targeted for Philippine and Indonesian workers in Hong Kong. During the period the management allocated almost entire resources to the long distance telecommunication services and as the result, equipment marketing and sales activities were delayed, equipment sales for the period was HK$1.4 million less than last period.

Notwithstanding the decrease in revenue, the cost reduction from more VoIP connections and better minute supply bargains are effective. The EBITDA for the nine-month period increased more than three times from HK$1.5 million for the last period to HK$6.5 million for the current period. Profit attributable to shareholders also sharply surged from HK$0.1 million for the last period to HK$5.2 million for the current period, partially because of the USC reduction of HK$3.4 million during this period.

BUSINESS REVIEW

End-user direct sales

Starting from this financial period, Netel has gradually reduced its reliance on third party distributors as its principal distribution channel for prepaid telephone cards to its own distribution outlets - the Lotus Club. As the result, overall net profit margin was improved although administration and selling costs were higher. This strategy is proved very successful in the increasingly competitive prepaid calling card market - the improvement in profit margin through Lotus Club may offset the possible effects of decrease in direct sales due to market competition, and less reliance on third party distributors can reduce the chance of bad debts because of less concession in granting credits.

Lotus Clubs are mainly targeted for Philippine and Indonesian ethnic groups. Currently, we have established four Lotus Clubs in Hong Kong and all of them are located at prime areas where there is high pedestrian traffic of Philippine and Indonesian people. We believe customer loyalty is critical to future earning growth. Lotus Clubs are not simply sales outlets for Netel's products, they provide a gathering point for our target customers where customers can share our newspaper, promotion material and enjoy our membership benefits and free gifts. During the quarter, we have also started free fiction lending services for our customers to further enhance loyalty. In view of the worry on atypical pneumonia (SARS), we recently started to give masks for free to every customer who purchased our prepaid telephone cards. Our enthusiasm and care for our customers' health are attracting much response and loyalty especially when the shortage of masks in the market is rather serious at the moment.

Carrier sales

The current quarter recorded HK$0.9 million revenue on carrier sales, which almost doubled the previous quarter. This indicates the positive impact on Netel's listing in the Stock Exchange, more carriers showed confidence on dealing with Netel because both the Group's operation and financial strength are becoming more transparent. It was evident on February this year that the carrier sales for the month had out-performed previous months and this trend is expected to accelerate.

Because of the increase in working capital after the listing, we have been able to secure more minute supplies and VoIP capacity. Coupled with our dedication of more resources on overseas marketing, the operations have been successfully expanded into the South East Asia and the PRC market.

BUSINESS OUTLOOK

Netel's strategy is well defined. We focus on the IDD and broadband application markets and on capturing more market share in the world. To achieve this objective, carrier sales will play an important role. Business will be aggressively expanded into South East Asia shortly and to other parts of the world in the future. Our new office in Macao will be opened soon in the next financial year for complimenting this strategy. End-user direct sales will also be aggressively pursued because of the potentially higher profit margins. More Lotus Clubs will be opened either by the Group or through franchising in Hong Kong. In March 2003, the first franchised Lotus Club was born in Hong Kong. This direct selling model will hopefully be duplicated in other countries and cities in next financial year. For the current period, carrier sales only represented about 6% of the sales mix. However, we hope the carrier sales will soon be accelerated to the same proportion as the end-user direct sales in the coming couple of quarters.

It is also Netel's mission to conduct the business through increasing VoIP capacity and continual enhancement of voice communication quality in order to maintain the market niche. By the end of the financial year, a new switch that runs on signal-7 platform will be started to operate. The new hardware signifies larger volume handling capability that makes Netel's total traffic handling capacity increase by 200%, faster connection that doubles the existing speed, and better voice quality parallel to that offered by conventional switch system. This also continues Netel's philosophy of offering best service to our clients.

Despite our usual practice of stringent cost control, in the coming quarter, we are committing more human and financial resources in the area of international marketing, overseas investment, legal and professional advises, corporate image building and investor relations, etc, in preparation for the take off of business in the following financial year. We are confident that Netel will share a reputed position in the telecommunication arena in coming years.

James Ang
Chairman

Hong Kong, 14 April 2003

CONDENSED COMBINED INCOME STATEMENTS

For the three months and nine months ended 28 February 2003

The unaudited combined results of the Group for the three months and nine months ended 28 February 2003 together with the comparative unaudited figures for the corresponding periods in 2002 are as follows:

		For the three months ended 28 February		For the nine months ended 28 February	
		2003	**2002**	**2003**	**2002**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	Note	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*
Turnover		11,694	16,027	34,671	54,811
Cost of sales		(7,342)	(12,709)	(20,026)	(46,664)
Gross profit		4,352	3,318	14,645	8,147
Other revenue		32	49	190	109
Selling and marketing expenses		(551)	(418)	(1,252)	(1,457)
Administrative expenses		(2,670)	(3,045)	(7,919)	(6,111)
Profit/(loss) from operation		1,163	(96)	5,664	688
Finance costs		(101)	(257)	(456)	(604)
Profit/(loss) attributable to shareholders		1,062	(353)	5,208	84
Earnings/(loss) per share – Basic (HK cents)	*3*	0.28	(0.11)	1.43	0.03

Notes

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 were listed on the GEM of the Stock Exchange on 20 December 2002.

On 4 December 2002, the Company became the holding company of the other companies comprising the Group pursuant to 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 unaudited combined results of the Group for the three months and nine months ended 28 February 2003 include the results of the companies now comprising the Group as if the current Group structure had been in existence throughout the period, or from their respective dates of incorporation or acquisition by the immediate holding company, whichever is the shorter.

The unaudited combined results of the Group are prepared in accordance with Hong Kong Statement of Standard Accounting Practice issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong, and the disclosure requirements of the GEM Listing Rules.

The accounting policies and methods of computation used in the preparation of the unaudited combined results of the Group for the three months and nine months ended 28 February 2003, are consistent with those used in the preparation of the Accountants' Report as disclosed in appendix I of the prospectus of the Company.

2. Taxation

No provision for Hong Kong profits tax has been made for the three months and nine months ended 28 February 2003 as the Group has sufficient tax loss brought forward to set off the estimated assessable profits.

During the period, there was no material unprovided deferred tax assets / liabilities which are expected to be crystallised in the foreseeable future.

3. Earnings/(loss) per share

The calculation of earnings/(loss) per share for the three months and nine months ended 28 February 2002 and 2003 is based on the unaudited combines profits/(loss) for the period and on the weighted average of 363,129,700 shares *(2002: 327,630,400 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/(loss) per share is presented as there is no dilutive potential share during the three months and nine months ended 28 February 2002 and 2003.

4. Reserve

	Share Premium	**Merger Reserve**	**Accumulated Losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 June 2002	31,610	—	(38,961)	(7,351)
Issuance of shares	29,053	—	—	29,053
Capitalisation of shares	(3,554)	—	—	(3,554)
Bonus issue	(6,519)	—	—	(6,519)
Effect of Group Reorganisation	(25,091)	32,826	—	7,735
Share issuance expenses	(5,069)	—	—	(5,069)
Waiver of amount due to related company	—	—	1,989	1,989
Profit for the period	—	—	5,208	5,208
At 28 February 2003	20,430	32,826	(31,764)	21,492

	Share Premium	**Merger Reserve**	**Accumulated Losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 June 2001	—	—	(43,560)	(43,560)
Issuance of share	14,350	—	—	14,350
Profit for the period	—	—	84	84
At 28 February 2002	14,350	—	(43,476)	(29,126)

INTERIM DIVIDENDS

The Directors do not recommend the payment of an interim dividend for the nine months ended 28 February 2003 *(2002: Nil)*.

DIRECTORS' AND CHIEF EXECUTIVES INTEREST IN SHARES

As at 28 February 2003, the interests of the Directors and chief executives in the shares of the Company or any associated corporations (within the meaning of the SDI Ordinance), as required to be recorded in the register maintained by the Company under Section 29 of the SDI Ordinance, or which are required pursuant to Rule 5.40 to 5.59 of the GEM Listing Rules to be notified to the Company and the Stock Exchange were as follows:

Name of Directors	Type of Interest	No. of shares
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 and 6,380,000 shares in the name of 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.

SUBSTANTIAL SHAREHOLDERS

As at 28 February 2003, the persons or corporations whose interest, being 10% or more of the issued share capital of the Company, as recorded in the register required to be kept under section 16(1) of the SDI Ordinance or have otherwise notified to the Company were as follows:

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.

SHARE OPTION SCHEME

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 who the Board considers, in its sole discretion, have contributed to the Group, may be granted option to subscribe for shares.

As at 28 February 2003, no share option was granted under the Share Option Scheme.

RIGHTS OF DIRECTORS AND EMPLOYEES TO ACQUIRE SHARES

Save for the Share Option Scheme, at no time during the period under review, neither the Directors nor the employees of the Group has any rights to acquire shares.

SPONSOR'S INTEREST

Subsequent to 20 December 2002 and immediately after completion of the placing, the Company's sponsor, 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 of the Company.

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

DIRECTORS' INTEREST IN COMPETING BUSINESS

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

PURCHASE, SALE OR REPURCHASE OF THE COMPANY'S SHARES

Since the listing of the Company's share on GEM on 20 December 2002 and up to 28 February 2003, neither the Company, nor any of its subsidiaries has purchased, redeemed or sold any of the Company's shares.

AUDIT COMMITTEE

On 4 December 2002, the Group established an Audit Committee 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 combined results for the three months and nine months ended 28 February 2003.

BOARD PRACTICES AND PROCEDURES

Since 20 December 2002, the date of listing of the shares of the Company on the GEM, 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 April 2003