



**NETEL TECHNOLOGY (HOLDINGS) LIMITED**

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8256

**FIRST QUARTERLY REPORT  
2014/2015**



## 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 three months ended 31 August 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 ended 31 August 2014 together with the comparative unaudited figures for the corresponding period in 2013:

		<b>For the three months ended 31 August</b>	
	Notes	<b>2014 HK\$'000 (Unaudited)</b>	2013 HK\$'000 (Unaudited)
Turnover	3	622	463
Cost of sales		(179)	(244)
Gross profit		443	219
Other revenues		290	–
Selling and marketing expenses		(61)	(92)
Administrative expenses		(4,115)	(3,526)
Operating loss		(3,443)	(3,399)
Finance costs		(28)	(9)
Share of profit/(loss) of associates		–	–
Loss for the period		(3,471)	(3,408)
Other comprehensive income		–	–
Total comprehensive loss for the period		(3,471)	(3,408)
Loss for the period attributable to:			
– Equity holders of the Company		(3,447)	(3,384)
– Non-controlling interests		(24)	(24)
		(3,471)	(3,408)
Total comprehensive loss for the period attributable to:			
– Equity holders of the Company		(3,447)	(3,384)
– Non-controlling interests		(24)	(24)
		(3,471)	(3,408)
Loss per share attributable to equity holders of the Company	5		
– Basic		<b>HK (0.47 cents)</b>	HK(0.53cents)
– Diluted		<b>HK (0.46 cents)</b>	HK(0.53cents)

# 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 first 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 2014.

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 2014.

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.

HKAS 32 (Amendments)	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities
HKAS 36 (Amendments)	Recoverable Amount Disclosures for Non-Financial Assets
HKAS 39 (Amendments)	Novation of Derivatives and Continuation of Hedge Accounting
HKFRS 10, HKFRS 12 and HKAS 27 (2011) (Amendments)	Investment Entities
HK(IFRIC) – Int 21	Levies



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 three operating segments focusing on provision of different types of services, namely the sale of equipment, end-users direct sales of long distance call services and telecommunication, value-added and recruitment services.

### 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 (three months ended 31 August 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 (three months ended 31 August 2013: Nil).

### 5. LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of the basic and diluted loss per share attributable to equity holders of the Company is based on the following data:

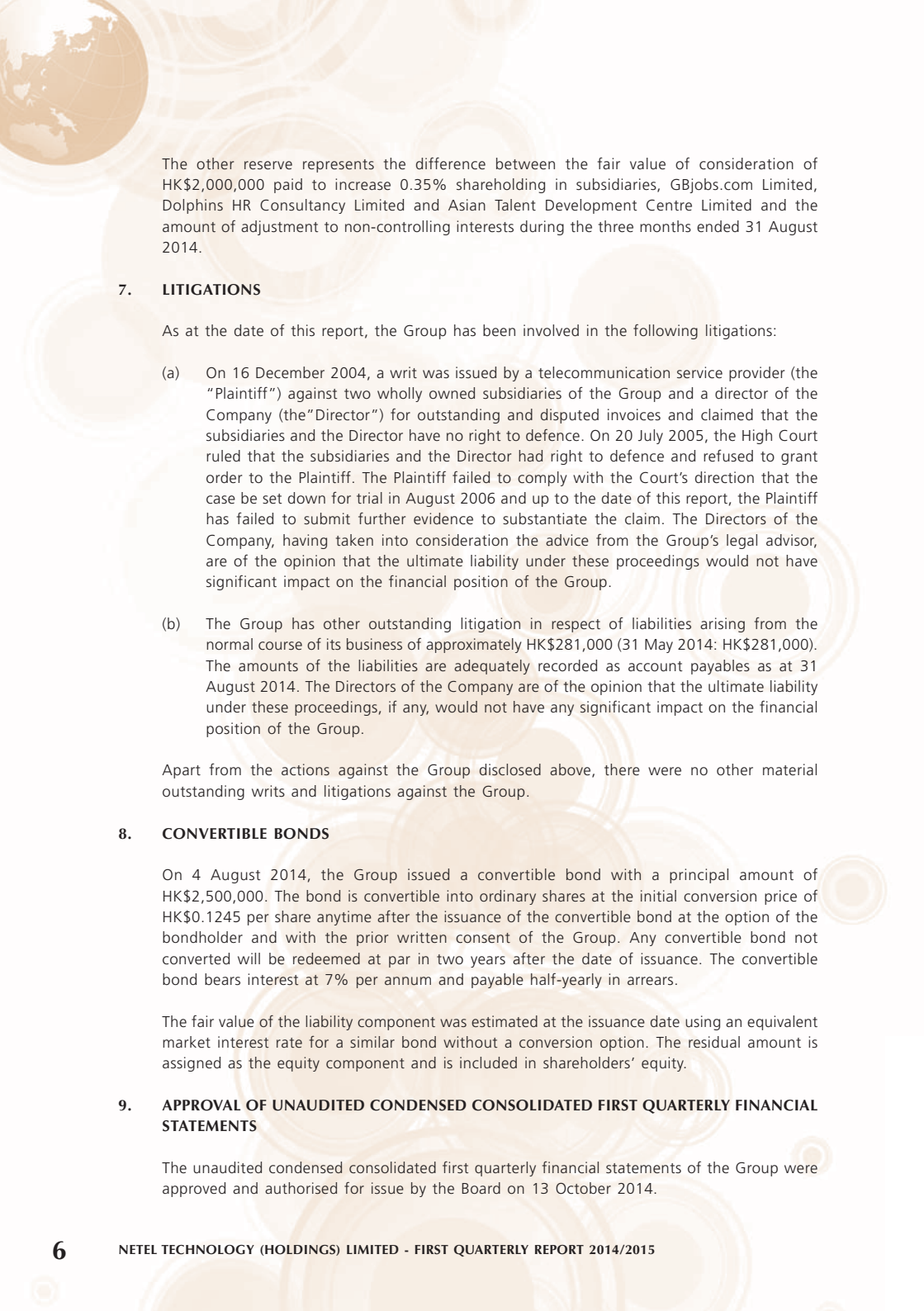
	<b>Three months ended 31 August</b>	
	<b>2014</b> <b>(Unaudited)</b> <b>HK\$'000</b>	<b>2013</b> <b>(Unaudited)</b> <b>HK\$'000</b>
<b>Loss for the period attributable to equity holders of the Company</b>		
Loss for the purpose of basic loss per share	3,447	3,384
Loss for the purpose of diluted loss per share	<u>3,424</u>	<u>3,384</u>
	<b>'000</b>	<b>'000</b>
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic loss per share	734,802	634,775
Effect of dilutive potential ordinary share in respect of convertible bonds	<u>6,111</u>	<u>–</u>
Weighted average number of ordinary shares for the purpose of diluted loss per share	<u><b>740,913</b></u>	<u><b>634,775</b></u>

The computation of diluted loss per share for the three months ended 31 August 2014 does not assume the exercise of the Company's share options and warrants because the respective exercise prices of the Company's share options and warrants were higher than the average market price of the Company's shares during the three months ended 31 August 2014.

The computation of diluted loss per share for the three months ended 31 August 2013 does not assume the exercise of the Company's share options, warrants and option to subscribe convertible bonds because the respective exercise prices of the Company's share options, warrants and the option to subscribe convertible bonds were higher than the average market price of the Company's shares during the three months ended 31 August 2013.

## 6. RESERVES

	Share Premium HK\$'000	Share Option Reserve HK\$'000	Convertible Bonds Equity Component HK\$'000	Option Bonds Reserve HK\$'000	Exchange Reserve HK\$'000	Other Reserve HK\$'000	Accumulated Losses HK\$'000	Total HK\$'000
<b>Balance at 1 June 2013 (audited)</b>	81,612	7,889	-	3,551	247	-	(105,796)	(12,497)
Loss for the period	-	-	-	-	-	-	(3,384)	(3,384)
Other comprehensive income	-	-	-	-	-	-	-	-
<b>Total comprehensive loss for the period</b>	-	-	-	-	-	-	(3,384)	(3,384)
<b>Balance at 31 August 2013 (unaudited)</b>	81,612	7,889	-	3,551	247	-	(109,180)	(15,881)
<b>Balance at 1 June 2014 (audited)</b>	98,766	8,887	-	-	247	-	(122,220)	(14,320)
Loss for the period	-	-	-	-	-	-	(3,447)	(3,447)
Other comprehensive income	-	-	-	-	-	-	-	-
<b>Total comprehensive loss for the period</b>	-	-	-	-	-	-	(3,447)	(3,447)
Issue of convertible bonds	-	-	315	-	-	-	-	315
Recognition of equity-settled share-based payments	-	196	-	-	-	-	-	196
Acquisition of non-controlling interests	-	-	-	-	-	(1,891)	-	(1,891)
<b>Balance at 31 August 2014 (unaudited)</b>	98,766	9,083	315	-	247	(1,891)	(125,667)	(19,147)



The other reserve represents the difference between the fair value of consideration of HK\$2,000,000 paid to increase 0.35% shareholding in subsidiaries, GBjobs.com Limited, Dolphins HR Consultancy Limited and Asian Talent Development Centre Limited and the amount of adjustment to non-controlling interests during the three months ended 31 August 2014.

## **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 2014: HK\$281,000). The amounts of the liabilities are adequately recorded as account payables as at 31 August 2014. 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. CONVERTIBLE BONDS**

On 4 August 2014, the Group issued a convertible bond with a principal amount of HK\$2,500,000. The bond is convertible into ordinary shares at the initial conversion price of HK\$0.1245 per share anytime after the issuance of the convertible bond at the option of the bondholder and with the prior written consent of the Group. Any convertible bond not converted will be redeemed at par in two years after the date of issuance. The convertible bond bears interest at 7% per annum and payable half-yearly in arrears.

The fair value of the liability component was estimated at the issuance date using an equivalent market interest rate for a similar bond without a conversion option. The residual amount is assigned as the equity component and is included in shareholders' equity.

## **9. APPROVAL OF UNAUDITED CONDENSED CONSOLIDATED FIRST QUARTERLY FINANCIAL STATEMENTS**

The unaudited condensed consolidated first quarterly financial statements of the Group were approved and authorised for issue by the Board on 13 October 2014.

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

The Group recorded a total turnover of approximately HK\$0.622 million in the first quarter ended 31 August 2014, an increase of approximately HK\$0.159 million from approximately HK\$0.463 million for the same quarter of last year. The increase was mainly attributable to the increase in headhunting business during the period. The loss for the first quarter was slightly increased by approximately HK\$0.063 million from approximately HK\$3.408 million in the same quarter of last year to approximately HK\$3.471 million for this quarter.

The administrative expenses were increased by approximately HK\$0.589 million from approximately HK\$3.526 million of the same quarter of last year to approximately HK\$4.115 million for this quarter.

## BUSINESS REVIEW

The Group set up its first recruitment shop in Hong Kong at Kwai Chung in early 2014. Like its mobile recruitment vehicle, the shop is also the first of its kind in Hong Kong's recruitment history, which has received positive feedbacks on the market.


The Group also made a lot of media marketing efforts during the period. For instance, its mobile recruitment vehicle has been covered by a number of magazines, and the Group's GBjobs brand became better known among the public.

Furthermore, hundreds of human resources managers have attended legal seminars organised by the Group, some of which have become our customers as a result.

## BUSINESS OUTLOOK

The Group expects its advertising and headhunting business to continue to grow, which, however, heavily depends on global and local economic conditions in Hong Kong. Nevertheless, the Group is optimistic about the business of its subsidiary GBjobs, as it has established relationship with a lot of regular customers. GBjobs is also working on developing franchise business, and the Group will make every effort to replicate its successful business model in Hong Kong to other places such as Mainland China.





The Group is also actively seeking opportunities for mergers and acquisitions, in particular headhunting business in adjacent areas. As such, the Group has appointed an independent valuer to value GBjobs to determine its fair value in preparation for desirable mergers and acquisitions at a suitable time. It is foreseeable that investing and disposal of shares of the Group's subsidiaries may become a major stream of revenue of the Group.

On the other hand, online education is a great application and will become a successful business model when combining with GBjobs' business. The Group will invest more resources to make this become a global project.

## **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 31 August 2014, the Group employed a total of 23 (31 May 2014: 23) 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 31 August 2014, 117,168,000 (31 May 2014: 117,168,000) share options remained outstanding from the share option schemes.

## **DIVIDEND**

The Board of Directors does not recommend the payment of dividend in respect for the three months ended 31 August 2014 (three months ended 31 August 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 31 August 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	2.56
	Beneficial owner	275,828,822 (Note 2)	15,899,000 (Note 3)	-	4,800,000	0.233	306,827,822	41.76
					4,800,000	0.150		
				5,500,000	0.145			
Ms. Yau Pui Chi, Maria ("Ms. Yau") (Spouse of Mr. Ang)	Beneficial owner	799,000	309,764,822 (Note 4)	-	4,800,000	0.233	325,663,822	44.32
					4,800,000	0.150		
					5,500,000	0.145		
Mr. Wei Ren	Beneficial owner	500,000	-	-	1,500,000	0.233	3,000,000	0.41
					1,000,000	0.150		
Dr. Zhong Shi	Beneficial owner	-	-	-	3,200,000	0.233	10,700,000	1.46
					2,000,000	0.150		
					5,500,000	0.145		
Mr. Chiang Kin Kon	Beneficial owner	-	-	-	2,300,000	0.233	3,100,000	0.42
					800,000	0.150		

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. Wong Kwok Fai	Beneficial owner	-	-	-	1,200,000 800,000	0.233 0.150	2,000,000	0.27
Mr. Chau Siu Keung	Beneficial owner	-	-	-	1,200,000 800,000	0.233 0.150	2,000,000	0.27

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 209,285,127 shares and 66,543,695 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 15,100,000 share options held by Ms. Yau in person.
- 4) These shares are registered as 209,285,127 shares, 15,100,000 share options, and 66,543,695 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 31 August 2014.

## PURCHASES, SALE OR REDEMPTION OF SECURITIES

For the three months ended 31 August 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 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 31 August 2014 with respect to their share options granted under the Share Option Scheme and New Share Option Scheme respectively:

Date of grant	Exercise price HK\$	Exercise period	Number of Share Options				Balance as at 31.08.2014
			Balance as at 1.6.2014	Granted during the period	Exercised during the period	Cancelled/ lapsed during the period	
<b>Under Share Option Scheme</b>							
<b>Name of Directors</b>							
Mr. James Ang	13.10.2009 08.12.2010	0.233 0.150	13.10.2009 to 12.10.2019 08.12.2010 to 07.12.2020	4,800,000 4,800,000	- -	- -	4,800,000 4,800,000
Mr. Wei Ren	13.10.2009 08.12.2010	0.233 0.150	13.10.2009 to 12.10.2019 08.12.2010 to 07.12.2020	1,500,000 1,000,000	- -	- -	1,500,000 1,000,000
Ms. Yau Pui Chj, Maria	13.10.2009 08.12.2010	0.233 0.150	13.10.2009 to 12.10.2019 08.12.2010 to 07.12.2020	4,800,000 4,800,000	- -	- -	4,800,000 4,800,000
Dr. Zhong Shi	13.10.2009 08.12.2010	0.233 0.150	13.10.2009 to 12.10.2019 08.12.2010 to 07.12.2020	3,200,000 2,000,000	- -	- -	3,200,000 2,000,000
Mr. Chiang Kin Kon	13.10.2009 08.12.2010	0.233 0.150	13.10.2009 to 12.10.2019 08.12.2010 to 07.12.2020	2,300,000 800,000	- -	- -	2,300,000 800,000
Mr. Wong Kwok Fai	13.10.2009 08.12.2010	0.233 0.150	13.10.2009 to 12.10.2019 08.12.2010 to 07.12.2020	1,200,000 800,000	- -	- -	1,200,000 800,000
Mr. Chau Siu Keung	13.10.2009 08.12.2010	0.233 0.150	13.10.2009 to 12.10.2019 08.12.2010 to 07.12.2020	1,200,000 800,000	- -	- -	1,200,000 800,000
				<u>34,000,000</u>	-	-	<u>34,000,000</u>
<b>Other employees and individuals</b>							
In aggregate	08.12.2010	0.150	08.12.2010 to 07.12.2020	1,568,000	-	-	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	26,000,000	-	-	26,000,000
				<u>50,368,000</u>	-	-	<u>50,368,000</u>
Sub-total				<u>84,368,000</u>	-	-	<u>84,368,000</u>



	Date of grant	Exercise price HK\$	Exercise period	Number of Share Options				
				Balance as at 1.6.2014	Granted during the period	Exercised during the period	Cancelled/ lapsed during the period	Balance as at 31.08.2014
<b>Under New Share Option Scheme</b>								
<b>Name of Directors</b>								
Mr. James Ang	16.05.2014	0.145	16.05.2014 to 15.05.2024	5,500,000	-	-	-	5,500,000
Ms. Yau Pui Chi, Maria	16.05.2014	0.145	16.05.2014 to 15.05.2024	5,500,000	-	-	-	5,500,000
Dr. Zhong Shi	16.05.2014	0.145	16.05.2014 to 15.05.2024	5,500,000	-	-	-	5,500,000
				<u>16,500,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,500,000</u>
<b>Other employees and individual</b>								
In aggregate	16.05.2014	0.145	16.05.2014 to 15.05.2024	16,300,000	-	-	-	16,300,000
Sub-total				<u>32,800,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>32,800,000</u>
Total				<u>117,168,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>117,168,000</u>

During the period ended 31 August 2014, no share options were granted, exercised, lapsed or cancelled (three months ended 31 August 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 COMPETING BUSINESS**

For the three months ended 31 August 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 three months ended 31 August 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 4.1 and A 6.7 of the CG Code stipulated in the following paragraphs.

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, two independent non-executive Directors could not attend the annual general meeting of the Company held on 29 September 2014.

## **CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the rules set out in Rules 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 "Model Code"). On 25 June 2014, the Company was informed by Mr. James Ang, an executive Director of the Company, due to his misconception that the blackout period had not started on 24 June 2014, he had disposed 5.5 million shares of the Company in the open market between 24 June 2014 and 25 June 2014, which fall into the blackout period. Disclosure of interest under the Part XV of the Securities and Futures Ordinance was made on 25 June 2014. Such disposal of shares of the Company by Mr. James Ang is not in compliance with the Model Code. Save as disclosed above, the Company was not aware of any non-compliance with the Model Code regarding securities transactions by its Directors.

After occurrence of the incident, the Company had immediately further reminded each of its Directors in relation to their obligations not to deal with the securities of the Company during the blackout period. Besides, the Company had immediately updated its internal guidelines and distributed to all Directors to further reinforce the Company's internal control to ensure compliance with the Model Code and prevent the occurrence of similar events in the future.

The Company has also made specific enquiry of all Directors of the Company, and save as disclosed above, the Directors have confirmed compliance with the Model Code during the three months ended 31 August 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 Model Code. No incident of non-compliance was noted by the Company for the three months ended 31 August 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 three months ended 31 August 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. The Nomination Committee is also responsible for reviewing the board diversity policy and evaluating the effectiveness and implementation of the said policy regularly.





## 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 three months ended 31 August 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, 13 October 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