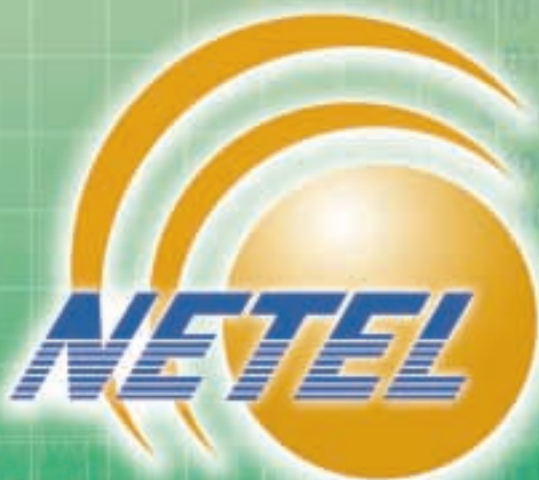


THIRD QUARTERLY REPORT 2005/2006



NETEL TECHNOLOGY (HOLDINGS) LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8256)

■ CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed users.

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 Rules Governing the Listing of Securities of GEM on the Stock Exchange ("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 2006

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 2006 together with the comparative unaudited figures for the corresponding periods in 2005:

| | For the three months ended | | For the nine months ended | |
|--------------------------------|------------------------------------------------|------------------------------------------------|------------------------------------------------|------------------------------------------------|
| | 28 February 2006 HK\$'000 (Unaudited) | 28 February 2005 HK\$'000 (Unaudited) | 28 February 2006 HK\$'000 (Unaudited) | 28 February 2005 HK\$'000 (Unaudited) |
| Turnover | 3,459 | 4,593 | 9,800 | 22,649 |
| Cost of sales | (1,324) | (4,055) | (4,950) | (20,311) |
| Gross profit | 2,135 | 538 | 4,850 | 2,338 |
| Other revenues | 6 | 62 | 332 | 418 |
| Selling and marketing expenses | (20) | (135) | (92) | (551) |
| Administrative expenses | (2,033) | (3,357) | (7,165) | (11,174) |
| Operating profit/(loss) | 88 | (2,892) | (2,075) | (8,969) |
| Finance costs | (7) | (42) | (45) | (171) |
| Profit/(loss) for the period | 81 | (2,934) | (2,120) | (9,140) |
| Attributable to: | | | | |
| Equity holders of the Company | 81 | (2,934) | (2,360) | (9,140) |
| Minority interests | 0 | – | 240 | – |
| Profit/(loss) for the period | 81 | (2,934) | (2,120) | (9,140) |
| Earnings/(loss) per share | | | | |
| – Basic (HK cents) | 0.02 | (0.76) | (0.55) | (2.35) |

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. 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 (2005: 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 (2005: Nil).

3. Earnings/(Loss) per share

The calculation of basic earnings/(loss) per share for the three months and nine months ended 28 February 2006 is based on the Group's profit for the three months ended 28 February 2006 of approximately HK\$81,000 and the Group's loss for nine months ended 28 February 2006 of approximately HK\$2,120,000 (three months and nine months ended 28 February 2005: loss for the period of approximately HK\$2,934,000 and HK\$9,140,000 respectively) and the weighted average of 386,230,000 shares in issue during the three months and nine months ended 28 February 2006 respectively (three months and nine months ended 28 February 2005: 386,230,000 shares and 389,675,597 shares respectively).

Diluted earnings/(loss) per share for the current and prior periods is not presented as there is no dilutive instrument granted by the Company.

4. Reserves

| | Share Premium <i>HK\$'000</i> (Unaudited) | Merger Reserve <i>HK\$'000</i> (Unaudited) | Accumulated Losses <i>HK\$'000</i> (Unaudited) | Total <i>HK\$'000</i> (Unaudited) |
|------------------------|------------------------------------------------------------|-------------------------------------------------------------|-----------------------------------------------------------------|------------------------------------------------|
| As at 1 June 2005 | 19,855 | 39,307 | (78,100) | (18,938) |
| Loss for the period | — | — | (2,120) | (2,120) |
| | <u>19,855</u> | <u>39,307</u> | <u>(80,220)</u> | <u>(21,058)</u> |
| As at 28 February 2006 | <u>19,855</u> | <u>39,307</u> | <u>(80,220)</u> | <u>(21,058)</u> |
| 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) |
| | <u>—</u> | <u>—</u> | <u>(9,140)</u> | <u>(9,140)</u> |
| As at 28 February 2005 | <u>19,881</u> | <u>39,307</u> | <u>(73,951)</u> | <u>(14,763)</u> |

5. 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 defend. On 20 July 2005, the High Court ruled that the subsidiaries and the Director have right to defend 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.

5. LITIGATIONS *(continued)*

- (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.

Up to date of this report, approximately HK\$350,000 was settled by the Group and the Group is now negotiating with the bank for full settlement of outstanding balance in the coming months. Full outstanding liabilities have 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\$908,000. 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 nine months ended 28 February 2006 was about HK\$3.45 million and HK\$9.80 million respectively, represented a decrease of 25% and 56% as compared to the corresponding periods in previous year respectively. This was mainly due to the changes of product mix offered to the market.

However, there is a significant improvement on the gross profit margin. The gross profit margin in the last three months ended 28 February 2006 was 61% compared to 12% in the last year same quarter. The profit margin for the nine months ended 28 February 2006 was 49% compared to 10% of the same period in the previous year. The improvement on gross profit margin was due to the Group shifting from low margin wholesales minutes business to voice over IP sip and web phones business. The market also expanded from local Hong Kong market to overseas market.

The administrative expenses in the last three months ended 28 February 2006 was HK\$2 million compared to HK\$3.35 million in the same quarter last year. The administrative expenses for the nine months ended

28 February 2006 was HK\$7.16 million compared to the same period of the previous year of HK\$11.1 million. The significant drop in the expenditure was due to the streamlined operation of the Group by closing the shops of Lotus Club and relocating the head office to a lower cost building.

During the last quarter, the Group reported a profit of HK\$81,000 as compared to net loss of HK\$2.93 million in the same period of the previous year. The company has recorded profit for two consecutive quarters. This is mainly due to the restructure of product mix, change of focus of market segment and the streamline of the operation. The Group believes this trend will continue and more new products and projects will be launched in order to further improve the performance of the Group.

OPERATION REVIEW

During this quarter, the Company carried out the plan of cost reduction by moving the head office to North Point and it demonstrated a significant impact on the profit of the Group. Furthermore, the sales of new products and services such as web phone, broadband sip phone, and dial up sip phone and introduction of new wifi phones also contributed to the new revenue stream for the Group.

OPERATION REVIEW *(continued)*

The calling cards revenue remained stable during the quarter but the Group does not foresee any significant growth of this product in the market of Hong Kong. However, the Group is seeking for opportunities in overseas market especially for those newly open markets which profit margin are much better than Hong Kong.

In this quarter, our technical department has put a lot of effort in setting up the wireless wifi ip phone and it was successfully tested and launched. The Group believes this would become a significant business model very soon for the Group.

BUSINESS OUTLOOK

The Group will continue to maintain the calling card business in Hong Kong and look for opportunities in overseas market for similar business model. Furthermore, the Group will focus more on the broadband and dial up sip phone, web phone and wifi phones and will work closely with our foreign partners in this new business.

The Group has almost completed the cost reduction and it is the time to look into new opportunities and focus more on foreign opportunities rather than the local market. To leverage our effort and investment put on wireless ip phone and sip phone it is now the good timing to penetrate further into the world market and make Hong Kong as a hub on those new services.

On the other hand, the Group has also carried out feasibility study in the WIMAX business and has commenced discussion with foreign parties to come up with some kind of joint venture in foreign countries to implement this technology on wireless mobile phone for both voice and video application. The Group believes this would be the new trend of our industry.

INTERIM DIVIDENDS

The Directors do not recommend the payment of an interim dividend for the nine months ended 28 February 2006 (for the nine months ended 28 February 2005: 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 2006, 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

| Name of Directors | | Number of shares held | | Percentage |
|-----------------------------------------------|---------------|-----------------------------|-----------------------------|------------|
| | | Family interest | Corporate interest | |
| Mr. James Ang ("Mr. Ang") | Long position | - | 204,272,000 (<i>Note</i>) | 52.89% |
| Ms. Yau Pui Chi, Maria (spouse of Mr. Ang) | Long position | 204,272,000 (<i>Note</i>) | - | 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 2006, 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> |

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 2006, 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.

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 2006, 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 nine months ended 28 February 2006, 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 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 2006.

BOARD PRACTICES AND PROCEDURES

During the nine months ended 28 February 2006, 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, 11 April 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.