NETEL TECHNOLOGY (HOLDINGS) LIMITED

(Incorporated in the Cayman Islands with limited liability)

First Quarterly Report 2004/05

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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 2004

The directors (the "Directors") of Netel Technology (Holdings) Limited (the "Company") are pleased to announce the following unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the three months ended 31 August 2004 together with the comparative unaudited figures for the corresponding period in 2003:

	Note	For the three months ended 31 August 2004 HK$'000 (Unaudited)	2003 HK$'000 (Unaudited)
Turnover		9,350	14,163
Cost of sales		(8,638)	(12,211)
Gross profit		712	1,952
Other revenues		153	22
Selling and marketing expenses		(142)	(387)
Administrative expenses		(3,808)	(4,501)
Operating loss		(3,085)	(2,914)
Finance costs		(78)	(59)
Loss for the period		(3,163)	(2,973)
Loss per share			
– Basic (HK cent)	3	(0.83)	(0.78)

Notes

1. **Basis of presentation**

The Company was incorporated in the Cayman Islands on 9 September 2002 as an exempted Company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised), of the Cayman Islands (the "Cayman Companies Law").

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). They have been prepared under the historical cost convention.

The accounting policies adopted in the preparation of the unaudited consolidated profit and loss account are consistent with those adopted by the Group in its annual accounts for the year ended 31 May 2004.

2. **Taxation**

No provision for Hong Kong profits tax has been made in current period as the Group has no estimated assessable profits for the period (2003: Nil).

No deferred taxation has been provided as the Group has no material unprovided deferred tax assets/liabilities which are expected to be crystallized in the foreseeable future (2003: Nil).

3. Loss per share

The calculation of basic loss per share is based on the Group's loss for the period of approximately HK$3,163,000 (2003: loss for the period of HK$2,973,000) and the weighted average of 380,000,000 shares in issue during the period (2003: 380,000,000 shares).

Diluted loss per share for the current and prior period 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 2004	13,949	39,307	(64,811)	(11,555)
Loss for the period	–	–	(3,163)	(3,163)
At 31 August 2004	13,949	39,307	(67,974)	(14,718)

	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)
At 31 August 2003	13,949	39,307	(49,303)	3,953

FINANCIAL REVIEW

For the three months ended 31 August 2004, the turnover of the Group amounted to approximately HK$9.4 million, representing a decrease of approximately 34% as compared with the same period last year. The decrease was mainly a result of the severe competition in the prepaid calling card business. The Group's gross profit margin reduced from approximately 13.8% for the corresponding period in last year to approximately 7.6% for this quarter. As such, the Group's gross profit of this quarter was reduced by approximately 64%, from approximately HK$2 million in the same period last year to approximately HK$0.7 million in this quarter.

In this quarter, the Group had dedicated resources to lower the operating expenses and the total operating expenses were reduced by approximately 19%. The administrative expenses were decreased by approximately HK$0.7 million as a result of the reduction in staff costs, rental and professional expenses. In addition, the Group had adopted more cost effective promotion programs and hence the selling and marketing expenses were reduced by approximately HK$0.2 million. As such, the effect of the decrease in gross profit on the net loss for the period was minimized. The Group's loss for the period was approximately HK$3.2 million, representing a slight increase of approximately 6% over the same period last year.

BUSINESS REVIEW

The prepaid calling card business is still very competitive. However, the price war has been slowed down and the unit price has become stable. The outgoing minutes of prepaid calling card business for this quarter decreased from approximately 10.6 million in the fourth quarter of the last financial year to approximately 9.2 million in this quarter. The revenue from prepaid calling card business for this quarter was approximately HK$6 million. There was some improvements on the cash flow as two new Lotus Club outlets were opened during the quarter.

In this quarter, the revenue from the carrier sales business amounted to approximately HK$3.3 million and the outgoing minutes were approximately 3.5 million, representing a decrease of approximately 24% and approximately 15% as compared to the fourth quarter of the last financial year, respectively. Although the carrier sales business was slowed down in this quarter, the Group would continue to look for other opportunities to grow and would strive for improving the profit margin.

During this quarter, the Group had entered into a subscription agreement (the "Subscription Agreement") with an existing shareholder of the Group (the "Subscriber"). The Subscription Agreement was approved by the GEM Listing Committee of the Stock Exchange and was completed on 30 September 2004. Pursuant to the Subscription Agreement, the Subscriber subscribed for 6.23 million new shares at a subscription price of HK$1.00 per share.

BUSINESS OUTLOOK

As stated in the annual report, with the opening of the new Lotus Club outlets at outer districts, the Group can have better coverage on the targeted market. As the new Lotus Club outlets have lower operating costs, it is expected that the overall profit margin of the calling card business will gradually improve after such new outlets are opened. The Group will continue this location strategy and will open more outlets in different areas in Kowloon, Hong Kong Island and the New Territories where foreign domestic helpers assemble. The Group will also provide more value-added services, such as internet services, remittance, parcel forwarding etc., to the foreign domestic helpers in the Lotus Club outlets. The Group will also co-operate with overseas telecom partners to develop a video phone system in our outlets for the customers to make overseas video phone calls. These value-added services can enhance the customer loyalty, strengthen the brand image and finally increase the turnover.

The Group will continue to focus on the carrier sales business and strive for improving the profit margin of this business by continuing the development of the sophisticated business network with the telecom business partners. We believe that the carrier sales business can resume its high growth rate for the rest of the financial year.

INTERIM DIVIDENDS

The Directors do not recommend the payment of an interim dividend for the three months ended 31 August 2004 (2003: Nil).

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

At 31 August 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 shares 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 showed that as at 31 August 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 interests of 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%
		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 ("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 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' AND MANAGEMENT SHAREHOLDERS' INTEREST IN COMPETING BUSINESS

None of the Directors, management shareholders or their respective associates 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 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 HKICPA.

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 three independent non-executive Directors, namely, Mr. Yeung Kam Yuen Roderick, Mr. Li Chi Wing and Mr. Chan Chun Chung William (Chairman). 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 2004.

BOARD PRACTICES AND PROCEDURES

During the three months ended 31 August 2004, the Company has complied with the board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules.

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

Hong Kong, 13 October 2004