



# **NETEL TECHNOLOGY (HOLDINGS) LIMITED**

(Incorporated in the Cayman Islands with limited liability)

FIRST QUARTERLY REPORT 2003/04

## 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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*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.*

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the three months ended 31 August 2003

The directors (the "Directors") of Netel Technology (Holdings) Limited (the "Company") are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the three months ended 31 August 2003 together with the comparative unaudited figures for the corresponding period in 2002 are as follows:

	<i>Note</i>	<b>For the three months ended 31 August</b>	
		<b>2003</b> <i>HK\$'000</i> <b>(Unaudited)</b>	<b>2002</b> <i>HK\$'000</i> <b>(Unaudited)</b>
Turnover		<b>14,163</b>	12,285
Cost of sales		<b>(12,211)</b>	(8,164)
Gross profit		<b>1,952</b>	4,121
Other revenues		<b>22</b>	130
Selling and marketing expenses		<b>(387)</b>	(328)
Administrative expenses		<b>(4,501)</b>	(2,768)
Operating (loss)/profit		<b>(2,914)</b>	1,155
Finance costs		<b>(59)</b>	(171)
(Loss)/profit for the period		<b><u>(2,973)</u></b>	<u>984</u>
(Loss)/earnings per share			
– Basic (HK cent)	3	<b><u>(0.78)</u></b>	<u>0.3</u>

*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 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 unaudited comparative consolidated results of the Group for the three months ended 31 August 2002 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 principal accounting policies adopted in the preparation of the unaudited consolidated results of the Group for the three months ended 31 August 2003 conform with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants and accounting principles generally accepted in Hong Kong. The 2003/04 first quarterly report also complies with the disclosure provisions of the Rules Governing the Listing of Securities on the GEM (the "GEM Listing Rules").

**2. Taxation**

No provision for Hong Kong profits tax has been made for the three months ended 31 August 2002 and 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. (Loss)/earnings per share

The calculation of basic (loss)/earnings per share for the three months ended 31 August 2003 and 2002 are based on the Group's loss for the period of approximately HK\$2,973,000 (2002: profit for the period of HK\$984,000) and the weighted average of 380,000,000 shares in issued during the period (2002: 357,200,000 shares deemed to be issued on 1 June 2001).

Diluted (loss)/earnings per share for the current and prior periods is not presented as there is no dilutive instrument granted by the Company.

### 4. Reserves

	Share Premium HK\$'000	Merger Reserve HK\$'000	Accumulated Losses HK\$'000	Total HK\$'000
At 1 June 2003	13,949	39,307	(46,330)	6,926
Loss for the period	—	—	(2,973)	(2,973)
<b>At 31 August 2003</b>	<b><u>13,949</u></b>	<b><u>39,307</u></b>	<b><u>(49,303)</u></b>	<b><u>3,953</u></b>
	Share Premium HK\$'000	Merger Reserve HK\$'000	Accumulated Losses HK\$'000	Total HK\$'000
At 1 June 2002	—	39,307	(38,961)	346
Profit for the period	—	—	984	984
At 31 August 2002	<b><u>—</u></b>	<b><u>39,307</u></b>	<b><u>(37,977)</u></b>	<b><u>1,330</u></b>

## FINANCIAL REVIEW

For the first quarter ended 31 August 2003, the Group's turnover was HK\$14.2 million, an increase of 15.3% over the corresponding period of the previous year. The increase was mainly attributable to the increase in carrier sales. It was encouraging that the carrier sales for this quarter increased 741% to HK4.3 million as compared with the same period of last year. However, in the prepaid calling card business, there was more severe competition in the Philippines and Indonesian domestic helpers market. As such, the sales turnover dropped by 16.3% to HK\$9.9 million.

Although the SARS had been receded during the first quarter, the calling card retail business was still under severe pressure as small competitors were desperate to grasp market shares for recovering their previous losses in business by maintaining low price strategy. Netel had managed to maintain the market share by keeping low selling price at the cost of reduction on the gross profit margin. Although the carrier sales had substantially increased, the gross margin of which was significantly less than the calling card retail business. The gross profit margin dropped from 33.5% of last year first quarter to 13.8% of this quarter. Together with the increase in administrative expenses following the listing of the Company's shares on GEM, the Group recorded a loss of HK\$3.0 million for the three months ended 31 August 2003.

## OPERATION REVIEW

With the new switch fully operating since May 2003, the Group's traffic capacity increases 200%. The total outgoing minutes for this quarter increased 23.5% to 20.5 million as compared with the previous quarter ended 31 May 2003, and almost doubled that of the corresponding period of last year. As the result of re-focusing on the carrier sales, the carrier sales increased from HK\$1.8 million for the previous quarter to HK\$4.3 million for this quarter, and accounted for 30.5% of the total turnover of the Group. Outgoing minutes of the carrier sales in this quarter almost doubled that of the previous quarter, from 4.7 million to 9.1 million minutes.

The prepaid calling card sales in this quarter were still difficult due to price reduction and market competition started since the SARS period. Following the slightly drop in outgoing minutes by 4% to 11.4 million over the previous quarter, net sales decreased proportionally. In this quarter, the Group continues to develop its self-owned distribution outlets, the Lotus Club. The seventh Lotus Club outlet was opened in July 2003. This can help further enhance the customer loyalty and brand image.

## BUSINESS OUTLOOK

As envisaged previously, the prepaid calling card market in Hong Kong is difficult. By this reason, Netel has been successful in expanding the carrier sales by connecting lines with more overseas telecom carriers and will continue to allocate more resources in such business. In September 2003, another new switch has come into operation ready for Netel to accommodate more traffic capacity and to accomplish this business strategy. We would expect the carrier sales business to grow at a rapid rate in the foreseeable future. Moreover, in the prepaid calling card market, we are expecting more growth as the results of our marketing efforts previously introduced, and the more open policy of the PRC government on the outbound traveling to Hong Kong.

In the coming quarter, the Group, cooperating with mobile virtual network operator, is ready to launch the mobile telecom service by selling SIM cards in Hong Kong. Netel will initially target for Indonesian and Philippines domestic helpers market as a cross-product marketing strategy, as well as the tourists market.

## OTHER INFORMATION

### INTERIM DIVIDENDS

The Directors do not recommend the payment of an interim dividend for the three months ended 31 August 2003 (2002: Nil).

### DIRECTORS' INTERESTS AND CHIEF EXECUTIVES' INTEREST IN AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

At 31 August 2003, apart from the details as follows, the Directors and chief executive do not have any other interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the company under Section 352 of the SFO or as notified to the Company:

#### Ordinary shares of HK\$0.01 each in the Company

Name of Directors		Number of Share held		Percentage
		Family interest	Corporate interest	
Mr. James Ang ("Mr. Ang")	Long position	–	204,272,000 (Note)	53.76%
Ms. Yau Pui Chi, Maria	Long position	204,272,000 (Note)	–	53.76%

*Note: These Shares are registered as to 192,200,000 Shares in the name of Nanette Profits Limited ("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.*



## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OF THE COMPANY

The register of substantial shareholders maintained by the Company under Section 336 of the SFO shows that as at 31 August 2003, the Company had been notified of the following substantial shareholders' interests, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors and Chief Executives.

Name of Shareholders		Corporate interest	Percentage
LeeMah Holdings, Ltd	Long position	11,244,000	2.96%
Mr. Mah Bing Hong	Long position	11,244,000	2.96%
		<u>22,488,000</u>	<u>5.92%</u>

*Note: LeeMah Holdings, Ltd is wholly owned by LeeMah Corporation which is owned as to 98.62% by Mah Family Partnership in which Mr. Mah Bing Hong is the beneficial owner. Mr. Mah Bing Hong is deemed to be interested in 11,244,000 shares held by LeeMah Holdings, Ltd.*

## 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 31 August 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**

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

Save as disclosed, neither Tai Fook, its directors, employees nor associates had 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.

## **DIRECTORS' INTEREST IN COMPETING BUSINESS**

None of the Directors has 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**

During the three months ended 31 August 2003, neither the Company, nor any of its subsidiaries has purchased, redeemed or sold any of the Company's shares.

## **AUDIT COMMITTEE**

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide for the Formation of An Audit Committee" published by the Hong Kong Society of Accountants.

The Audit Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the Group's audit. It also reviews the effectiveness of both the external and internal audit and of internal controls and risk evaluation. The Committee comprises two independent non-executive Directors, namely, Mr. Yeung Kam Yuen Roderick and Mr. Li Chi Wing. 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 consolidated results for the three months ended 31 August 2003.

## BOARD PRACTICES AND PROCEDURES

During the three months ended 31 August 2003, 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, 13 October 2003