



# NETEL TECHNOLOGY (HOLDINGS) LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8256



## 2010/2011

FIRST QUARTERLY REPORT



## 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 Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (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 the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.*

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months ended 31 August 2010

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 2010 together with the comparative unaudited figures for the corresponding period in 2009:

		<b>For the three months ended 31 August</b>	
	<i>Notes</i>	<b>2010</b>	2009
		<b>HK\$'000</b>	HK\$'000
		<b>(Unaudited)</b>	(Unaudited)
Revenue	3	<b>1,164</b>	872
Cost of sales		<b>(712)</b>	(569)
Gross profit		<b>452</b>	303
Selling and marketing expenses		<b>(396)</b>	(105)
Administrative expenses		<b>(2,954)</b>	(1,748)
Net gain on disposal of financial assets		<b>27</b>	–
Loss from operations		<b>(2,871)</b>	(1,550)
Finance costs		<b>(5)</b>	–
Share of loss of an associated company		<b>(59)</b>	(44)
Loss before taxation		<b>(2,935)</b>	(1,594)
Taxation	4	<b>–</b>	–
<b>Loss for the period attributable to equity holders of the Company</b>		<b>(2,935)</b>	(1,594)
<b>Other comprehensive income</b>		<b>–</b>	–
<b>Total comprehensive loss for the period attributable to equity holders of the Company</b>		<b>(2,935)</b>	(1,594)
<b>Loss per share</b>			
– basic and diluted	5	<b>HK (0.63 cents)</b>	HK (0.51 cents)

# 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 2010.

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 2010 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 2010 as set out below.

HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 32 (Amendment)	Classification of Rights Issues
HKAS 39 (Amendment)	Eligible Hedged Items
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners

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 24 (Revised)	Related Party Disclosures*
HKFRS 9	Financial Instruments*
HK(IFRIC)-Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement*
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments*

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

### **3. Revenue**

Revenue represents the aggregate of the service income from the provision of long distance call services, the provision of value added telecom services and the sales revenue for 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 (2009: 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 (2009: 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\$2,935,000 (the same period ended of 2009: loss HK\$1,594,000) and the weighted average of 463,268,350 shares in issue during the period (2009: 315,342,554 shares).

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 HK\$'000	Share Option Reserve HK\$'000	Exchange Reserve HK\$'000	Accumulated Losses HK\$'000	Total HK\$'000
Balance as at 1 June 2009	32,372	–	13	(53,527)	(21,142)
Total comprehensive loss for the year	–	–	137	(9,779)	(9,642)
Transactions with issuing of shares Equity settled share-based transactions	21,226	–	–	–	21,226
	–	1,772	–	–	1,772
Balance as at 1 June 2010	53,598	1,772	150	(63,306)	(7,786)
Total comprehensive loss for the period	–	–	–	(2,935)	(2,935)
Balance as at 31 August 2010 (unaudited)	53,598	1,772	150	(66,241)	(10,721)

## 7. Litigations

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

- (a) In September 2006, one of the subsidiaries (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. On 2 December 2009, the matter was adjourned for the parties to amend the pleadings. As at the date of this report, no trial date has been fixed. 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.

- (b) On 16 December 2004, a writ was issued by a telecom service provider (the “Plaintiff”) against two wholly owned subsidiaries of the Group and a director of the Company (the “Director”) 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 a number of outstanding litigations in respect of liabilities arising from the normal course of its business of approximately HK\$895,000. The amount of the liabilities are adequately recorded as accounts payable for the period ended 31 August 2010. 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.

## **8. Events after the reporting period**

### **(a) *Subscription Agreement***

On 31 May 2010, the Company entered into two subscription agreements with two third party subscribers, each of them would be allotted and issued 15,000,000 new Shares at the subscription price of HK\$0.17. The Subscriptions will be completed on or before 30 August 2010. On 30 August 2010, the Company and the subscribers mutually agreed to extend the date of completion to 28 November 2010, or such other days as the parties may agree. Further details regarding the Subscription Agreements are set out in the Company’s announcement dated 31 May 2010 and 30 August 2010.

### **(b) *Acquisition Agreement***

On 16 December 2009, the Company entered into the Acquisition Agreement with 廣州市新科信息技術有限公司 (the “Vendor”) for conditional sales and purchases agreement in connection with the acquisition of the 49% equity interest in 廣州數科網絡有限公司. The proposed completion date was 16 June 2010. On 15 June 2010, the Company and the Vendor mutually agreed to extend the date of Completion from 16 June 2010 to 16 December 2010 (or such date as the parties may agree). Further details regarding the Acquisition Agreement and the extension of the completion date are set out in the Company’s announcements dated 16 December 2009, 17 December 2009 and 15 June 2010 respectively.



# MANAGEMENT DISCUSSION AND ANALYSIS

## Financial Review

The Group recorded a total revenue HK\$1.164 million in the first quarter ended 31 August 2010, a increase of 33% from HK\$0.872 million for the same quarter of last year. The increase was attributable to the increase in carrier sales. The gross profit increased by HK\$0.149 million from HK\$0.303 million for the same quarter of last year to HK\$0.452 million for this quarter. The increase in overall gross profit was mainly attributable to the increase in the provision of carrier service and SIP phone service. The loss for the quarter was also increase from HK\$1.594 million in the same quarter of last year to HK\$2.935 million in this quarter.

The administrative expenses increased by HK\$1.206 million from HK\$1.748 million of the same period of last year to HK\$2.954 million for this quarter. The increase of the administrative expenses was mainly incurred for the new business development and the new operations in China.

## Business Review

In this period, the Company was keen on expanding its business to Guangzhou and Beijing in China by setting up new operation branches. The Guangzhou office serves dual purposes of performing the Research and Development ("R&D") and opening up the market in Southern China. The establishment in Beijing which is subsidiary of the Group, will develop and strengthen the long term relationship with central government-related ministries and also our strategic customers.



A range of new products such as value-added telecom services were developed and launched. One of the significant products is the employment matching service. By using the powerful internet searching and matching engine, the employer requirements and criteria and the employee's qualification credentials can be matched and through the short message platform, instant job alert message can be sent to the employee. The time of recruitment is shortened. It is noted that unemployment is due to "lack of communication means" and this online recruitment platform can bridge the communication and shorten the time on finding a suitable job or recruiting the right candidate. This service is not only a commercial product that generates income in a long run but also a social product that improves the Group's commitment to social responsibility.

Furthermore, the R&D team is becoming mature and more capable which is an asset of the Group. The next challenge is how to branch out more new and creative applications to create a large customer base.

The Group also has business cooperation with a subsidiary of one of the ministries of PRC Central Government. The Company is honored to be appointed to develop a web-based platform to communicate with Information Technology ("IT") industry suppliers and customers across the nation. Leverage on this platform, a lot of IT industry-related activities will be carried out such as discussion forum, new applications, research, rating, etc. With the strong support of the government policy, the Company is confident that this will be widely accepted and adopted by the industry users.

## **Business Outlook**

To diversify the business scope, the Company is transforming from a voice telecom company to a multimedia, value-added services provider, internet application-related enterprise. It is expected that new source of revenue will be mainly generated from the lucrative PRC market.

Since the Company has been investing heavily in the R&D, and in terms of technology, the Group is capable to devise new products and services and be ready to modify and improve the services from time to time to cater for the requirements of consumers. However, to build up a brand of new services such as Golden Bowl ([www.gbjobs.com](http://www.gbjobs.com)), more efforts in brand cultivation, marketing are required. With a strong believe that such recruitment service and the user-friendly SMS technology will benefit both employees and job seekers, the Company is dedicated to promote usage of this recruitment service.

Technology is the core essence of the Group's business that is a powerful mean to improve the human lives. In the business spectrum, it will create business opportunities and growth driver for the Group as a whole.

## **DIVIDEND**

The Company does not recommend the payment of any dividend for the three months ended 31 August 2010.

## **DIRECTORS' INTERESTS AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION**

At 31 August 2010, apart from the details as follows, the Directors and chief executives 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	154,222,900 (Note a)	Personal, Family and Corporate Interest	33.29%
Ms. Yau Pui Chi, Maria ("Ms. Yau", spouse of Mr. Ang)	Long position	154,222,900 (Note a)	Personal and Family Interest	33.29%
Mr. Wei Ren ("Mr. Wei")	Long position	2,000,000 (Note b)	Personal Interest	0.43%

*Note:*

- (a) These Shares are registered as to 126,987,900 Shares and 4,800,000 Share Options held by Mr. Ang in person, 799,000 Shares and 4,800,000 Share Options held by Ms. Yau in person, and 3,190,000 Shares held by Cyber Wealth Company Group Limited ("Cyber Wealth") and 13,646,000 Shares held by Bluechip Combination Investments Limited ("Bluechip"). Cyber Wealth and Bluechip are companies wholly-owned by Mr. Ang.
- (b) These Shares are registered as to 500,000 Shares and 1,500,000 Share Options held by Mr. Wei in person.

The interests of the Directors in the Share Options of the Company are disclosed under the section "Share Option Scheme" of this report.

## 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 2010.

## 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 2010.

## 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.

The following shows the outstanding position of the Directors as at 31 August 2010 with respect to their share options granted under the Share Option Scheme:

Name of Directors	Date of grant	Exercise price HK\$	Exercise period	Number of Share Options				Balance as at 31.08.2010
				Balance as at 01.06.2010	Granted during the period	Exercised during the period	Cancelled/lapsed during the period	
Mr. James Ang	13.10.2009	0.233	13.10.2009 to 12.10.2019	4,800,000	-	-	-	4,800,000
Mr. Wei Ren	13.10.2009	0.233	13.10.2009 to 12.10.2019	1,500,000	-	-	-	1,500,000
Ms. Yau Pui Chi, Maria	13.10.2009	0.233	13.10.2009 to 12.10.2019	4,800,000	-	-	-	4,800,000
Dr. Zhong Shi	13.10.2009	0.233	13.10.2009 to 12.10.2019	3,200,000	-	-	-	3,200,000
Mr. Chiang Kin Kon	13.10.2009	0.233	13.10.2009 to 12.10.2019	2,300,000	-	-	-	2,300,000
Mr. Wong Kwok Fai	13.10.2009	0.233	13.10.2009 to 12.10.2019	1,200,000	-	-	-	1,200,000
Mr. Chau Siu Keung	13.10.2009	0.233	13.10.2009 to 12.10.2019	1,200,000	-	-	-	1,200,000
<b>Total</b>				<b>19,000,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>19,000,000</b>

## 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 2010, 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 2010, 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 A2.1 and A4.1 stipulated in the following paragraphs.

The Code Provision A2.1 stipulates that the roles of Chairman and Chief Executive Officer ("CEO") should be separated 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 A4.1, 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 Directors of the Company, and the Directors have confirmed compliance with the Code during the period ended 31 August 2010.

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 2010.

## 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 months ended 31 August 2010 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 2010, 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, 11 October 2010

Directors of the Company as at the date hereof:

*Executive Directors*

Mr. James Ang

Mr. Wei Ren

Ms. Yau Pui Chi, Maria

Dr. Zhong Shi

*Independent Non-executive Directors*

Mr. Chiang Kin Kon

Mr. Wong Kwok Fai

Mr. Chau Siu Keung