NETEL TECHNOLOGY (HOLDINGS) LIMITED

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 8256

FIRST QUARTERLY REPORT 2007/2008

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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 Technology (Holdings) Limited ("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.

UNAUDITED CONSOLIDATED INCOME STATEMENT

For the three months ended 31 August 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 ended 31 August 2007 together with the comparative unaudited figures for the corresponding period in 2006:

		For the three months Ended 31 August	
		2007	2006
	Notes	*HK$'000*	*HK$'000*
		(Unaudited)	(Unaudited)
Turnover		1,101	1,748
Cost of sales		(661)	(1,209)
Gross profit		440	539
Other revenues		1	–
Selling and marketing expenses		(107)	(74)
Administrative expenses		(1,045)	(1,939)
Loss from operating		(711)	(1,474)
Finance costs		(7)	(7)
Loss before taxation		(718)	(1,481)
Taxation		–	–
Loss after taxation		(718)	(1,481)
Attributable to:			
Equity holders of the Company		(718)	(1,481)
Minority interests		–	–
Loss for the year		(718)	(1,481)
Loss per share			
– basic and diluted		HK 0.18 cents	HK 0.38 cents

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of preparation of financial statements

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (1998 Revision) of the Cayman Islands. The Company's shares have been listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the Stock Exchange).

The principal activities of the Company and its subsidiaries (collectively referred to as the "Group") are trading of telecommunication equipment and provision of long distance call services in Hong Kong.

2. Basis of preparation

The unaudited consolidated results have been prepared in accordance with accounting principles generally accepted in Hong Kong which include Hong Kong Financial Reporting Standards ("HKFRS"), Hong Kong Accounting Standards and Interpretations (collectively, "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants. The accounting policies and methods of computation used in the preparation of this financial statements are the same as those adopted in preparing the annual audited financial statements for the year ended 31 May 2007.

3. 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).

4. Loss per share

The calculation of basic loss per share is based on the unaudited consolidated loss for the period of approximately HK718,000 (the same period ended of 2006: loss HK$1,481,000) and the weighted average of 387,063,333 shares in issue during the period (2006: 386,230,000).

Diluted loss per share for the current and prior period is not presented as there is no dilutive instrument granted by the Company.

5. Reserves

	Share Premium HK$'000	Merger Reserve HK$'000	Accumulated Losses HK$'000	Total HK$'000
At 31 May 2006	19,855	39,307	(83,343)	(24,181)
Transfer due to Group restructuring	0	(39,307)	39,307	0
Loss for the period	–	–	(6,009)	(6,009)
Balance as at 31 May 2007 (audited)	19,855	0	(50,045)	(30,190)
Issuance of shares	750	–	–	750
Share issue expenses	(155)	–	–	(155)
Loss for the year	–	–	(718)	(718)
Balance at 31 August 2007	20,450	–	(50,763)	(30,313)

Note: Merger reserve represents the difference between the nominal value of the share capital of subsidiaries acquired and the nominal value of shares issued by the Company.

6. 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. As at 31 August 2007, 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) 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$1,511,000. 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 for the three months ended 31 August 2007.

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.

7. Events after the date of period ended

As at the announcement dated 4 October 2007, the Company entered an agreement, acquiring 40% interest in Crown Multimedia in Philippines, which is engaged in VOIP services in the Philippines.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group recorded a total turnover HK$1.10 million in the first quarter ended 31 August 2007, a decrease of 37.0% from HK$1.7 million for the same quarter of last year. The decrease was attributable to the decrease in calling card sales and carrier sales. Although the turnover dropped in this period, the gross profit margin increased from 30.8% for the same quarter of last year to 39.9% for this quarter. The increase in overall gross profit margin was mainly attributable to the significant decrease in the expense of carrier sales, local access charge and link service fee, and the increase in sales of web phones. The loss for the quarter was also down from HK$1.48 million in the same quarter of last year to HK$0.72 million in this quarter, reflecting a significant improvement. The reduction in the loss for the quarter was due to the improvement of gross profit margin as the company is shifting from the wholesales minutes to voice over IP and there were significant cost reduction on the retail outlets.

The administrative expenses decreased by 45.9% from HK$1.94 million of the same period of last year to HK$1.05 million for this quarter.

BUSINESS REVIEW

During the three months ended period, the company has further right sized the operation of IDD calling card business in Hong Kong. The Company further focuses on international market for voice over IP (web phones and SIP phones) business and targets to get more funding for this operation.

The Company has acquired 40% equity interests of Crown Multimedia in Philippine on October 2007. After the acquisition, the Group can utilize its voice over IP license to operate in Philippines which opens up opportunities such as using voice over IP to replace land line, using Wi-Fi and Wimax to certain extend replace mobile phone and of course IDD business that will open totally a new market in term of product and territories for the Group.

In addition to this voice business, the Company is also looking at other value added services by using the existing platform and carry out such business not jut in the Philippines but other countries as well.

BUSINESS OUTLOOK

The business for the company will be more focused on the voice over IP products especially in the foreign markets through merging and acquisition in foreign countries.

The revenue of voice over IP is increasing and the company has put more resources on this business so we have a sales outlet in Central.

Since this is our direction, we shall look for more similar opportunities in foreign counties, not limited in Philippine.

DIVIDEND

The Company does not recommended the payment of any dividend for the three months ended 31 August 2007.

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 2007, apart from the details as follows, the Directors and chief executive do not have any other interests and short position 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 interest
Mr. James Ang ("Mr. Ang")	Long position	–	204,272,000 *(Note)*	52.55%
Ms. Yau Pui Chi, Maria (Spouse of Mr. Ang)	Long position	204,272,000	– *(Note)*	52.55%

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 shows that as at 31 August 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 Directors and Chief Executives.

Name of Shareholders		Corporate interest	Percentage
LeeMah Holdings, Ltd	Long position	11,244,000	2.89%
Mr. Mah Bing Hong	Long position	11,244,000	2.89%
		22,488,000	5.78%

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.

PURCHASES, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the three months ended 31 August 2007.

SHARE OPTIONS 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 31 August 2007, no share option was granted under the Share Option Scheme.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

Save as disclosed in the share option scheme under the section "Share Option Scheme" of this report, at no time during the period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any directors or their respective spouses or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

DIRECTORS' INTEREST IN A COMPETING BUSINESS

For the three months ended 31 August 2007, the directors are not aware of any business or interest of the directors, the management shareholders and their respective associates (as defined under the GEM Listing Rules) that compete or may compete with the business of the Group and any other conflicts of interests which any such person has or may have with the Group.

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 year ended 31 May 2007, 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 three months ended 31 August 2007 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.

INTERNAL CONTROL

The Board is responsible for maintaining sound and effective internal systems for the Company to safeguard its assets and shareholders' interests.

The Board reviews the internal control system of the Group annually and will take any necessary and appropriate action to maintain adequate internal control system to safeguard Company's equity. The effectiveness of the internal control system was discussed on annual basis with the Audit Committee.

BOARD PRACTICES AND PROCEDURES

During the three months ended 31 August 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, 12 October 2007