



# NETEL TECHNOLOGY (HOLDINGS) LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8256

THIRD QUARTERLY REPORT

2007/2008



## CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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*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.*

## NETEL TECHNOLOGY (HOLDINGS) LIMITED

### CONDENSED CONSOLIDATED INCOME STATEMENT

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 29 February 2008 together with the comparative unaudited figures for the corresponding period in 2007:

	Notes	For the three months ended 29 February		For the nine months ended 29 February	
		2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
Turnover	3	959	1,334	3,449	4,584
Cost of sales		(624)	(1,108)	(2,075)	(3,309)
Gross profit		335	226	1,374	1,275
Other revenues		153	-	971	-
Selling and marketing expenses		(11)	(63)	(218)	(166)
Administrative expenses		(783)	(1,304)	(4,246)	(5,238)
Profit/(Loss) from operating		(306)	(1,141)	(2,119)	(4,129)
Finance costs		(1)	-	(8)	(8)
Profit/(Loss) before taxation		(307)	(1,141)	(2,127)	(4,137)
Taxation	4	-	-	-	-
Profit/(Loss) after taxation		(307)	(1,141)	(2,127)	(4,137)
<b>Attributable to:</b>					
Equity holders of the Company		(307)	(1,129)	(2,127)	(4,111)
Minority interests		-	(12)	-	(26)
<b>Loss for the year</b>		<b>(307)</b>	<b>(1,141)</b>	<b>(2,127)</b>	<b>(4,137)</b>
Loss per share					
- basic and diluted	5	HK(0.08 cents)	HK (0.30 cents)	HK(0.55 cents)	HK (1.07 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, provision of long distance call services and provision of value added service on telecom.

### **2. Basis of preparation and principal accounting policies**

The unaudited condensed 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 issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of GEM Listing Rules. The accounting policies and methods of computation used in the preparation of the financial statements are the consistent those adopted in preparing the annual audited financial statements for the year ended 31 May 2007 except for the adoption of new Hong Kong Financial Reporting Standards ("HKFRS"), which also include HKASs and interpretations, amendments to standards and interpretations (collectively "New Standards") which are effective for accounting periods beginning on or after 1 June 2007.

### **3. Turnover**

Turnover represents the aggregate of the service income from the provision of long distance call services, the provision of value added service on telecom and the sales revenue from the trading of telecommunication equipment in Hong Kong, Mainland China and other countries.

### **4. 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 (2007: 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 (2007: Nil).

## NETEL TECHNOLOGY (HOLDINGS) LIMITED

### 5. Loss per share

The calculation of basic loss per share is for the three months and nine months ended 29 February 2008 are based on the unaudited consolidated loss for the three months and nine months ended 29 February 2008 period of approximately HK\$307,000 and HK\$2,127,000 respectively (loss for the same period ended of 2007: HK\$1,141,000 and HK\$4,137,000) and the weighted average of 388,730,000 and 388,174,444 shares in issue during the three months and the nine months ended 29 February 2008 (the same period ended of 2007: 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.

### 6. Reserves

	Share Premium <i>HK\$'000</i>	Merger Reserve <i>HK\$'000</i>	Accumulated Losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
As 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	0	0	(6,009)	(6,009)
Balance as at 31 May 2007 (audited)	19,855	0	(50,045)	(30,190)
Issuance of shares	975	0	0	975
Share issue expenses	(78)	0	0	(78)
Loss for the period	0	0	(2,127)	(2,127)
Balance at 29 February 2008 (unaudited)	20,752	0	(52,172)	(31,420)

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.

**7. 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 29 February 2008 the net payable recorded in the unaudited 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 processing 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 nine months ended 29 February 2008.

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.

**8. Events after the date of period ended**

As at the circular dated 23 October 2007, the Company entered an agreement, acquiring 40% interest in Crown Multimedia in Philippines, which is engaged in VOIP services in the Philippines. The acquirement will be completed at the end of the year.

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW

The Group recorded a total turnover HK\$0.96 million in the third quarters ended 29 February 2008, a decrease of 27.8% from HK\$1.33 million for the same period 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 27.8% for the same period of last year to 39.8% for this three quarters. The increase in overall gross profit margin was mainly attributable to the significant decrease in carrier sales that only contributed very thin profit margin and the increase in sales of web phones. The loss for the period was also down from HK\$1.14 million in the same period of last year to HK\$0.31 million in this period, reflecting a significant improvement. The reduction in the loss for the period 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.

The administrative expenses decreased from HK\$1.30 million of the same period of last year to HK\$0.78 million for this period.

## BUSINESS REVIEW

During the nine months ended period, the Company has re-set the business strategy that is to move out from IDD business and get into voice over IP and value added telecom services. As to cope with this strategy, Netel acquired 40% equity interest of Crown Multimedia in Philippines who has a voice over IP license there.

Furthermore, our team is working hard to launch IP technology value added services, such as Distance Learning etc.

In addition to this strategy, the Company is also focusing on other Merger and Acquisition opportunities that are telecom or non-telecom related venture. The purpose is to improve the revenue and profit of the Company.

## BUSINESS OUTLOOK

Since the Company has streamlined the operation, the overhead cost has been brought down to a minimum level and the existing calling card business still generate satisfactory profit, once others add in business pick up, the Company should be in good shape.

The Group has diversified out of Hong Kong, such as Philippines, and now looks for opportunities in China and other countries. The existing telecom IP platform has been invested, once the value added services is launched, then will be additional revenue and profit to bring in.

However, the quickest way to grow the business is to pursue Merger and Acquisition projects and the Company is also working hard on this.

## DIVIDEND

The Company dose not recommended the payment of any dividend for the nine months ended 29 February 2008.



## NETEL TECHNOLOGY (HOLDINGS) LIMITED

### 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 29 February 2008, 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

Name of Directors		Number of Shares held	Nature of Interest	Percentage
Mr. James Ang ("Mr. Ang")	Long position	204,272,000	Corporate Interest (Note)	52.55%
Ms. Yau Pui Chi, Maria (Spouse of Mr. Ang)	Long position	204,272,000	Family Interest	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 29 February 2008, 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		Number of Shares held	Nature of Interest	Percentage
Mr. Mah Bing Hong	Long position	11,244,000	Personal interest	2.89%
("Mr. Mah")	Long position	11,244,000	Corporate interest (Note)	2.89%
		22,488,000		5.78%

Note: These shares are owned by LeeMah Holdings Limited, a wholly owned by LeeMah Corporation which is owned as to 98.62% by Mah Family Partnership in which Mr. Mah is the beneficial owner. Mr. Mah is deemed to be interested in 11,244,000 shares held by LeeMah Holdings Limited.

**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 nine months ended 29 February 2008.

**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 29 February 2008, no share option was granted under the Share Option Scheme.

## **NETEL TECHNOLOGY (HOLDINGS) LIMITED**

### **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 nine months ended 29 February 2008, 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 nine months ended 29 February 2008, 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 CEO 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.

#### **Model Code on Securities Transaction by Directors**

The Board confirms, having made specific enquiries with all directors and supervisors, that during the nine months ended 29 February 2008, all members of the Board and all supervisors have complied with the required standards set out in the Model Code for Securities Transaction by Directors of Listed Issuer as contained in Chapter 5 of the GEM Listing Rules.

## **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 four independent non-executive Directors, Mr. Li Chi Wing, Mr. Chan Chun Chung, William, Mr. Yeung Kam Yuen, Roderick and Ms Tam May Yuk 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 period results of the Company for the nine months ended 29 February 2008 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, an independent non-executive Director, and Ms. Yau Pui Chi, Maria, an executive Director. A majority of the 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.

## **NETEL TECHNOLOGY (HOLDINGS) LIMITED**

### **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, through the Audit Committee, 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 nine months ended 29 February 2008, 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, 14 April 2008

Directors of the Company as at the date hereof.

*Executive Directors:*

Mr. James Ang

Ms. Yau Pui Chi, Maria

*Non-executive Directors:*

Mr. Li Chi Wing

Mr. Chan Chun Chung, William

Mr. Yeung Kam Yuen, Roderick

Ms. Tam May Yuk