



# NETEL TECHNOLOGY (HOLDINGS) LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8256

Interim Report  
**2008/2009**



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

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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.*

## CONDENSED CONSOLIDATED INCOME STATEMENT

The directors (the "Directors") of Netel Technology (Holdings) Limited (the "Company") are pleased to announce the following unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the three months and six months ended 30 November 2008 together with the comparative unaudited figures for the corresponding period in 2007:

		For the three months ended 30 November		For the six months ended 30 November	
		2008	2007	2008	2007
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Turnover	3	1,637	1,389	2,931	2,490
Cost of sales		(828)	(790)	(1,255)	(1,451)
Gross profit		809	599	1,676	1,039
Other revenues	4	1	817	30	818
Selling and marketing expenses		(64)	(100)	(94)	(207)
Administrative expenses		(1,238)	(2,418)	(2,608)	(3,463)
Loss from operating	5	(492)	(1,102)	(996)	(1,813)
Finance costs		-	-	-	(7)
Share of loss of an associated company		(59)	-	(112)	-
Loss before taxation		(551)	(1,102)	(1,108)	(1,820)
Taxation	7	-	-	-	-
Loss after taxation		(551)	(1,102)	(1,108)	(1,820)
<b>Loss attributable to:</b>					
Equity holders of the Company		(574)	(1,102)	(1,131)	(1,820)
Minority interests		23	-	23	-
<b>Loss for the year</b>		<b>(551)</b>	<b>(1,102)</b>	<b>(1,108)</b>	<b>(1,820)</b>
Loss per share					
- basic and diluted	8	HK(0.12 cents)	HK(0.28 cents)	HK(0.23 cents)	HK(0.47 cents)

## CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	As at 30 November 2008 HK\$'000 (Unaudited)	As at 31 May 2008 HK\$'000 (Audited)
<b>Non-Current Assets</b>			
Plant and equipment	6	3,312	3,943
Investment in an associated company		317	429
		3,629	4,372
<b>Current Assets</b>			
Inventories		30	30
Trade receivables	9	836	543
Prepayment, deposit and other receivables	9	1,745	2,451
Bank balances and cash		269	454
		2,880	3,478
Total Assets		6,509	7,850
<b>Current Liabilities</b>			
Trade payables	10	(10,236)	(9,885)
Receipt in advance, accruals and other payables	10	(4,362)	(7,011)
Amount due to a director		(5,894)	(5,770)
		(20,492)	(22,666)
<b>Net Current Liabilities</b>		(17,612)	(19,188)
<b>Total Assets Less Current Liabilities</b>		(13,983)	(14,816)
<b>Non-Current Liabilities</b>			
Long-term liabilities		–	–
<b>Net Liabilities</b>		(13,983)	(14,816)
<b>Equity</b>			
Share capital		5,248	4,878
Share premium and reserves		(19,342)	(19,782)
<b>Equity attributable to equity holders of the Company</b>		(14,094)	(14,904)
Minority interests		111	88
Total Equity		(13,983)	(14,816)

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months  
ended 30 November

	<b>2008</b> <i>HK\$'000</i> <b>(unaudited)</b>	2007 <i>HK\$'000</i> (unaudited)
Net cash used in operating activities	<b>(2,250)</b>	(3,542)
Net cash (used in)/generated from investing activities	–	(48)
Net cash generated from financing activities	<b>2,065</b>	3,618
<b>(Decrease)/increase in cash and cash equivalents</b>	<b>(185)</b>	28
Cash and cash equivalents at beginning of the period	<b>454</b>	299
Cash and cash equivalents at the end of the period	<b>269</b>	327
<b>Analysis of balance of cash and cash equivalents</b>		
Bank balances and cash	<b>269</b>	327

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

### Attributable to equity holder of the Company

	Share Capital	Share Premium	Exchange Reserve	Accumulated Losses	Total	Minority Interests	Total Equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance as at 1 June 2007	3,862	19,855	-	(50,045)	(26,328)	-	(26,328)
Issue of new shares	1,016	10,945	-	-	11,961	-	11,961
Translation of foreign reserve	-	-	61	-	61	-	61
Loss for the period	-	-	-	(598)	(598)	88	(510)
Balance as at 31 May 2008 (audited)	4,878	30,800	61	(50,643)	(14,904)	88	(14,816)
Issuance of new shares	370	1,571	-	-	1,941	-	1,941
Loss for the period	-	-	-	(1,131)	(1,131)	23	(1,108)
Balance as at 30 November 2008 (unaudited)	5,248	32,371	61	(51,774)	(14,094)	111	(13,983)

# NOTES TO THE FINANCIAL STATEMENTS

## 1. Corporate information

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, provision of long distance call services and provision of value added telecom services.

## 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 Accounting Standards ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the applicable the disclosure requirements of GEM Listing Rules.

This condensed interim financial information should be read in conjunction with the financial statements of the Group for the year ended 31 May 2008.

The accounting policies and methods of computation used in the preparation of this unaudited condensed interim financial statements are consistent with those adopted in preparing the annual audited financial statements for the year ended 31 May 2008 except for the adoption of new and revised 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 2008 as set out below.

HK (IFRIC) – Int 11  
HK (IFRIC) – Int 12  
HK (IFRIC) – Int 14

HKFRS 2 Group and Treasury Share Transactions  
Service Concession Arrangements  
HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of the above New Standards has no material impact on the accounting policies of the Group and the methods of computation in the Groups' unaudited condensed consolidated interim financial statements.

The Group has not early applied the following new and revised standards and interpretations that have been issued but are not yet effective for the current accounting period. The directors of the Company anticipate that the application of these standards, amendments and interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Revised)	Presentation of Financial Statements <sup>1</sup>
HKAS 23 (Revised)	Borrowing Costs <sup>1</sup>
HKAS 27 (Revised)	Consolidated and Separate Financial Statements <sup>2</sup>
HKFRS 2 (Amendment)	Share-based Payment – Vesting Conditions and Cancellation <sup>1</sup>
HKFRS 3 (Revised)	Business Combinations <sup>2</sup>
HKFRS 8	Operating Segments <sup>1</sup>
HK (IFIC) – Int 13	Customer Loyalty Programmes <sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2009

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2009

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2008

### 3. Turnover and segment information

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

Segment information about these businesses is presented below:

#### **Business segments**

#### **Results (unaudited)**

	For the six months ended 30 November 2008			
	Long distance call services			Group HK\$'000
	Sale of equipment HK\$'000	End-users direct sales HK\$'000	Carrier sales HK\$'000	
Turnover	72	2,297	562	2,931
Segment results	49	(871)	80	(742)
Other revenues				30
Operating loss				(712)
Unallocated cost				(396)
Finance costs				-
Loss before taxation				(1,108)
Taxation				-
Loss for the period				(1,108)



## Results (unaudited)

	For the six months ended 30 November 2007			
	Long distance call services			
	Sale of equipment <i>HK\$'000</i>	End-users direct sales <i>HK\$'000</i>	Carrier sales <i>HK\$'000</i>	Group <i>HK\$'000</i>
Turnover	18	2,267	205	2,490
Segment results	–	(1,596)	(179)	(1,775)
Other revenues				818
Operating loss				(957)
Unallocated cost				(856)
Finance costs				(7)
Loss before taxation				(1,820)
Taxation				–
Loss for the period				(1,820)

## Geographical segments

The following table provides an analysis of the Group's revenue by geographical market, irrespective of the origin of the goods or services:

(unaudited)

	Turnover For the six months ended 30 November		Segment result For the six months ended 30 November	
	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
By geographical market:				
Hong Kong	2,266	2,267	(574)	(1,596)
Mainland China	155	–	(39)	–
Other countries	510	223	(129)	(179)
	2,931	2,490		
Other revenues			30	818
Loss from operations			(712)	(957)

#### 4. Other revenues

Other revenues mainly comprises income from gain on disposal of fixed assets and reversal of over provision of impairment of receivables in respect of prior year.

#### 5. Loss from operations

	For the six months ended 30 November	
	2008 HK\$'000 (unaudited)	2007 HK\$'000 (unaudited)
Loss from operations has been arrived at after charging:		
Cost of inventories sold	23	–
Depreciation and amortisation on		
Owned assets	631	583
Operating lease-land and buildings	105	163
Staff costs, (including directors' remuneration)		
Retirement benefits scheme contributions	38	65
Salaries and other benefits	1,259	1,188

#### 6. Plant and equipment

As at the period ended 30 November 2008, the Group's plant and equipment was amounting to approximately HK\$3,312,000 (31 May 2008: approximately HK\$3,943,000). The directors consider that the fair value of the plant and equipment at 30 November 2008 does not change significantly from their carrying amount at 31 May 2008.

The Group had not disposed any plant and equipment (the same period ended of 2007: approximately HK\$217,000), and had not acquire any plant and equipment (the same period of 2007: approximately HK\$263,000) during the six months ended 30 November 2008.

#### 7. 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).

## 8. Loss per share

The calculation of basic loss per share is for the three months and six months ended 30 November 2008 are based on the unaudited consolidated loss for the three months and six months ended 30 November 2008 of approximately HK\$574,000 and HK\$1,131,000 respectively (loss for the same period ended of 2007: HK\$1,102,000 and HK\$1,820,000) and the weighted average number of 498,770,590 and 493,245,618 ordinary shares in issue during the three months and the six months ended 30 November 2008 (the same period ended of 2007: 387,896,667).

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

## 9. Trade and other receivables

	<b>As at 30 November 2008 HK\$'000 (unaudited)</b>	As at 31 May 2008 HK\$'000 (audited)
Trade receivables (Note)	<b>836</b>	543
Other receivables, prepayments and deposits	<b>1,745</b>	2,451
	<b>2,581</b>	2,994

Note:

Majority of the Group's turnover are entered into on credit terms ranging from 30 to 120 days. Ageing analysis of trade receivables at the respective balance sheet dates is as follows:

	<b>As at 30 November 2008 HK\$'000 (unaudited)</b>	As at 31 May 2008 HK\$'000 (audited)
0 – 30 days	<b>181</b>	293
31 – 60 days	<b>24</b>	22
61 – 90 days	<b>21</b>	10
Over 90 days	<b>3,941</b>	3,572
	<b>4,167</b>	3,897
Less: provision for impairment of receivables	<b>(3,331)</b>	(3,354)
	<b>836</b>	543

## 10. Trade and other payables

	<b>As at 30 November 2008 HK\$'000 (unaudited)</b>	As at 31 May 2008 HK\$'000 (audited)
Trade payables (Note)	<b>10,236</b>	9,885
Other payables and accruals	<b>3,962</b>	6,611
Receipt in advance	<b>400</b>	400
	<b>14,598</b>	16,896

Note:

Majority of the Group's purchase are entered into on credit terms ranging from 60 to 90 days. Ageing analysis of trade payables at respective balance sheet dates is as follows:

	<b>As at 30 November 2008 HK\$'000 (unaudited)</b>	As at 31 May 2008 HK\$'000 (audited)
0 – 30 days	<b>393</b>	59
31 – 60 days	<b>68</b>	5
61 – 90 days	<b>48</b>	5
Over 90 days	<b>9,727</b>	9,816
	<b>10,236</b>	9,885

## 11. 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 be set down for trial in August 2006 and up to date of this report 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 case and conclude that the Group has a strong ground to defend and the net payable approximately HK\$2,166,000 to the Plaintiff is considered adequate.

- (b) The Group has a number of litigation processings in respect of outstanding payable liabilities arising in the normal course of its business of approximately HK\$1,105,000. The amount of the liabilities is adequately recorded in accounts payable for the period ended 30 November 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.
- (c) On 15 December 2008, the Group discussed with the legal adviser of the Group against a telecom operator on a potential claim and disputed invoices, the Group has filed a statement of claim on 14 September 2006. The Group will seek the opinion for the legal adviser of the Group to review the pursuing in the coming quarter. The Directors are of the opinion that this litigation 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.

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW

The Group recorded a total turnover of approximately HK\$2.93 million in the first six months ended 30 November 2008, a increase of 17.67% from approximately HK\$2.49 million for the same period of last year. The increase was attributable to the increase in SIP service revenue and carrier sales. Although the turnover dropped in this period, the gross profit margin increased from 41.7% for the same period of last year to 57.2% for this period. The increase in overall gross profit margin was mainly attributable to the increase in the provision of SIP and web phones services. The loss for the period was also narrowed down from approximately HK\$1.82 million in the same period of last year to HK\$1.11 million in this period, reflecting a significant improvement in cost reduction on the operations.

The administrative expenses decreased by 24.6% from approximately HK\$3.46 million of the same period of last year to approximately HK\$2.61 million for this period.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 30 November 2008, the Group had total assets of approximately HK\$6.51 million (31 May 2008: HK\$7.85 million), including bank and cash balance of approximately HK\$0.27 million (31 May 2008: HK\$0.45 million).

As at 30 November 2008, the gearing ratio, defined as total bank and finance lease borrowings divided by the shareholders' fund was not applicable as there was negative shareholder's fund (31 May 2008: not applicable). The Group had net current liabilities of approximately HK\$17.61 million (31 May 2008: HK\$19.19 million).

## BUSINESS REVIEW

During the six months ended period, the Group's associated company in Philippines further penetrates into the voice over IP market. The associated company launched a "call station" program; a "telecom franchise", which users can make IDD calls in the Philippines through our voice over IP platform. Each "call station" has the consent of the National Telecommunication Commission in the Philippines. The business leverages the Company's previous investments of the telecommunication system, and utilizes the telecom license of the associated company.

Besides, the development of the distance learning web site is completed; the Company is looking for distributors worldwide and has received positive feedback. The Company has invested lot efforts in the distance learning business, and this will be another main business of the Group.

During the six months ended, the Research and Development team has developed certain telecom features under our voice over IP platform; it will be other kinds of application, and will be launched in the next quarter.

## BUSINESS OUTLOOK

As the profit margin of IDD and voice over IP service is better in Philippines compares with Hong Kong, the Group will target on the "Call Station" business model in Philippines and the Filipino community. The Company will further develop the voice over IP technology into wireless network in Philippines, when the 4G wimax technology become mature.

Cyber education will be one of the key value add services of the Group in future, the distance learning of Mandarin will be the Group's first stage development on cyber education. The Company will further put more effort to establish a high quality and good skills of services in the cyber education business.

The Company believes that the Group will be profitable, when the new businesses are emerging.

## INTERIM DIVIDEND

The Company does not recommend the payment of any interim dividend for the half year ended 30 November 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 30 November 2008, 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 otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Rule 5.49 to 5.67 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the "GEM Listing Rules"), were as follows:

### 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	251,879,800	Personal, Corporate and Family Interest (Note)	47.99%
Ms. Yau Pui Chi, Maria ("Ms. Yau") Spouse of Mr. Ang	Long position	251,879,800	Personal and Family Interest (Note)	47.99%

Note: These Shares are registered as to 357,800 Shares held by Mr. Ang in person, 2,942,000 Shares held by Ms Yau, 192,200,000 Shares in the name of Nanette Profits Limited ("Nanette"), 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, 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 30 November 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 six months ended 30 November 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 30 November 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 six months ended 30 November 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 six months ended 30 November 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 Article 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.

## CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the rules set out in Rule 5.48 to 5.67 (where applicable) of the GEM Listing Rules as the code for dealing in securities of the Company by the Directors (the "Code"). The Company has made specific enquiry of all Director of the Company, and the Directors have confirmed compliance with the Code during the period ended 30 November 2008.

Specific employees who are likely to be in possession of unpublished price-sensitive information of the Group are also subject to compliance with the same Code. No incident of non-compliance was noted by the Company for the period ended 30 November 2008.

## 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 are included 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 period results of the Company for the six months ended 30 November 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, an executive Director, is the Chairman of the Remuneration Committee, 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, 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 six months ended 30 November 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, 9 January 2009

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