



2006/2007
THIRD QUARTERLY 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 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 2007

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 2007 together with the comparative unaudited figures for the corresponding periods in 2006:

	For the three months ended		For the nine months ended	
	28 February 2007 HK\$'000 (Unaudited)	28 February 2006 HK\$'000 (Unaudited)	28 February 2007 HK\$'000 (Unaudited)	28 February 2006 HK\$'000 (Unaudited)
Turnover	1,334	3,459	4,584	9,800
Cost of sales	(1,108)	(1,324)	(3,309)	(4,950)
Gross profit	226	2,135	1,275	4,850
Other revenues	0	6	0	332
Selling and marketing expenses	(63)	(20)	(166)	(92)
Administrative expenses	(1,304)	(2,033)	(5,238)	(7,165)
Operating profit/(loss)	(1,141)	88	(4,129)	(2,075)
Finance costs	0	(7)	(8)	(45)
(Loss)/profit for the period	(1,141)	81	(4,137)	(2,120)
Attributable to:				
Equity holders of the Company	(1,129)	81	(4,111)	(2,360)
Minority interests	(12)	0	(26)	240
(Loss)/profit for the period	(1,141)	81	(4,137)	(2,120)
(Loss)/earnings per share				
– Basic (HK cents)	(0.30)	0.02	(1.07)	(0.55)

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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 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.

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 (2006: 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 (2006: Nil).

3. Earnings/(Loss) per share

The calculation of basic loss per share for the three months and nine months ended 28 February 2007 is based on the Group's loss for the three months ended 28 February 2007 of approximately HK\$(1,140,000) and the Group's loss for nine months ended 28 February 2007 of approximately HK\$(4,136,000) (three months and nine months ended 28 February 2006: earnings/(loss) for the period of approximately HK\$81,000 and (HK\$2,120,000) respectively) and the weighted average of 386,230,000 shares in issue during the three months and nine months ended 28 February 2007 respectively (three months and nine months ended 28 February 2006: 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 June 2006	19,855	39,307	(80,220)	(21,058)
Loss for the period	—	—	(4,137)	(4,137)
As at 28 February 2007	<u>19,855</u>	<u>39,307</u>	<u>(84,357)</u>	<u>(25,195)</u>
As at 1 June 2005	19,855	39,307	(78,100)	(18,938)
Loss for the period	—	—	(2,120)	(2,120)
As at 28 February 2006	<u>19,855</u>	<u>39,307</u>	<u>(80,220)</u>	<u>(21,058)</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.
- (c) 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

During the last three months ended February 2007, the Group record a turnover of HKD1.9 million that is a decrease of 44% compared to the same period last year. This was due to the pulling out of low margin IDD wholesales business and focus on calling card and web phones business.

On the other hand, the Group continue to right size the operation so the expenditure of this period was HKD1.4 million compared to HKD2 million of the same period last year and there was a 34% decrease in the expenditure.

OPERATION REVIEW

The IDD income from loyal customer base has been stable but due to the changes of consumer behaviour of using mobile phones to make direct IDD calls rather than calling card make this business no room for further expansion.

The Group has been selling the web phones and sip phones for certain market segment as a pilot test the result is encouraging and the Company is looking forward to further expand other market segments and look into opportunities in foreign countries of the same application.

On the other hand, the Company is also digging out the earning potentials from Lotus Club members in and outside Hong Kong, so video services through wifi may be provided to Lotus Club members in near future.

BUSINESS OUTLOOK

The Company will continue the IDD services and further expand the sip and web phones business and look into expansion potential in foreign countries.

The number of installation of web phones has been increasing in a slow momentum, the Company is basing on this model to raise investment fund for marketing and advertising purpose in order to cultivate the customer base.

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

INTERIM DIVIDENDS

The Directors do not recommend the payment of an interim dividend for the nine months ended 28 February 2007 (for the nine months ended 28 February 2006: 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 2007, 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 2007, 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%
		<hr/>	<hr/>
		22,488,000	5.82%
		<hr/> <hr/>	<hr/> <hr/>

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 2007, 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 2007, 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 2007, 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 2007.

BOARD PRACTICES AND PROCEDURES

During the nine months ended 28 February 2007, 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 April 2007