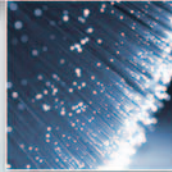




NETEL TECHNOLOGY (HOLDINGS) LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8256



First Quarterly Report
2009/2010



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.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the three months ended 31 August 2009

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 2009 together with the comparative unaudited figures for the corresponding period in 2008:

| | Notes | For the three months ended 31 August | |
|---|-------|---|---------------------------------|
| | | 2009 HK\$'000 (Unaudited) | 2008 HK\$'000 (Unaudited) |
| Turnover | | 872 | 1,294 |
| Cost of sales | | (569) | (427) |
| Gross profit | | 303 | 867 |
| Other revenues | | – | 29 |
| Selling and marketing expenses | | (105) | (30) |
| Administrative expenses | | (1,748) | (1,370) |
| Loss from operations | | (1,550) | (504) |
| Finance costs | | – | – |
| Share of loss of an associated company | | (44) | (53) |
| Loss before taxation | | (1,594) | (557) |
| Taxation | 3 | – | – |
| Loss for the period | | (1,594) | (557) |
| Attributable to: | | | |
| Equity holders of the Company | | (1,594) | (557) |
| Minority interests | | – | – |
| Loss for the period | | (1,594) | (557) |
| Loss per share | | | |
| – basic and diluted | 4 | HK(0.51 cents) | HK(0.11 cents) |

NOTES TO THE CONDENSED 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 2009.

The accounting policies and methods of computation used in the preparation of the unaudited condensed interim financial statements are consistent with those adopted in preparing the annual audited financial statements for the year ended 31 May 2009 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 2009 as set out below.

| | |
|---------------------|---|
| HKAS 1 (Revised) | Presentation of Financial Statements |
| HKAS 23 (Revised) | Borrowing Costs |
| HKAS 1 (Amendment) | Presentation of Financial Statements |
| HKAS 16 (Amendment) | Property, Plant and Equipment |
| HKAS 19 (Amendment) | Employee Benefits |
| HKAS 23 (Amendment) | Borrowing Costs |
| HKAS 27 (Amendment) | Consolidated and Separate Financial Statements |
| HKAS 31 (Amendment) | Interests in Joint Ventures |
| HKAS 36 (Amendment) | Impairment of Assets |
| HKAS 38 (Amendment) | Intangible Assets |
| HKFRS 2 (Amendment) | Share-based Payment Vesting Conditions and Cancellation |
| HKFRS 8 | Operating Segments |

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 not material impact on the results and the financial position of the Group.

| | |
|---------------------|---|
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements* |
| HKFRS 3 (Revised) | Business Combination* |
| HKFRS 5 (Amendment) | Non-current Assets Held for Sale and Discontinued Operations* |

* *Effective for annual periods beginning on or after 1 June 2011*

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 (2008: 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 (2008: Nil).

4. Loss per share

The calculation of basic loss per share is based on the unaudited consolidated loss for the period of approximately HK\$1,594,000 (the same period ended of 2008: loss HK\$557,000) and the weighted average of 315,342,554 shares in issue during the period (2008: 487,780,700).

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 <i>HK\$'000</i> | Exchange Reserve <i>HK\$'000</i> | Accumulated Losses <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|--|-------------------------------------|--|--|--------------------------|
| Balance as at 31 May 2008 | 30,800 | 61 | (50,643) | (19,782) |
| Issuance of new shares | 1,572 | – | – | 1,572 |
| Translation of foreign exchange reserve | – | (48) | – | (48) |
| Transfer upon cessation of business of subsidiary | – | – | 88 | 88 |
| Loss for the year | – | – | (2,972) | (2,972) |
| Balance as at 31 May 2009 (audited) | 32,372 | 13 | (53,527) | (21,142) |
| Issuance of new shares | 5,882 | – | – | 5,882 |
| Capitalisation of Shareholder's loan | 6,102 | – | – | 6,102 |
| Loss for the period | – | – | (1,594) | (1,594) |
| Balance as at 31 August 2009 | 44,356 | 13 | (55,121) | (10,752) |

6. Litigations

As at the date of this report, the Group has been involved in the following litigations:

- (a) In September 2006, one of the subsidiary (the "Subsidiary") of the Group filed a statement of claim, including potential claims and disputed invoices of approximately HK\$2,700,000, against a telecom operator (the "Defendant"). In August 2008, the Defendant submitted statements of defence and claimed the Subsidiary outstanding amount of approximately HK\$3,200,000. In May 2009, the Court directed the parties to set down the case for trial and the trial was scheduled in November 2009. The Directors of the Company, having taken into consideration the advice from the Group's legal advisor, are of the opinion that the ultimate liability under these proceedings would not have a further impact on the financial position of the Group.

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- (b) 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 defence. On 20 July 2005, the High Court ruled that the subsidiaries and the director had right to defence 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 of the Company, having taken into consideration the advice from the Group’s legal advisor, are of the opinion that the Group has a strong ground to defence and the recorded account payable approximately HK\$2,200,000 to the Plaintiff is considered adequate.
- (c) The Group has litigation processing in respect of outstanding payable liabilities arising in the normal course of its business of approximately HK\$1,100,000. The amount of the liabilities is adequately recorded in accounts payable for the year ended 31 May 2009. The Directors of the Company 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.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group recorded a total turnover approximately HK\$0.87 million in the first quarter ended 31 August 2009, a decrease of 33% from approximately HK\$1.29 million for the same quarter of last year. The decrease was attributable to the decrease in calling card sales and carrier sales. The gross profit decreased by approximately HK\$0.57 million from approximately HK\$0.87 million for the same quarter of last year to approximately HK\$0.30 million for this quarter. The loss for the quarter was also increased from approximately HK\$0.56 million in the same quarter of last year to approximately HK\$1.59 million in this quarter.

The administrative expenses increased by approximately HK\$0.38 million from approximately HK\$1.37 million of the same period of last year to approximately HK\$1.75 million for this quarter.



BUSINESS REVIEW

During the three months ended period, the Research and Development team has a significant achievement in the development of software with proven site test of integrating the voice over IP application into mobile phone usage. The Research and Development team made a lot of improvement on data compression and compatibility linking with various mobile operators, through the testing in Hong Kong and overseas. This function has extended the voice over IP application to a wider area and become more user friendly for customers.

The Company has set up a Research and Development Center in China, which is aiming at research and development new application of 3G phone. This Research and Development Center will accelerate the development projects for the Company's existing and new market segment.

Recently, the Company successes in the application, and obtains a telecommunication licence – Services-Based Operator Licence (the "SBO Licence") for Office of the Telecommunications Authority (the "OFTA") of the Hong Kong Government. The Company will soon introduce new value added service with fixed network and IP phone service for local and overseas market.

BUSINESS OUTLOOK

The VOIP business is growing with the help of the new features, the Company will bring the new features to international market, after the data product is ready, and it will become a total solution for customers to communicate by voice and data. The product will be offered to Philippines, Hong Kong and other countries.

The new telecom value added service will be introduced very soon with the use of the SBO Licence. The Company foresees that the Research and Development Centre will generate a lot of new products in the coming quarters.

As the growth of the Company business is in properly and accelerated speed, the Company is looking for any acquisition opportunity in Hong Kong, China and overseas. This will be a key target for the Company in the coming quarters.

DIVIDEND

The Company does not recommended the payment of any dividend for the three month ended 31 August 2009.

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 2009, 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\$0.02 EACH IN THE COMPANY

| Name of Directors | | Number of Shares held | Nature of Interest | Percentage |
|--|---------------|-----------------------|---|------------|
| Mr. James Ang ("Mr. Ang") | Long position | 148,271,900 | Personal, Family and Corporate Interest (<i>Note</i>) | 34.86% |
| Ms. Yau Pui Chi, Maria ("Ms. Yau") (Spouse of Mr. Ang) | Long position | 148,271,900 | Personal and Family Interest | 34.86% |

Note: These Shares are registered as to 142,680,900 Shares held by Mr. Ang in person, 11,000 Shares held by Ms. Yau in person, and 3,190,000 Shares held by Cyber Wealth Company Group Limited ("Cyber Wealth") and 2,390,000 Shares held by Bluechip Combination Investments Limited ("Bluechip"). 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 2009.

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 2009.

SHARE OPTIONS SCHEME

The Company's share option scheme (the "Share Option Scheme") was adopted on 4 December 2002 with a purpose to providing incentives and rewards to employees who have made contribution to the development of the Company. Under the terms of the Share Option Scheme, the Board may, at its discretion may grant share options to employees including directors, executives or officers of the Group, at a price not less than the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the offer date, the closing price of the shares on the Stock Exchange on the offer day or the nominal value of the shares, whichever is higher.



The maximum number of shares in respect of which options may be granted under the Share Option Scheme must not exceed 10% of the issued share capital of the Company and the maximum number of shares in respect of which options may be granted to any one participant must not exceed 30% of the maximum number of shares in issue from time to time. The total number of shares of the Company issued and to be issued upon exercise the options granted to each participant of the Share Option Scheme (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the issued share capital of the Company.

A nominal consideration of HK\$1 is payable within 21 days from the offer date for each lot of share options granted. An option may be exercised in accordance with the terms of the Share Option Scheme during a period to be notified by the Board.

The Share Option Scheme is valid for a period of 10 years commencing from 4 December 2002.

As at 31 August 2009, 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 2009, 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 period ended 31 August 2009, the Group has complied with the code provisions in the Code on Corporate Governance Practices (the “Code Provision(s)”) as set out in Appendix 15 of the GEM Listing Rules, except for the Code Provision A 2.1 and A 4.1 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 Provisions.



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 31 August 2009.

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 31 August 2009.

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 currently consists of three independent non-executive Directors, Mr. Chiang Kin Kon, Mr. Wong Kwok Fai, and Mr. Chau Siu Keung who together have sufficient accounting and financial management expertise, and business experience to carry out their duties.

The duties of Audit Committee are included 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 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 2009 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 2009, 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 October 2009

Directors of the Company as 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

Mr. Chau Siu Keung