



NETEL TECHNOLOGY (HOLDINGS) LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8256

Third Quarterly Report
2013/2014

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 Stock 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 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 PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the nine months ended 28 February 2014

The board (the "Board") of 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 nine months ended 28 February 2014 together with the comparative unaudited figures for the corresponding period in 2013:

	Notes	For the three months ended 28 February		For the nine months ended 28 February	
		2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Turnover	3	478	372	1,381	1,263
Cost of sales		(179)	(188)	(613)	(722)
Gross profit		299	184	768	541
Other revenues		8	-	8	-
Selling and marketing expenses		(60)	(51)	(203)	(385)
Administrative expenses		(3,762)	(3,733)	(10,643)	(11,424)
Operating loss		(3,515)	(3,600)	(10,070)	(11,268)
Finance costs		(13)	(8)	(33)	(18)
Share of profit/(loss) of associates		-	-	-	-
Loss for the period		(3,528)	(3,608)	(10,103)	(11,286)
Other comprehensive income		-	-	-	-
Total comprehensive expense for the period		(3,528)	(3,608)	(10,103)	(11,286)
Loss for the period attributable to:					
– Equity holders of the Company		(3,506)	(3,602)	(10,034)	(11,273)
– Non-controlling interests		(22)	(6)	(69)	(13)
		(3,528)	(3,608)	(10,103)	(11,286)
Total comprehensive expense for the period attributable to:					
– Equity holders of the Company		(3,506)	(3,602)	(10,034)	(11,273)
– Non-controlling interests		(22)	(6)	(69)	(13)
		(3,528)	(3,608)	(10,103)	(11,286)
Loss per share attributable to equity holders of the Company					
– Basic and diluted	5	HK(0.51 cents)	HK(0.65 cents)	HK(1.53 cents)	HK(2.03 cents)

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 Company and its subsidiaries (together, the "Group") are principally engaged in research and development of telecommunication and recruitment applications, value-added service software and provision of related services, trading of telecommunication equipment, provision of long distance call services and online recruitment services in Hong Kong.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated third quarterly financial statements have been prepared in accordance with the accounting principles generally accepted in Hong Kong which include Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the applicable disclosure requirements of GEM Listing Rules.

These unaudited condensed consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements of the Group for the year ended 31 May 2013.

Except as described below, the accounting policies and methods of computation used in the preparation of the unaudited condensed consolidated financial statements are consistent with those adopted in preparing the annual audited consolidated financial statements for the year ended 31 May 2013.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(Continued)*

In the current period, the Group has applied the following new or revised Hong Kong Financial Reporting Standards ("new HKFRSs") issued by the HKICPA which are or have become effective.

HKFRSs (Amendments)	Annual Improvements to HKFRSs 2009-2011 Cycle except for HKAS 1 (Amendments)
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income
HKAS 19 (2011)	Employee Benefits
HKAS 27 (2011)	Separate Financial Statements
HKAS 28 (2011)	Investments in Associates and Joint Ventures
HKFRS 1 (Amendments)	Government Loans
HKFRS 7 (Amendments)	Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
HKFRS 10, HKFRS 11 and HKFRS 12 (Amendments)	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine

The application of these new HKFRSs in the current period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in those condensed consolidated financial statements.

3. TURNOVER

The Group's operating activities are attributable to four operating segments focusing on provision of different types of services, namely the provision of long distance call services to end-users and carriers, the provision of telecommunication, value-added and recruitment services and the sales 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 (nine months ended 28 February 2013: Nil).

No deferred taxation has been provided as the Group has no material unprovided deferred tax assets or liabilities which are expected to be crystallised in the foreseeable future (nine months ended 28 February 2013: Nil).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

5. LOSS PER SHARE

The calculation of basic loss per share for the three months and nine months ended 28 February 2014 are based on the Group's unaudited consolidated loss for the three months and nine months ended 28 February 2014 of approximately HK\$3,506,000 and HK\$10,034,000 respectively (three months and nine months ended 28 February 2013: HK\$3,602,000 and HK\$11,273,000) and the weighted average number of ordinary shares for the three months and nine months ended 28 February 2014 of approximately 688,409,000 and 654,469,000 ordinary shares respectively (three months and nine months ended 28 February 2013: 554,647,000 ordinary shares) in issue during the three months and nine months ended 28 February 2014 respectively.

The dilutive loss per share is equal to the basic loss per share for the three months and nine months ended 28 February 2014 and 2013 respectively, as the share options, warrants and option to subscribe convertible bonds had anti-dilutive effects.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

6. RESERVES

	Share Premium HK\$'000	Share Option Reserve HK\$'000	Convertible Bonds Equity Reserve HK\$'000	Option Bonds Reserve HK\$'000	Exchange Reserve HK\$'000	Accumulated Losses HK\$'000	Total HK\$'000
Balance at 1 June 2012 (audited)	66,882	8,179	-	7,383	247	(92,078)	(9,387)
Loss for the period	-	-	-	-	-	(11,273)	(11,273)
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive expense for the period	-	-	-	-	-	(11,273)	(11,273)
Balance at 28 February 2013 (unaudited)	66,882	8,179	-	7,383	247	(103,351)	(20,660)
Balance at 1 June 2013 (audited)	81,612	7,889	-	3,551	247	(105,796)	(12,497)
Loss for the period	-	-	-	-	-	(10,034)	(10,034)
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive expense for the period	-	-	-	-	-	(10,034)	(10,034)
Transactions with owners:							
- Issue of convertible bonds upon conversion of convertible bond options	-	-	11,216	(2,632)	-	-	8,584
- Issue of shares upon conversion of convertible bonds	10,116	-	(11,216)	-	-	-	(1,100)
- Lapse of share options	-	(97)	-	-	-	97	-
Total transactions with owners	10,116	(97)	-	(2,632)	-	97	7,484
Balance at 28 February 2014 (unaudited)	91,728	7,792	-	919	247	(115,733)	(15,047)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

7. LITIGATIONS

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

- (a) On 16 December 2004, a writ was issued by a telecommunication 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 the 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.
- (b) The Group has other outstanding litigation in respect of liabilities arising from the normal course of its business of approximately HK\$281,000 (31 May 2013: HK\$281,000). The amounts of the liabilities are adequately recorded as account payables as at 28 February 2014 and 31 May 2013 respectively. 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.

8. COMPARATIVE FIGURES

Certain comparative figures have been re-classified to conform with current period's presentation.

9. APPROVAL OF UNAUDITED CONDENSED CONSOLIDATED THIRD QUARTERLY FINANCIAL STATEMENTS

The unaudited condensed consolidated third quarterly financial statements of the Group were approved and authorised for issue by the Board on 11 April 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group recorded a total turnover of approximately HK\$1.38 million for the nine months ended 28 February 2014, an increase of approximately HK\$0.12 million from approximately HK\$1.26 million for the same period of last year. The increase was mainly attributable to the increase in headhunting business, net with the decrease in calling card sales, SIP Service revenue and carrier sales during the period. The loss for the period was also decreased by approximately HK\$1.19 million from approximately HK\$11.29 million in the same period of last year to approximately HK\$10.10 million for this period.

The administrative expenses were also decreased by approximately HK\$0.78 million from approximately HK\$11.42 million of the same period of last year to approximately HK\$10.64 million for this period.

BUSINESS REVIEW

The new features and enhancements developed for the search engine within www.gbjobs.com have been utilised in our daily business which has generated revenue during the period. This resulted in repeated orders from headhunting business and growth of our customer base. The Group has also expanded the sales team in Hong Kong in order to capture the business opportunities.

As keen competition was noted for social networking platforms on Smartphones, the Group has been making efforts to integrate the job search engine on its recruitment website into the existing mobile applications "INATALK" for iPhone and Android, which enabled the jobs seekers to match with the job vacancies posted by employers automatically and receive instant notifications via "INATALK".

In addition to the above, the recruitment vehicle launched by the Group in February 2013 was a great success, it has served our customers with mobility and efficiency. Together with the online recruitment website, this offline recruitment office further enhanced the recruitment business with access to various sources of resumes.

BUSINESS OUTLOOK

During the last few months, the Group has achieved significant progress on its website and mobile advertising business. In order to further explore the recruitment business, the Group established its recruitment shop in Kwai Chung at the beginning of 2014.

In addition, the Group's legal seminars, which were launched for various human resources managers in Hong Kong, have seen remarkable results. Most of the participants have become our customers as a result of this.

The Group's recruitment vehicle has also achieved fair results. The Group will increase the number of recruitment vehicles when appropriate.

The Group previously recorded gain on disposal of shares of the Group's subsidiary. In the coming year, the Group will also proactively seek opportunities for merger and acquisition. The Group will also use its best endeavours to clone the successful Hong Kong's business model in other regions, including Mainland China.

FINANCIAL RISK MANAGEMENT

Operations of the Group are mainly conducted in Hong Kong dollars and its revenue, expenses, assets and liabilities are principally denominated in Hong Kong dollars, which do not pose significant foreign exchange risk at present. Procedures are in place to monitor possible exposure to foreign exchange risk in the operations on a continuous basis.

The Group adopts a prudent liquidity risk management and maintains sufficient cash and funding through an adequate amount of credit facilities. The Group aims to finance its operations with its own capital and earnings and borrowings or credit facilities utilised during the period. Management considers that the Group does not have any significant liquidity risk.



EMPLOYEE INFORMATION

At 28 February 2014, the Group employed a total of 22 (31 May 2013: 31) employees including Directors. The salaries and benefits of the Group's employees are kept at a competitive level. The Group also operates a share option scheme where options to subscribe for shares of the Company may be granted to the executive Directors and full time employees of the Group. As at 28 February 2014, 84,368,000 (31 May 2013: 85,568,000) share options remained outstanding from the share option scheme.

DIVIDEND

The Board of Directors does not recommend the payment of dividend in respect for the nine months ended 28 February 2014 (nine months ended 28 February 2013: Nil).

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

At 28 February 2014, 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"). The details 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	-	-	18,836,000 (Note 1)	-	-	18,836,000	2.73	
	Beneficial owner	349,228,822 (Note 2)	10,399,000 (Note 3)	-	4,800,000 4,800,000	0.233 0.150	369,227,822	53.53	
Ms. Yau Pui Chi, Maria ("Ms. Yau") (Spouse of Mr. Ang)	Beneficial owner	799,000	377,664,822 (Note 4)	-	4,800,000 4,800,000	0.233 0.150	388,063,822	56.26	
Mr. Wei Ren	Beneficial owner	500,000	-	-	1,500,000 1,000,000	0.233 0.150	3,000,000	0.43	
Dr. Zhong Shi	Beneficial owner	-	-	-	3,200,000 2,000,000	0.233 0.150	5,200,000	0.75	
Mr. Chiang Kin Kon	Beneficial owner	-	-	-	2,300,000 800,000	0.233 0.150	3,100,000	0.45	
Mr. Wong Kwok Fai	Beneficial owner	-	-	-	1,200,000 800,000	0.233 0.150	2,000,000	0.29	
Mr. Chau Siu Keung	Beneficial owner	-	-	-	1,200,000 800,000	0.233 0.150	2,000,000	0.29	

Note:

- 1) These shares are registered as 3,190,000 shares held by Cyber Wealth Company Group Limited ("Cyber Wealth") and 15,646,000 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 237,685,967 shares and 111,542,855 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.
- 4) These shares are registered as 237,685,967 shares, 9,600,000 share options, and 111,542,855 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 and 15,646,000 shares held by Bluechip.



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 28 February 2014.

PURCHASES, SALE OR REDEMPTION OF SECURITIES

For the nine months ended 28 February 2014, neither the Company nor any of its subsidiaries repurchased, sold or redeemed any of the Company's listed shares.

SHARE OPTION SCHEME

On 10 September 2012, the Company passed an ordinary resolution regarding the termination of the old share option scheme (the "Share Option Scheme") and adopted a new share option scheme (the "New Share Option Scheme") for the primary purpose of providing incentives and rewards to employees who have made contributions to the development of the Company. Under the terms of the New Share Option Scheme, the Board may, at its discretion, 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 New 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 of the options granted to each participant of the New 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 28 days from the offer date for each lot of share options granted. An option may be exercised in accordance with the terms of the New Share Option Scheme during a period to be notified by the Board.

The New Share Option Scheme is valid for a period of 10 years commencing from 10 September 2012.

The following shows the outstanding position as at 28 February 2014 with respect to their share options granted under the Share Option Scheme:

	Date of grant	Exercise price HK\$	Exercise period	Number of Share Options				
				Balance as at 1.6.2013	Granted during the period	Exercised during the period	Cancelled/lapsed during the period	Balance as at 28.2.2014
Name of Directors								
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
				<u>34,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>34,000,000</u>
Other employees and individuals								
In aggregate	08.12.2010	0.150	08.12.2010 to 07.12.2020	2,768,000	-	-	(1,200,000)	1,568,000
	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	<u>26,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,000,000</u>
				<u>51,568,000</u>	<u>-</u>	<u>-</u>	<u>(1,200,000)</u>	<u>50,368,000</u>
Total				<u>85,568,000</u>	<u>-</u>	<u>-</u>	<u>(1,200,000)</u>	<u>84,368,000</u>

During the nine months ended 28 February 2014, 1,200,000 share options were lapsed (nine months ended 28 February 2013: Nil) and no share options were granted or exercised (nine months ended 28 February 2013: Nil).



DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

Save as disclosed in Directors' interests and short positions under the section "Directors' and Chief Executives' Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company or Any Associated Corporation", and 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 nine months ended 28 February 2014, 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 nine months ended 28 February 2014, the Group has complied with the code provisions as set out in the Corporate Governance Code and Corporate Governance Report to the Appendix 15 of the GEM Listing Rules (the "CG Code"), except for the code provision A 2.1, A 4.1 and A 6.7 of the CG Code stipulated in the following paragraphs.

The code provision A 2.1 of the CG Code 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 CEO should be clearly established and set out in writing.



Since the establishment of the Company, Mr. James Ang was both the Chairman and CEO of the Company responsible for managing the Board and the Group's business until 1 July 2013. On 2 July 2013, the roles and responsibilities of the Chairman and CEO are separated and performed by Mr. James Ang and Dr. Zhong Shi respectively. The Chairman, Mr. James Ang, is mainly responsible for the management of the Board, while the CEO, Dr. Zhong Shi, is mainly responsible for the daily operation of the Group's business in accordance with the goals set up by the Board. Since 2 July 2013, the separation of the position of Chairman and CEO is considered as in compliance with the code provision A 2.1 of the CG Code.

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

Under the code provision A 6.7 of the CG Code, independent non-executive Directors and other non-executive Directors should attend the annual general meeting and develop a balanced understanding of the views of shareholders. However, due to business engagements, three independent non-executive Directors could not attend the annual general meeting of the Company held on 9 September 2013.

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 nine months ended 28 February 2014.

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 nine months ended 28 February 2014.



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 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 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 nine months ended 28 February 2014, 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, an 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.

NOMINATION COMMITTEE

The Company has established a Nomination Committee with specific terms of reference which deals clearly with its authorities and duties. The Nomination Committee currently consists of two independent non-executive Directors, and an executive Director. Mr. James Ang, an executive Director, is the Chairman of the Nomination Committee, and other members are Mr. Chiang Kin Kon and Mr. Chau Siu Keung, independent non-executive Directors.

The Nomination Committee is responsible for identifying potential new Directors and recommends to the Board for decision. A Director appointed by the Board is subject to election by shareholders at the first annual general meeting after his appointment in case of the appointment of additional Director or at the first general meeting after his appointment in case of filling of casual vacancy.

Under the Articles of Association of the Company, all Directors are subject to retirement by rotation and re-election by shareholders every three years.

Potential new Directors are selected on the basis of their qualifications, skill and experience which the Nomination Committee considers will make a positive contribution to the performance of the Board.

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 the 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 nine months ended 28 February 2014, 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 April 2014

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