



2006/2007

INTERIM REPORT

NETEL

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 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 INCOME STATEMENT

For the period ended 30 November 2006

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

	Note	For the three months ended 30 November		For the six months ended 30 November	
		2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)
Turnover	2	1,510	3,384	3,250	6,341
Cost of sales		(997)	(1,330)	(2,201)	(3,626)
Gross profit		513	2,054	1,049	2,715
Other revenues		-	322	-	326
Selling and marketing expenses		(78)	(28)	(103)	(72)
Administrative expenses		(1,999)	(2,262)	(3,934)	(5,132)
Operating (loss)/profit	3	(1,564)	86	(2,988)	(2,163)
Finance costs		-	(30)	(8)	(38)
(Loss)/profit for the period		<u>(1,564)</u>	<u>56</u>	<u>(2,996)</u>	<u>(2,201)</u>
Attributable to:					
Equity holders of the Company		(1,552)	(184)	(2,982)	(2,441)
Minority interests		(12)	240	(14)	240
(Loss)/profit for the period		<u>(1,564)</u>	<u>56</u>	<u>(2,996)</u>	<u>(2,201)</u>
(Loss)/earnings per share	5				
- Basic (HK cents)		<u>(0.41)</u>	<u>0.01</u>	<u>(0.78)</u>	<u>(0.57)</u>

CONSOLIDATED BALANCE SHEET

As at 30 November 2006

	Note	As at 30 November 2006 HK\$'000 (Unaudited)	As at 31 May 2006 HK\$'000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment		<u>6,091</u>	<u>6,850</u>
Current assets			
Inventories		185	185
Trade and other receivables	6	2,021	2,261
Bank balances and cash		<u>56</u>	<u>164</u>
		<u>2,262</u>	<u>2,610</u>
Total assets		<u>8,353</u>	<u>9,460</u>
EQUITY			
Capital and reserves			
Share capital		3,862	3,862
Reserves		<u>(27,165)</u>	<u>(24,183)</u>
Shareholders' deficits		(23,303)	(20,321)
Minority interests		(12)	2
Non-current liabilities			
Long-term liabilities		127	172
Current liabilities			
Trade and other payables	7	20,308	20,640
Due to a director		11,098	8,877
Current portion of long-term liabilities		<u>135</u>	<u>90</u>
		<u>31,541</u>	<u>29,607</u>
Total liabilities		<u>31,668</u>	<u>29,778</u>
Total equity and liabilities		<u>8,353</u>	<u>9,460</u>
Net current liabilities		<u>(29,279)</u>	<u>(26,997)</u>
Total assets less current liabilities		<u>(23,188)</u>	<u>(20,147)</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 30 November	
	2006	2005
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash outflow from operating activities	(2,329)	(374)
Net cash inflow from financing activities	2,221	240
	<hr/>	<hr/>
Decrease in cash and cash equivalents	(108)	(134)
Cash and cash equivalents at beginning of period	164	132
	<hr/>	<hr/>
Cash and cash equivalents at end of period	56	(2)
	<hr/> <hr/>	<hr/> <hr/>
Analysis of balances of cash and cash equivalents		
Bank balances and cash	56	92
Bank overdrafts	-	(94)
	<hr/>	<hr/>
	56	(2)
	<hr/> <hr/>	<hr/> <hr/>

■ CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company					Minority interests	Total
	Share capital	Share premium	Merger reserve	Accumulated losses	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
As at 1 June 2006	3,862	19,855	39,307	(83,343)	(20,319)	(2)	(20,321)
Loss for the period	–	–	–	(2,996)	(2,996)	14	(2,982)
As at 30 November 2006	<u>3,862</u>	<u>19,855</u>	<u>39,307</u>	<u>(86,339)</u>	<u>(23,315)</u>	<u>12</u>	<u>(23,303)</u>

	Attributable to equity holders of the Company					Minority interests	Total
	Share capital	Share premium	Merger reserve	Accumulated losses	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
As at 1 June 2005	3,862	19,855	39,307	(78,093)	(15,069)	(7)	(15,076)
Loss for the period	–	–	–	(2,441)	(2,441)	240	(2,201)
As at 30 November 2005	<u>3,862</u>	<u>19,855</u>	<u>39,307</u>	<u>(80,534)</u>	<u>(17,510)</u>	<u>233</u>	<u>(17,277)</u>

■ NOTES TO FINANCIAL STATEMENTS

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 2006 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 2006.

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 2006 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 2006			Group HK\$'000 (Unaudited)
	Sale of equipment HK\$'000 (Unaudited)	End-users direct sales HK\$'000 (Unaudited)	Carrier sales HK\$'000 (Unaudited)	
Turnover	<u>20</u>	<u>3,172</u>	<u>58</u>	<u>3,250</u>
Segment results	<u>-</u>	<u>(2,054)</u>	<u>(215)</u>	<u>(2,269)</u>
Other revenues				-
Unallocated costs				<u>(719)</u>
Operating loss				<u>(2,988)</u>
Finance costs				<u>(8)</u>
Loss for the period				<u>(2,996)</u>
Segment assets	<u>1,068</u>	<u>4,999</u>	<u>2,103</u>	<u>8,170</u>
Unallocated assets				<u>183</u>
				<u>8,353</u>
Segment liabilities	<u>2,301</u>	<u>11,854</u>	<u>15,394</u>	<u>29,549</u>
Unallocated liabilities				<u>2,119</u>
				<u>31,668</u>
Capital expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Unallocated capital expenditures				<u>-</u>
				<u>-</u>
Depreciation	<u>47</u>	<u>514</u>	<u>198</u>	<u>759</u>
Unallocated depreciation				<u>-</u>
				<u>759</u>

2. Segment information (continued)

Primary report format – business segments (continued)

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

2. Segment information (continued)

Secondary reporting format – geographical segment

	Six months ended 30 November 2006			
	Turnover HK\$'000 (Unaudited)	Segment results HK\$'000 (Unaudited)	Total assets HK\$'000 (Unaudited)	Capital expenditures HK\$'000 (Unaudited)
Hong Kong	3,209	(2,656)	8,353	–
Other countries	41	(332)	–	–
	<u>3,250</u>	<u>(2,988)</u>	<u>8,353</u>	<u>–</u>
Other revenues		–		
Operating loss		<u>(2,988)</u>		
	Six months ended 30 November 2005			
	Turnover HK\$'000 (Unaudited)	Segment results HK\$'000 (Unaudited)	Total assets HK\$'000 (Unaudited)	Capital expenditures HK\$'000 (Unaudited)
Hong Kong	4,447	(3,069)	10,067	–
Other countries	1,394	580	710	–
	<u>5,841</u>	<u>(2,489)</u>	<u>10,777</u>	<u>–</u>
Other revenues		326		
Operating loss		<u>(2,163)</u>		

3. Operating (loss)/profit

	For the three months ended 30 November		For the six months ended 30 November	
	2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)
Operating (loss)/profit is stated after charging:				
Cost of inventories sold	50	479	168	702
Depreciation				
– owned assets	349	336	699	655
– leased assets	30	104	60	199
Operating lease-land and buildings	182	420	394	760
Provision for impairment of receivables	300	–	300	503
Staff costs (including directors' emoluments)	639	813	1,446	1,709

4. Income tax expense

- (i) No provision for Hong Kong profits tax has been made for the six months ended 30 November 2005 and 2006 as the Group has no assessable profits for both period.
- (ii) No deferred taxation has been provided for the six months ended 30 November 2005 and 2006 as there are no material unprovided deferred tax assets/liabilities which are expected to be crystallised in the foreseeable future.

5. Loss per share

The calculations of basic loss per share for the three months and six months ended 30 November 2006 are based on the Group's loss for the three months and six months ended 30 November 2006 of approximately HK\$1,564,000 and HK\$2,996,000 respectively (profit for period of three months ended 30 November 2005 approximately HK\$56,000 and loss for period of six months ended 30 November 2005 approximately HK\$2,201,000) and the weighted average of 386,230,000 shares in issue during the three months and six months ended 30 November 2006 respectively (three months and six months ended 30 November 2005: 382,076,667 shares).

Diluted (loss)/earnings per share for the three months and six months ended 30 November 2006 is not presented as there is no dilutive instrument granted by the Company (three months and six months ended 30 November 2005: Nil).

6. Trade and other receivables

	As at 30 November 2006 HK\$'000 (Unaudited)	As at 31 May 2006 HK\$'000 (Audited)
Trade receivable (<i>note</i>)	515	835
Prepayments and deposits	1,506	1,426
	<u>2,021</u>	<u>2,261</u>

Note:

The majority of the Group's turnover are entered into on credit terms ranging from 30 to 90 days. The ageing analysis of trade receivable at the respective balance sheet dates were as follows:

	As at 30 November 2006 HK\$'000 (Unaudited)	As at 31 May 2006 HK\$'000 (Audited)
0 – 30 days	177	321
31 – 60 days	49	56
61 – 90 days	36	45
Over 90 days	4,248	4,108
	4,510	4,530
Less: provision for impairment of receivables	(3,995)	(3,695)
	<u>515</u>	<u>835</u>

7. Trade and other payables

	As at 30 November 2006 HK\$'000 (Unaudited)	As at 31 May 2006 HK\$'000 (Audited)
Trade payable (<i>note</i>)	10,505	10,268
Accruals and other payables	8,780	9,349
Receipt in advance	1,023	1,023
	<u>20,308</u>	<u>20,640</u>

Note:

The ageing analysis of the trade payable were as follows:

	As at 30 November 2006 HK\$'000 (Unaudited)	As at 31 May 2006 HK\$'000 (Audited)
0 – 30 days	178	661
31 – 60 days	174	360
61 – 90 days	140	199
Over 90 days	10,013	9,048
	<u>10,505</u>	<u>10,268</u>

8. 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 30 November 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 last six months ended 30th November 2006, the Group recorded turnover is approximately HK\$3,250,000 representing a decrease of 49% as compared to the same period last year. This was due to the Company pulled out from very thin profit margin business such as IDD minutes wholesales. The Group is shifting from IDD business to WiFi and wimax IP phone and related application business.

The operating and selling expenses reduced by 22% from HK\$5,204,000 to HK\$4,037,000 in the same interim period compared to last year. The reduction in expenditure was due to the streamline of operation to achieve a higher level of output of the Group.

OPERATION REVIEW

The IDD business revenue was rather stable from the core customers group. Unfortunately, the Group does not see further growing potential in this market place and there will be a declining trend in term of revenue and profit in this particular business.

As the Company has successfully tested WiFi and wimax application in different overseas countries, the focus will be on the wifi , wimax and related application business in overseas. The Group is in the final stage of reaching agreement with related overseas corporation to launch such services.

On the other hand, the Company is also looking into earning potential out of her Lotus Club members and expand that operation to overseas countries including Macau, Philippines, Japan and South East Asia.

Furthermore, as to cope with the new business model, the Company is also discussing with different group of investors into the Company and the new business to pursue.

BUSINESS OUTLOOK

The Company will continue and maintain the existing IDD business and at the same time dig out business opportunities in China, South East Asian countries on WiFi, wimax and related application business.

The WiFi pilot installations in different countries were done in this period of time and the usage is up to expectation and the Company will set priority country pick up the right partner and deploy the services accordingly.

BUSINESS OUTLOOK *(continued)*

In addition to telephone services business, the Group will develop different related application for the existing and new customer base both in Hong Kong and overseas. The services will include but not limited to video application for different use, data application for different use.

This is the direction to head the company out of the “minutes” business of voice.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 November 2006, the Group had total assets of approximately HK\$8.4 million (as at 31 May 2006: HK\$9.5 million), including bank and cash balances of HK\$56,000 (as at 31 May 2006: HK\$164,000).

As at 30 November 2006, the total liabilities of the Group amounted to HK\$32 million (as at 31 May 2006: HK\$30 million). The borrowings gearing ratio, defined as total bank and finance lease borrowings divided by the shareholders’ funds as at 30 November 2006 and 31 May 2006 were not applicable as there were negative shareholders’ funds as at both dates. As at 30 November 2006, the Group had net current liabilities of HK\$29 million (as at 31 May 2006: net current liabilities of HK\$27 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 2006, the Group employed 8 (as at 30 November 2005: 17) 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 2006, 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 2006.

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 2006.

CHARGE ON GROUP ASSETS AND CONTINGENT LIABILITIES

As at 30 November 2006, the Group had no pledge and charge on the assets.

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

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 2006 (2005: 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 2006, 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

Name of Directors		Number of Share 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 30 November 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 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 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 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 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 six months ended 30 November 2006, the Group has complied 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 interim results of the Company for the period ended 30 November 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 six months ended 30 November 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, 12 January 2007

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.