INTERIM REPORT 2005/2006

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

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE

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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 period ended 30 November 2005

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 2005 together with the comparative unaudited figures for the corresponding periods in 2004 as follows:

		For the three months ended 30 November		For the six months ended 30 November	
		2005	2004	**2005**	2004
		HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	Note	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)
Turnover		**3,384**	8,706	**6,341**	18,056
Cost of sales		**(1,330)**	(7,618)	**(3,626)**	(16,256)
Gross profit		**2,054**	1,088	**2,715**	1,800
Other revenues		**322**	203	**326**	356
Selling and marketing expenses		**(28)**	(274)	**(72)**	(416)
Administrative expenses		**(2,262)**	(4,009)	**(5,132)**	(7,817)
Operating profit/(loss)	*3*	**86**	(2,992)	**(2,163)**	(6,077)
Finance costs		**(30)**	(51)	**(38)**	(129)
Profit/(loss) for the period		**56**	(3,043)	**(2,201)**	(6,206)
Attributable to:					
Equity holders of the Company		**(184)**	(3,043)	**(2,441)**	(6,206)
Minority interests		**240**	–	**240**	–
Profit/(loss) for the period		**56**	(3,043)	**(2,201)**	(6,206)
Earnings/(loss) per share					
– Basic (HK cents)	*5*	**0.01**	(0.79)	**(0.57)**	(1.62)

CONSOLIDATED BALANCE SHEET

As at 30 November 2005

	Note	**As at 30 November 2005 HK$'000 (Unaudited)**	As at 31 May 2005 HK$'000 (Audited)
Fixed assets		**7,288**	8,561
Current assets			
Inventories		**246**	193
Accounts and other receivables	*6*	**3,151**	4,127
Bank balances and cash		**92**	132
		3,489	4,452
Current liabilities			
Accounts and other payables	*7*	**22,915**	25,361
Due to a director		**4,007**	1,690
Current portion of long-term liabilities		**971**	971
Bank overdrafts		**94**	–
		27,987	28,022
Net current liabilities		**(24,498)**	(23,570)
Total assets less current liabilities		**(17,210)**	(15,009)
Financed by:			
Share capital		**3,862**	3,862
Reserves		**(21,379)**	(18,938)
Total equity attributable to equity holders of Company		**(17,517)**	(15,076)
Minority interests		**247**	7
Total equity		**(17,270)**	(15,069)
Non-current liabilities			
Long-term liabilities		**60**	60
		(17,210)	(15,009)

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 30 November	
	2005	2004
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Net cash outflow from operating activities	**(374)**	(5,586)
Net cash outflow from investing activities	**–**	(89)
Net cash inflow from financing activities	**240**	5,337
Decrease in cash and cash equivalents	**(134)**	(338)
Cash and cash equivalents at beginning of period	**132**	(1,265)
Cash and cash equivalents at end of period	**(2)**	(1,603)
Analysis of balances of cash and cash equivalents		
Bank balances and cash	**92**	79
Bank overdrafts	**(94)**	(1,682)
	(2)	(1,603)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company					
	Share capital	**Share premium**	**Merger reserve**	**Accumulated losses**	**Minority interest**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
As at 1 June 2005	3,862	19,855	39,307	(78,100)	7	(15,069)
Loss for the period	–	–	–	(2,441)	240	(2,201)
As at 30 November 2005	3,862	19,855	39,307	(80,541)	247	(17,270)

	Attributable to equity holders of the Company					
	Share capital	**Share premium**	**Merger reserve**	**Accumulated losses**	**Minority interest**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
As at 1 June 2004	3,800	13,949	39,307	(64,811)	–	(7,755)
Issue of shares	62	6,168	–	–	–	6,230
Loss for the period	–	(236)	–	(6,206)	–	(6,442)
As at 30 November 2004	3,862	19,881	39,307	(71,017)	–	(7,967)

NOTES TO ACCOUNTS

1. Basis of preparation and accounting policies

These unaudited condensed consolidated financial information has been prepared in accordance with the Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of The Rules Governing the Listing of Securities of the Growth Enterprise Market on the Stock Exchange.

These condensed consolidated financial information should be read in conjunction with the 2005 annual financial statements.

The accounting policies and methods of computation used in the preparation of these condensed consolidated financial information are consistent with those used in the annual financial statements for the year ended 31 May 2005.

Other than certain presentation changes, the adoption of the new/revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods commencing on or after 1 January 2005 does not have a material impact on the Group as a whole.

2. Segment information

Primary report format – business segments

	Six months ended 30 November 2005			
		Long distance call services		
	Sale of equipment *HK$'000* (Unaudited)	End-users direct sales *HK$'000* (Unaudited)	Carrier sales *HK$'000* (Unaudited)	Group *HK$'000* (Unaudited)
Turnover	1,394	4,947	–	6,341
Segment results	566	(2,521)	–	(1,955)
Other revenues				326
Unallocated costs				(534)
Operating loss				(2,163)
Finance costs				(38)
Loss for the period				(2,201)
Segment assets	1,280	6,713	2,754	10,747
Unallocated assets				30
				10,777
Segment liabilities	1,185	12,459	12,526	26,170
Unallocated liabilities				1,877
				28,047
Capital expenditures	–	–	–	–
Unallocated capital expenditures				–
				–
Depreciation	–	658	96	754
Unallocated depreciation				100
				854

2. **Segment information** *(continued)*

Primary report format – business segments *(continued)*

	Six months ended 30 November 2004		
	Long distance call services		
	End-users direct sales *HK$'000* (Unaudited)	Carrier sales *HK$'000* (Unaudited)	Group *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 for the period			(6,206)
Segment asset	14,454	15,186	29,640
Unallocated assets			546
			30,186
Segment liabilities	15,613	20,612	36,225
Unallocated liabilities			1,928
			38,153
Capital expenditures	106	–	106
Unallocated capital expenditures			–
			106
Depreciation	728	163	891
Unallocated depreciation			50
			941

2. Segment information *(continued)*

Secondary reporting format – geographical segment

		Six months ended 30 November 2005		
	Turnover	**Segment results**	**Total assets**	**Capital expenditures**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**
Hong Kong	**4,447**	**(3,069)**	**10,067**	**–**
Other countries	**1,394**	**580**	**710**	**–**
	5,841	**(2,489)**	**10,777**	**–**
Other revenues		**326**		
Operating loss		**(2,163)**		

		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	–
	18,056	(6,433)	30,186	106
Other revenues		356		
Operating loss		(6,077)		

3. Operating profit/(loss)

	For the three months ended 30 November		For the six months ended 30 November	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Operating profit/(loss) is stated after charging:				
Cost of inventories sold	**479**	92	**702**	133
Depreciation				
– owned assets	**336**	363	**655**	742
– leased assets	**104**	104	**199**	199
Operating lease-land and buildings	**420**	935	**760**	1,870
Loss on disposal of fixed assets	**–**	8	**503**	8
Staff costs (including directors' emoluments)	**813**	1,354	**1,709**	2,780

4. Taxation

(i) No provision for Hong Kong profits tax has been made for the six months ended 30 November 2004 and 2005 as the Group has no assessable profits for both period.

(ii) No deferred taxation has been provided for the six months ended 30 November 2004 and 2005 as there are no material unprovided deferred tax assets/liabilities which are expected to be crystallised in the foreseeable future.

5. Earnings/(loss) per share

The calculations of basic earnings/(loss) per share for the three months and six months ended 30 November 2005 are based on the Group's profit for the three months ended 30 November 2005 of approximately HK$56,000 and the Group's loss for the six month ended 30 November 2005 of approximately HK$2,201,000 (three months and six months ended 30 November 2004: loss for the period of approximately HK$3,043,000 and HK$6,206,000 respectively) and the weighted average of 386,230,000 shares in issue during the three months and six months ended 30 November 2005 respectively (three months and six months ended 30 November 2004: 384,176,154 and 382,076,667 shares respectively).

Diluted earnings/(loss) per share for the three months and six months ended 30 November 2005 is not presented as there is no dilutive instrument granted by the Company (three months ended and six months ended 30 November 2004: Nil).

6. Accounts and other receivables

	As at 30 November 2005 *HK$'000* **(Unaudited)**	As at 31 May 2005 *HK$'000* (Audited)
Accounts receivable *(note)*	**1,533**	2,300
Prepayments and deposits	**1,618**	1,827
	3,151	4,127

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 2005 *HK$'000* **(Unaudited)**	As at 31 May 2005 *HK$'000* (Audited)
0-30 days	**353**	707
31-60 days	**765**	558
61-90 days	**133**	198
Over 90 days	**5,247**	4,272
	6,498	5,735
Less: provision for doubtful debt	**(4,965)**	(3,435)
	1,533	2,300

7. Accounts and other payables

	As at 30 November 2005 ***HK$'000*** **(Unaudited)**	As at 31 May 2005 *HK$'000* (Audited)
Accounts payable *(note)*	**12,262**	12,203
Accruals and other payables	**9,195**	11,000
Receipt in advance	**1,458**	2,158
	22,915	25,361

Note:

The ageing analysis of the accounts payable were as follows:

	As at 30 November 2005 ***HK$'000*** **(Unaudited)**	As at 31 May 2005 *HK$'000* (Audited)
0-30 days	**594**	2,109
31-60 days	**808**	687
61-90 days	**1,236**	383
Over 90 days	**9,624**	9,024
	12,262	12,203

8. Litigations

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

(a) On 16 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 20 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 6 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 29 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 16 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 agreed with the bank an instalment plan and approximately HK$300,000 was settled up to date of this report. 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 processings in respect of outstanding liabilities arising in the normal course of its business of approximately HK$929,000. 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

The Group's turnover for the three months and six months ended 30 November 2005 was approximately HK$3.4 million and HK$6.3 million respectively, represented a decrease of 61% and 65% as compared to the corresponding periods in previous year respectively. This was mainly due to the changes in product direction and the Group has been consolidating and reallocating its resources from non-profitable operations such as carrier sales and retail calling cards sales to Internet Protocol ("IP") related services and products.

Comparing with corresponding periods in previous year, gross profit margin increased from 12% to 61% for the three-month period ended 30 November 2005 and from 10% to 43% for the six-month period ended 30 November 2005 respectively. The increase of the profit margin was mainly attributable to the introduction of IP related services and products, the decrease of calling card sales and the cessation of IDD wholesales during the period.

The total selling and marketing and administrative expenses amounted to approximately HK$2.3 million and HK$5.2 million for the three months and six months ended 30 November 2005 respectively. The expenses decreased by approximately 47% and 37% as compared to the same periods of previous year as a result of the cost control measures and decrease in staff costs and shop rental expenses.

During the interim period, the Group recorded a net loss from ordinary activities attributable to equity holders of approximately HK$2.2 million as compared to net loss of approximately HK$6.2 million in the corresponding period in the previous year. The Group has achieved financial improvement in the three-month period ended 30 November 2005 and net profit for the three-month period ended 30 November 2005 was amounted to approximately HK$56,000 (three-month period ended 31 August 2005: net loss of HK$3 million). The financial position has been improved as a result of re-direction of the Group's business strategy to more profitable IP related products and services and the reduction of operating overheads.

BUSINESS REVIEW

During the interim period, the Group has been putting every effort to minimize the operating costs by closing down expensive retail outlets, control the number of support staff and reduce office overheads. There has been a significant decrease in the overheads and expenses of the Group. On the other hand, the new business of sip phone and web phone has demonstrated a growth in overseas market. These new products improve the Group's profit margin and open a huge and significant new market segment for the Group.

During the three-month period ended 30 November 2005, the Group continues to develop the IP phone business and successfully penetrated into the overseas markets not limited to Hong Kong such as Malaysia, Thailand, Philippines, Japan, and other foreign countries, and total sales relating to the IP phone business for the three-month period was amounted to HK$0.7 million (three-month period ended 31 August 2005: HK$0.7 million).

As a result of re-directing resources to the IP phone business, the carrier sales business was completely stopped. The sales of prepaid calling cards was amounted to approximately HK$2.7 million for the three-month period ended 30 November 2005, compared to approximately HK$2.3 million for the three-month period ended 31 August 2005.

BUSINESS OUTLOOK

The Group will continue to serve the local Hong Kong calling cards market as there are still significant number of loyal customers who are satisfied with the Group's quality services. However, due to uncontrollable macro economic factors and the change in consumer behaviour pattern of using mobiles phones, the Group believe this business segment will be contracting and will become less significant to the Group's business in the coming future.

In the past few months, the Group has successfully sold IP phones to South East and North Asian countries with satisfactory volume and good profit margins. The Group has also allocated more resources in developing this business and has worked out distribution partnerships and marketing joint ventures in different countries such as Philippines, Thailand, Malaysia and Japan. The Group believes this distribution network will be further reinforced and developed in the coming future. With the introduction of IP phone and related services, the Group has been transforming into a regional telecommunication service hub that will soon be leverage for wider international sales networks.

BUSINESS OUTLOOK *(continued)*

In addition, the Group is planning to deploy related IP services such as sip phone, web phone, Wifi phone and Wimax through the international network in the near future. The voice over IP products and services have been accepted by consumers due to improvement in the voice quality by technological breakthrough. Furthermore, the low cost and low price of sip and web phone services attract more customers to use the new IP services. The Group has taken advantages of previous technical experiences on voice over IP and human networks on telecom equipments distribution in Asia and has successfully turned the knowledge and experiences into applications.

The Group has implemented a number of cost control measures during the past few months such as closing the expensive Lotus retail outlets and relocating the sales office from Causeway Bay to North Point to reduce staff costs and rental expenses. The Group will continue to carefully monitor the overheads level in the coming future.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 November 2005, the Group had total assets of approximately HK$10.8 million (as at 31 May 2005: HK$13 million), including bank and cash balances of HK$92,000 (as at 31 May 2005: HK$132,000).

As at 30 November 2005, the total liabilities of the Group amounted to HK$28 million (as at 31 May 2005: HK$28.1 million), including bank overdraft of HK$94,000 (as at 31 May 2005: Nil). The borrowings gearing ratio, defined as total bank and finance lease borrowings divided by the shareholders' funds as at 30 November 2005 and 31 May 2005 were not applicable as there were negative shareholders' funds as at both dates. As at 30 November 2005, the Group had net current liabilities of HK$24.5 million (as at 31 May 2005: net current liabilities of HK$23.6 million).

CAPITAL STRUCTURE

Save for the subscription of new shares dated 30 September 2004, 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 management of the Group.

EMPLOYEE INFORMATION

As at 30 November 2005, the Group employed 17 (as at 30 November 2004: 34) full time staff including the Directors. The Group offers a comprehensive remuneration and employees' benefit package to its employees. Such packages include participation in provident fund and medical scheme. The Group also operates a 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 2005, no share options have been granted under the scheme.

SIGNIFICANT INVESTMENTS

The Group has not held any significant investment for the six months ended 30 November 2005.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

The Group had no material acquisitions or disposals of subsidiaries and affiliated companies for during the six months ended 30 November 2005.

CHARGE ON GROUP ASSETS AND CONTINGENT LIABILITIES

As at 30 November 2005, the Group had no pledge and charge on the assets.

Contingent liabilities of the Group are disclosed in note 8 to the accounts.

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.

INTERIM DIVIDENDS

The Directors do not recommend the payment of an interim dividend for the six months ended 30 November 2005 (2004: 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 2005, 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

		Number of Share 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 30 November 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 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 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.

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 2005, neither the Company, nor any of its subsidiaries has purchased, redeemed or sold any of the Company's shares.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining high standard of corporate governance practices. The Board considers such commitment essential in balancing the interest of shareholders, customers and employees; and in upholding accountability and transparency.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES *(continued)*

The Company has complied with the code provisions (the "Code") set out in the Code on Governance Report contained in Appendix 15 to the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the "Rules") throughout the six months ended 30 November 2005, except for the following deviations:

(1) Chairman and chief executive officer

The Company has not complied with the requirement to appoint different individual to act as chairman and chief executive officer as set out in 2(c)(vii) and 2(d) of Appendix 16 in Corporate Governance Report (the "Report"). The Board considers that this structure will not impair the balance of power and authority between the Board and the Management of the Company. The board believes that this arrangement is conducive to strong and consistent leadership, enabling the Company to make and implement decisions promptly and efficiently. The Board believes that the appointment of Mr. James Ang is beneficial to the business prospects of the Company.

(2) Remuneration and nomination of committees

The Company has not complied with the requirement to establish remuneration committee and nomination committee as set out in Rules 18.28 and 18.29A throughout the reporting period. The Company will set up the committees as practicable as possible.

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 2005.

BOARD PRACTICES AND PROCEDURES

During the six months ended 30 November 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 January 2006

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.