FIRST QUARTERLY REPORT 2005/06

NETEL TECHNOLOGY (HOLDINGS) LIMITED

(Incorporated in the Cayman Islands with limited liability)

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The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly, disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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 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 ended 31 August 2005 together with the comparative unaudited figures for the corresponding period in 2004:

		For the three months ended 31 August	
		2005	2004
		HK$'000	HK$'000
	Note	(Unaudited)	(Unaudited)
Turnover		2,957	9,350
Cost of sales		(2,296)	(8,638)
Gross profit		661	712
Other revenues		4	153
Selling and marketing expenses		(44)	(142)
Administrative expenses		(2,870)	(3,808)
Operating loss		(2,249)	(3,085)
Finance costs		(8)	(78)
Loss for the period		(2,257)	(3,163)
Loss per share			
– Basic (HK cent)	3	(0.58)	(0.83)

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 2005.

In 2004, the HKICPA issued a number of new of revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (the "HKFRSs") thereinafter collectively referred to as new HKFRSs' which are effective for accounting periods beginning on or after 1 January 2005. The adoption of those new HKFRSs has no material impact on the preparation and presentation of results of operations and financial position of the Group.

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 is based on the Group's loss for the period of approximately HK$2,257,000 (2004: loss for the period of HK$3,163,000) and the weighted average of 386,230,000 shares in issue during the period (2004: 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 2005	19,855	39,307	(78,100)	(18,938)
Loss for the period	–	–	(2,257)	(2,257)
At 31 August 2005	19,855	39,307	(80,357)	(21,195)

	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)

5. Litigations

As at the date of this report, the Group has been involved in material litigations as follows:

(a) On 16th December 2004, a writ was issued by a telecom service provider (the "Plaintiff") against two subsidiaries of the Group and a director of the Company as guarantor for outstanding and disputed invoices amounting to approximately HK$4,357,000 and claimed that the subsidiaries and the Director have no right to defense. On 20th July 2005, the High Court ruled that the subsidiaries and the Director have right to defense and refused to grant order to the plaintiff. The Directors are of the opinion that the negotiation of the disputed balances and the reconciliation of call records will involve lengthy process. As such, settlement of the case cannot be reached in the foreseeable future. No further action was taken by the plaintiff since the date of order up to the date of this report.

The Directors are of the opinion that the ultimate liability under this proceeding, if any, would not have any significant impact on the financial position of the Group as adequate provision has been made in the accounts.

(b) On 6th January 2005, a writ was issued by a software provider against a subsidiary of the Group for outstanding and disputed invoices amounting to approximately HK$281,000. On 29th July 2005, the subsidiary made a counter claim against the software provider of approximately HK$4,418,000 for the damages made to the Group. The Directors are of the opinion that the ultimate liability under this proceeding, if any, would not have any significant impact on the financial position of the Group as adequate provision has been made in the accounts.

(c) On 16th June 2005, a writ was issued by a bank against the Company, a subsidiary and two Directors of the Company as guarantors for outstanding finance lease principal and interests of approximately HK$680,000 and outstanding instalment loan principal and interests of approximately HK$152,000. The Group has submitted a revised repayment schedule to the bank and is awaiting the reply. Full provision of the liabilities has been made in the accounts.

(d) Other than the writs as mentioned above, up to the date of this report, the Group has a number of litigation processing in respect of outstanding liabilities arising in the normal course of its business of approximately HK$1,061,000. The Directors of the Company are in the process to negotiate with the creditors for repayment schedule of the outstanding balances.

The Directors are of the opinion that the ultimate liability under these proceedings, if any, would not have any significant impact on the financial position of the Group as adequate provisions have been made in the accounts.

Apart from the actions against the Group disclosed above, there are no other material outstanding writs and litigations against the Group and/or the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

During the quarter ended 31st August 2005, the Group recorded turnover of approximately HK$2.9 million, representing a decrease of 68.4% as compared with the same period last year. This was mainly due to the changes in product direction and the Group is in the process of consolidating and reallocating its resources from non-profitable operations such as carrier sales and retail calling cards sales to Internet Protocol phone (the "IP phone"). Due to the introduction of the IP phone business, the gross profit was significantly increased over approximately 2.9 times from 7.6% to 22.4% compared with the same period in last year. Although the turnover decreased by approximately HK$6.4 million, the gross profit was only decreased by approximately HK$50,000.

The operating and selling expenses reduced by 26.7% from HK$3.9 million in the same quarter last year to HK$2.9 million in this quarter. The operating and selling expenses included the loss of asset by burglary approximately HK$0.5 million. The board believed that the Group has improved security to prevent such kind of incident to happen again. The Group will consolidate the technical center and main office in coming quarter as to improve security and reduce cost.

BUSINESS REVIEW

The Group is taking all necessary measures to scale down the non-profitable operations such as carrier sales and retail calling card shops and on the other hand re-direct its resources to a more profitable new product, the IP phones. In this quarter, the Group has successfully developed the IP phone business and started to sell to overseas customers. The sales of IP phones were amounted to approximately HK$0.7 million and is expected to increase in coming months.

The sales of prepaid calling cards was continued to decrease in this quarter. The outgoing minutes of prepaid calling card business decreased approximately 15% from 6.6 million in the fourth quarter last year to 5.6 million in this quarter.

The carrier sales business were almost replaced by the new business as all its resources were transferred to the IP phones. The Group has made good progress in market development and has received sales amount of HK$0.7 million within 3 months on the sales of IP phone to various countries. The Board forecasts that the increase in the sales of IP phones will compensate the decrease in the sales of calling cards and carrier minutes in the coming months.

BUSINESS OUTLOOK

During this quarter, the Group has already closed all the retail shops and reallocated some shop managers to the office for the continuing promotion of calling cards. The operating expenses will be further reduced in the coming quarter.

This operating result of this quarter reflects the turning point of the Group from calling card local market business to an IP based world-wide business. There are additional costs incurred for the change of business plan such as payroll and rent compensations however the board believes the IP phone business is a right direction as the IP phone business started to contribute to the operating result of the Group and the loss of the Group has been gradually reduced. The Group will further develop new market for the IP phones in overseas countries such as Japan, Nepal, Malaysia, Thailand, China and U.S.A., etc. The board believes the increase in revenue of IP phones, and the reduction of costs under the cost cutting initiatives mentioned above will improve the profitability of the Group in the coming future.

OTHER INFORMATION

INTERIM DIVIDENDS

The Directors do not recommend the payment of an interim dividend for the three months ended 31 August 2005 (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

At 31 August 2005, 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)*	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 31 August 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 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%
		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 31 August 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. Following the expiry of the agreement between the Company and the Company's Sponsor, Tai Fook ceased to act as the Company's retained sponsor with effect from 1 June 2005.

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 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 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 2005.

BOARD PRACTICES AND PROCEDURES

During the three months ended 31 August 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, 14 October 2005