



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

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8256

**INTERIM REPORT**

**2011/2012**

## 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 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.*

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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 2011 together with the comparative unaudited figures for the corresponding period in 2010:

	Notes	For the three months ended 30 November		For the six months ended 30 November	
		2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
Revenue	3	496	1,022	1,250	2,186
Cost of sales		(221)	(449)	(648)	(1,161)
Gross profit		275	573	602	1,025
Selling and marketing expenses		(56)	(69)	(71)	(465)
Administrative expenses		(3,431)	(2,761)	(6,623)	(5,715)
Net gain on disposal of financial assets		-	24	-	51
Profit/(Loss) from operations	4	(3,212)	(2,233)	(6,092)	(5,104)
Finance costs	5	(4)	(5)	(11)	(10)
Share of gain/(loss) of an associated company		12	(50)	(28)	(109)
Profit/(Loss) before taxation		(3,204)	(2,288)	(6,131)	(5,223)
Taxation	7	-	-	-	-
<b>Profit/(Loss) for the period attributable to equity holders of the Company</b>		<b>(3,204)</b>	<b>(2,288)</b>	<b>(6,131)</b>	<b>(5,223)</b>
<b>Other comprehensive income</b>		<b>(10)</b>	<b>23</b>	<b>(10)</b>	<b>23</b>
<b>Total comprehensive loss for the period attributable to equity holders of the Company</b>		<b>(3,214)</b>	<b>(2,265)</b>	<b>(6,141)</b>	<b>(5,200)</b>
Loss per share – basic and diluted	8	HK(0.61 cents)	HK(0.49 cents)	HK(1.17 cents)	HK(1.12 cents)

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 30 November 2011 <i>HK\$'000</i> (Unaudited)	As at 31 May 2011 <i>HK\$'000</i> (Audited)
	<i>Notes</i>		
<b>Assets</b>			
<b>Non-Current Assets</b>			
Property, plant and equipment	6	1,674	2,100
Intangible asset		1,959	1,982
Investment in an associated company		–	–
		<u>3,633</u>	<u>4,082</u>
<b>Current Assets</b>			
Inventories		328	346
Trade receivables	9	197	286
Prepayment, deposit and other receivables	9	1,779	4,028
Bank balances and cash		1,119	1,007
		<u>3,423</u>	<u>5,667</u>
Total Assets		<u>7,056</u>	<u>9,749</u>
<b>Current Liabilities</b>			
Trade payables	10	(8,192)	(7,591)
Receipt in advance, accruals and other payables	10	(859)	(883)
Amount due to a director		(2,930)	–
Borrowings		(118)	(118)
		<u>(12,099)</u>	<u>(8,592)</u>
<b>Net Current Liabilities</b>		<u>(8,676)</u>	<u>(2,925)</u>
<b>Total Assets Less Current Liabilities</b>		<u>(5,043)</u>	<u>1,157</u>

	<i>Notes</i>	<b>As at 30 November 2011 HK\$'000 (Unaudited)</b>	<b>As at 31 May 2011 HK\$'000 (Audited)</b>
<b>Non-Current Liabilities</b>			
Borrowings		<u>(196)</u>	<u>(255)</u>
<b>Net Assets/(liabilities)</b>		<b><u>(5,239)</u></b>	<b><u>902</u></b>
<b>Equity Capital and Reserves Attributable to the Equity Holders of the Company</b>			
Share capital		<b>10,488</b>	10,488
Share premium and reserves		<u>(15,727)</u>	<u>(9,586)</u>
		<b>(5,239)</b>	902
Minority interests		<u>–</u>	<u>–</u>
Total Equity		<b><u>(5,239)</u></b>	<b><u>902</u></b>

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the six months ended 30 November	
	2011 (unaudited) <i>HK\$'000</i>	2010 (unaudited) <i>HK\$'000</i>
Net cash used in operating activities	(2,775)	(7,529)
Net cash (used in)/generated from investing activities	16	(87)
Net cash generated from financing activities	<u>2,871</u>	<u>2,248</u>
(Decrease)/increase in cash and cash equivalents	112	(5,368)
Cash and cash equivalents at beginning of the period	<u>1,007</u>	<u>6,124</u>
Cash and cash equivalents at the end of the period	<u>1,119</u>	<u>756</u>
Analysis of balance of cash equivalents		
Bank balances and cash	<u>1,119</u>	<u>756</u>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share Capital	Share Premium	Convertible			Exchange Reserve	Accumulated Losses	Total Equity
			Share Option Reserve	Bonds Equity Component	Option Bonds Reserve			
	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	
<b>Balance as at 1 June 2010</b>	9,265	53,598	1,772	-	-	150	(63,306)	1,479
Total comprehensive loss for the year	-	-	-	-	-	97	(16,037)	(15,940)
<b>Transactions with owners</b>								
Issue of convertible bonds	-	-	-	2,462	8,828	-	(8,828)	2,462
Issue of shares by subscriptions	300	2,064	-	-	-	-	-	2,364
Issue of shares upon conversion of convertible bonds	923	5,669	-	(2,462)	-	-	-	4,130
Equity settled share-based transactions	-	-	6,407	-	-	-	-	6,407
<b>Balance as at 1 June 2011</b>	10,488	61,331	8,179	-	8,828	247	(88,171)	902
Total comprehensive loss for the period	-	-	-	-	-	(10)	(6,131)	(6,141)
<b>Balance as at 30 November 2011</b> (unaudited)	10,488	61,331	8,179	-	8,828	237	(94,302)	(5,239)

# NOTES TO THE CONDENSED CONSOLIDATED 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 2011.

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 2011 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 2011 as set out below.

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010
HKAS 24 (as revised in 2009)	Related Party Disclosures
HK(IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments

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 27 (as revised in 2011)	Separate Financial Statements <sup>2</sup>
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Venture <sup>2</sup>
HKFRS 7 (Amendment)	Disclosures – Transfers of Financial Assets <sup>1</sup>
HKFRS 9	Financial Instruments <sup>2</sup>
HKFRS 10	Consolidated Financial Statements <sup>2</sup>
HKFRS 11	Joint Arrangements <sup>2</sup>
HKFRS 12	Disclosure of Interests in Other Entities <sup>2</sup>
HKFRS 13	Fair Value Measurement <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2011

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2013

### 3. Revenue and segment information

Revenue 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 2011			Group HK\$'000
	Sale of equipment HK\$'000	Long distance call services End-users direct sales HK\$'000	Carrier sales HK\$'000	
Revenue	76	1,109	65	1,250
Segment results	32	(2,722)	(263)	(2,953)
Gain on disposal of financial assets				–
Operating loss				(2,953)
Unallocated cost				(3,167)
Finance costs				(11)
Loss before taxation				(6,131)
Taxation				–
Loss for the period				(6,131)

## Results (unaudited)

	For the six months ended 30 November 2010			Group HK\$'000
	Sale of equipment HK\$'000	End-users direct sales HK\$'000	Carrier sales HK\$'000	
Revenue	23	1,606	557	2,186
Segment results	(19)	(2,877)	(212)	(3,108)
Gain on disposal of financial assets				51
Operating loss				(3,057)
Unallocated cost				(2,156)
Finance costs				(10)
Loss before taxation				(5,223)
Taxation				-
Loss for the period				(5,223)

## 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)

	Revenue For the six months ended 30 November		Segment result For the six months ended 30 November	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
By geographical market:				
Hong Kong	889	1,720	(2,442)	(2,445)
Mainland China	296	76	(263)	(108)
Other countries	65	390	(248)	(555)
	1,250	2,186		
Gain on disposal of financial assets			-	51
Loss from operations			(2,953)	(3,057)

#### 4. Loss from operations

	For the six months ended 30 November	
	2011	2010
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Loss from operations has been arrived at after charging/(crediting):		
Cost of inventories sold	648	1,161
Depreciation and amortisation:		
Owned	379	416
Leased	72	59
Operating lease-land and buildings	473	558
Staff costs, (including directors' remuneration)		
Retirement benefits scheme contributions	241	126
Salaries and other benefits	3,808	3,687

#### 5. Finance costs

	For the six months ended 30 November	
	2011	2010
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Interest on finance lease	11	10

#### 6. Plant and equipment

As at the period ended 30 November 2011, the Group's plant and equipment was amounting to approximately HK\$1,674,000 (31 May 2011: approximately HK\$2,100,000). The directors consider that the fair value of the plant and equipment at 30 November 2011 does not change significantly from their carrying amount at 31 May 2011.

The Group had not disposed any Plant and Equipment (the same period of 2010: Nil), and had not acquire any Plant and equipment (the same period of 2010: Nil) during the six months ended 30 November 2011.

## 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 (2010: 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 (2010: Nil).

## 8. Loss per share

The calculation of basic loss per share is for the three months and six months ended 30 November 2011 are based on the unaudited consolidated loss for the three months and six months ended 30 November 2011 period of approximately HK\$3,204,000 and HK\$6,131,000 respectively (loss for the same period ended of 2010: HK\$2,288,000 and HK\$5,223,000) and the weighted average number of 524,422,196 ordinary shares in issue during the three months and the six months ended 30 November 2011 (the same period ended of 2010: 466,675,998 & 464,962,864).

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

	As at 30 November 2011 <i>HK\$'000</i> (unaudited)	As at 31 May 2011 <i>HK\$'000</i> (audited)
Trade receivables ( <i>Note (a)</i> )	197	286
Other receivables, prepayments and deposits	1,779	4,028
	<b>1,976</b>	4,314

Note:

- (a) 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 end of the reporting period is as follows:

	As at 30 November 2011 HK\$'000 (unaudited)	As at 31 May 2011 HK\$'000 (audited)
0 – 30 days	64	79
31 – 60 days	24	90
61 – 90 days	23	53
Over 90 days	4,054	4,051
	4,165	4,273
Less: provision for impairment of receivables	(3,968)	(3,987)
	197	286

#### 10. Trade and other payables

	As at 30 November 2011 HK\$'000 (unaudited)	As at 31 May 2011 HK\$'000 (audited)
Trade payables (Note (a))	8,192	7,591
Other payables and accruals	675	734
Receipt in advance	184	149
	9,051	8,474

Note:

- (a) 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 end of the reporting period is as follows:

	As at 30 November 2011 <i>HK\$'000</i> (unaudited)	As at 31 May 2011 <i>HK\$'000</i> (audited)
0 – 30 days	729	643
31 – 60 days	51	320
61 – 90 days	161	–
Over 90 days	7,251	6,628
	<b>8,192</b>	7,591

## 11. 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. The case had been set down for trial in November 2011, up to the date of this report, the judgment is not finalised. 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 significant 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 ultimate liability under these proceedings would not have significant impact on the financial position of the Group.

- (c) The Group has a number of outstanding litigations in respect of liabilities arising in the normal course of its business of approximately HK\$685,000. The amount of the liabilities is adequately recorded in accounts payable for the period ended 30 November 2011. 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.

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

### ***Subscription Agreement***

On 25 August 2011, the Company entered into a subscription agreement with a third party Subscriber, to subscribe for convertible bonds in the principal amount of HK\$3,500,000 at the conversion price of HK\$0.10 per share, a maximum number of 35,000,000 convertible shares will be allotted and issued. The Subscription will be completed on or before 15 October 2011. On 12 October 2011, the Company and the Subscriber agreed to extend the date of completion to 13 January 2012, or such other days as the parties may agree. Further details regarding the Subscription Agreements are set out in the Company's announcement dated 25 August 2011 and 12 October 2011.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Financial review

The Group recorded a total revenue of approximately HK\$1.25 million in the first six months ended 30 November 2011, a decrease of HK\$0.94 million from HK\$2.19 million for the same period of last year. The decrease was attributable to the decrease in SIP Service revenue, calling card and carrier sales. The loss for the period was also increased by HK\$0.91 million from HK\$5.22 million in the same period of last year to HK\$6.13 million in this period, reflecting increase in the cost of the operations.

The administrative expenses increased by approximately HK\$0.37 million from HK\$5.72 million of the same period of last year to HK\$6.09 million for this period.

## Liquidity and financial resources

As at 30 November 2011, the Group had total assets of approximately HK\$7.06 million (31 May 2011: HK\$9.75 million), including bank and cash balance of approximately HK\$1.12 (31 May 2011: HK\$1.01 million).

As at 30 November 2011, 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 2011: not applicable). The Group had net current liabilities of approximately HK\$8.68 million (31 May 2011: 2.93 million).

## Business review

In this period, the Company successfully launched new telecom value-added services, job searching engine and 3G Smartphone applications. The team serves them as valuable assets of the Company. Although Research and Development is a medium and long term investment, those new services, such as job searching engine, are generating revenues for the Company.

The new applications developed on 3G data and voice and Smartphone Apps brought by Google Apps Android and Apple iPhone equip the Group with a more powerful marketing tool and serve as new revenue sources.



In this period, new business units such as media, www.gbjobs.com have already started contributing revenue to the Group. However, it is still in an introductory stage. The Management believes that more significant revenue will be generated by those new business units.

The Company started its operation in Beijing and Guangzhou about two years ago. It is excited to see the growth of China team. The China team brought in more professionals in this field, gained more experiences in this business, and contributed to the success of the Group as a whole. Human resource is a key asset of a business entity especially in the industry of technology.

The Group is expanding the job searching engine and the new telecom services to the international market. The services are not just growing globally, but also growing in the information technology field such as Smartphone Apps from Apple iPhone and Google Android. It is the state of art technology, and the Group is heading to the right direction.

The goal of the Company is gathering the telecom platform/technology into revenue generation model. The Company is pleased to accept all challenging to reach this goal.

### **Business outlook**

Job searching engine already started bringing in significant revenue in the market of Hong Kong and the Company expects the China market will be the next major revenue sources. The Research and Development team will further develop more advanced new features for this searching engine and will launch globally into different countries. It is the mission of this business unit.

Recruitment services of the gbjobs.com will be other sources of income for the job search business.

3G Apps, telecom applications, integrating voice, data and image through Smartphone and computer is a significant new service for the Group. The Company is excited on the Research and Development achievement. The Company is confident to translate this technology into a telecom business model to serve worldwide users.

## **INTERIM DIVIDEND**

The Company does not recommend the payment of any interim dividend for the half year ended 30 November 2011.

## 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 2011, apart from the details as below, 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	Capacity	Number of shares held			Number of share options held	Exercise price of share options HK\$	Total interests	% of total issued shares
		Personal interests	Family interests	Corporate interests				
Mr. James Ang ("Mr. Ang")	Interest in controlled corporation	-	-	16,836,000 (Note 1)	-	-	16,836,000	3.21
	Beneficial owner	450,064,822 (Note 2)	10,399,000 (Note 3)	-	4,800,000 4,800,000	0.233 0.150	470,063,822	89.63
Ms. Yau Pui Chi, Maria (Spouse of Mr. Ang)	Beneficial owner	799,000	476,500,822 (Note 4)	-	4,800,000 4,800,000	0.233 0.150	486,899,822	92.84
Mr. Wei Ren	Beneficial owner	500,000	-	-	1,500,000 1,000,000	0.233 0.150	3,000,000	0.57
Dr. Zhong Shi	Beneficial owner	-	-	-	3,200,000 2,000,000	0.233 0.150	5,200,000	0.99
Mr. Chiang Kin Kon	Beneficial owner	-	-	-	2,300,000 800,000	0.233 0.150	3,100,000	0.59
Mr. Wong Kwok Fai	Beneficial owner	-	-	-	1,200,000 800,000	0.233 0.150	2,000,000	0.38
Mr. Chau Siu Keung	Beneficial owner	-	-	-	1,200,000 800,000	0.233 0.150	2,000,000	0.38

*Note:*

- 1) These shares are registered as 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;
- 2) These shares are registered as 173,141,746 shares and 276,923,076 shares representing the shares to be issued upon exercise of the warrants and options to be issued to it by the Company held by Mr. Ang in person;
- 3) These shares are registered as 799,000 shares and 9,600,000 share options held by Ms. Yau in person; and
- 4) These shares are registered as to 173,141,746 shares, 9,600,000 share options; and 276,923,076 shares representing the shares to be issued upon exercise of the warrants and options to be issued to it by the Company held by Mr. Ang 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.

## **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 2011.

## **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 2011.

## 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 30 November 2011 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 1.6.2011	Granted during the period	Exercised during the period	Cancelled/lapsed during the period	Balance as at 30.11.2011
Mr. James Ang	13.10.2009	0.233	13.10.2009 to 12.10.2019	4,800,000	-	-	-	4,800,000
	08.12.2010	0.150	08.12.2010 to 07.12.2020	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
	08.12.2010	0.150	08.12.2010 to 07.12.2020	1,000,000	-	-	-	1,000,000
Ms. Yau Pui Chi, Maria	13.10.2009	0.233	13.10.2009 to 12.10.2019	4,800,000	-	-	-	4,800,000
	08.12.2010	0.150	08.12.2010 to 07.12.2020	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
	08.12.2010	0.150	08.12.2010 to 07.12.2020	2,000,000	-	-	-	2,000,000
Mr. Chiang Kin Kon	13.10.2009	0.233	13.10.2009 to 12.10.2019	2,300,000	-	-	-	2,300,000
	08.12.2010	0.150	08.12.2010 to 07.12.2020	800,000	-	-	-	800,000
Mr. Wong Kwok Fai	13.10.2009	0.233	13.10.2009 to 12.10.2019	1,200,000	-	-	-	1,200,000
	08.12.2010	0.150	08.12.2010 to 07.12.2020	800,000	-	-	-	800,000
Mr. Chau Siu Keung	13.10.2009	0.233	13.10.2009 to 12.10.2019	1,200,000	-	-	-	1,200,000
	08.12.2010	0.150	08.12.2010 to 07.12.2020	800,000	-	-	-	800,000
				<b>34,000,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>34,000,000</b>
<b>Other employees</b>								
<b>In aggregate</b>	08.12.2010	0.150	08.12.2010 to 07.12.2020	6,348,000	-	-	-	6,348,000
	31.01.2011	0.182	31.01.2011 to 30.01.2021	22,800,000	-	-	-	22,800,000
	30.05.2011	0.1486	30.05.2011 to 29.05.2021	26,000,000	-	-	-	26,000,000
				<b>55,148,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>55,148,000</b>
<b>Total</b>				<b>89,148,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>89,148,000</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 six months ended 30 November 2011, 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 30 November 2011, 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 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 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 30 November 2011.

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 2011.

## **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 interim results of the Company for the six month ended 30 November 2011 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; Mr. Chiang Kin Kon, an independent non-executive Director, is the Chairman of the Remuneration Committee, and other members are Mr. Wong Kwok Fai, an independent non-executive Director, and Ms. Yau Pui Chi, Maria, 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 six months ended 30 November 2011, 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 2012

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