



NETEL TECHNOLOGY (HOLDINGS) LIMITED
(Incorporated in the Cayman Islands with limited liability)

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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 2004 together with the comparative unaudited figures for the corresponding periods in 2003 as follows:

	Note	For the three months ended 30 November		For the six months ended 30 November	
		2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)
Turnover		8,706	14,269	18,056	28,432
Cost of sales		(7,618)	(13,570)	(16,256)	(25,781)
Gross profit		1,088	699	1,800	2,651
Other revenues		203	84	356	106
Selling and marketing expenses		(274)	(385)	(416)	(772)
Administrative expenses		(4,009)	(5,116)	(7,817)	(9,617)
Operating loss	3	(2,992)	(4,718)	(6,077)	(7,632)
Finance costs		(51)	(70)	(129)	(129)
Loss for the period		(3,043)	(4,788)	(6,206)	(7,761)
Loss per share					
– Basic (HK cents)	5	(0.79)	(1.26)	(1.62)	(2.04)

CONSOLIDATED BALANCE SHEET

	Note	As at 30 November 2004 HK\$'000 (Unaudited)	As at 31 May 2004 HK\$'000 (Audited)
Fixed assets		9,507	10,458
Current assets			
Inventories		441	463
Accounts and other receivables	6	18,223	4,949
Pledged bank deposits		1,936	1,936
Bank balances and cash		79	585
		20,679	7,933
Current liabilities			
Accounts and other payables	7	34,045	21,450
Due to a director		566	328
Current portion of long-term liabilities		1,310	1,687
Bank overdrafts, secured		1,682	1,850
		37,603	25,315
Net current liabilities		(16,924)	(17,382)
Total assets less current liabilities		(7,417)	(6,924)
Financed by:			
Share capital		3,862	3,800
Reserves		(11,829)	(11,555)
Shareholders' deficit		(7,967)	(7,755)
Non-current liabilities			
Long-term liabilities		550	831
		(7,417)	(6,924)

CONDENSED CONSOLIDATED CASH FLOW STATEMENTFor the six months
ended 30 November

	2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Audited)
Net cash outflow from operating activities	(5,586)	(2,699)
Net cash (outflow)/inflow from investing activities	(89)	1,595
Net cash inflow/(outflow) from financing activities	5,337	(398)
Decrease in cash and cash equivalents	(338)	(1,502)
Cash and cash equivalents at beginning of period	(1,265)	467
Cash and cash equivalents at end of period	(1,603)	(1,035)
Analysis of balances of cash and cash equivalents		
Bank balances and cash	79	809
Bank overdrafts	(1,682)	(1,844)
	(1,603)	(1,035)

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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 2004	3,800	13,949	39,307	(64,811)	(7,755)
Issue of shares	62	6,168	–	–	6,230
Shares issue expenses	–	(236)	–	–	(236)
Loss for the period	–	–	–	(6,206)	(6,206)
As at 30 November 2004	3,862	19,881	39,307	(71,017)	(7,967)

	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

1. Basis of preparation and accounting policies

The unaudited consolidated interim financial statements of the Group have been prepared in accordance with the Statement of Standard Accounting Practice (“SSAP”) 25 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the applicable disclosure requirements set out in Chapter 18 of The Rules Governing the Listing of Securities of the Growth Enterprise Market (“GEM Listing Rules”) on the Stock Exchange.

The accounting policies adopted in the preparation of the unaudited consolidated interim financial statements of the Group are consistent with those adopted by the Group in its annual accounts for the year ended 31 May 2004.

2. Segment information

Primary report format – business segments

Six months ended 30 November 2004
Long distance
call services

	End-users		Group HK\$'000 (Unaudited)
	End-users direct sales HK\$'000 (Unaudited)	Carrier sales HK\$'000 (Unaudited)	
Turnover	10,630	7,426	18,056
Segment results	(1,724)	(3,313)	(5,037)
Other revenues			356
Unallocated costs			(1,396)
Operating loss			(6,077)
Finance costs			(129)
Loss attributable to shareholders			(6,206)
Segment asset	14,454	15,186	29,640
Unallocated assets			546
Total assets			30,186
Segment liabilities	15,613	20,612	36,225
Unallocated liabilities			1,928
Total liabilities			38,153
Capital expenditures	106	–	106
Unallocated capital expenditures			–
			106
Depreciation	728	163	891
Unallocated depreciation			50
			941

2. Segment information (continued)

Primary report format – business segments (continued)

	Six months ended 30 November 2003		
	Long distance call services		
	End-users		
	End-users direct sales HK\$'000 (Unaudited)	Carrier sales HK\$'000 (Unaudited)	Group HK\$'000 (Unaudited)
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)
 Secondary reporting format – geographical segment

Six months ended 30 November 2004

	Turnover	Segment results	Total assets	Capital expenditures
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Hong Kong	14,513	(5,170)	25,545	106
Taiwan	695	(248)	1,825	–
Mainland China	30	(11)	53	–
Other countries	2,818	(1,004)	2,763	–
	<u>18,056</u>	<u>(6,433)</u>	<u>30,186</u>	<u>106</u>
Other revenues		<u>356</u>		
Loss from operations		<u>(6,077)</u>		

Six months ended 30 November 2003

	Turnover	Segment results	Total assets	Capital expenditures
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
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>		

3. Operating loss

	For the three months ended 30 November		For the six months ended 30 November	
	2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)
Charging:				
Cost of inventories sold	92	–	133	–
Depreciation				
– owned assets	363	326	742	704
– leased assets	104	106	199	199
Loss on disposal of fixed assets	8	39	8	39
Staff costs (including directors' emoluments)	1,354	1,601	2,780	3,323

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4. Taxation

- (i) No provision for Hong Kong profits tax has been made for the six months ended 30 November 2003 and 2004 as the Group has no assessable profits for both period.
- (ii) No deferred taxation has been provided for the six months ended 30 November 2003 and 2004. There are no material unprovided deferred tax assets/liabilities which are expected to be crystallised in the foreseeable future.

5. Loss per share

The calculations of basic loss per share for the three months and six months ended 30 November 2004 are based on the Group's loss for the three months and six months ended 30 November 2004 of approximately HK\$3,043,000 and HK\$6,206,000 respectively (three months and six months ended 30 November 2003: loss for the period of approximately HK\$4,788,000 and HK\$7,761,000 respectively) and the weighted average of 384,176,154 and 382,076,667 shares in issue during the three months and six months ended 30 November 2004 respectively (three months and six months ended 30 November 2003: 380,000,000 shares).

Diluted loss 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 2004 HK\$'000 (Unaudited)	As at 31 May 2004 HK\$'000 (Audited)
Accounts receivable (note)	13,479	2,877
Prepayments and deposits	4,744	2,072
	18,223	4,949

Note:

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

	As at 30 November 2004 HK\$'000 (Unaudited)	As at 31 May 2004 HK\$'000 (Audited)
0-30 days	4,540	1,041
31-60 days	1,370	634
61-90 days	1,045	426
91-180 days	3,807	596
181-365 days	3,166	478
Over 365 days	5,570	6,664
	19,498	9,839
Less: provision for doubtful debt	(6,019)	(6,962)
	13,479	2,877

7. Accounts and other payables

	As at 30 November 2004 HK\$'000 (Unaudited)	As at 31 May 2004 HK\$'000 (Audited)
Accounts payable (note)	26,306	13,943
Accruals and other payables	5,651	5,349
Receipt in advance	2,088	2,158
	34,045	21,450

Note:

The ageing analysis of the accounts payable at the respective balance sheet dates were as follows:

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	As at 30 November 2004 HK\$'000 (Unaudited)	As at 31 May 2004 HK\$'000 (Audited)
0-30 days	9,208	2,994
31-60 days	1,293	3,011
61-90 days	1,367	1,633
91-180 days	4,595	3,456
181-365 days	7,396	729
Over 365 days	2,447	2,120
	26,306	13,943

FINANCIAL REVIEW

The Group's turnover for the three months and six months ended 30 November 2004 was approximately HK\$8.7 million and HK\$18.1 million respectively, represented a decrease of approximately 39.0% and 36.5% as compared to the corresponding periods in previous year respectively. This was attributable to the severe competition in the markets of calling cards and direct wholesale.

Comparing with corresponding periods in previous year, gross profit margin increased from 4.9% to 12.5% for the three-month period ended 30 November 2004 and from 9.3% to 10.0% for the six-month period ended 30 November 2004 respectively. The increase of profit margin was mainly attributable to the effective cost control.

The total selling and marketing and administrative expenses amounted to approximately HK\$4.3 million and HK\$8.2 million for the three months and six months ended 30 November 2004 respectively. The expenses decreased by approximately 22.1% and 20.8% as compared to the same period of previous year as a result the decrease in staff costs and shops rental expenses.

During the interim period in which review the Group recorded a net loss from ordinary activities attributable to shareholders of approximately HK\$6.2 million as compared to net loss of approximately HK\$7.8 million in the corresponding period in previous year.

On 23 August 2004, the Company entered into a subscription agreement (the "Subscription Agreement") with an existing shareholder of the Company (the "Subscriber"). The Subscription Agreement was completed on 30 September 2004. Pursuant to the Subscription Agreement, the Subscriber subscribed for 6,230,000 new shares at a subscription price of HK\$1.00 per share. The net proceeds of approximately HK\$6 million was used for general working capital of the Group.

BUSINESS REVIEW

The total outgoing minutes for both the prepaid calling card business and carrier sales business for this quarter was approximately 12.6 million minutes, almost the same as the first quarter of approximately 12.7 million minutes. Total outgoing minutes for both the prepaid calling card business and carrier sales business for the first half of this year was approximately 25.3 million minutes, represented a decrease of approximately 34.6% to the same period in last year.

The outgoing minutes and revenues of carrier sales business were approximately 4.1 million minutes and HK\$4.3 million respectively for this quarter, represented an increase of 17.1% and 30.3% respectively to the first quarter of this year.

The outgoing minutes from prepaid calling card business for this quarter were approximately 8.5 million minutes while the revenue contributed was approximately HK\$4.5 million, represented a decrease of 7.6% and 25.0% respectively to the first quarter this year.

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BUSINESS OUTLOOK

The prepaid calling cards sales recorded for the six months ended 30 November 2004 has decreased as compared to that recorded for the six months ended 30 November 2003, which was due to the weakening in the consumption pattern on prepaid calling cards of foreign domestic helpers as their salary was expected to experience a decreasing trend.

As the demand in the outer district is increasing and the rental charge of the shops in prime area in the Hong Kong Island has been increasing in the period under review, in order to better control the operating cost of the company and to capture the demand in outer district, the Group has opened more outlets in different areas in Kowloon such as Mei Foo and Tuen Mun and intends to reduce the number of the retail outlets in prime area in the Hong Kong Island upon expiry of the existing lease.

BUSINESS OUTLOOK *(continued)*

In the second half of the financial year ended 31 May 2005, the Group will put more effort on developing the end user market on the NVP voice over IP phone business. Besides, the Group is now seeking investment opportunities in the telecom application projects in the Philippines and China. With the above-mentioned development plans, the Directors believe that the Group will achieve a better performance in the future.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 November 2004, the Group had total assets of approximately HK\$30.2 million (as at 31 May 2004: HK\$18.4 million), including bank and cash balances (including pledged bank deposits of HK\$2.0 million (as at 31 May 2004: HK\$2.5 million)).

As at 30 November 2004, total liabilities of the Group amounted to HK\$38.2 million (as at 31 May 2004: HK\$26.1 million), which comprised of bank overdrafts of HK\$1.7 million (as at 31 May 2004: HK\$1.8 million) and bank and finance lease borrowings of HK\$1.9 million (as at 31 May 2004: HK\$2.5million). 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 2004 and 31 May 2004 were not applicable as there were negative shareholders' fund. As at 30 November 2004, the Group had net current liabilities of HK\$16.9 million (as at 31 May 2004: net current liabilities of HK\$17.4 million).

CAPITAL STRUCTURE

Save for the subscription of new shares completed on 30 September 2004 as mentioned in the paragraph headed "Financial Review" above, there has been no change in capital structure of the Company since the shares of the Company were listed on GEM on 20 December 2002.

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 2004, the Group employed a total of 34 (2003: 33) employees including the 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 ("Share Option Scheme") in which 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 2004, no share options have been granted under the Share Option Scheme.

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SIGNIFICANT INVESTMENTS

The Group has not held any significant investment for the six months ended 30 November 2004.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

The Group had no material acquisitions or disposals of subsidiaries and affiliated companies during the six months ended 30 November 2004.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

As at 30 November 2004, there are no future plans for material investments or capital assets.

CHARGE ON GROUP ASSETS AND CONTINGENT LIABILITIES

As at 30 November 2004, the Group's bank deposit of HK\$1.9 million and certain of the Group's fixed assets which had a net book value of HK\$2.2 million were pledged as collateral for the finance leases arrangement of a subsidiary of the Company.

The Group did not have any significant contingent liabilities as at 30 November 2004.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

Most of the assets and liabilities of the Group were denominated in HK dollars and US dollars. As the HK dollars is pegged to the US dollars, the Group's exposure to foreign exchange risk is not significant.

Business Objectives as stated in the Prospectus**Actual Business Progress****1. Research & development**

Technological advancement

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

The Group has carried out research on SIP protocols and its capability over H.323 and the feasibility study in implementing NVP. The billing system of the SIP phone has been developed by internal resources

Development of second generation NVP

Several models of NVP have been tested and connected to the central hub

Recruitment of 1 additional technical staff in telecommunications field

An additional technical staff was recruited

Business Objectives as stated in the Prospectus

Actual Business Progress

2. Products & service enhancement

Network infrastructure & facilities

Install additional VoIP gateways in Philippines and England

One additional VoIP gateway had been installed in the Philippines. The Group did not plan to install VoIP in England as high cost incurred

Upgrade central site IP hub

A SIP phone hub with billing system was installed

Customer Premises Equipment (CPE)

Continuous system upgrade to improve transmission efficiency and quality

Several new models of NVP were tested

Provide value-added services of video conferencing function to current users

The video phone pilot testing has been done in China and the Philippines already

Business Objectives as stated in the Prospectus**3. Sales & marketing**

Expanding geographical coverage and widening distribution network

Deploy additional Octopus-equipped vending machines in Hong Kong

Set up 1 additional Lotus Club outlet in Singapore, Malaysia, Japan or South Korea

Set up an additional Lotus Club outlet in Hong Kong

Enter into agreements with 2 additional telecommunication services providers to expand international wholesale coverage

Actual Business Progress

This project was replaced by new Lotus Club outlets

After careful 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

Additional Lotus Club outlets have been opened in Tuen Mun & Mei Foo in July and August 2004 respectively

The Group had not entered into any agreements with telecommunication services provider but has gained business partners in Malaysia and Singapore which has connection with the local VoIP gateway

Business Objectives as stated in the Prospectus

Actual Business Progress

3. Sales & marketing (*continued*)

Product launching	Perform road shows to corporate and retail users in Taiwan, Japan and South Korea to promote NVP	The Group had not performed any road shows in Taiwan, Japan and South Korea but had held seminars of video phone in the Philippines
	Launch a new series of premium cards	More than 10 series cards were launched
	Deploy 2 additional sales staff for product promotion	More than 4 sales staff include Lotus Club shopkeepers were employed
Strengthening brand image	Continuous advertising in different media	Mainly rely on promotion in Lotus Club outlets
	Conduct at least 5 seminars	4 seminars were conducted in Philippines
	Participate in ITU show in Hong Kong	The Group did not participate in ITU show in Hong Kong
	Set up demonstration sites in strategic locations in Hong Kong	Demonstration sites were set up in three Lotus Club outlets
	Distribution of posters and flyers in Hong Kong	The Group has distributed posters and flyers regularly to its distributors in HK

USE OF PROCEEDS

During the period from 20 December 2002 to 30 November 2004, 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 HK\$ million	Actual HK\$ million
– Research and development on telecommunication and VoIP technologies	5.0	5.0
– Products and services enhancement and development, and strategic investments	5.0	4.9
– Sales and marketing activities such as promotion activities, product launching and establishment of sales outlets	4.0	4.0
– Repayment of certain short term payables of telecommunication services providers	2.3	2.3
– General working capital for the Group	1.7	1.7
	18.0	17.9

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\$15 million to achieve its business objectives during the period from 20 December 2002 to 30 November 2004. As illustrated in the above table, the Group has accelerated its use of proceeds and incurred a total of approximately HK\$17.9 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 2004 (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 30 November 2004, 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)	52.89%
Ms. Yau Pui Chi, Maria (spouse of Mr. Ang)	Long position	204,272,000 (Note)	–	52.89%

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 30 November 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	2.91%
Mr. Mah Bing Hong	Long position	11,244,000	2.91%
		<u>22,488,000</u>	<u>5.82%</u>

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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 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.

MODEL CODE FOR DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted its own code of conduct regarding Directors’ securities transactions on terms no less exacting than the required standard set out in rules 5.48 to 5.67 of the GEM Listing Rules; and after having made specific enquiry to all Directors, it is reasonably indicated that the required standard set out in rules 5.48 to 5.67 and its code of conduct regarding Directors’ securities transactions has been fully complied during the period under review.

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 or the management shareholders (as defined under the GEM Listing Rules) has an interest in a business, which competes or may compete with the business of the Group directly or indirectly.

PURCHASE, SALE OR REPURCHASE OF THE COMPANY’S SHARES

During the six months ended 30 November 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 Institute of Certified Public 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 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 six months ended 30 November 2004.

26. BOARD PRACTICES AND PROCEDURES

During the six months ended 30 November 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, 12 January 2005