



NETEL TECHNOLOGY (HOLDINGS) LIMITED

(Incorporated in the Cayman Islands with limited liability)

INTERIM REPORT 2003/04

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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

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 and six months ended 30 November 2003 together with the comparative unaudited figures for the corresponding periods in 2002 as follows:

	Note	For the three months ended 30 November		For the six months ended 30 November	
		2003 HK\$'000 <i>(Unaudited)</i>	2002 HK\$'000 <i>(Unaudited)</i>	2003 HK\$'000 <i>(Unaudited)</i>	2002 HK\$'000 <i>(Unaudited)</i>
Turnover		14,269	10,692	28,432	22,977
Cost of sales		(13,570)	(4,520)	(25,781)	(12,684)
Gross profit		699	6,172	2,651	10,293
Other revenues		84	28	106	158
Selling and marketing expenses		(385)	(373)	(772)	(701)
Administrative expenses		(5,116)	(2,481)	(9,617)	(5,249)
Operating (loss)/profit	3	(4,718)	3,346	(7,632)	4,501
Finance costs		(70)	(184)	(129)	(355)
(Loss)/profit for the period		(4,788)	3,162	(7,761)	4,146
(Loss)/earnings per share – Basic (HK cents)	5	(1.26)	0.86	(2.04)	1.16

CONSOLIDATED BALANCE SHEET

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	<i>Note</i>	As at 30 November 2003 HK\$'000 (Unaudited)	As at 31 May 2003 HK\$'000 (Audited)
Fixed assets		10,239	9,888
Current assets			
Inventories		334	456
Accounts and other receivables	6	7,746	10,702
Pledged bank deposits		1,936	3,936
Bank balances and cash		809	2,291
		10,825	17,385
Current liabilities			
Accounts and other payables	7	13,021	11,937
Current portion of long-term liabilities		1,655	1,012
Due to a director		—	15
Bank overdrafts, secured		1,844	1,824
		16,520	14,788
Net current assets/(liabilities)		(5,695)	2,597
Total assets less current liabilities		4,544	12,485
Financed by:			
Share capital		3,800	3,800
Reserves		(835)	6,926
Shareholders' funds		2,965	10,726
Non-current liabilities			
Long-term liabilities		1,579	1,759
		4,544	12,485

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 30 November	
	2003	2002
	HK\$'000	HK\$'000
	(Unaudited)	<i>(Audited)</i>
Net cash inflow/(outflow) from operating activities	(2,699)	3,928
Net cash inflow/(outflow) from investing activities	1,595	(990)
Net cash outflow from financing activities	(398)	(907)
Increase/(decrease) in cash and cash equivalents	(1,502)	2,031
Cash and cash equivalents at beginning of period	467	(4,208)
Cash and cash equivalents at end of period	<u>(1,035)</u>	<u>(2,177)</u>
Analysis of balances of cash and cash equivalents		
Bank balances and cash	809	256
Trust receipt loans repayable within three months	—	(1,319)
Bank overdrafts	(1,844)	(1,114)
	<u>(1,035)</u>	<u>(2,177)</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital HK\$'000 (Unaudited)	Share premium HK\$'000 (Unaudited)	Merger reserve HK\$'000 (Unaudited)	Accumulated losses HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
As at 1 June 2003	3,800	13,949	39,307	(46,330)	10,726
Loss for the period	–	–	–	(7,761)	(7,761)
As at 30 November 2003	3,800	13,949	39,307	(54,091)	2,965

	Combined share capital HK\$'000 (Unaudited)	Combined share premium HK\$'000 (Unaudited)	Combined share accumulated losses HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
As at 1 June 2002	7,715	31,610	(38,961)	364
Profit for the 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

*Notes***1. Basis of presentation and group reorganisation**

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 and six months ended 30 November 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 interim report has been prepared in accordance with the disclosure requirements of the GEM Listing Rules, and the Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants ("HKSA").

The accounting policies and methods of computation used in the preparation of the interim report are consistent with those used in the annual report for the year ended 31 May 2003, except for the new adoption of SSAP No. 12 (revised) "Income Taxes" issued by HKSA, which has no significant impact on the unaudited consolidated results for the three months and six months ended 30 November 2003.

2. Segment information

Primary report format – business segments

	Six months ended 30 November 2003			
	Long distance call services			
	Sales of equipment	End-users direct sales	Carrier sales	Group
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Turnover	—	18,131	10,301	28,432
Segment results	—	(4,246)	(1,540)	(5,786)
Other revenues				106
Unallocated costs				(1,952)
Operating loss				(7,632)
Finance costs				(129)
Loss attributable to shareholders				(7,761)
Segment asset	—	16,168	2,845	19,013
Unallocated assets				2,051
Total assets				21,064
Segment liabilities	—	11,511	5,646	17,157
Unallocated liabilities				942
Total liabilities				18,099
Capital expenditures	—	1,041	188	1,229
Unallocated capital expenditures				64
				1,293
Depreciation	—	734	96	830
Unallocated depreciation				73
				903

2. Segment information (Continued)

Primary report format – business segments (Continued)

	Six months ended 30 November 2002			
	Long distance call services			
	Sales of equipment	End-users direct sales	Carrier sales	Group
	<i>HK\$'000 (Unaudited)</i>	<i>HK\$'000 (Unaudited)</i>	<i>HK\$'000 (Unaudited)</i>	<i>HK\$'000 (Unaudited)</i>
Turnover	<u>63</u>	<u>21,900</u>	<u>1,014</u>	<u>22,977</u>
Segment results	<u>39</u>	<u>4,703</u>	<u>(399)</u>	4,343
Other revenues				<u>158</u>
Operating profit				4,501
Finance costs				<u>(355)</u>
Profit attributable to shareholders				<u>4,146</u>
Segment assets	<u>923</u>	<u>20,608</u>	<u>2,598</u>	<u>24,129</u>
Segment liabilities	<u>389</u>	<u>10,526</u>	<u>6,715</u>	<u>17,630</u>
Capital expenditures	<u>–</u>	<u>1,010</u>	<u>–</u>	<u>1,010</u>
Depreciation	<u>–</u>	<u>499</u>	<u>82</u>	<u>581</u>

2. Segment information (Continued)

Secondary reporting format – geographical segment

	Six months ended 30 November 2003			
	Turnover	Segment results	Total assets	Capital expenditures
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Hong Kong	24,332	(6,622)	17,087	1,106
Taiwan	3,468	(944)	3,775	158
Mainland China	—	—	—	—
Other countries	632	(172)	202	29
	<u>28,432</u>	<u>(7,738)</u>	<u>21,064</u>	<u>1,293</u>
Other revenues		<u>106</u>		
Loss from operations		<u>(7,632)</u>		

	Six months ended 30 November 2002			
	Turnover	Segment results	Total assets	Capital expenditures
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Hong Kong	22,945	4,324	24,097	1,010
Taiwan	—	—	—	—
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>		

3. Operating (loss)/profit

	For the three months ended 30 November 2003		For the six months ended 30 November 2003	
	2003 HK\$'000 (Unaudited)	2002 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)	2002 HK\$'000 (Unaudited)
Charging:				
Cost of inventories sold	—	359	—	789
Depreciation				
– owned assets	326	215	704	433
– leased assets	106	75	199	148
Loss on disposal of fixed assets	39	—	39	—
Staff costs (including directors' emoluments)				
	1,601	1,071	3,323	2,213

4. Taxation

- (i) No provision for Hong Kong profits tax has been made for the six months ended 30 November 2002 and 2003 as the Group has sufficient tax loss brought forward to set off the estimated assessable profits.
- (ii) During the period, there was no material unprovided deferred tax assets / liabilities which are expected to be crystallised in the foreseeable future.

5. (Loss)/earnings per share

The calculations of basic (loss)/earnings per share for the three months and six months ended 30 November 2003 are based on the Group's loss for the three months and six months ended 30 November 2003 of approximately HK\$4,788,000 and HK\$7,761,000 respectively (*three months and six months ended 30 November 2002: profit for the period of HK\$3,162,000 and HK\$4,146,000*) and the weighted average of 380,000,000 shares in issue during the three months and six months ended 30 November 2003 (*three months and six months ended 30 November 2002: 357,200,000 shares deemed to be issued on 1 June 2002*).

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

6. Accounts and other receivables

	As at 30 November 2003 HK\$'000 (Unaudited)	As at 31 May 2003 HK\$'000 (Audited)
Accounts receivable (note (a))	4,633	5,356
Prepayments and deposits	3,113	5,346
	<u>7,746</u>	<u>10,702</u>

Note:

- (a) The majority of the Group's turnover are entered into on credit terms ranging from 30 to 90 days. The ageing analysis of trade receivable at the respective balance sheet dates is as follows:

	As at 30 November 2003 HK\$'000 (Unaudited)	As at 31 May 2003 HK\$'000 (Audited)
0-30 days	1,467	3,426
31-60 days	745	1,236
61-90 days	434	1,117
91-180 days	340	2,503
181-365 days	5,354	1,547
Over 365 days	3,239	2,885
	<u>11,579</u>	<u>12,714</u>
Less: provision for doubtful debt	(6,946)	(7,358)
	<u>4,633</u>	<u>5,356</u>

7. Accounts and other payables

	As at 30 November 2003 HK\$'000 (Unaudited)	As at 31 May 2003 HK\$'000 (Audited)
Accounts payable (<i>note (a)</i>)	8,696	8,492
Accruals and other payables	3,638	2,459
Receipt in advance	687	986
	13,021	11,937

Note:

(a) The ageing analysis of the accounts payable were as follows:

	As at 30 November 2003 HK\$'000 (Unaudited)	As at 31 May 2003 HK\$'000 (Audited)
0-30 days	4,535	2,052
31-60 days	718	1,411
61-90 days	708	1,175
91-180 days	411	1,749
181-365 days	207	141
Over 365 days	2,117	1,964
	8,696	8,492

FINANCIAL REVIEW

The Group's unaudited consolidated revenue for the second quarter ended 30 November 2003 was HK\$14.3 million, slightly increased 1% over the first quarter. Revenue from carrier sales increased to HK\$6 million for the quarter and has recorded 39% growth over the first quarter. The new business of pre-paid mobile phone SIM was started during the second quarter and registered small revenue of HK\$0.1 million. These growths in revenue were offset by the decrease in prepaid calling card sales from HK\$8.6 million to HK\$7.4 million and the decrease in the trading revenue from third party calling cards from HK\$1.2 million to HK\$0.8 million.

Because of the severe competition in the prepaid calling card market for domestic helpers in Hong Kong, and the generally lower profit margin in the carrier sales business, the gross profit was HK\$1.2 million less than the first quarter, despite the slight increase in the revenue. In addition to the increase in promotion, marketing and other administration expenses of approximately HK\$0.6 million for the quarter, loss for the quarter was HK\$4.8 million as compared to HK\$3 million for the first quarter.

Comparing to the same period of last year, revenue for the six months ended 30 November 2003 amounted to HK\$28.4 million, an increase of 24% over the last corresponding period in 2002. Loss for the period was HK\$7.8 million as compared to a profit of HK\$4.1 million for the same period of last year. The loss was mainly attributable to the squeeze in the gross profit margin as a result of lowering of selling price in meeting the market competition, and to the increase in administration expenses following the listing of the Company in December 2002.

OPERATION REVIEW

Total outgoing minutes for this quarter was 18.3 million, 11% less than the first quarter. Total outgoing minutes for the first half of this year was 38.7 million minutes, 78% more than the same period of last year as a result of re-focusing on the carrier sales market. Outgoing minutes of carrier sales was 17.4 million for the first six months, 4.8 times of the same period last year, and revenue amounted to HK\$10.3 million as compared to HK\$1 million of same period in last year. This reflected the initial success of boosting up the carrier sales in order to make it the core business of the Company.

The prepaid calling card market in this quarter was very difficult. Price reduction continued as the result of keen market competition. Outgoing minutes dropped 13% from last quarter to 9.9 million for this quarter and net sales decreased proportionately. However, outgoing minutes of the calling card business for the half year period has increased 17% over the last year corresponding period to 21.3 million, showing achievement in the Lotus Club retail outlets over the last year.

BUSINESS OUTLOOK

The carrier sales business continues to grow in a fast pace and it is expected it will become the main stream operation of the Company. Netel's carriers network continues to expand and more telecom operators are contracting with the Company. There has been wide coverage in Netel's carrier sales network and Netel is working intensively with other telecom operators in Taiwan and China, expecting to secure a strong foothold in the Greater China region. The business volume is expected to increase tremendously when the network is completed in a short time.

The price for our prepaid calling card has become stable. With the cheaper traffic capacity that could be obtained now in the market, the profit margin of the prepaid calling card business will improve significantly. Netel is paying extra efforts in expanding sales and marketing channels for prepaid calling cards in order to increase the number of users and consumption.

Netel will also place much emphasis on developing the newly operating prepaid mobile phone SIM card business. The number of user is growing at a fast rate, not only in the segment of domestic helpers but also for the Chinese tourists market. The SIM card business will bring significant IDD revenue for the Group in the future, and will help to branch out our potential SMS business in Hong Kong.

Netel is committed to improve its financial performance and is undergoing cost reduction program, alongside with the efforts to increase revenue. The cost of traffic capacity will be reduced under our continuous negotiation and contracting with new suppliers. Other sales and administration costs are also undergoing stringent review and control in order to make the whole operation more efficient.

LIQUIDITY AND FINANCIAL RESOURCES

At 30 November 2003, the Group had total assets of approximately HK\$21.1 million (*as at 31 May 2003: HK\$27.3 million*), including bank and cash balances of HK\$2.7 million (*as at 31 May 2003: HK\$6.2 million*).

LIQUIDITY AND FINANCIAL RESOURCES *(Continued)*

At the period end, total liabilities of the Group amounted to HK\$18.1 million *(as at 31 May 2003: HK\$16.5 million)*, which comprised of bank overdrafts of HK\$1.8 million *(as at 31 May 2003: HK\$1.8 million)* and bank and finance lease borrowings of HK\$3.2 million *(as at 31 May 2003: HK\$2.8 million)*. All bank and finance lease borrowings are secured by fixed assets of the Group and guarantees from certain Directors. The borrowings gearing ratio, defined as total bank and finance lease borrowings divided by the shareholders' funds as at 30 November 2003 was 1.71 *(0.43 as at 31 May 2003)*. At 30 November 2003, the Group had net current liabilities of HK\$5.7 million *(as at 31 May 2003: net current assets of HK\$2.6 million)*.

CAPITAL STRUCTURE

Since the shares of the Company were listed on GEM on 20 December 2002, there has been no change in capital structure of the Company.

TREASURY POLICIES

The Group adopts conservative treasury policies in managing its cash and financial matters, all the Group's treasury activities are centralized and carried out in Hong Kong. The Group's liquidity and financing arrangement are closely monitored by the management of the Group.

EMPLOYEE INFORMATION

As at 30 November 2003, the Group employed a total of 33 *(2002: 24)* employees including directors. The salaries and benefits of the Group's employees are kept at a competitive level and employees are rewarded on a performance-related basis within the general framework of the Group's salary and bonus system, which is reviewed annually. The Group also operates a share option scheme where options to subscribe for shares of the Company may be granted to the Executive Directors and full-time employees of the Group. As at 30 November 2003, no share options have been granted under the share option scheme.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Business Objectives as stated in the Prospectus

Actual Business Progress

1. Research & development

Technological advancement

Research on NVP video conferencing capability

The Group continues the study and research to apply voice over IP platform in video application instead of ISDN application.

Research on H.323 protocols running with NVP

The Group has started the research on H.323 protocols running with NVP.

Site visits to major telecommunications equipment manufacturers

Taiwan telecommunication equipment manufactures had been visited in the period under review.

Research on SIP protocols and its capability over H.323. Study the feasibility to implement on NVP

The Group had carried out research on SIP protocols and its capability over H.323 and the feasibility study in implementing on NVP.

Continuous development of NVP

The Group has integrated NVP with wireless application and carried out testings in pilot site.

Recruitment of 1 additional technical staff in telecommunications field

1 additional technical staff had been employed.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS *(Continued)*

Business Objectives as stated in the Prospectus	Actual Business Progress
2. Products & service enhancement	
Network infrastructure & facilities	An additional gateway had been deployed in Hong Kong.
Deploy and install additional gateways in Hong Kong	The Group has already located partners and further pursue testing.
Install 2 VoIP gateways in South Korea and Japan	The Group had installed 2 VoIP gateways in Singapore and Malaysia.
Install 2 VoIP gateways in Singapore and Malaysia	One additional VoIP gateway had been installed in Philippines.
Install additional VoIP gateways in Philippines and England	Partners in Indonesia had been located and additional VoIP gateway is to be installed.
Install additional VoIP gateways in France and Indonesia	The ring tone system had been improved in the central switch.
Upgrade central site IP hub	A new Excel 2000 switching system had been deployed.
Deploy Excel 2000 switching system	

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS *(Continued)*

Business Objectives as stated in the Prospectus

Actual Business Progress

2. Products & service enhancement *(Continued)*

Customer Premises Equipment (CPE)	Continuous system upgrade to improve transmission efficiency and quality	An Excel 1000 switching system was upgraded in August 2003 to improve transmission efficiency and quality.
	Upgrade system to remote video monitoring and image transmission	Testing had been done on the remote video monitoring and image transmission system and the system is to be installed in Jakarta.
	Provide value-added services of call forwarding function to current users	At the end of August 2003, the Company has launched its prepaid SIM card which can facilitate the current users to use IDD services and provide value-added services to current users, such as SMS services, call forwarding and voice mail services.
	Provide value-added services of conferencing function to current users	The Group had carried out testing on the system providing conferencing function to current users.
	Provide value-added services of SMS to current users	A partner had been located to provide value-added services of SMS to current users.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS *(Continued)*

Business Objectives as stated in the Prospectus

Actual Business Progress

3. Sales & marketing

Expanding geographical coverage and widening distribution network	Deploy additional sales staff resources for tourism segment	An additional sales staff had been employed in handling the tourism segment.
	Deploy additional Octopus-equipped vending machines in Hong Kong	The Group did not deploy Octopus-equipped vending machines in Hong Kong during the period.
	Set up Lotus Club outlet in Singapore, Malaysia, Japan or South Korea	After thorough review, the Group decided that it was not the best interests of the Group to establish Lotus Club outlet in overseas at this stage. The Group will closely monitor the market condition and business opportunity and will establish the outlet at the appropriate time.
	Set up 2 to 5 additional Lotus Club outlets in Hong Kong	1 additional Lotus Club outlet has been set up in Hong Kong in July 2003.
	Expand and refurbish existing Lotus Club outlets	Existing Lotus Club outlets had been expanded and refurbished. NVP had been upgraded to connect with the switch.
	Maintain number of distributions at approximately 750	As at 30 November 2003, the Group has approximately 800 distributors.
	Enter into agreement with 2 additional telecommunication services providers to expand international wholesale coverage	The Group had entered into agreement with 3 additional telecommunication services providers to expand international wholesale coverage.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS *(Continued)*

Business Objectives as stated in the Prospectus

Actual Business Progress

3. Sales & marketing *(Continued)*

Product launching	Perform road shows to corporate users in Malaysia, Singapore & Indonesia to promote NVP	The Group had performed road shows to corporate users in Malaysia, Singapore & Indonesia to promote NVP.
	Launch a new series of premium cards	More than 10 cards were launched.
	Deploy 2 additional sales staff for product promotion	Additional part-time sales staff had been employed for product promotion.
Strengthening brand image	Advertising campaign through local magazines	The Group has published its own Indonesian & Filipino language newsletter for target customers
	Conduct at least 3 seminars	One seminar was conducted in Philippines to promote the corporate image.
	Participate in ITU show in Hong Kong	The Group did not participate in ITU show in Hong Kong.
	Set up demonstration site in Central	The Group had set up a demonstration site in Central.
	Set up demonstration sites in strategic locations in Hong Kong	Demonstration site had been set up in Causeway Bay Hong Kong.
	Distribution of posters and flyers in Hong Kong	The Group has distributed posters and flyers regularly to its distributors in HK for the Group's over 100 prepaid telephone cards.
		The Group has regularly distributed souvenirs to distributors and end-users to promote the brand image.
	Deploy additional sales and marketing staff for publication	Additional part-time sales and marketing staff had been employed for publication.

OTHER INFORMATION

USE OF PROCEEDS

During the period from 20 December 2002 to 30 November 2003, the Group has incurred the following amounts to achieve the business objectives as set out in the Prospectus of the Company dated 16 December 2002:

	As stated in the Prospectus <i>HK\$ 'million</i>	Actual <i>HK\$ 'million</i>
– Research and development on telecommunication and VoIP technologies	5.0	3.4
– Products and services enhancement and development, and strategic investments	5.0	4.6
– Sales and marketing activities such as promotion activities, product launching and establishment of sales outlets	4.0	3.9
– Repayment of certain short term payables of telecommunication services providers	2.3	2.3
– General working capital for the Group	1.7	1.7
	<u>18.0</u>	<u>15.9</u>

The remaining net proceeds were placed in licensed banks in Hong Kong for future use as identified by the Group's business plans.

The Group originally planned to utilize approximately HK\$9 million to achieve its business objectives during the period from 20 December 2002 to 30 November 2003. As illustrated in the above table, the Group has accelerated its use of proceeds and incurred a total of approximately HK\$15.9 million for the same period. Save for the aforesaid accelerated use of proceeds, there is no change in the application of proceeds for implementation of business and development strategies as stated in the prospectus of the Company dated 16 December 2002.

INTERIM DIVIDENDS

The Directors do not recommend the payment of an interim dividend for the six months ended 30 November 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 30 November 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		
	Family interest	Corporate interest	Percentage
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 30 November 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 30 November 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 20 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 six months ended 30 November 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 six months ended 30 November 2003.

BOARD PRACTICES AND PROCEDURES

During the six months ended 30 November 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, 14 January 2004