NETEL TECHNOLOGY (HOLDINGS) LIMITED

(Incorporated in the Cayman Islands with limited liability)

ANNUAL REPORT 2003

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GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. 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.

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The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed users.

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CORPORATE INFORMATION

DIRECTORS

James Ang
Yau Pui Chi Maria
Yeung Kam Yuen Roderick*
Li Chi Wing*

* *Independent Non-executive Directors*

COMPANY SECRETARY

Loui Ching Yee

COMPLIANCE OFFICER

James Ang

QUALIFIED ACCOUNTANT

Loui Ching Yee

AUTHORISED REPRESENTATIVES

James Ang
Loui Ching Yee

AUDIT COMMITTEE

Yeung Kam Yuen Roderick
Li Chi Wing

BANKERS

DBS Bank Limited

AUDITORS

PricewaterhouseCoopers
Lau & Au Yeung C.P.A. Limited

REGISTERED OFFICE

Century Yard
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Hutchins Drive
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Grand Cayman
Cayman Islands
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 4102, 41st Floor
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33 Hysan Avenue
Causeway Bay
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REGISTRARS *(in Cayman Islands)*

Bank of Butterfield International (Cayman) Ltd.
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Grand Cayman
Cayman Islands
British West Indies

REGISTRARS *(in Hong Kong)*

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WEBSITE

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CHAIRMAN'S STATEMENT

The market condition over the last quarter was probably the worst I have ever experienced. However, we did not passively react to such challenges. By constantly revisiting every difficulties and challenges facing to us, we continuously review our business direction and strategy with the goal to position ourselves well into the foundation and to excel in the telecommunication arena. The challenges we met has revealed our business direction has been basically on the right track and we are enhancing our earning capability in alignment with our business objectives.

On voice services, we focus on providing long distance telecommunication, and IP based and broadband application products. We have developed an integrated network platform where international telecom traffics can be routed through either an external PSTN carrier or our own VoIP gateway. We are still on the way to cover as much as possible the telecom traffics with VoIP in order to take advantage on the fast growing VoIP demand. This will also ensure our competitive advantage over the cost.

On the other hand, we are ready to launch the data services through the Internet in such countries where international or long distance phone calls are relatively expensive. We intend to cooperate with the telecom carriers in the short run particularly in China and Philippines in providing SMS services in these regions through IP based networks.

Based on the above developments, our technology team has developed a brand new innovative application which enables users to make long distance call at much reduced prices. Mixing the technology of SMS and VoIP, by just clicking predefined SMS messages on their mobile phones, users can use our Voice over Text ("VOT") calling card to conduct long distance calls at the costs of sending SMS messages plus a much reduced long distance call charges.

In the VoIP business, we started our business years ago by just retailing prepaid calling cards through dealers. Now, taking the advantage of Hong Kong being the Asia central hub for telecommunication, we have expanded our business model by selling telecom traffics directly to telecom carriers and this will become our main stream of income in the coming year. We believe capturing a massive volume of business through connecting to more major telecom carriers will help our Group increase the market share and carrier sales revenue. This can leverage our VoIP technology without incurring too much operating overheads. We are connecting our hubs to the large carriers in the Greater China and the US, in addition to the existing major carriers in Hong Kong, Philippines, Indonesia, Malaysia, etc. I believe this will secure our profit growth in the future.

CHAIRMAN'S STATEMENT *(Continued)*

In the calling card business, although we are not expecting drastic increase in the sales turnover, we are seizing the market share from other competitors in order to maintain a stable direct end user sales income for the Group, which can substantially subsidize the Group's overheads. Recoverability of receivables from dealers of calling cards has been a threat to our business and it was deteriorated after the SARS, which painfully hit our bottom line in this financial year. During the year, we start changing our retail strategy by selling calling cards directly through our own retail network, the Lotus Club. By doing this, we not only can improve our profit margin but also can reduce the credit risks in association with the sales to our dealers.

We believe the telecom industry is highly competitive. What make the survivors and winners are their persistence during the hard time, quick response to the market changes, ability to evolve new business opportunities, and talented and disciplined staff in the organization. Although we had difficult time in the SARS period of last year, I can say that we have been taking full advantage of the internet and our business networks for the Group to evolve from a business principally engaging in VoIP calling card wholesale in Hong Kong to a diversified business model comprising calling card retail and wholesale in Hong Kong and overseas, carrier sales, data services, and voice over text services. With more and more alliances and business cooperations with major telecom carriers in different countries, our business is becoming more globalized.

I give my sincere thanks to our colleagues who are so dedicated and persistent during the difficult time and contribute a lot on the business growth and diversification. I trust their efforts can bear fruitful result in the foreseeable future.

James Ang
Chairman

Hong Kong, 28th August 2003

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS FOR THE YEAR

Netel recorded a loss of HK$9.4 million for the year ended 31st May 2003 as compared to a profit of HK$4.6 million for the previous year. As a result of gradually replacing the calling card direct retail business from the third party distributors to the Lotus Club, the calling card sales decreased. Together with higher competition on calling cards targeted for Philippines and Indonesian workers in Hong Kong, and the decrease in selling price, the sales turnover for end-user direct sales decreased from HK$64.8 million for the previous year to HK$42.4 million for this year. However, as an effort to refocusing on the carrier sales business, the carrier sales increased from HK$2.8 million for the previous year to HK$3.7 million for this year. During the year the management devoted almost entire resources to the long distance telecom services and other new product developments, as a result, equipment sales activities were delayed and hence there is negligible equipment sale for this year as compared with HK$1.4 million for the previous year. Total sales turnover decreased from HK$69 million for the previous year to HK$46 million for this year, representing a reduction of 33%.

Giving credit to channeling of end-user sales to the Lotus Club and less compromise in the selling price, the gross profit margin increased from 23% for last year to 31.5% for this year. However, as the sales turnover decreased, the gross profit reduced to HK$14.5 million as compared with HK$15.8 million for the previous year.

The bottom line of the profit and loss account for this year was significantly affected by HK$3.7 million increase in expenses in association with business expansion such as salaries and bonus, shop rentals, and depreciation on new machines, and HK$1.9 million increase in corporate spending in association with listing in the Stock Exchange of Hong Kong and maintenance of investor relations. The increase in such spending in this year is expected to bring long term benefits to the Group in the future. In addition to the above, provision for doubtful debts increased HK$6.4 million over the previous year, mainly as a result of increasing financial difficulties on certain large calling card distributors after the SARS incident and the recoverability of such debts is becoming more difficult. Nevertheless, Netel is taking legal actions against certain of these debtors in anticipation of a final settlement. The management expects such large amount of doubtful debts will unlikely occur again in the future as more and more sales have been transacted through direct sales in the Lotus Club and most of the non-credit worthy distributors have been screened out. Adding HK$0.8 million net increase in other expenses, total administration expenses increased HK$12.8 million over the previous year to HK$21.7 million and it accounted substantially for the HK$9.4 million loss for the current year, as compared to the profit attributable to shareholders of HK$4.6 million for the previous year.

BUSINESS REVIEW

Netel's fourth quarter of the financial year falls on the months from March to May 2003, which had experienced probably the worst economic situation ever in Hong Kong. The spending sentiment dropped sharply during the fourth quarter in Hong Kong and the pedestrian traffics, including our Philippine and Indonesian customer groups, in Hong Kong also decreased drastically during this SARS period. Netel was inevitably affected in this quarter in the retail business. In addition, some long outstanding debtors were also triggered by this adverse economic condition and fell into financial difficulties.

Although the loss for the year was largely affected by corporate spending and business expansion programs that could also benefit the Group in the future, and by the provision of doubtful accounts, the business is recovering quickly and the operation is encouraging. Total outgoing minutes for the fourth quarter increased 34% to 16.6 million minutes over the previous quarter, and increased 55% as compared with the first quarter. Both the calling card and carrier sales outgoing minutes for this quarter continuously increased over the previous quarter, as supported by an additional new switch that came into operation in May 2003.

End-user direct sales

Netel's main customers are still the Philippines and Indonesian ethnic groups in Hong Kong during the year. The number of Philippines and Indonesian workers continuously dropped during the year as a result of the sluggish Hong Kong economy. For the March to May 2003 quarter alone, the number of Philippines and Indonesian domestic helpers in Hong Kong dropped 11,500 and 4,700 or 8% and 6% respectively. At the beginning of 2003, the Hong Kong government announced salary cut on the foreign domestic helpers. Adding the effect of SARS in the fourth quarter, it was evident that there was a temporary adverse impact on the calling card business.

During the fourth quarter, in order to maintain the sales turnover, Netel has been successful in capturing market shares from competitors. Outgoing minutes for the quarter increased to 11.9 million, a 19% increase over the previous quarter. However, average retail prices were reduced and special promotion and discounts were given in order to keep up the business in the SARS affected period.

During the year, Netel has gradually reduced its calling card retail sales through third party distributors. Instead, the self-owned distribution outlets, the Lotus Clubs, have become the major distribution channel for the calling card business in Hong Kong. This change in strategy will help in long term in strengthening brand image and the enhancement of customer loyalty. On the finance aspect, Netel was hit in the fourth quarter by the bad debts on previous sales to third party distributors. Now, the bad debt exposure has been reduced after change in retail strategy that 60% of total calling card sales previously made to less credit-worthy distributors have been replaced by the Lotus Clubs. In June and July 2003, two more Lotus Clubs were opened in Hong Kong and the total number of Lotus Club in Hong Kong became six.

During the fourth quarter, Netel employed much resources in new technology developments and feature enhancements on existing products. A brand new innovative product has been developed which enables mobile phone users to make long distance voice call by just clicking predefined SMS messages. This Voice over Text ("VOT") technology has the merit of making long distance calls at the costs of sending SMS messages plus a much reduced long distance call charges. Sales of VOT cards have been started after the year end gradually in a few Asian countries, and test running in other places where long distance call charges are expensive. In order to maintain customer loyalty and to increase our operational efficiency, a lot of new features have been developed such as one touch redial and automatic recognition of PIN for the calling cards, more efficient routing of calls in the system, and easier updating and implementation of charging plans, etc.

Carrier Sales

During the quarter, Netel allocated much resources in promoting the group in order to enter business relations with other large carriers that have large telecom traffic potentials. With the positive image of being a public listing company, and recognition to our capability and quality of communication services, the carrier sales were encouraging and performed well in accordance with our projection. The fourth quarter recorded HK$1.8 million revenue, doubled that of the previous quarter. Outgoing minutes for carrier sales also increased in double from 2.4 million for the previous quarter to 4.7 million for this quarter. This increasing trend is expected to continue.

Netel is capturing a massive volume of business through connecting with more major telecom carriers around the world. Recently, Netel is connecting its hubs to large carriers in the Greater China region and the US, in addition to the existing connected major carriers in Hong Kong, Philippines, Indonesia, Malaysia and Australia, etc. Netel is fully leveraging on the advantage of Hong Kong being the Asia Central hub for telecommunication, and the Internet and its VoIP technology for quick increase in the carrier sales. Netel has been able to cover more and more telecom traffics with VoIP in order to take advantage on the fast growing VoIP demand and at the same time ensuring the competitive advantage over the cost.

FINANCIAL REVIEW

Liquidity and Financing

During the year, in connection with the Initial Public Offer ("IPO") of the Company's shares in December 2002 and paying up of issued shares prior to the IPO, total net share issuance proceeds were HK$29.3 million. The group incurred about HK$18.3 million on the normal business operation, HK$2.5 million on investing activities, and HK$6.1 million on repaying bank finances. As such, cash and cash equivalent as at 31st May 2003 is HK$0.5 million, an increase of HK$2.4 million over the previous year.

Finance costs for the year were only HK$0.4 million, which had been decreased by about half as compared to the previous year. The decrease was the result of repayment of bank and other loan finances following issuance of new shares during the year. Including a pledged bank deposit of HK$3.9 million, the bank balances as at 31st May 2003 was HK$6.2 million. The bank finances outstanding at 2003 year end date, totaling HK$2.3 million, comprised of bank overdrafts of HK$1.8 million which was secured by pledged bank deposits and long term bank loan of HK$0.5 million which was secured by guarantees from certain Directors. In addition there were obligations under finance leases, substantially of long-term nature, of HK$2.3 million secured by fixed assets of the Group. The borrowings gearing ratio, defined as total bank and finance lease borrowings divided by the Shareholders' funds as at 31st May 2003 was 0.43 (22.25 as at 31st May 2002). The net current assets position and liquidity as at 31st May 2003 has been improved. There was a net current assets of HK$2.6 million as at 31st May 2003 as compared with the net current liabilities of HK$3 million as at 31st May 2002.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS OUTLOOK

It is expected that the carrier sales will be the mainstream of income for Netel in the future. Great volume of telecom traffics are routed through Hong Kong as the central telecom hub for Asia. In order to maximize our competitive advantage on VoIP, and to fully leverage on our expertise and its inherit nature of limited operating costs, Netel's direction will focus on increasing the carrier sales. In September this year, another new switch will come into operation that will almost double our existing traffic capacity. We are going to increase our efforts in oversea marketing for growing business with our customers, connecting lines with more telecom carriers, and maintaining the quality and stability in our VoIP offerings in order to secure our growth and profitability.

On the other hand, we are ready to launch new products - data services through the Internet. We target such services in countries where long distance phone calls are relatively expensive. We have associated with local mobile phone service providers, particularly in China and Philippines in providing SMS services through IP based networks. We also intend to distribute prepaid calling cards for SMS messages in countries wherever allowed by the local authorities through cooperation with local distribution networks.

The VOT will shortly be launched in large scale after the stability is fully ensured in each place where such service is available. Similarly, cooperation will be made with local distribution networks for marketing and distribution of the VOT calling cards. In association with these voice and data products, Netel is considering launching pre-paid mobile phone SIM cards for complementing its existing product offerings.

Based on the development of the existing business and the offering of new products shortly in the market, the management is expecting significant growth of business from the middle of the coming financial year.

EMPLOYEE INFORMATION

As at 31st May 2003, the Group employed a total of 28 (2002: 23) employees including directors. The salaries and benefits of the Group's employees are kept at a competitive level and employees are rewarded on a performance-related basis within the general framework of the Group's salary and bonus system, which is reviewed annually. 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 31st May 2003, no share options have been granted under the share option scheme.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Business objectives as stated in the Prospectus		Actual Business Progress
1. Research & development		
Technological advancement	Research & testing on NVP's compatibility issue between different vendor's VoIP gateways	Continued testing on different vendors' VoIP gateways. The NVP units connect in different countries broadbrand network e.g. Malaysia, Brunei, China, Philippines, and test different protocols. Also, test gateways of different brands e.g. Clarent with CISCO for carrier business.
	Continuous development of NVP	Different numbers of ports of NVP e.g. 4 ports and 2 ports are tested.
2. Products & service enhancement		
Network infrastructure & facilities	Deploy Cisco AS5300 gateway in Hong Kong	The group had deployed two Cisco gateways in Hong Kong.
	Set-up redundant site in HK	A redundant site has been set up in Hong Kong.
Customer Premises Equipment (CPE)	Install pilot sites at end-user ends	The Group has installed NVP in the Lotus Club Outlets and nearly 20 distributors to establish direct link with the domestic end-users.
	Complete pilot trail	The pilot trials have been done in Hong Kong different locations and overseas countries.
3. Sales & marketing		
Expanding geographical coverage and widening distribution network	Commencement of penetration into tourism segment for prepaid telephone cards	The Group has set up one additional Lotus Club outlet in July 2003 in Hong Kong to capture the tourism segment. The new Lotus Club is going to sell prepaid SIM card and VOT cards to tourists.
	Deploy Octopus-equipped vending machines in HK for prepaid telephone card sales	The Group has applied for using Octopus card in the Lotus Club outlets in HK for prepaid telephone card sales. During the period under review, the Group did not deployed any Octopus-equipped vending machines of our own but through dealers who has the machines.
	Set up 1 to 4 additional Lotus Club outlets in HK	The Group has set up one additional Lotus in March 2003 in Hong Kong. As at 31st May 2003, the Group has 5 Lotus Club outlets in Hong Kong.
	Maintain number of distributors at approximately 750	As at 31st May 2003, the Group has approximately 850 distributors.
Product launching	Commence NVP sales	The Group has commenced NVP sales in 2003.
	Perform road shows to corporate users in Malaysia, Singapore & Indonesia to promotes NVP	The Group has performed road shows to corporate users in Taiwan, Malaysia & the Philippines.
	Deploy 3 additional sales staff for product launching	As at 31st May 2003, there were 8 staff at the sales and marketing department.
	Establish NVP dealerships and distributorships in Brunei, Indonesia and Malaysia	The Group has commenced negotiation with distributors in Taiwan, Malaysia & Philippines for the establishment of NVP but as at 31st May 2003, the Group has not entered into any binding agreement in relation to the NVP dealerships and distributorships.
	Launch country-specific prepaid telephone cards for Nepal	The Group has launched prepaid telephone cards for Nepal and the cards are sold in Lotus Club.
Strengthening brand image	Perform road shows along KCR stations	The Group did not perform the road show because of the impact of SARS.
	Advertising campaign through bus stop display panels	The Group continues to arrange different advertising campaigns but no advertising campaign through bus stop display panels were arranged during the period under review.
	Participate in at least 1 exhibition in HK or overseas	The Group did not participate in any exhibition in HK or overseas.
	Distribution of posters & flyers in HK	The Group has distributed posters and flyers regularly to its distributors in HK for the Group's over 100 prepaid telephone cards.

USE OF PROCEEDS

During the period from 20th December 2002 to 31st May 2003, the Group has incurred the following amounts to achieve the business objectives as set out in the Prospectus of the Company dated 16th December 2002:

	As stated in the Prospectus	**Actual**
	HK$ 'million	*HK$ 'million*
– Research and development on telecommunication and VoIP technologies	5.0	2.6
– Products and services enhancement and development, and strategic investments	5.0	3.8
– Sales and marketing activities such as promotion activities, product launching and establishment of sales outlets	4.0	3.2
– Repayment of certain short term payables of telecommunication services providers	2.3	2.3
– General working capital for the Group	1.7	1.7
	18.0	13.6

The remaining net proceeds of HK$4.5 million were placed in licensed banks in Hong Kong for future use as identified by the Group's business plans.

The Group originally planned to utilize approximately HK$6 million to achieve its business objectives during the period from 20th December 2002 to 31st May 2003. As illustrated in the above table, the Group has accelerated its use of proceeds and incurred a total of approximately HK$13.6 million for the same period. Save for the aforesaid accelerated use of proceeds, there is no change in the application of proceeds for implementation of business and development strategies as stated in the prospectus of the Company dated 16th December 2002.

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. James Ang ("Mr. Ang"), age 44, is the chairman of the Company and the founder of the Group. Mr. Ang is responsible for the business planning on overall development of the Group. He has around 20 years of experience in telecommunications industry. Prior to joining the Group in 1996, he served as a sales manager of Swire Telecom from 1984 to 1986 and was responsible for the establishment of offices in the PRC. After being employed with Swire Telecom, Mr. Ang served as a director of the telecom division of AT&T from 1986 to 1995 and took charge of its business development in different countries. He obtained an honours diploma in Business and Management from the Hong Kong Baptist College (now the Hong Kong Baptist University) in 1983. He is also a graduate from the University of London with bachelor degree in laws. He was called to the bar in United Kingdom and Hong Kong in 1991 and 1992 respectively.

Ms. Yau Pui Chi Maria ("Ms. Yau"), aged 43, Mr. Ang's spouse, who has more than 18 years of commercial experience, is the vice president of the customer service department of the Group. Ms. Yau obtained an honours diploma in Business and Management from the Hong Kong Baptist College (now the Hong Kong Baptist University) in 1983. After graduation, she has been working in Airland Mattress Co. in charge of marketing and promotion activities in the People's Republic of China ("PRC") and Hong Kong. She also worked in Inni Company as an assistant manager from 1984 to 1990. Since 1989, she has been the director of Charmfine Investments Limited and is responsible for the sales of accessory products. Ms. Yau is experienced in direct interface with dealers and end-users. Ms. Yau joined the Group in 1999.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Yeung Kam Yuen Roderick ("Mr. Yeung"), aged 53, has studied Laws in the University of London and obtained his academic qualification of Bachelor of Laws in 1988. He obtained his post-graduate certificate in Laws in the University of Hong Kong in 1989. In 1995, he commenced his own business and had since been the partner of the firm, Yeung & Chan Solicitors. His major areas of practice are conveyancing, civil and criminal litigation. Mr. Yeung is also a member of the Institute of Housing of the United Kingdom since 1978 and was qualified as a member of the Law Society of England in 1992.

Mr. Li Chi Wing ("Mr. Li"), aged 44, obtained an honours diploma in Business and Management from the Hong Kong Baptist College (now the Hong Kong Baptist University) in 1983. After graduation, he worked as a sales executive in RCL Semiconductors Limited until 1986. He then joined Wellchem Pharmaceutical Limited and worked as a medical retailer for a year. From 1987 to 1990, he served as a senior marketing executive in KCL Electronics Co. and was responsible for promoting products and formulating marketing plans and proposals. Since 1991, Mr. Li has been appointed as the assistant marketing manager in Ling Kee Publishing Company Limited.

DIRECTORS AND SENIOR MANAGEMENT *(Continued)*

SENIOR MANAGEMENT

Mr. Lam Chiu Wai ("Mr. Lam"), aged 35, is the vice president of the technical department of the Group. Mr. Lam oversees the research and development division of the Group and is responsible for the development of and the integration of the Group's telecommunication system. He has almost 10 years of experience in the development and the integration of telecommunication platform. Prior to joining the Group in 1996, he joined EIZO Corporation Ltd. in Japan in 1992 as a research and development engineer. In 1993, he worked as a software engineer in Kontel Engineering & Consultants. Mr. Lam obtained a bachelor degree in electronic engineering from the Hong Kong Polytechnic (now The Hong Kong Polytechnic University) in 1992.

Mr. Woo Moon Yuen ("Mr. Woo"), aged 27, is the vice president of the sales department of the Group and is responsible for the sales development of telecommunication services with the telecommunication carriers and the sales activities of the Group's prepaid telephone cards business. Prior to joining the Group in November 2000, Mr. Woo was responsible for the sales and marketing management of telephone cards business, in a local ETS operator, Asia Touch International Co., Ltd. since April 2000. He obtained a bachelor degree in business administration from Clayton University in 1999.

Ms. Bellinda Lee ("Ms. Lee"), aged 30, is the vice president of the business development department of the Group and is responsible for the Group's expansion of prepaid telephone cards business and the development of VoIP business in South East Asia, Australia and New Zealand. Prior to joining the Group in November 2000, Ms. Lee worked as assistant export manager in Magna Industrial Co. Ltd from August 1995 to May 1999, and was in charge of the export of industrial products. In May 2000, Ms. Lee joined a local ETS operator, Asia Touch International Co., Ltd. as an assistant marketing manager participating in marketing and selling of prepaid telephone cards. She holds a bachelor degree in marketing from the Hong Kong Baptist University in 1995.

Ms. Loui Ching Yee ("Ms Loui"), aged 36, is the qualified accountant and the Company Secretary of the Group. Ms. Loui is an associate member of Hong Kong Society of Accountants and has over ten years' experience in accounting and finance fields. She joined the Group in March 2003.

REPORT OF THE DIRECTORS

The directors submit their report with the first annual report together with the audited accounts for the year ended 31st May 2003.

GROUP REORGANISATION

The Company was incorporated in the Cayman Islands on 9th September 2002 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the "Cayman Companies Law").

Pursuant to a Group reorganisation (the "Reorganisation") in preparing for the listing of the shares of the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM"), the Company acquired the entire share capital of Netel Phone Limited through a share swap and became the holding company of the Group. Details of the Reorganisation are set out in the prospectus of the Company dated 16th December 2002 (the "Prospectus"). The Company's shares were listed on GEM on 20th December 2002.

The Reorganisation has been reflected in the accounts by regarding the Company as having been the holding company of the Group from the beginning of the earliest period presented. The basis of preparation for these accounts is set out in note 1 to the accounts.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 12 to the accounts.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 3 to the accounts.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 23.

The directors do not recommend the payment of a dividend.

REPORT OF THE DIRECTORS *(Continued)*

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 22 to the accounts.

FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in note 11 to the accounts.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 21 to the accounts.

DISTRIBUTABLE RESERVES

Distributable reserves, including share premium, of the Company at 31st May 2003, amounted to HK$8,599,000. Under Section 34 of the Cayman Companies Law and the Articles of Association of the Company, the share premium is available for distribution to shareholders subject to the provisions of the Articles of Association of the Company, and a distribution may be paid to shareholders when the Company shall be able to pay its debt as they fall due in the ordinary course of business.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association and there is no restriction against such rights under the laws of the Cayman Islands.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 58.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

The company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

REPORT OF THE DIRECTORS *(Continued)*

SHARE OPTIONS

Pursuant to written resolution of the sole shareholder of the Company dated 4th December 2002, the Company has conditionally adopted the Share Option Scheme whereby eligible participants of the scheme who the Board considers, in its sole discretion, have contributed to the Group, may be granted option to subscribe for shares.

As at 31st May 2003, no share option was granted under the Share Option Scheme.

DIRECTORS

The Directors during the year and up to the date of this report were:

Mr. James Ang	(appointed on 9th September 2002)
Ms. Yau Pui Chi Maria	(appointed on 9th September 2002)
Mr. Yeung Kam Yuen Roderick	(appointed on 23rd November 2002)
Mr. Li Chi Wing	(appointed on 25th November 2002)

In accordance with Article 87 of the Company's Article of Association, Mr. Li Chi Wing retires by rotation and, being eligible offer themselves for re-election.

Mr. Yeung Kam Yuen Roderick and Mr. Li Chi Wing are independent non-executive Directors and were appointed for a two-year term expiring on 23rd November 2004 and 25th November 2004 respectively.

DIRECTORS' SERVICE CONTRACTS

Each of Mr. James Ang and Ms. Yau Pui Chi Maria has entered into a service contract with the Company for an initial term of three years commencing from 25th November 2002, and which may be terminated by either party not less than three months' prior notice in writing so as to expire not earlier than 31st May 2005.

Under the above service contracts, each of Mr. James Ang and Ms. Yau Pui Chi Maria are entitled to a fixed salary of HK$600,000 and HK$480,000 per annum subject to an annual increment as approved by the Board. Each of the executive Directors will also be entitled to all reasonable out-of-pocket expenses.

During the year, total emoluments, including bonus, paid and payable to the executive Directors amounted to approximately HK$1,482,000.

Save as disclosed above, none of the Directors has entered into any service agreements with any members of the Group.

REPORT OF THE DIRECTORS *(Continued)*

DIRECTORS' INTERESTS IN CONTRACTS

Apart from those disclosed in note 25 to the accounts, no contracts of significance in relation to the Group's business to which the Company, its subsidiaries or its holding company was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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

At 31st May 2003, apart from the details as follows, the Directors and chief executive do not have any other interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the company under Section 352 of the SFO or as notified to the Company:

Ordinary shares of HK$0.01 each in the Company

		Number of Share held		
Name of Directors		**Family interest**	**Corporate interest**	**Percentage**
Mr. James Ang	Long position	–	204,272,000 *(Note)*	53.76%
Ms. Yau Pui Chi, Maria	Long position	204,272,000 *(Note)*	–	53.76%

Note: These Shares are registered as to 192,200,000 Shares in the name of Nanette Profits Limited ("Nanette"), 5,692,000 Shares in the name of Benevolent Trading Limited ("Benevolent") and 6,380,000 Shares in the name of Cyber Wealth Company Group Limited ("Cyber Wealth"). Mr. Ang is the beneficial owner of the entire issued share capital of Nanette, Benevolent and Cyber Wealth and is deemed to be interested in the shares registered in the name of such companies.

REPORT OF THE DIRECTORS *(Continued)*

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OF THE COMPANY

The register of substantial shareholders maintained by the Company under Section 336 of the SFP shows that as at 31st May 2003, the Company had been notified of the following substantial shareholders' interests, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors and Chief Executives.

Name of Shareholders		Corporate interest	Precentage
LeeMah Holdings, Ltd	Long position	11,244,000	2.96%
Mr. Mah Bing Hong	Long position	11,244,000	2.96%
		22,488,000	5.92%

Note: LeeMah Holdings, Ltd is wholly owned by LeeMah Corporation which is owned as to 98.62% by Mah Family Partnership in which Mr. Mah Bing Hong is the beneficial owner. Mr. Mah Bing Hong is deemed to be interested in 11,244,000 shares held by LeeMah Holdings, Ltd.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases	
– the largest supplier	44.5%
– five largest suppliers combined	78.4%

During the year, the Group sold less than 30% of its goods and services to its 5 largest customers.

None of the directors, their associates or any shareholders (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major suppliers noted above.

REPORT OF THE DIRECTORS *(Continued)*

CONNECTED TRANSACTIONS

Significant related party transactions entered by the Group during the year ended 31st May 2003, which constitute exempted connected transactions under the Rules Governing the Listing of Securities on the GEM ("GEM Listing Rules"), are disclosed in notes 20 and 25 to the accounts.

BOARD PRACTICES AND PROCEDURES

Throughout the year, the Company was in compliance with the Board Practices and Procedures as set out in rules 5.28 to 5.39 of the GEM Listing Rules.

AUDIT COMMITTEE

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide for the Formation of An Audit Committee" published by the Hong Kong Society of Accountants.

The Audit Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the Group's audit. It also reviews the effectiveness of both the external and internal audit and of internal controls and risk evaluation. The Committee comprises two independent non-executive Directors, namely, Mr. Yeung Kam Yuen Roderick and Mr. Li Chi Wing. Three meetings were held up to the date of this report.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors has an interest in a business which compete or may compete with the business of the Group.

PENSION SCHEMES

The Group did not operate any retirement scheme up to 30th November 2000. With effect from 1st December 2000, a Mandatory Provident Fund scheme (the "MPF scheme") has been set up for employees, including executive Directors, in Hong Kong, in accordance with the Mandatory Provident Fund Scheme Ordinance (the "MPF Ordinance"). Under the MPF scheme, the Group's contributions are at 5% of employees' relevant income as defined in the MPF Ordinance up to a maximum of HK$1,000 per employee per month. The employees also contribute a corresponding amount to the MPF scheme from 31st December 2000 if their relevant income is more than HK$4,000 per month. The contributions are fully and immediately vested with the employees as accrued benefits once they are paid.

REPORT OF THE DIRECTORS *(Continued)*

SPONSORS' INTEREST

Subsequent to 20th December 2002, the Company's sponsor, Tai Fook Capital Limited ("Tai Fook"), its directors, employees or associates did not have any interest in the shares of the Company, or any right to subscribe for or to nominate persons to subscribe for the share.

Pursuant to the sponsor's agreement dated 16th December 2002 entered into between the Company and Tai Fook, Tai Fook will receive fee for acting as the Group's retained sponsor for the period from 20th December 2002 to 31st May 2005.

AUDITORS

The accounts have been jointly audited by PricewaterhouseCoopers and Lau & Au Yeung C.P.A. Limited.

On behalf of the Board
James Ang
Chairman

Hong Kong, 28th August 2003

REPORT OF THE AUDITORS

PRICEWATERHOUSECOOPERS
羅兵咸永道會計師事務所

LAU AU YEUNG 劉歐陽會計師事務所有限公司
LAU & AU YEUNG C.P.A. LIMITED

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central
Hong Kong

Lau & Au Yeung C.P.A. Limited
Room 2701, 27th Floor, Wing On House
71 Des Voeux Road Central
Hong Kong

AUDITORS' REPORT TO THE SHAREHOLDERS OF
NETEL TECHNOLOGY (HOLDINGS) LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the accounts on pages 23 to 57 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's Directors are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

REPORT OF THE AUDITORS *(Continued)*

OPINION

In our opinion, the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31st May 2003 and of the Group's loss and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirement of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 28th August 2003

Lau & Au Yeung C.P.A. Limited
Certified Public Accountants
Hong Kong, 28th August 2003

Franklin Lau Shiu Wai
Director
Practising Certificate Number P1886

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31st May 2003

	Note	**2003** **HK$'000**	2002 HK$'000
Turnover	3	**46,096**	69,016
Cost of sales		**(31,583)**	(53,173)
Gross profit		**14,513**	15,843
Other revenues	3	**50**	150
Selling and marketing expenses		**(1,818)**	(1,717)
Administrative expenses		**(21,704)**	(8,927)
Operating (loss)/profit	4	**(8,959)**	5,349
Finance costs	5	**(399)**	(750)
(Loss)/profit for the year		**(9,358)**	4,599
(Loss)/earnings per share	8	**(2.6 cents)**	1.4 cents

CONSOLIDATED BALANCE SHEET

As at 31st May 2003

	Note	2003 HK$'000	2002 HK$'000
Fixed assets	11	**9,888**	6,557
Current assets			
Inventories	13	**456**	422
Due from shareholders	14	**–**	11,626
Accounts and other receivables	15	**10,702**	9,670
Pledged bank deposits	20	**3,936**	3,000
Bank balances and cash		**2,291**	102
		17,385	24,820
Current liabilities			
Accounts and other payables	16	**11,937**	20,924
Due to a director	17	**15**	–
Current portion of long-term liabilities	18	**1,012**	1,595
Short-term bank loan, secured	20	**–**	994
Trust receipt loans, secured	20	**–**	2,241
Bank overdrafts, secured	20	**1,824**	2,069
		14,788	27,823
Net current assets/(liabilities)		**2,597**	(3,003)
Total assets less current liabilities		**12,485**	3,554
Financed by:			
Share capital	21	**3,800**	18
Reserves	22(a)	**6,926**	346
Shareholders' funds		**10,726**	364
Non-current liabilities			
Due to a related company	19	**–**	1,989
Long-term liabilities	18	**1,759**	1,201
		12,485	3,554

Approved and authorised for issue by the Board of Directors on 28th August 2003

James Ang
Director

Yau Pui Chi Maria
Director

BALANCE SHEET

As at 31st May 2003

	Note	HK$'000
Investments in subsidiaries	12	11,013
Current assets		
Other receivables	15	976
Bank balances and cash		753
		1,729
Current liabilities		
Other payables	16	343
Net current assets		1,386
Total assets less current liabilities		12,399
Financed by:		
Share capital	21	3,800
Reserves	22(b)	8,599
		12,399

James Ang
Director

Yau Pui Chi Maria
Director

STATEMENT OF CHANGES IN EQUITY

For the year ended 31st May 2003

	Note	2003 HK$'000	2002 HK$'000
Total equity as at 1st June		**364**	(36,525)
(Loss)/profit for the year	*22(a)*	**(9,358)**	4,599
Issuance of shares by the then holding company of the Group	*22(a)*	**–**	32,290
Waiver of amount due to a related company	*22(a)*	**1,989**	–
Issuance of shares by the Company	*21(e)*	**22,800**	–
Share issuance expenses	*22(a)*	**(5,069)**	–
Total equity as at 31st May		**10,726**	364

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st May 2003

	Note	**2003** **HK$'000**	2002 HK$'000
Net cash outflow incurred by operations	23(a)	**(17,941)**	(11,885)
Interest paid		**(399)**	(750)
Net cash outflow from operating activities		**(18,340)**	(12,635)
Investing activities			
Purchase of fixed assets		**(1,898)**	(222)
Proceeds from sale of fixed assets		**252**	1,015
Interest received		**50**	30
Increase in pledged bank deposits		**(936)**	(3,000)
Net cash outflow from investing activities		**(2,532)**	(2,177)
Net cash outflow before financing		**(20,872)**	(14,812)
Financing activities	23(b)		
Issuance of shares		**29,357**	10,354
Inception of bank loans		**259**	2,750
Repayment of other loans		**–**	(374)
Repayment of bank loans		**(2,255)**	(275)
(Decrease)/increase in trust receipt loans		**(2,241)**	2,241
Repayment of capital elements of finance leases		**(1,814)**	(1,314)
Net cash inflow from financing		**23,306**	13,382
Increase/(decrease) in cash and cash equivalents		**2,434**	(1,430)
Cash and cash equivalents at 1st June		**(1,967)**	(537)
Cash and cash equivalents at 31st May		**467**	(1,967)
Analysis of balances of cash and cash equivalents			
Bank balances and cash		**2,291**	102
Bank overdrafts		**(1,824)**	(2,069)
		467	(1,967)

NOTES TO THE ACCOUNTS

For the year ended 31st May 2003

1. BASIS OF PREPARATION AND GROUP REORGANISATION

(a) The Group had incurred a loss attributable to shareholders of HK$9,358,000 and net cash outflow of HK$17,941,000 from operations for the year ended 31st May 2003. Having taken into consideration of the various measures taken by management to generate profits and cash flows from operations, the Directors are of the opinion that the Group has sufficient financial resources to meet its liabilities and other financial obligations when they fall due within the next twelve months from the date of these accounts, and have prepared the accounts on a going concern basis.

(b) The Company was incorporated in the Cayman Islands on 9th September 2002 as an exempted Company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised), of the Cayman Islands (the "Cayman Companies Law").

(c) Pursuant to a Group Reorganisation ("Reorganisation") in preparation for the listing of the shares of the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM"), the Company acquired the entire issued share capital of Netel Phone Limited through a share swap and became the holding Company of the Group. Details of the Reorganisation are set out in the prospectus of the Company dated 16th December 2002. The Company's shares were listed on GEM on 20th December 2002.

(d) The Reorganisation is accounted for using merger accounting as permitted by Statement of Standard Accounting Practice ("SSAP") 2.127, "Accounting for group reconstructions". The consolidated accounts of the Group for the year ended 31st May 2003, including comparative figures, are prepared as if the Company had been the holding company of the Group from the beginning of the earliest period presented.

(e) No balance sheet of the Company as at 31st May 2002 is presented in the accounts as the Company was not yet incorporated as at that date.

(f) The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). They have been prepared under the historical cost convention.

(g) In the current year, the Group adopted the following Statements of Standard Accounting Practice ("SSAP") issued by the HKSA which are effective for accounting periods commencing on or after 1st January 2002:

SSAP 1 (revised):	Presentation of financial statements
SSAP 15 (revised):	Cash flow statements
SSAP 34 (revised):	Employee benefits

The adoption of these new and revised policies has no material impact on the accounts of the Company and the Group in the current and prior years. Certain presentational charges, however, have been made upon the adoption of SSAP 1 (revised): "Presentation of financial statements" and SSAP 15 (revised): "Cash flow statements".

NOTES TO THE ACCOUNTS *(Continued)*

For the year ended 31st May 2003

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st May.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of Directors; or to cast majority of votes at the meetings of the board of Directors.

Apart from the Reorganisation referred to in note 1 above, the results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(b) Revenue recognition

Revenue in respect of long distance call services provided to customers is recognised upon delivery of the services.

Revenue from the sale of equipment is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the equipment is delivered to customers and the title has passed.

Operating lease rental income is recognised on a straight-line basis over the lease term.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(c) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses, if any, and are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives to the Group on a straight-line basis. The principal annual rates are as follows:

Leasehold improvements	20%
Furniture and office equipment	20%
Computers and software	$33^1/_3$%
Telecommunication equipment	10%

NOTES TO THE ACCOUNTS *(Continued)*

For the year ended 31st May 2003

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) Fixed assets *(Continued)*

Improvements are capitalised and depreciated over their expected useful lives to the Group.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

(d) Assets under leases

(i) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are captalised at the inception of the leases at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in long-term liabilities. The finance charge are charged to the profit and loss account over the lease periods.

Assets held under finance leases are depreciated over the shorter of their estimated useful lives or the lease periods.

(ii) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

NOTES TO THE ACCOUNTS *(Continued)*

For the year ended 31st May 2003

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(e) Inventories

Inventories comprise telecommunication equipment and long distance call cards and are stated at the lower of cost and net realisable value. Cost, comprises purchase costs, is assigned to individual items on the first-in, first-out basis. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(f) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(g) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and bank overdrafts.

(h) Research and development costs

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as an intangible asset where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Development costs that do not meet the above criteria are expensed as incurred.

All development costs for the year were charged to the profit and loss account.

NOTES TO THE ACCOUNTS *(Continued)*

For the year ended 31st May 2003

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(i) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Pension obligations

The Group contributes to a defined contribution retirement scheme which is available to all employees. Contributions to the scheme by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to the profit and loss account represents contributions payable by the Group to the scheme. The Group's contributions to the defined contribution retirement scheme are expensed as incurred.

The assets of the scheme are held separately from those of the Group in an independently administered fund.

NOTES TO THE ACCOUNTS *(Continued)*

For the year ended 31st May 2003

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(j) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments are presented as the primary reporting format and geographical as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of fixed assets, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to fixed assets.

In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.

(k) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

(l) Borrowing costs

All borrowing costs are charged to the profit and loss account during the period in which they are incurred.

NOTES TO THE ACCOUNTS *(Continued)*

For the year ended 31st May 2003

3. TURNOVER AND REVENUES

The Group is principally engaged in the provision of long distance call services and trading of telecommunication equipment. Revenues recognised during the year are as follows:

	2003	2002
	HK$'000	*HK$'000*
Turnover		
Long distance call services	**46,033**	67,602
Sale of equipment	**63**	1,414
	46,096	69,016
Other revenues		
Bank interest income	**50**	30
Rental income from a related company *(Note 25)*	**–**	120
	50	150
Total revenues	**46,146**	69,166

NOTES TO THE ACCOUNTS *(Continued)*

For the year ended 31st May 2003

3. TURNOVER AND REVENUES *(Continued)*

Primary report format – business segments

	2003		
	Sale of equipment *HK$'000*	Long distance call services *HK$'000*	Group *HK$'000*
Turnover	63	46,033	46,096
Segment results	39	(6,096)	(6,057)
Other revenues			50
Operating loss			(6,007)
Unallocated costs			(2,952)
Finance costs			(399)
Loss attributable to shareholders			(9,358)
Segment assets	46	22,609	22,655
Unallocated assets			4,618
Total assets			27,273
Segment liabilities	–	15,404	15,404
Unallocated liabilities			1,143
			16,547
Capital expenditures	–	4,199	4,199
Unallocated capital expenditures			490
			4,689
Depreciation	–	1,213	1,213
Unallocated depreciation			8
			1,221

NOTES TO THE ACCOUNTS *(Continued)*

For the year ended 31st May 2003

3. TURNOVER AND REVENUES *(Continued)*

Primary report format – business segments *(Continued)*

	2002		
	Sale of equipment *HK$'000*	Long distance call services *HK$'000*	Group *HK$'000*
Turnover	1,414	67,602	69,016
Segment results	(385)	5,584	5,199
Other revenues			150
Operating profit			5,349
Finance costs			(750)
Profit attributable to shareholders			4,599
Segment assets	890	17,657	18,547
Unallocated assets			12,830
Total assets			31,377
Segment liabilities	1,117	29,896	31,013
Capital expenditures	–	332	332
Depreciation	–	1,054	1,054

NOTES TO THE ACCOUNTS *(Continued)*

For the year ended 31st May 2003

3. TURNOVER AND REVENUES *(Continued)*

Secondary reporting format – geographical segments

	2003			
	Turnover *HK$'000*	**Segment results** *HK$'000*	**Total assets** *HK$'000*	**Capital expenditures** *HK$'000*
Hong Kong	**44,486**	**(8,809)**	**26,823**	**4,689**
Mainland China	**65**	**(8)**	**30**	**–**
Other countries	**1,545**	**(192)**	**420**	**–**
	46,096	**(9,009)**	**27,273**	**4,689**
Other revenues		**50**		
Loss from operations		**(8,959)**		

	2002			
	Turnover *HK$'000*	Segment results *HK$'000*	Total assets *HK$'000*	Capital expenditures *HK$'000*
Hong Kong	67,602	4,876	30,487	332
Mainland China	327	131	327	–
Other countries	1,087	192	563	–
	69,016	5,199	31,377	332
Other revenues		150		
Profit from operations		5,349		

NOTES TO THE ACCOUNTS *(Continued)*

For the year ended 31st May 2003

4. OPERATING (LOSS)/PROFIT

Operating (loss)/profit is stated after crediting and charging the following:

	2003	2002
	HK$'000	*HK$'000*
Crediting		
Gain on disposal of fixed assets	**115**	132
Charging		
Auditors' remuneration	**860**	300
Cost of inventories sold	**2,661**	8,015
Depreciation		
– owned fixed assets	**986**	616
– leased fixed assets	**235**	438
Net exchange losses	**2**	–
Operating leases in respect of land and buildings	**2,558**	1,776
Operating lease rental in respect of equipment	**2**	24
Provision for doubtful debts and write-off of bad debts	**7,029**	683
Staff costs (including directors' emoluments) *(Note 9)*	**5,846**	3,698

5. FINANCE COSTS

	2003	2002
	HK$'000	*HK$'000*
Interest on bank loans and overdrafts	**275**	348
Interest on other loan	**–**	111
Interest element of finance leases	**124**	291
	399	750

NOTES TO THE ACCOUNTS *(Continued)*

For the year ended 31st May 2003

6. TAXATION

(a) No provision for Hong Kong profits tax has been made in current year as there is sufficient tax losses brought forward to offset assessable profits of the Group. No provision for Hong Kong profits tax had been made in prior year as the Group had no assessable profits.

(b) During the year, there was no material unprovided deferred tax assets/liabilities which are expected to be crystallized in the foreseeable future.

7. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders is dealt with in the accounts of the Company to the extent of loss of HK$11,831,000 *(2002: Nil)*.

8. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share is based on the Group's loss for the year of approximately HK$9,358,000 *(2002: profit for the year of HK$4,599,000)* and the weighted average of 367,381,918 shares in issued during the year *(2002: 331,185,031) shares deemed to be issued on 1st June 2001)*, after taking into consideration of the 1,785,999 shares issued in relation to the Reorganisation and the capitalisation issue of 355,414,000 shares, as referred to in notes 21(d) and 21(f), respectively.

Diluted (loss)/earnings per share for the current and prior years is not presented as there is no dilutive instrument granted by the Company.

9. STAFF COSTS (INCLUDING DIRECTORS' REMUNERATION)

	2003	2002
	HK$'000	*HK$'000*
Wages and salaries	**5,642**	3,544
Pension cost – defined contribution plans	**204**	154
	5,846	3,698

NOTES TO THE ACCOUNTS *(Continued)*

For the year ended 31st May 2003

10. EMOLUMENTS FOR DIRECTORS AND HIGHEST PAID INDIVIDUALS

(a) **Directors' emoluments**

The aggregate amount of emoluments paid and payable to the Directors of the Company are as follows:

	2003	2002
	HK$'000	*HK$'000*
Fees	**52**	–
Salaries, allowances and benefits in kind	**1,406**	696
Retirement benefit scheme contributions	**24**	24
	1,482	720

Each of the two executive Directors of the Company received emoluments for the year ended 31st May 2003 of approximately HK$737,000 *(2002: HK$360,000)* and HK$693,000 *(2002: HK$360,000)* respectively.

Each of the two independent non-executive Directors of the Company received emoluments for the year ended 31st May 2003 of approximately HK$26,000 *(2002: Nil)* and HK$26,000 *(2002: Nil)* respectively during the current and prior years.

None of the directors of the Company waived any emoluments during the current and prior years.

NOTES TO THE ACCOUNTS *(Continued)*

For the year ended 31st May 2003

10 EMOLUMENTS FOR DIRECTORS AND HIGHEST PAID INDIVIDUALS *(Continued)*

(b) **Five highest paid individuals**

The five individuals whose emoluments were the highest in the Group for the year include two *(2002: two)* Directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three *(2002: three)* individuals during the year are as follows:

	2003	2002
	HK$'000	*HK$'000*
Salaries and allowances	**992**	951
Retirement benefit scheme contributions	**36**	36
	1,028	987

The emoluments fall within the following bands:

	Number of individuals	
	2003	2002
Nil to HK$1,000,000	**3**	3

(c) During the current and prior years, no emoluments were paid by the Group to any of the above Directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

NOTES TO THE ACCOUNTS *(Continued)*

For the year ended 31st May 2003

11. FIXED ASSETS

	Group				
	Leasehold improvement	**Furniture and office equipment**	**Computer and software**	**Tele-communication equipment**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At cost					
At 1st June 2002	256	359	400	7,650	8,665
Additions	490	779	489	2,931	4,689
Disposals	–	–	–	(178)	(178)
At 31st May 2003	**746**	**1,138**	**889**	**10,403**	**13,176**
Accumulated depreciation					
At 1st June 2002	103	135	219	1,651	2,108
Charge for the year	59	204	121	837	1,221
Disposals	–	–	–	(41)	(41)
At 31st May 2003	**162**	**339**	**340**	**2,447**	**3,288**
Net book value					
At 31st May 2003	**584**	**799**	**549**	**7,956**	**9,888**
At 31st May 2002	153	224	181	5,999	6,557
Net book value of leased assets:					
At 31st May 2003	**–**	**483**	**–**	**2,575**	**3,058**
At 31st May 2002	–	–	–	3,592	3,592

NOTES TO THE ACCOUNTS *(Continued)*

For the year ended 31st May 2003

12. INVESTMENTS IN SUBSIDIARIES

	Company 2003 *HK$'000*
Unlisted investments at costs *(note (a))*	**6,499**
Due from subsidiaries *(note (b))*	**14,514**
Less: Provision for investments in and amounts due from subsidiaries	**(10,000)**
	11,013

(a) The following is a list of the principal subsidiaries at 31st May 2003:

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued and fully paid share capital	Interest held
Shares held directly:				
Netel Phone Limited ("NPL")	British Virgin Islands ("BVI")	Investment holding in Hong Kong	1,786,000 ordinary shares of US$1 each	100%
Shares held indirectly:				
Netel Technology Limited	Hong Kong	Trading of telecommunication equipment and provision of long distance call services in Hong Kong	10,000 ordinary shares of HK$1 each	100%
Think Gold Assets Limited	BVI	Investment holding in Hong Kong	100 ordinary shares of US$1 each	100%
Pacific Long Distance Telephone Corporation Limited	Hong Kong	Provision of long distance call services and sale of long distance call cards in Hong Kong	10,000 ordinary shares of HK$1 each	100%
Silver Holdings Limited	Hong Kong	Sale of long distance call cards in Hong Kong	2 ordinary shares of HK$1 each	100%

(b) The amounts due are unsecured, interest-free and not repayable within the next twelve months from the balance sheet date.

NOTES TO THE ACCOUNTS *(Continued)*

For the year ended 31st May 2003

13. INVENTORIES

	Group	
	2003	2002
	HK$'000	*HK$'000*
Telecommunication equipment	**200**	186
Long distance call cards	**442**	707
	642	893
Less: provision for slow moving inventories	**(186)**	(471)
	456	422

As at 31st May 2003 and 31st May 2002, the carrying amount of inventories that are carried at net realisable value amounted to Nil.

14. DUE FROM SHAREHOLDERS

The balance represented proceeds receivable from the issuance of shares of NPL which were received by the Group during the year.

NOTES TO THE ACCOUNTS *(Continued)*

For the year ended 31st May 2003

15. ACCOUNTS AND OTHER RECEIVABLES

	Group		Company
	2003	2002	**2003**
	HK$'000	*HK$'000*	***HK$'000***
Accounts receivable *(note (a))*	**5,356**	7,267	**–**
Prepayments and deposits *(note (b))*	**5,346**	2,403	**976**
	10,702	9,670	**976**

Note:

(a) The majority of the Group's turnover are entered into on credit terms ranging from 30 to 90 days. The ageing analysis of trade receivable at the respective balance sheet dates is as follows:

	Group	
	2003	2002
	HK$'000	*HK$'000*
0-30 days	**3,426**	1,501
31-60 days	**1,236**	1,370
61-90 days	**1,117**	811
91-180 days	**2,503**	1,897
181-365 days	**1,547**	1,981
Over 365 days	**2,885**	207
	12,714	7,767
Less: provision for doubtful debt	**(7,358)**	(500)
	5,356	7,267

(b) The balance included an amount of HK$2,052,000 (the "Deposit") which was paid by the Group to A&A Capital Realty Development Corporation ("A&A"), an independent third party, as a deposit for the acquisition of telecommunication equipment and several potential business projects. In addition, the Group paid a fee of HK$600,000 to A&A for consultancy services in current year. Subsequent to 31st May 2003, A&A has utilised approximately HK$1,072,000 to acquire certain telecommunication equipment for the Group and has returned the unutilised portion of the Deposit amounting to HK$980,000 in cash to the Group.

NOTES TO THE ACCOUNTS *(Continued)*

For the year ended 31st May 2003

16. ACCOUNTS AND OTHER PAYABLES

	Group		Company
	2003	2002	**2003**
	HK$'000	*HK$'000*	***HK$'000***
Due to a related company *(note (a))*	**–**	2,468	**–**
Accounts payable *(note (b))*	**8,492**	14,760	**–**
Accruals and other payables	**2,459**	2,835	**343**
Receipt in advance	**986**	861	**–**
	11,937	20,924	**343**

Note:

(a) The balance represented the amount due to Richmond Group Limited ("RGL"). Mr. James Ang ("Mr. Ang"), a director of the Company, has material beneficial interests in RGL. The balance was unsecured and interest-free, has been fully settled during the year

(b) The ageing analysis of the accounts payable were as follows:

	Group	
	2003	2002
	HK$'000	*HK$'000*
0-30 days	**2,052**	3,649
31-60 days	**1,411**	1,430
61-90 days	**1,175**	907
91-180 days	**1,749**	1,487
181-365 days	**141**	3,595
Over 365 days	**1,964**	3,692
	8,492	14,760

17. DUE TO A DIRECTOR

The amount due to a director, Mr. Ang, is unsecured, interest-free and has no fixed terms of repayment.

NOTES TO THE ACCOUNTS *(Continued)*

For the year ended 31st May 2003

18. LONG-TERM LIABILITIES

	Group	
	2003	2002
	HK$'000	*HK$'000*
Bank loans, secured *(note (a))*	**479**	1,481
Obligations under finance leases *(note (b))*	**2,292**	1,315
	2,771	2,796
Less: current portion of long-term liabilities	**(1,012)**	(1,595)
	1,759	1,201
The analysis of the above is as follows:		
Wholly repayable within five years	**2,771**	2,796
Current portion of long-term liabilities	**(1,012)**	(1,595)
	1,759	1,201

(a) At 31st May 2003, the Group's bank loans were repayable as follows:

	Group	
	2003	2002
	HK$'000	*HK$'000*
Within one year	**130**	301
In the second year	**138**	320
In the third to fifth year	**211**	860
	479	1,481

Details of securities for banking facilities are set out in note 20.

NOTES TO THE ACCOUNTS *(Continued)*

For the year ended 31st May 2003

18. LONG-TERM LIABILITIES *(Continued)*

(b) **Finance lease liabilities**

At 31st May 2003, the Group's finance lease liabilities were repayable as follows:

	Group	
	2003	2002
	HK$'000	*HK$'000*
Within one year	**972**	1,358
In the second	**827**	21
In the third to fifth year	**637**	–
	2,436	1,379
Future finance charges on finance leases	**(144)**	(64)
	2,292	1,315
The present value of finance lease liabilities is as follows:		
Within one year	**882**	1,294
In the second	**782**	21
In the third to fifth year	**628**	–
	2,292	1,315

Obligations under finance leases are repayable by equal monthly instalments to 17th May 2007. Interest is charged on the outstanding balances at 6% to 12.23%.

These finance leases are secured by corporate guarantees given by the Company, a subsidiary of the Group and personal guarantees given by Mr. Ang and Ms. Yau Pui Chi, Maria ("Ms. Yau"), Directors of the Company. Ms. Yau is the spouse of Mr. Ang.

NOTES TO THE ACCOUNTS *(Continued)*

For the year ended 31st May 2003

19. DUE TO A RELATED COMPANY

Last year's balance represented amount due to RGL which was unsecured, interest-free and repayable by twelve equal monthly instalment. During the year, RGL waived the full amount due by the Group, and the balance of HK$1,989,000 was taken to reserve *(Note 22)*.

20. BANKING FACILITIES

As at 31st May 2003, the Group's banking facilities of approximately HK$4,310,000 *(2002: HK$8,550,000)* were secured by the followings:

(a) joint and several personal guarantees from Mr. Ang and for HK$8,000,000 *(2002: HK$10,250,000)*;

(b) a legal charge over a property held by RGL and a property held by Charmfine Investment Limited ("Charmfine"), a company which is beneficially owned by Mr. Ang and Ms. Yau; and

(c) a charge over fixed deposits of HK$3,936,000 *(2002: HK$3,000,000)* held by the Group.

NOTES TO THE ACCOUNTS *(Continued)*

For the year ended 31st May 2003

21. SHARE CAPITAL

	Authorised ordinary shares of HK$0.01 each	
	No. of shares	*HK$'000*
At incorporation, 9th September 2002	38,000,000	380
Increase in authorised share capital *(note (c))*	962,000,000	9,620
At 31st May 2003	**1,000,000,000**	**10,000**

	Issued and fully paid ordinary shares of HK$0.01 each	
	No. of shares	*HK$'000*
At incorporation, 9th September 2002	–	–
Issue during the year and at 31st May 2003 *(notes (b), (d), (e) and (f))*	380,000,000	3,800

(a) The Company was incorporated in the Cayman Islands under the Cayman Companies Law as an exempted company with limited liability on 9th September 2002, with authorised share capital of HK$380,000 divided into 38,000,000 shares of HK$0.01 each.

(b) On 17th September 2002, one share of HK$0.01 of the Company was allotted and issued for cash at par to the subscriber.

(c) On 4th December 2002, pursuant to resolutions in writing passed by the sole shareholder of the Company, the authorised share capital was increased to HK$10,000,000, divided into 1,000,000,000 shares of HK$0.01 each by the creation of an additional 962,000,000 shares of par value of HK$0.01 each.

(d) On 4th December 2002, in consideration for the acquisition by the Company of the entire issued share capital of NPL, now an intermediate holding company within the Group, an aggregate of 1,785,999 shares of the Company were issued, credited as fully paid to the then shareholders of NPL.

NOTES TO THE ACCOUNTS *(Continued)*

For the year ended 31st May 2003

21. SHARE CAPITAL *(Continued)*

(e) On 19th December 2002, 22,800,000 shares of HK$0.01 each were issued at a price of HK$1 per share for cash consideration of HK$22,800,000. The excess over the par value of the shares issued was credited to the share premium account.

(f) Also, on 19th December 2002, 355,414,000 share of HK$0.01 each were issued at par as fully paid to the shareholders whose names appeared on the register of members of the Company on 14th December 2002. The amounts were paid up in full by applying an amount of HK$3,554,140 standing to the credit of the share premium account of the Company.

(g) The share capital presented in the consolidated balance sheet as at 31st May 2003 represented the share capital of the Company, arising on incorporation and from the share swap transactions described in note (d) above, the related shares of which are deemed to have been in issue throughout the accounting periods presented in these accounts in accordance with the basis of preparation as referred to in note 1(c). The related merger reserve are deemed to have been in existence throughout the accounting periods presented in accordance with the basis of presentation referred to in note 1(c).

(h) Under a share option scheme approved and adopted by the shareholders on 4th December 2002 (the "Share Option Scheme"), the Directors of the Company may, at their discretion, invite full-time employees including executive directors to take up options to subscribe for shares in the Company representing up to a maximum of 10% of the shares in issue from time to time (excluding shares issued on exercise of options under the share option scheme). No options were granted during the year and up to the date of these accounts.

NOTES TO THE ACCOUNTS *(Continued)*

For the year ended 31st May 2003

22 RESERVES

(a) Group

	Share premium HK$'000	Merger reserve HK$'000 *(Note)*	Accumulated losses HK$'000	Total HK$'000
At 1st June 2001	–	7,017	(43,560)	(36,543)
Arising from issuance of shares by NPL	–	32,290	–	32,290
Profit for the year	–	–	4,599	4,599
At 31st May 2002	–	39,307	(38,961)	346
At 1st June 2002	–	39,307	(38,961)	346
Issuance of shares *(Note 21(e))*	22,572	–	–	22,572
Share issuance expenses	(5,069)	–	–	(5,069)
Capitalisation issues *(Note 21(f))*	(3,554)	–	–	(3,554)
Waiver of amount due to a related company *(Note 19)*	–	–	1,989	1,989
Loss for the year	–	–	(9,358)	(9,358)
At 31st May 2003	**13,949**	**39,307**	**(46,330)**	**6,926**

Note: *Merger reserve represents the difference between the nominal value of the share capital of subsidiaries acquired and the nominal value of shares issued by the Company. The merger reserve is deemed to have been in existence throughout the accounting periods presented in the consolidated balance sheet in accordance with the basis of presentation referred to in note 1.*

NOTES TO THE ACCOUNTS *(Continued)*

For the year ended 31st May 2003

22. RESERVES *(Continued)*

(b) Company

	Share premium	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*
At 9th September 2002 (date of incorporation)	–	–	–
Amount arising from the Reorganisation *(Note)*	6,481	–	6,481
Issuance of shares *(Note 21(e))*	22,572	–	22,572
Share issuance expenses	(5,069)	–	(5,069)
Capitalisation issues *(Note 21(f))*	(3,554)	–	(3,554)
Loss for the period	–	(11,831)	(11,831)
At 31st May 2003	**20,430**	**(11,831)**	**8,599**

Note: The amount arising from the Reorganisation of HK$6,481,000 of the Company represents the difference between the consolidated net assets of the subsidiaries and the nominal value of the Company's share issued pursuant to the Reorganisation, and has been credited to the share premium account of the Company.

NOTES TO THE ACCOUNTS *(Continued)*

For the year ended 31st May 2003

23. CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of (loss)/profit for the year to net cash outflow incurred by operations

	2003	2002
	HK$'000	*HK$'000*
(Loss)/profit for the year	**(9,358)**	4,599
Interest expense	**399**	750
Interest income	**(50)**	(30)
Depreciation	**1,221**	1,054
Gain on disposal of fixed assets	**(115)**	(132)
Operating (loss)/profit before working capital changes	**(7,903)**	6,241
(Increase)/decrease in inventories	**(34)**	155
Increase in accounts and other receivables	**(1,032)**	(2,508)
(Decrease)/increase in accounts and other payables	**(9,112)**	(4,643)
Increase in amount due to a director	**15**	–
Increase/(decrease) in receipts in advance	**125**	(530)
Decrease in amount due to ultimate holding company	**–**	(3,576)
Decrease in amount due to related companies	**–**	(7,024)
Net cash outflow incurred by operations	**(17,941)**	(11,885)

NOTES TO THE ACCOUNTS *(Continued)*

For the year ended 31st May 2003

23. CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(b) Analysis of changes in financing during the year

	Share capital including share premium and merger reserve	Bank loans and obligations under finance leases	Trust receipt loans
	HK$'000	*HK$'000*	*HK$'000*
At 1st June 2001	7,035	3,330	–
Issuance of shares by NPL not yet paid up	11,626	–	–
Capitalisation of amount due to ultimate holding company by way of the issuance of shares by NPL	3,987	–	–
Capitalisation of accounts and finance lease payables by way of the issuance of shares by NPL	6,323	(437)	–
Inception of finance leases	–	110	–
Net cash inflow from financing	10,354	787	2,241
At 31st May 2002	39,325	3,790	2,241
At 1st June 2002	39,325	3,790	2,241
Paid up of shares issued by NPL in prior year	(11,626)	–	–
Inception of finance leases	–	2,791	–
Net cash inflow/(outflow) from financing	29,357	(3,810)	(2,241)
At 31st May 2003	**57,056**	**2,771**	**–**

(c) Major non-cash transactions

During the year, apart from the capitalisation issues as disclosed above and under notes 21(d) and (f) to the accounts, the Group had the following major non-cash transactions:

	2003	2002
	HK$'000	*HK$'000*
Finance lease arrangements in respect of assets with total values at the inception of leases	**2,791**	110

NOTES TO THE ACCOUNTS *(Continued)*

For the year ended 31st May 2003

24. COMMITMENTS UNDER OPERATING LEASES

At 31st May 2003, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2003		2002	
	Land and buildings	**Equipment**	Land and buildings	Equipment
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Within one year	**1,735**	**–**	1,896	121
In the second to fifth year	**1,697**	**–**	532	423
	3,432	**–**	2,428	544

25. RELATED PARTY TRANSACTIONS

Save as disclosed in other notes to the accounts, significant related party transactions, which were carried out in the normal course of the Group's business are as follows:

		Group	
		2003	2002
	Note	***HK$'000***	*HK$'000*
Rental income from RGL	*(i)*	**–**	120
Rental expenses paid to Charmfine	*(i)*	**120**	120

Note:

(i) Rental income and expenses were charged in accordance with the terms of the underlying agreements.

NOTES TO THE ACCOUNTS *(Continued)*

For the year ended 31st May 2003

26. ULTIMATE HOLDING COMPANY

The directors regard Nanette Profits Limited, a company incorporated in the British Virgin Islands, as being the ultimate holding company.

27. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 28th August 2003.

FIVE YEAR FINANCIAL SUMMARY

	2003	2002	2001	2000	1999
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	**46,096**	69,016	39,437	2,798	–
Profit/(loss) attributable to shareholders	**(9,358)**	4,599	(13,701)	(39,859)	–
Assets and liabilities					
Total assets	**27,273**	31,377	16,074	48	–
Total liabilities	**(16,547)**	(31,013)	(52,599)	(29,674)	–
Shareholders' funds/(deficits)	**10,726**	364	(36,525)	(29,626)	–

The Reorganisation referred to in note 1 to the accounts has been reflected in the five year financial summary by regarding the Company as having been the holding company of the Group from the earliest period presented.