NETEL TECHNOLOGY (HOLDINGS) LIMITED

(Incorporated in the Cayman Islands with limited liability)

THIRD QUARTERLY 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

For the three and nine months ended 29 February 2004

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 nine months ended 29 February 2004 together with the comparative unaudited figures for the corresponding periods in 2003 as follows:

		For the three months ended		For the nine months ended	
		29 February 2004	28 February 2003	**29 February 2004**	28 February 2003
		HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	Note	***(Unaudited)***	*(Unaudited)*	***(Unaudited)***	*(Unaudited)*
Turnover		**15,065**	11,694	**43,497**	34,671
Cost of sales		**(14,408)**	(7,342)	**(40,189)**	(20,026)
Gross profit		**657**	4,352	**3,308**	14,645
Other revenues		**58**	32	**164**	190
Selling and marketing expenses		**(261)**	(551)	**(1,033)**	(1,252)
Administrative expenses		**(5,266)**	(2,670)	**(14,883)**	(7,919)
Operating (loss)/profit		**(4,812)**	1,163	**(12,444)**	5,664
Finance costs		**(83)**	(101)	**(212)**	(456)
(Loss)/profit for the period		**(4,895)**	1,062	**(12,656)**	5,208
(Loss)/earnings per share – Basic (HK cents)	3	**(1.29)**	0.28	**(3.33)**	1.43

Notes

1. Basis of preparation 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 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 principal accounting policies adopted in preparing the unaudited consolidated results conform with all applicable Statements of Standard Accounting Practice ("SSAPs") and Interpretations issued by the Hong Kong Society of Accountants and accounting principles generally accepted in Hong Kong. The 2003/04 third quarterly report also complies with the applicable disclosure requirements of the GEM Listing Rules.

2. Taxation

(i) No provision for Hong Kong profits tax has been made for the nine months ended 28 February 2003 and 29 February 2004 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.

3. (Loss)/earnings per share

The calculations of basic (loss)/earnings per share for the three months and nine months ended 29 February 2004 are based on the Group's loss for the three months and nine months ended 29 February 2004 of approximately HK$4,895,000 and HK$12,656,000 respectively *(three months and nine months ended 28 February 2003: profit for the period of HK$1,062,000 and HK$5,208,000)* and the weighted average of 380,000,000 shares in issue during the three months and nine months ended 29 February 2004 *(three months and nine months ended 28 February 2003: 363,129,700 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.

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	–	–	(12,656)	(12,656)
At 29 February 2004	13,949	39,307	(58,986)	(5,730)

	Share Premium *HK$'000*	Merger Reserve *HK$'000*	Accumulated Losses *HK$'000*	Total *HK$'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

FINANCIAL REVIEW

For the nine months ended 29 February 2004, the Group's turnover was HK$43.5 million, an increase of 25% as compared with the same period of last year. The increase was attributable to the growth of carrier sales during the period. However, due to the squeeze in the gross profit margin to maintain the market share of prepaid calling card and the increase in the administrative expenses following the listing of the Company in December 2002, the Group recorded a loss for the period of HK$12.7 million as compared to a profit of HK$5.2 million for the same period of last year.

The carrier sales got a satisfactory growth in this quarter. Comparing with the previous quarter, revenue from carrier sales for this quarter grew by 38.2% from HK$6 million to HK$8.3 million. Total revenue from carrier sales for the nine months ended 29 February 2004 recorded HK$18.6 million, representing 42.7% of the Group's unaudited consolidated turnover for the period.

The prepaid calling card market for domestic helpers in Hong Kong was still in keen competition. In order to maintain the market share, the Group continued to adopt low price strategy. Thus, the prepaid calling card sales for this quarter decreased from HK$7.4 million for the previous quarter to HK$6.2 million.

Despite of the slight increase in turnover for this quarter, the gross margin dropped from 4.9% for the second quarter to 4.4% for this quarter. The decrease in gross profit margin was mainly due to the general lower profit margin in the carrier sales business and the squeeze in the gross profit margin in the prepaid calling card business.

OPERATION REVIEW

The total outgoing minutes for this quarter slightly increased by 2.7% over the previous quarter to 18.8 million. Due to the refocus on the carrier sales business, the total outgoing minutes for the nine months ended 29 February 2004 increased by 69% over the same period of last year to 57.6 million. Outgoing minutes of carrier sales for the nine months of this financial year was 25.7 million, as compared with 6 million for the same period of last year.

In this quarter, the Group had put more efforts in expanding the sales and marketing channels for the prepaid calling cards. The outgoing minutes of the prepaid calling cards for this quarter was 10.4 million, an increase of 5.1% over the previous quarter, and 31.8 million for the nine months of this financial year, an increase of 12.8% over the same period of last year.

BUSINESS OUTLOOK

The Group will continue to focus on the carrier sales business and will contract with new telecom operators to increase the Group's carrier sales network coverage and to increase the bargaining power for the traffic cost. The carrier sales business is expected to show a strong growth in the rest of the financial year.

The Group's mobile phone SIM card business is still in the initial stage. The Group will emphasize more on the Chinese tourists market and will expand the sales channels in China by contracting with travel agencies in China.

For the prepaid calling card business, the Group will pay more efforts to increase the calling card revenue. The Group will launch a new series of Indonesian calling cards to attract new users. In addition, cost reduction in the traffic capacity and operating overhead will be carried out to improve the performance of prepaid the calling card business.

In the coming quarter, the Group will continue to undergo cost reduction program and will also develop new features and value-added services for the mobile phone SIM cards and prepaid calling cards to improve the financial performance.

INTERIM DIVIDENDS

The Directors do not recommend the payment of an interim dividend for the nine months ended 29 February 2004 *(for the nine months ended 28 February 2003: 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 29 February 2004, apart from the details as follows, the Directors and chief executives 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

		Number of Share held		
Name of Directors		Family interest	Corporate interest	Percentage
Mr. James Ang ("Mr. Ang")	Long position	–	204,272,000 *(Note)*	53.76%
Ms. Yau Pui Chi, Maria (spouse of Mr. Ang)	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 29 February 2004, 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		Number of shares	Percentage
LeeMah Holdings, Ltd	Long position	11,244,000	2.96%
Mr. Mah Bing Hong	Long position	11,244,000	2.96%
		22,488,000	5.92%

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 29 February 2004, 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 nine months ended 29 February 2004, 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 nine months ended 29 February 2004.

BOARD PRACTICES AND PROCEDURES

During the nine months ended 29 February 2004, 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 April 2004