2006/2007

FIRST QUARTERLY REPORT

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-todate 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 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 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 ended 31 August 2006 together with the comparative unaudited figures for the corresponding period in 2005:

		For the three months ended 31 August	
		2006	2005
	Note	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
Turnover		**1,748**	2,957
Cost of sales		**(1,209)**	(2,296)
Gross profit		**539**	661
Other revenues		**–**	4
Selling and marketing expenses		**(74)**	(44)
Administrative expenses		**(1,939)**	(2,870)
Operating loss		**(1,474)**	(2,249)
Finance costs		**(7)**	(8)
Loss for the period		**(1,481)**	(2,257)
Loss per share			
– Basic (HK cent)	*3*	**(0.38)**	(0.58)

NOTES TO ACCOUNTS

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 consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which include Hong Kong Accounting Standards ("HKASs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. 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 2006.

The consolidated financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

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. Loss per share

The calculation of basic loss per share is based on the Group's loss for the period of approximately HK$1,481,000 (2005: loss for the period of HK$2,257,000) and the weighted average of 386,230,000 shares in issue during the period (2005: 386,230,000 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 2006	19,855	39,307	(83,345)	(24,183)
Loss for the period	–	–	(1,481)	(1,481)
At 31 August 2006	19,855	39,307	(84,826)	(25,664)

	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)

5. Litigations

As at the date of this report, the Group has been involved in the following litigations:

(a) On 16 December 2004, a writ was issued by a telecom service provider ("plaintiff") against two wholly-owned subsidiaries of the Group and a director of the Company 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 had 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 is not expected in the near future. No further action was taken by the service provider since the date of order up to the date of this report. As at 31 August 2006, the net payable recorded in the consolidated balance sheet of the Group to the service provider was approximately HK$3,649,000 and is considered adequate by the directors.

(b) On 6 January 2005, a writ was issued by a software provider against a wholly-owned subsidiary of the Group for outstanding and disputed invoices amounting to approximately HK$281,000. The Group is in dispute with the software provider of the outstanding balance as the delivery of software products was not completed. On 29 July 2005, the wholly-owned subsidiary made a counter claim against the software provider of approximately HK$4,418,000 representing the damages made to the Group as a result of the breach of service contract by the software provider. Although full provision has been made in the accounts, the directors are of the opinion that the Group is not liable to the balance claimed by the software provider. Up to the date of this report, no further action was taken by the software provider and the Group.

(c) Other than the writs as mentioned above, up to the date of this report, the Group has a number litigation processings in respect of outstanding liabilities arising in the normal course of its business of approximately HK$1,495,000. The Directors of the Company are in the process to negotiate with the creditors for revision of 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 were 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 2006, the Group recorded turnover of approximately HK$1.7 million, representing a decrease of 40.9% 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").

The operating and selling expenses reduced by 31% from HK$2.9 million in the same quarter last year to HK$2 million in this quarter.

OPERATION REVIEW

In the first quarter, the revenue from calling cards IDD is rather stable and the Company is focusing more on overseas business opportunities especially on the voice over IP application.

In this quarter, the Group has successfully tested wifi phone in different countries such as Philippines, Japan and Hong Kong some are with wimax feature.

BUSINESS OUTLOOK

The Group will continue maintain the revenue of IDD and calling card business in the local market and in the mean time to dig out business opportunities in wimax and wifi in foreign countries.

As to cope with the business opportunities on wimax and wifi, the Company starts talking to potential investors in order to secure financial resources to support those projects.

In addition to the wimax and wifi, the Company will also find business partners in overseas who have access to local telecom franchise and distribution channels for the upcoming new applications and services.

OTHER INFORMATION

Interim Dividends

The Directors do not recommend the payment of an interim dividend for the three months ended 31 August 2006 (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

At 31 August 2006, 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 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%
		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 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.

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 2006, neither the Company, nor any of its subsidiaries has purchased, redeemed or sold any of the Company's shares.

CORPORATE GOVERNANCE PRACTICES

The corporate governance principles of the company emphasise a quality Board, sound internal controls, transparency and accountability to all shareholders. Throughout the financial year ended 31st May 2006, the Group has compiled with the code provisions in the Code on Corporate Governance Practices (the Code) as set out in Appendix 15 of the GEM Listing Rules, except for the code provision A 2.1 stipulated in the following paragraphs.

The code provision A 2.1 stipulates that the roles of Chairman and Chief Executive Officer ("CEO") should be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and Chief Executive Officer should be clearly established and set out in writing.

Mr. James Ang is both the Chairman and CEO of the Company who is responsible for managing the Board and the Group's business. Mr. Ang has been the Chairman and CEO since the establishment of the Company. The Board considers that, with the present board structure and scope of business, there is no imminent need to separate the roles into two individuals. However, the Board will continue to review the effectiveness of the Group's corporate governance structure to assess whether the separation of the position of Chairman and CEO is necessary.

AUDIT COMMITTEE

The Company has established an Audit Committee ("AC") with specific terms of reference explaining its role and authorities delegated by the Board. The AC consists of three independent non-executive Directors, Mr. Li Chi Wing, Mr. Chan Chun Chung, William and Mr. Yeung Kam Yuen, Roderick who together have sufficient accounting and financial management expertise, legal and business experience to carry out their duties.

The AC's principal duties include reviewing the Group's financial control, internal control and risk management, review and monitor the integrity of financial statements and reviewing annual, interim and quarterly financial statements and report before submission to the Board. The AC meets with the external auditors and the management of the Group to ensure that the audit findings are addressed properly.

The AC has reviewed the quarterly results of the Company for the period ended 31st August 2006 and was content that the accounting policies of the Group are in accordance with the generally accepted accounting practices in Hong Kong.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company has established a Remuneration Committee (RC) with specific terms of reference which deals clearly with its authorities and duties. Mr. Li Chi Wing, an independent non executive Director, is the Chairman of the RC and other members are Mr. Chan Chun Chung, William and Ms. Yau Pui Chi, Maria. All RC members are independent non-executive Directors of the Company.

The role and function of RC is to oversee Board remuneration matters, including recommend the Board the Company's policies and structure for the remuneration of the Directors and senior management, determine the remuneration packages of all executive Directors and senior management, review compensation to Directors and senior management in connection with any loss or termination of their office or appointment and to ensure that no Director or any of his associates is involved in deciding his own remuneration.

BOARD PRACTICES AND PROCEDURES

During the three months ended 31 August 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, 13th October 2006