



# NETEL TECHNOLOGY (HOLDINGS) LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8256

First Quarterly Report

**2008/2009**



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

**GEM has been positioned as a market designed to accommodate companies to which a high investment risk may be attached than other companies listed on the Exchange. 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.**

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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.*

## UNAUDITED CONSOLIDATED INCOME STATEMENT

For the three months ended 31 August 2008

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

		<b>For the three months Ended 31 August</b>	
		<b>2008</b>	2007
<i>Notes</i>		<b>HK\$'000</b>	HK\$'000
		<b>(Unaudited)</b>	(Unaudited)
Turnover	3	<b>1,294</b>	1,101
Cost of sales		<b>(427)</b>	(661)
		<hr/>	<hr/>
Gross profit		<b>867</b>	440
Other revenues	3	<b>29</b>	1
Selling and marketing expenses		<b>(30)</b>	(107)
Administrative expenses		<b>(1,370)</b>	(1,045)
		<hr/>	<hr/>
Loss from operating		<b>(504)</b>	(711)
Finance costs		-	(7)
Share of Loss of an associated company		<b>(53)</b>	-
		<hr/>	<hr/>
Loss before taxation		<b>(557)</b>	(718)
Taxation	4	-	-
		<hr/>	<hr/>
Loss after taxation		<b>(557)</b>	(718)
		<hr/>	<hr/>
<b>Attributable to:</b>			
Equity holders of the Company		<b>(557)</b>	(718)
Minority interests		-	-
		<hr/>	<hr/>
<b>Loss for the year</b>		<b>(557)</b>	(718)
		<hr/>	<hr/>
Loss per share			
- basic and diluted	5	<b>HK (0.11 cents)</b>	HK (0.18 cents)
		<hr/>	<hr/>

# 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 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 2008.

## 3. Turnover and Other Revenues

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.

Other revenues mainly comprises income from reversal of over provision of impairment of receivables in respect of prior year.

## 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).

## 5. Loss per share

The calculation of basic loss per share is based on the unaudited consolidated loss for the period of approximately HK\$57,000 (the same period ended of 2007: loss HK\$718,000) and the weighted average of 487,780,700 shares in issue during the period (2007: 387,063,333).

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>	Exchange reserve <i>HK\$'000</i>	Accumulated Losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 31 May 2007	19,855	–	(50,045)	(30,190)
Issuance of shares				
– by subscription	710	–	–	710
– by acquisition of an associate	417	–	–	417
Capitalisation of Shareholder's loan	9,818	–	–	9,818
Translation of foreign reserve	–	61	–	61
Loss for the year	–	–	(598)	(598)
Balance at 31 May 2008 (audited)	30,800	61	(50,643)	(19,782)
(Loss)/Profit for the year	–	–	(557)	(557)
Balance at 31 August 2008	30,800	61	(51,200)	(20,339)

## 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 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 Plaintiff failed to comply with the Court’s direction that the case was set down for trial in August 2006 and up to date of this announcement the plaintiff has failed to submit further evidence to substantiate the claim. The directors have sought the opinion from the legal advisor of the Group to review the legal position on this cases as at the period ended and conclude that the Group has a strong ground to defend and the net payable approximately HK\$2.2 million to the Plaintiff is considered adequate.

- (b) The Group has a number litigation processing in respect of outstanding liabilities arising in the normal course of its business of approximately HK\$0.9 million. The amount of the liabilities is adequately recorded in accounts payable for the period ended 31 August 2008. 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.

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 announcement dated 2 September 2008, the Company entered two subscription agreements to subscribe 37,040,000 new shares, the completion will be on or before 22 October 2008.

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

The Group recorded a total turnover HK\$1.29 million in the first quarter ended 31 August 2008, an increase of 17% from HK\$1.10 million for the same quarter of last year. The increase was attributable to the increase in the provision of SIP phone service and carrier sales. The loss for the quarter was also narrowed down from HK\$0.72 million in the same quarter of last year to HK\$0.56 million in this quarter, reflecting a significant improvement. The improvement was mainly due to the result of cost reduction of the operation and the increase in the provision of SIP phone service.

The administrative expenses increased by HK\$0.32 million from HK\$1.05 million of the same period of last year to HK\$1.37 million for this quarter. The increase was mainly due to the development of new platform for value added service.

## BUSINESS REVIEW

During the three months ended period, The Group has consolidated the technical centre with the administration and sales office that help to improve the efficiency of operation and further reduce our cost of operation. Besides, the Group has invested in developing new platform for value added services, such as distance learning, the system has just been completed recently.

The Group's associated company in Philippines assists the Group to further penetrate into the voice over IP market in the Philippines. The Company will also launch the value added services to the existing distribution networks and customers in the Philippines.

The Group has established an operation in China and is preparing to launch Mandarin training course through our worldwide distribution channels. There will be further investment made on the human resources, hardware and software for this new business. In addition to the Mandarin training, the Group is also planning to carry out several new lines of value added services through the platform.

## BUSINESS OUTLOOK

The Company has been moving from traditional IDD operation to voice over IP and value added services. In addition, the Group also branches out the business from Hong Kong to China and other overseas countries, such as Philippines. This movement is aim to capture more revenue and profit for the Group.

The profit margin of IDD business is decreasing in last couple years as the cost of operation in Hong Kong is very high. The Group therefore aims to diversify and expands its geographical market out of Hong Kong.

The Group also believes the new technology of WiFi and WiMax are another new generation of telecom services, so the Group's effort has been made on how to leverage the existing system with the new technologies and develop a new range of services.

## DIVIDEND

The Company does not recommended the payment of any dividend for the three months ended 31 August 2008.



## 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 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	267,353,800	Personal and Corporate Interest (Note)	54.81%
Ms. Yau Pui Chi, Maria (Spouse of Mr. Ang)	Long position	267,353,800	Family Interest	54.81%

Note: These Shares are registered as to 13,081,800 Shares held by Mr. Ang in person, 192,200,000 Shares in the name of Nanette Profits Limited ("Nanette"), 5,692,000 Shares in the name of Benevolent Trading Limited ("Benevolent"), 6,380,000 Shares in the name of Cyber Wealth Company Group Limited ("Cyber Wealth") and 50,000,000 Shares in the name of Bluechip Combination Investments Limited ("Bluechip"). Nanette, Benevolent, Cyber Wealth and Bluechip are companies wholly-owned by Mr. Ang.

## **SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OF THE COMPANY**

Save as the interest disclosed above in respect of certain directors, the Company has not been notified of any other shareholders who had interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or recorded in the register of substantial shareholders maintained by the Company under Section 336 of the SFO, or who is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of the Company as at 31 August 2008.

## **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 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 31 August 2008, 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 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 three months ended 31 August 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 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.

Under the code provision A.4.1, non-executive Directors should be appointed for a specific term and subject to re-election. However, all the independent non-executive Directors of the Company are not appointed for specific terms but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Articles of Association of the Company. The Company considers that sufficient measures have been taken to ensure good corporate governance practices of the Company in this aspect of the code.

## AUDIT COMMITTEE

The Company has established an Audit Committee with specific terms of reference explaining its role and authorities delegated by the Board. The Audit Committee consists of three independent non-executive Directors, Mr. Chiang Kin Kon, Mr. Wong Kwok Fai and Ms. Tam May Yuk who together have sufficient accounting and financial management expertise, legal and business experience to carry out their duties.

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

The Audit Committee has reviewed the quarterly results of the Company for the three month ended 31 August 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 with specific terms of reference which deals clearly with its authorities and duties. The Remuneration Committee currently consists of two independent non-executive Directors and an executive Director; Ms. Yau Pui Chi, Maria, executive Director, is the Chairman of the Remuneration Committee, and other members are Mr. Wong Kwok Fai, an independent non-executive Director, and Mr. Chiang Kin Kon, an independent non-executive Director. The majority members of the Remuneration committee are independent non-executive Directors of the Company.

The role and function of Remuneration Committee 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 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, 13 October 2008

Directors of the Company as at the date hereof:

*Executive Directors*

Mr. James Ang

Mr. Wei Ren

Ms. Yau Pui Chi, Maria

*Independent Non-executive Directors*

Mr. Chiang Kin Kon

Mr. Wong Kwok Fai

Ms. Tam May Yuk