NETEL TECHNOLOGY (HOLDINGS) LIMITED

(Incorporated in the Cayman Islands with limited liability)

Third 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 nine months ended 28 February 2005

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 and nine months ended 28 February 2005 together with the comparative unaudited figures for the corresponding periods in 2004:

	Note	For the three months ended		For the nine months ended	
		28 February 2005 HK$'000 (Unaudited)	29 February 2004 HK$'000 (Unaudited)	28 February 2005 HK$'000 (Unaudited)	29 February 2004 HK$'000 (Unaudited)
Turnover		4,593	15,065	22,649	43,497
Cost of sales		(4,055)	(14,408)	(20,311)	(40,189)
Gross profit		538	657	2,338	3,308
Other revenues		62	58	418	164
Selling and marketing expenses		(135)	(261)	(551)	(1,033)
Administrative expenses		(3,357)	(5,266)	(11,174)	(14,883)
Operating loss		(2,892)	(4,812)	(8,969)	(12,444)
Finance costs		(42)	(83)	(171)	(212)
Loss for the period		(2,934)	(4,895)	(9,140)	(12,656)
Loss per share					
– Basic (HK cent)	3	(0.76)	(1.29)	(2.35)	(3.33)

For the nine months ended 28 February 2005

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 Group's unaudited consolidated results have been prepared in accordance with accounting principles generally accepted in Hong Kong and Statement of Standard Accounting Practice issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the applicable disclosure requirements set out in Chapter 18 of the GEM Listing Rules. 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 (2004: 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 (2004: Nil).

3. Loss per share

The calculation of basic loss per share for the three months and nine months ended 28 February 2005 is based on the Group's loss for the three months and nine months ended 28 February 2005 of approximately HK$2,934,000 and HK$9,140,000 respectively (three months and nine months ended 29 February 2004: loss for the period of approximately HK$4,895,000 and HK$12,656,000 respectively) and the weighted average of 386,230,000 shares and 389,675,897 shares in issue during the three months and nine months ended 28 February 2005 respectively (both the three months and nine months ended 29 February 2004: 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.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the nine months ended 28 February 2005

4. Reserves

	Share Premium HK$'000 (Unaudited)	Merger Reserve HK$'000 (Unaudited)	Accumulated Losses HK$'000 (Unaudited)	Total HK$'000 (Unaudited)
As at 1 June 2004	13,949	39,307	(64,811)	(11,555)
Issue of shares	6,168	–	–	6,168
Shares issue expenses	(236)	–	–	(236)
Loss for the period	–	–	(9,140)	(9,140)
As at 28 February 2005	19,881	39,307	(73,951)	(14,763)

	Share Premium HK$'000 (Unaudited)	Merger Reserve HK$'000 (Unaudited)	Accumulated Losses HK$'000 (Unaudited)	Total HK$'000 (Unaudited)
As at 1 June 2003	13,949	39,307	(46,330)	6,926
Loss for the period	–	–	(12,656)	(12,656)
As at 29 February 2004	13,949	39,307	(58,986)	(5,730)

FINANCIAL REVIEW

During the three months and nine months ended 28 February 2005, the Group's turnover was approximately HK$4.6 million and HK$22.6 million respectively, representing a decrease of approximately 69.5% and 47.9% as compared to the turnover of approximately HK$15.1 million and HK$43.5 million for the three months and nine months ended 29 February 2004. This was attributable to the changing consumption behavior of customers in the prepaid calling card business and intense competition in the carrier sales business.

Comparing with corresponding periods in previous year, gross profit margin increased from 4.4% to 11.7% for the three months ended 28 February 2005, and increased from 7.6% to 10.3% for the nine months ended 28 February 2005. The increase in gross profit margin was mainly due to the better cost control policy implemented by the Group.

The total selling and marketing and administrative expenses amounted to approximately HK$3.5 million and HK$11.7 million for the three months and nine months ended 28 February 2005 respectively. The expenses decreased by approximately 36.8% and 26.3% as compared to the same period of previous year as a result of the decrease in rental expenses for retail outlets.

BUSINESS REVIEW

The outgoing minutes for the prepaid calling card business for this quarter was approximately 6.8 million minutes and represented a decrease of approximately 20% as compared with the last quarter. The revenue from prepaid calling card business in this quarter was approximately HK$4.6 million, representing a slightly increase of approximately 2.2% from the last quarter.

The outgoing minutes for the carrier sales business for this quarter was approximately 0.70 million minutes and represented a decrease of approximately 82.9% as compared with the last quarter. The revenue from the carrier sales business in this quarter was approximately HK$0.6 million, representing a decrease of approximately 86% from the last quarter.

The macro market environment of prepaid calling card business has been changed. In order to save costs, more foreign domestic helpers prefer to use SMS short messages instead of long distance calls. Therefore, a decreasing trend in the revenue from the prepaid calling card business was recorded in the period under review. In view of this, the Group decides to further control its costs by reallocating its resources. The Group will gradually reduce the number of Lotus Club outlets in prime area with relatively high rental and other operating charges while more resources will be used in setting up Lotus Club outlets in outer districts with lower operating costs.

For the carrier sales business, due to the keen competition within the market, the Group's performance in this business segment is further deteriorated. In order to deal with the increasing challenges, the Group is actively seeking other new suppliers who can provide similar services to the Group with lower costs.

During the period under review, the Group intended to improve its operating and financial performance by developing the new voice over IP services on SIP protocol. A new Product Development Director has been employed to oversee the project and related platform has been set up in this quarter. Besides, broadband phones SIP version have been delivered to many overseas partners right after the Chinese New Year.

Having considered the competitive business environment in Hong Kong, the Company decides to focus on their voice over IP and other related businesses in overseas market. The Company has already co-operated with several influential partners in the Philippines to develop the said businesses.

BUSINESS OUTLOOK

In addition to our existing business of prepaid calling card and carrier sales business, in this second half of the financial year ending 31 May 2005, the Group will continue to focus on the development of the end user market on the NVP voice over IP phone business and in particular, the SIP voice over IP phone products.

The Company wishes to develop the Group's business in overseas market and will explore the opportunities to align with foreign partners to provide related hardware and services to overseas customers. The Company will also continue to seek investment opportunities in the telecom application projects in the Philippines and China. The Company look forward to setting up distribution channels with strategic partners in different countries in the coming months. The Company believes that should the above-mentioned development plan is successfully implemented, the Group would be able to benefit from such new business opportunities which will bring in attractive revenue to the Group

INTERIM DIVIDENDS

The Directors do not recommend the payment of an interim dividend for the nine months ended 28 February 2005 (for the nine months ended 29 February 2004: 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

As at 28 February 2005, apart from the details as follows, the Directors and the 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

		Number of shares held		
Name of Directors		**Family interest**	**Corporate interest**	**Percentage**
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 28 February 2005, 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 executive.

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%
		22,488,000	5.82%

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 28 February 2005, 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 nine months ended 28 February 2005, 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 Audit 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 nine months ended 28 February 2005.

BOARD PRACTICES AND PROCEDURES

During the nine months ended 28 February 2005, 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 April 2005

As at the date of this report, the Board comprises two executive directors, Mr. James Ang and Ms. Yau Pui Chi Maria, and three independent non-executive directors, Mr. Yeung Kam Yuen Roderick, Mr. Li Chi Wing and Mr. Chan Chun Chung William.