ANNUAL REPORT 2005

NETEL

NETEL TECHNOLOGY (HOLDINGS) LIMITED

(Incorporated in the Cayman Islands with limited liability)

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

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.

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.

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.

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly, disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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 GEM Listing Rules for the purpose of giving information with regard to Netel. The directors of Netel, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded bases and assumption that are fair and reasonable.

CONTENTS

CORPORATE INFORMATION

DIRECTORS

James Ang
Yau Pui Chi Maria
Yeung Kam Yuen Roderick*
Li Chi Wing*
Chan Chun Chung William*

* *Independent Non-executive Directors*

COMPANY SECRETARY

Chan Fai Tai

COMPLIANCE OFFICER

James Ang

QUALIFIED ACCOUNTANT

Chan Fai Tai

AUTHORISED REPRESENTATIVES

James Ang
Chan Fai Tai

AUDIT COMMITTEE

Yeung Kam Yuen Roderick
Li Chi Wing
Chan Chun Chung William

BANKERS

DBS Bank Limited

AUDITORS

Lau & Au Yeung C.P.A. Limited

REGISTERED OFFICE

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681GT
George Town
Grand Cayman
Cayman Islands
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 4102, 41st Floor
Manulife Plaza
The Lee Gardens
33 Hysan Avenue
Causeway Bay
Hong Kong

REGISTRARS *(in Cayman Islands)*

Bank of Butterfield International (Cayman) Ltd.
Butterfield House
68 Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands
British West Indies

REGISTRARS *(in Hong Kong)*

Computershare Hong Kong Investor
Services Limited
46th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

WEBSITE

http://www.neteltech.com.hk.

GEM STOCK CODE

8256

CHAIRMAN'S STATEMENT

The market situation of IDD voice traffic, in particular the calling card business, in last year was very competitive and difficult. The booming of tourist sector in Hong Kong did not contribute much to this industry, but the increase in rental of shop outlets as a result of the retail boom in Hong Kong had a negative impact on our Lotus Club and the retail calling card business. Therefore it is another year of challenge and it pushes us to accelerate implementing new business model for the Group.

In the past financial year, we had evolved from a local carrier to an international operator and from a traditional voice carrier to an Internet Protocol ("IP") phone carrier. This evolution included the reallocation of our resources from Lotus Club retail outlets operations to IP phone overseas sales. This needs new IP phone technology and know-how, new distribution channels , new sales and marketing strategy, and sound management on this IP phone business. This project was started at the beginning of the year 2005 and it took us more than 6 months to launch this product in overseas and it takes us another couple of months to secure orders. In short, we have successfully gone through this process in the past months.

Since the company has already set up the international IP hub for voice and data traffic and we have put in place the proficient technical people in operating the system, it is now the focus for our marketing people to deploy this product and service in the overseas.

We successfully formed a joint venture with a Philippines reputable family to market the product in the Philippines market. We are also able to penetrate more than 10 overseas countries and the product has been entered in some reputable chain stores in some of those foreign countries . The next challenge is the way to cultivate our brand name and customer base in the overseas markets.

As due to the diversification from the retail calling card business to overseas IP phone sales, the Group has cut significantly costs on the retail manpower, rental expenditure on retail outlets. The operations of the conventional business was stream-lined. We are now looking for more professional international marketing expertise and IP application expertise to take off our new business.

In short, the past year was a year of changes but I believe it is also a good year for us as we have found such opportunity to develop the promising unique IP phone business. There has been lot of pain in this evolution but we can see promising return in the new business from the overseas markets. As such, we are going to head on this direction and deliver a lucrative return to our Shareholders.

Finally, I would like to extend my sincere thanks for our Shareholders, colleagues of our Group and our business partners who support us in the evolution of our business models. I believe our experienced team will be able to carry out our promising new business plan.

James Ang
Chairman

Hong Kong, 29th August 2005

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS FOR THE YEAR

The Group recorded a total turnover HK$26.2 million in the year ended 31st May 2005, a decrease of 50.4% from HK$52.8 million for the year ended 31st May 2004. The decrease was attributable to the decrease in calling card sales and in particular carrier sales. Although the turnover dropped in this year, the gross profit margin increased from 3.6% for last year to 15.9% for this year. The increase in overall gross profit margin was attributable to the significant reduction on carrier sales that only contributed very thin profit margin. The loss was also narrowed down from HK$18.5 million in the last year to HK$13.3 million in this year.

The administrative expenses decreased by HK$2.1 million from HK$19.1 million of last year to HK$17.0 million for this year. It was attributable to the decrease of HK$1.0 million of rental expenses and the decrease of HK$1.9 million of salary and allowance.

BUSINESS REVIEW

For the year ended 31st May 2005, the major sources of income were still from the calling card sales and the carrier sales. The retail calling card business shrunk as the consumer behaviour changed to use mobile phone and text messages. The Group hence closed down several Lotus Club retail outlets. The carrier sales business had been difficult as the profit margin was squeezed due to keen competition and introduction of new technology. Therefore the Group put a lot of efforts in cultivating IP phone technology and markets and the products had become mature by the end of the financial year.

Retail Calling Cards

Since major operators both in Hong Kong and overseas stepped into the retail calling cards market in Hong Kong, price war commenced and drove down the profit margin. The total outgoing minutes from calling card sales were 31.3 million in this year compared to 42.2 million minutes in last year. The revenue from this business were HK$17.1 million and decreased 42.8% from HK$29.9 million of last year. The consumer behaviour changed from voice to text caused the decrease of revenue of retail calling cards in this year.

The Group was running 8 Lotus Club retail outlets in selling calling cards. However, rental increased due to booming of the tourist sector, the management could not see the opportunity of income catching up the rental expenditure, as such the Group decided to gradually move out from those retail outlets. One of the Lotus Club was closed in January 2005 and this action would be continued with the purpose to reduce our operating expenses.

MANAGEMENT DISCUSSION AND ANALYSIS

Carrier Sales

The total outgoing minutes of carrier sales were 8.6 million minutes in this year compared to 29.8 million minutes for last year. The carrier sales revenue decreased from HK$23.0 million of last year to HK$8.6 million of this year. The entry barriers of carrier sales became easier due to the introduction of new technology to replace the traditional switches, and as such more and more small new players entered the market. The profit margin of carrier sales had been very thin and together with the increase in market players, the Group's carrier sales business shrunk drastically.

Internet Protocol Phones

The broadband started to become more and more popular and the IP technology had became more mature to carry voice. A lot of countries in Asia already deregulated the IP voice traffic. The Group believed this was a golden opportunity to focus on this business model. The Group started the research during the middle of the financial year and was able to get an initial revenue of HK$0.5 million from the business of IP phone in the fourth quarter of the year.

FINANCIAL REVIEW

Liquidity and Financing

For the year ended 31st May 2005, the Group incurred a loss of HK$13.3 million and the net cash outflow from operations was approximately HK$4.6 million. The outflow was mainly attributable to operating loss before changes in working capital of approximately HK$9 million, decrease in receivable of HK$0.9 million and increase in payables by HK$3.9 million. Together with cash raised from issuance of new shares during the year and repayment of certain bank financings, the net increase in cash and cash equivalents was approximately HK$1.4 million for the year.

As at 31st May 2005, the group had a cash and cash equivalent balance of HK$0.1 million and the total obligations under finance lease of approximately HK$0.9 million which was substantially in short-term nature and secured by fixed assets of the Group. The borrowings gearing ratio, defined as total bank and finance lease borrowings divided by the shareholders' fund as at 31st May 2005 was not applicable as there was negative shareholders' fund (not applicable as at 31st May 2004). The Group had net current liabilities of HK$23.6 million as at 31st May 2005 as compared with HK$17.4 million as at 31st May 2004.

Most of the transactions of the Group are denominated in US Dollars and HK Dollars. As the exchange rate of US Dollar is fairly stable, the Board is of the view that the exposure to foreign currency exchange risk is limited. Hence, no other arrangements to reduce the currency risk have been implemented.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OUTLOOK

Looking forward, as the Hong Kong Government is implementing policy to encourage broadband phone to integrate with fixed network and the consumers become more familiar with the IP phone technology, management believes this environment will be a good business opportunity for the Group. In this connection, more resources will be put in the IP phone market.

On the other hand, considering the fact that the IDD pricing in the Hong Kong market is facing very severe competition, the Group will concentrate its resources and efforts in overseas markets. By utilising overseas partners' network, technical expertise in the IP application and the existing developed infrastructure, management believes the overseas market will become a fast growing geographical business segment of the Group.

During the year, the Group recruited a new Director of Product Development to manage the research and development department of the IP phone applications. The Group has successfully launched the IP phone in February 2005 to different countries in Asia, Latin America, and the USA. To further penetrate the overseas markets, the Group has formed a joint venture with a Philippine operator and has teamed up with a long term strategic partner in Japan for marketing the IP phone product in these markets. Management is confident that more sales orders in these overseas countries will be concluded in the near future. .

Furthermore, the Group sees there are a lot of horizontal expansion opportunities and value added services to be marketed with the IP phones in overseas countries and is confident that this will bring in long term revenue to the Group.

CAPITAL STRUCTURE

On 23rd August 2004, the Company entered into a subscription agreement (the "Subscription Agreement") with an existing shareholder of the Company (the "Subscriber"). The Subscription Agreement was completed on 30th September 2004. Pursuant to the Subscription Agreement, the Subscriber subscribed for 6,230,000 new shares at a subscription price of HK$1.00 per share. The net proceeds of approximately HK$6 million was used for general working capital of the Group.

EMPLOYEE INFORMATION

As at 31st May 2005, the Group employed a total of 25 (2004: 35) 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 2005, no share options have been granted under the share option scheme.

CONTINGENT LIABILITIES

As at 31st May 2005, the Company had given unconditional guarantee to a third party to secure the due payment of rental expenses payable by a subsidiary to the extent of HK$552,000 (2004: HK$1,668,000) and contingent liabilities of HK$748,000 (2004: HK$1,137,000) in respect of guarantees for due performance of a subsidiary under finance lease obligations.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Business objectives as stated in the Prospectus		Actual Business Progress
1. Research & development		
Technological advancement	Research on unify messaging capability with SIP protocols	Put up SIP server already and be able to run out SIP phones for different countries
	Site visits to major telecommunications equipment manufacturers	Visited our SIP phone server providers' facilities already
	Recruitment of 1 additional technical staff in telecommunications field	After the consideration of the existing workload and the staff head count, the technical staff is sufficient and no need to increase extra staff
2. Products & service enhancement		
Network infrastructure & facilities	Install additional VOIP gateways in France and Indonesia	Installed VOIP gateways in the Philippines and Hong Kong
Customer Premises Equipment (CPE)	Upgrade system to remote video monitoring and image transmission	Installed the SIP phone server to operate both data, video and image
	Provide value-added services of conferencing function to current users	Different value added services such as connecting local PSTN to IP phone is provided

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Business objectives as stated in the Prospectus		Actual Business Progress
3. Sales & marketing		
Expanding geographical coverage and widening distribution network	Expand and refurnish existing Lotus Club outlets	The return from Lotus Club outlets was not attractive and the plan of expansion was stopped
	Set up 1 additional Lotus Club outlet in Singapore, Malaysia, Japan or South Korea	This project was not yet implemented as not yet local right partner in overseas
Product launching	Trial launch of second generation NVP	Launch the web phone as second generation of NVP and already secured several sales contracts from different countries
	Perform road shows to corporate and retail users in Taiwan, Japan and South Korea to promote NVP	Visited Japan and concluded the web phone deal
	Deploy 2 additional sales staff for product promotion	Add 1 international marketing sales staff
	Continue to establish NVP dealerships and distributorships	Already demo NVP to prospective dealers in Asia

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Business objectives as stated in the Prospectus		Actual Business Progress
Strengthening brand image	Perform road shows along KCR stations & Mass Transit Railway (MTR) stations	As the business target was changed to overseas, the road show in local area is not necessary
	Continuous advertising in different media	The IP phone was advertised in several overseas magazines for promotion
	Participate in at least 1 exhibition in Hong Kong or overseas	The Group did not participate any exhibition in Hong Kong or overseas
	Conduct at least 5 seminars	Conduct seminars in the Philippines and Japan for IP phone
	Distribution of posters and flyers in Hong Kong	The Group has distributed posters and flyers regularly to its distributors in HK for the Group's over 100 prepaid calling cards

USE OF PROCEEDS

During the period from 20th December 2002 to 31st May 2005, 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 HK$'million	**Actual** HK$'million
– Research and development on telecommunication and VoIP technologies	5.0	5.0
– Products and services enhancement and development, and strategic investments	5.0	5.0
– Sales and marketing activities such as promotion activities, product launching and establishment of sales outlets	4.0	4.0
– 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	18.0

EXECUTIVE DIRECTORS

Mr. James Ang ("Mr. Ang"), age 46, 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 45, 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 55, 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 46, 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. From 1991 to 2004, Mr. Li was appointed as the assistant marketing manager in Ling Kee Publishing Company Limited. Since April 2004, Mr. Li became a consultant of a local trading company. Mr. Li was re-appointed as the assistant marketing manager of Ling Kee Publishing Company Limited in April 2005.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Chan Chun Chung William ("Mr. Chan"), aged 48, has been practising as a certified public accountant since 1996 and is now a partner of Chan, Lam & Company, CPA. Prior to this, he worked as company secretary and financial and corporate service advisor in a number of listed companies in Hong Kong. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountant. Mr. Chan is also an associate member of both the Institute of Chartered Secretaries and Administrators in United Kingdom and Hong Kong Institute of Company Secretaries.

SENIOR MANAGEMENT

Mr. Lam Man Wah, Peter ("Mr. Lam"), aged 43, is the Director of Product Development of the Group. Mr. Lam oversees the product & business development of the Group and is also responsible for the technical support department. He has around 20 years of experience in telecommunications and information technology industries. Prior to joining the Group in 2004, he served as a Division Manager of a local system integrator and consultancy firm for both telecommunication and data communication systems from 1984 to 1993. In 1993, he commenced his own business as a consultant in information technology field. Mr. Lam is a graduate from The Hong Kong Polytechnic (now The Hong Kong Polytechnic University) in Electronics Engineering faculty in 1985.

Mr. Woo Moon Yuen ("Mr. Woo"), aged 29, 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.

Mr. Chan Fai Tai ("Mr. Chan"), aged 35, is the qualified accountant and the Company Secretary of the Group. He is responsible for the accounting and finance functions of the Group. He is an associate member of the Association of Chartered Certified Accountants, United Kingdom and associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Chan has over ten years' working experience in auditing , accounting and finance fields. He joined the Group in April 2003.

REPORT OF THE DIRECTORS

The Directors have pleasure in submitting their report with the audited accounts for the year ended 31st May 2005.

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 21.

The Directors do not recommend the payment of a dividend.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 19 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 18 to the accounts.

DISTRIBUTABLE RESERVES

Distributable reserves, including share premium, of the Company at 31st May 2005, amounted to HK$1,096,000 (2004: HK$1,828,000). 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.

REPORT OF THE DIRECTORS

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 52.

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.

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 2005, 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
Ms. Yau Pui Chi Maria
Mr. Yeung Kam Yuen Roderick
Mr. Li Chi Wing
Mr. Chan Chun Chung William (appointed on 22nd September 2004)

In accordance with Article 87 of the Company's Article of Association, Ms. Yau Pui Chi Maria retires by rotation and, being eligible offer herself for re-election.

Mr. Yeung Kam Yuen Roderick and Mr. Li Chi Wing, independent non-executive Directors, had entered into service contracts with the Company on 23rd November 2002 and 25th November 2002 respectively for an initial term of two years from 23rd November 2002 and 25th November 2002 respectively and which expired on 22nd November 2004 and 24th November 2004 respectively. The service contracts shall continue thereafter until terminated by either party giving to the other not less than three months' prior written notice.

Mr. Chan Chun Chung William, an independent non-executive Director, has entered into a service contract with the Company on 22nd September 2004 for an initial term of one year from 22nd September 2004 and expiring on 21st September 2005.

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$1,104,000 (2004: HK$1,504,000).

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

DIRECTORS' INTERESTS IN CONTRACTS

Apart from those disclosed in note 24 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' INTERESTS IN AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

At 31st May 2005, 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 ("Mr. Ang")	Long position	–	204,272,000 *(Note)*	52.89%
Ms. Yau Pui Chi, Maria (Spouse of Mr. Ang)	Long position	204,272,000 *(Note)*	–	52.89%

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.

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 SFO shows that as at 31st May 2005, 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	Percentage
LeeMah Holdings, Ltd	Long position	11,244,000	2.91%
Mr. Mah Bing Hong	Long position	11,244,000	2.91%
		22,488,000	5.82%

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	14.6%
– five largest suppliers combined	50.5%

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.

CONNECTED TRANSACTIONS

Significant related party transactions entered by the Group during the year ended 31st May 2005, which constitute exempted connected transactions under the Rules Governing the Listing of Securities on the GEM ("GEM Listing Rules"), are disclosed in note 24 to the accounts.

CORPORATE GOVERNANCE

During the year, the Company was in compliance with the Board Practices and Procedures as set out in rule 5.34 to 5.45 of the GEM Listing Rules, which applied before the amendment of the GEM Listing Rules relating to the Code on Corporate Governance Practices and Rules on Corporate Governance Report on 1st January 2005. The Company will prepare a Corporate Governance Report in accordance with rule 18.44 of the GEM Listing Rules for financial year ending 31st May 2006.

The Company had adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the Stock Exchange's required standard of dealings. The Company had made specific enquiry of all the Directors and the Company was not aware of any non-compliance with the Stock Exchange's required standard of dealings and its code of conduct regarding securities transactions by the Directors.

The Company has received the annual confirmation of independence from each of the independent non-executive Director of the Company and the Company considers that all of the independent non-executive Directors are independent.

AUDIT COMMITTEE

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted in compliance with rule 5.28 to 5.33 of the GEM Listing Rules.

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 three independent non-executive Directors, namely, Mr. Yeung Kam Yuen Roderick, Mr. Li Chi Wing and Mr. Chan Chun Chung William. Four 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.

REPORT OF THE DIRECTORS

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.

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 accompanying accounts have been audited by Lau & Au Yeung C.P.A. Limited. A resolution for their reappointment will be proposed at the forthcoming annual general meeting.

On behalf of the Board

James Ang
Chairman

Hong Kong, 29th August 2005

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

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 21 to 51 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 Institute of Certified Public 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

FUNDAMENTAL UNCERTAINTY

In forming our opinion, we have considered the adequacy of the disclosures made in the note 1(a) to the accounts which indicates that the Group's total liabilities exceeded its total assets by approximately HK$15.0 million and its current liabilities exceeded its current assets by approximately HK$23.6 million. The accounts have been prepared on a going concern basis, the validity of which depends upon the generation of sufficient working capital from the Group's future operations and the raising of shareholders' loans as explained in the note 1(a) to the accounts. The Directors, after careful review of the future cash flow projection of the Group, have concluded that the preparation of the accounts on a going concern basis is appropriate. The accounts do not include any adjustments that would result from a failure to obtain the aforesaid fundings. We consider that the fundamental uncertainty has been adequately accounted for and disclosed in the accounts and our opinion is not qualified in this respect.

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 2005 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.

Lau & Au Yeung C.P.A. Limited
Certified Public Accountants
Hong Kong, 29th August 2005

Franklin Lau Shiu Wai
Director
Practising Certificate Number P1886

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31st May 2005

	Note	2005 HK$'000	2004 HK$'000
Turnover	3	**26,189**	52,829
Cost of sales		**(22,030)**	(50,937)
Gross profit		**4,159**	1,892
Other revenues	3	**500**	235
Selling and marketing expenses		**(675)**	(1,261)
Administrative expenses		**(17,037)**	(19,075)
Operating loss	4	**(13,053)**	(18,209)
Finance costs	5	**(229)**	(272)
		(13,282)	(18,481)
Minority interests		**(7)**	–
Loss for the year		**(13,289)**	(18,481)
Loss per share	8	**(3.5 cents)**	(4.9 cents)

CONSOLIDATED BALANCE SHEET

As at 31st May 2005

	Note	2005 HK$'000	2004 HK$'000
Fixed assets	11	**8,561**	10,458
Current assets			
Inventories	13	**193**	463
Accounts and other receivables	14	**4,127**	4,949
Pledged bank deposits		**–**	1,936
Bank balances and cash		**132**	585
		4,452	7,933
Current liabilities			
Accounts and other payables	15	**25,361**	21,450
Due to a director	16	**1,690**	328
Current portion of long-term liabilities	17	**971**	1,687
Bank overdrafts, secured		**–**	1,850
		28,022	25,315
Net current liabilities		**(23,570)**	(17,382)
Total assets less current liabilities		**(15,009)**	(6,924)
Financed by:			
Share capital	18	**3,862**	3,800
Reserves	19(a)	**(18,938)**	(11,555)
Shareholders' deficits		**(15,076)**	(7,755)
Minority Interests		**7**	–
Non-current liabilities			
Long-term liabilities	17	**60**	831
		(15,009)	(6,924)

Approved and authorised for issue by the Board of Directors on 29th August 2005

James Ang
Director

Yau Pui Chi Maria
Director

BALANCE SHEET

As at 31st May 2005

	Note	2005 HK$'000	2004 HK$'000
Investments in subsidiaries	12	**6,566**	6,712
Current assets			
Accounts and other receivables	14	**69**	74
Current liabilities			
Accounts and other payables	15	**1,677**	1,158
Net current liabilities		**(1,608)**	(1,084)
Total assets less current liabilities		**4,958**	5,628
Financed by:			
Share capital	18	**3,862**	3,800
Reserves	19(b)	**1,096**	1,828
Shareholders' funds		**4,958**	5,628

James Ang
Director

Yau Pui Chi Maria
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st May 2005

	2005 **HK$'000**	2004 HK$'000
Total equity as at 1st June	**(7,755)**	10,726
Loss for the year	**(13,289)**	(18,481)
Issuance of shares by the Company	**6,230**	–
Share issuance expenses	**(262)**	–
Total equity as at 31st May	**(15,076)**	(7,755)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st May 2005

	Note	2005 HK$'000	2004 HK$'000
Net cash outflow generated from operations	20(a)	**(4,610)**	(725)
Interest paid		**(229)**	(272)
Net cash outflow from operating activities		**(4,839)**	(997)
Investing activities			
Purchase of fixed assets		**(190)**	(1,664)
Interest received		**9**	43
Decrease in pledged bank deposits		**1,936**	2,000
Net cash inflow from investing activities		**1,755**	379
Net cash outflow before financing		**(3,084)**	(618)
Financing activities	20(b)		
Issuance of shares		**5,968**	–
Inception of bank loans		**–**	500
Repayment of bank loans		**(517)**	(328)
Repayment of capital elements of finance leases		**(970)**	(1,286)
Net cash inflow/(outflow) from financing		**4,481**	(1,114)
Increase/(decrease) in cash and cash equivalents		**1,397**	(1,732)
Cash and cash equivalents at 1st June		**(1,265)**	467
Cash and cash equivalents at 31st May		**132**	(1,265)
Analysis of balances of cash and cash equivalents			
Bank balances and cash		**132**	585
Bank overdrafts		**–**	(1,850)
		132	(1,265)

NOTES TO THE ACCOUNTS

1. BASIS OF PREPARATION AND GENERAL INFORMATION

(a) The accounts have been prepared on a going concern basis, the Group had incurred a loss attributable to shareholders of HK$13.3 million for the year ended 31st May 2005. As at 31st May 2005, the Group had net current liabilities and net liabilities of HK$23.6 million and HK$15.0 million respectively. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. In preparing the accounts, the Directors have carefully reviewed the Group's cash position as at the balance sheet date and the cash flow forecast for the next twelve months. In reviewing the Group's cash flows, the Directors have considered the following factors:

- Shareholders' loans of approximately HK$8.0 million have been arranged which will be made available to the Company within 60 days from the date of this report to meet the present cashflow requirement from operation and settlement of claims set forth in note 23 to the accounts;

- Ongoing support of the Group's banker and the successful outcome of the renewal of the overdue finance lease and instalment loan made available to the Group;

- Cash to be generated from new revenue source and new business development;

- Commitment on continuous development and improvement of the Group's products and services; and

- The cost control measures.

The Directors believe that the Group is able to meet its financial obligations in full as and when they fall due and consider that the preparation of accounts on going concern basis is appropriate.

(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 Company's shares were listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited on 20th December 2002.

(c) 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 Institute of Certified Public Accountants ("HKICPA"). They have been prepared under the historical cost convention.

1. BASIS OF PREPARATION AND GENERAL INFORMATION *(Continued)*

(d) The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1st January 2005. The Group has not early adopted these new HKFRSs in the accounts for the year ended 31st May 2005. The Group has already commenced an assessment of the impact of these new HKFRSs but is not in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

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.

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.

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

Promotion income is recognised when services are rendered.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(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%
Computer and software	$33^1/_3$%
Telecommunication equipment	10%
Motor vehicles	20%

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 capitalised 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 charges 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.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(d) Assets under leases *(Continued)*

(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.

(e) Inventories

Inventories comprise telecommunication equipment and long distance calling 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 bais 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) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(i) 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 incurred by the Group during the year were charged to the profit and loss account.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(j) 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 share are held separately from those of the Group in an independently administered fund.

(k) 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.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(l) 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.

(m) Borrowing costs

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

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:

	2005 **HK$'000**	2004 HK$'000
Turnover		
Long distance call services	**25,705**	52,829
Sale of equipment	**484**	–
	26,189	52,829
Other revenues		
Bank interest income	**9**	43
Promotion income	**242**	155
Sundry income	**249**	37
	500	235
Total revenues	**26,689**	53,064

3. TURNOVER AND REVENUES *(Continued)*

Primary report format – business segments

	2005			
		Long distance call services		
	Sale of equipment HK$'000	End-users direct sales HK$'000	Carrier sales HK$'000	Group HK$'000
Turnover	484	17,133	8,572	26,189
Segment results	306	(9,667)	(1,428)	(10,789)
Other revenues				500
Operating loss				(10,289)
Unallocated costs				(2,764)
Finance costs				(229)
Loss before minority interests				(13,282)
Segment assets	167	8,365	4,119	12,651
Unallocated assets				362
				13,013
Segment liabilities	18	14,961	11,348	26,327
Unallocated liabilities				1,755
				28,082
Capital expenditures	–	107	83	190
Unallocated capital expenditures				–
				190
Depreciation	–	1,431	323	1,754
Unallocated depreciation				100
				1,854

3. TURNOVER AND REVENUES *(Continued)*

Primary report format – business segments *(Continued)*

		2004 Long distance call services		
	Sale of equipment HK$'000	End-users direct sales HK$'000	Carrier sales HK$'000	Group HK$'000
Turnover	–	29,875	22,954	52,829
Segment results	–	(12,660)	(2,186)	(14,846)
Other revenues				235
Operating loss				(14,611)
Unallocated costs				(3,598)
Finance costs				(272)
Loss before minority interests				(18,481)
Segment assets	–	13,869	3,604	17,473
Unallocated assets				918
				18,391
Segment liabilities	–	14,585	9,258	23,843
Unallocated liabilities				2,303
				26,146
Capital expenditures	–	1,189	1,324	2,513
Unallocated capital expenditures				12
				2,525
Depreciation	–	1,473	344	1,817
Unallocated depreciation				100
				1,917

3. TURNOVER AND REVENUES *(Continued)*

Secondary reporting format – geographical segments

	2005			
	Turnover HK$'000	Segment results HK$'000	Total assets HK$'000	Capital expenditures HK$'000
Hong Kong	**20,330**	**(11,959)**	**12,688**	**190**
Mainland China	**197**	**(54)**	**30**	**–**
Other countries	**5,662**	**(1,540)**	**295**	**–**
	26,189	**(13,553)**	**13,013**	**190**
Other revenues		**500**		
Loss from operations		**(13,053)**		

	2004			
	Turnover HK$'000	Segment results HK$'000	Total assets HK$'000	Capital expenditures HK$'000
Hong Kong	42,685	(17,819)	17,934	1,453
Mainland China	47	(3)	–	–
Other countries	10,097	(622)	457	1,072
	52,829	(18,444)	18,391	2,525
Other revenues		235		
Loss from operations		(18,209)		

4. OPERATING LOSS

Operating loss is stated after crediting and charging the following:

	2005 HK$'000	2004 HK$'000
Crediting		
Net exchange gain	–	8
Charging		
Auditors' remuneration	408	360
Cost of inventories sold	1,138	3,448
Depreciation		
– owned fixed assets	1,456	1,501
– leased fixed assets	398	416
Loss on disposal of fixed assets	233	38
Net exchange losses	7	–
Operating leases in respect of land and buildings	3,464	4,349
Provision for doubtful debts	1,757	43
Provision for obsolete stock	248	–
Staff costs (including directors' emoluments) *(Note 9)*	5,288	7,562

5. FINANCE COSTS

	2005 HK$'000	2004 HK$'000
Interest on bank loans and overdrafts	87	93
Interest element of finance leases	109	179
Other interest	33	–
	229	272

6. TAXATION

(a) No provision for Hong Kong profits tax has been made in the accounts as the Group has no estimated assessable profits for the year (2004: Nil).

(b) No deferred taxation has been provided as the Group has no material unprovided deferred tax assets/liabilities which are expected to be crystallised in the foreseeable future (2004: Nil).

(c) The taxation on the Group's loss before taxation differs from the theoretical amount that would arise using taxation rate of the home country of the Group as follows:

	2005	2004
	HK$'000	HK$'000
Loss for the year	**(13,289)**	(18,481)
Calculated at the taxation rate of 17.5%	**(2,325)**	(3,234)
Income not subject to taxation	**(2)**	(42)
Expenses not deductible for taxation purposes	**240**	187
Tax losses not recognised	**1,934**	3,050
Accelerated depreciation not recognised	**153**	39
Taxation charge	**–**	–

7. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders is dealt with in the accounts of the Company to the extent of HK$6,638,000 (2004: HK$6,771,000).

8. LOSS PER SHARE

The calculation of basic loss per share is based on the Group's loss for the year of approximately HK$13,289,000 (2004: HK$18,481,000) and the weighted average of 384,147,644 shares in issue during the year (2004: 380,000,000 shares).

Diluted loss per share for the current and prior year is not presented as there is no dilutive instrument granted by the Company.

9. STAFF COSTS (INCLUDING DIRECTORS' REMUNERATION)

	2005 HK$'000	2004 HK$'000
Wages and salaries	**5,126**	7,329
Pension cost – defined contribution plans	**162**	233
	5,288	7,562

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:

	2005 HK$'000	2004 HK$'000
Fees	**155**	100
Salaries and allowances	**1,080**	1,480
Retirement benefit scheme contributions	**24**	24
	1,259	1,604

Each of the two executive Directors of the Company received emoluments for the year ended 31st May 2005 of approximately HK$612,000 (2004: HK$812,000) and HK$492,000 (2004: HK$692,000) respectively.

Each of the two independent non-executive Directors of the Company received emoluments for the year ended 31st May 2005 of HK$50,000 (2004: 50,000) and HK$50,000 (2004: 50,000) respectively during the current year. One independent non-executive Director of the Company was appointed during the year and received emolument for the year ended 31st May 2005 of HK$55,309.

None of the Directors of the Company waived any emoluments during the current and prior year.

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 (2004: two) Directors whose emoluments are reflected to the analysis presented above. The emoluments payable to the remaining three (2004: three) individuals during the year are as follows:

	2005 HK$'000	2004 HK$'000
Salaries and allowances	**801**	1,175
Retirement benefit scheme contributions	**26**	29
	827	1,204

The emoluments fee within the following bands:

	Number of individuals	
	2005	2004
Emolument bands		
Nil to HK$1,000,000	**3**	3

(c) During the current and prior year, 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.

11. FIXED ASSETS

	Group					
	Leasehold Improvement HK$'000	Furniture and office Equipment HK$'000	Computer and software HK$'000	Telecom-munication equipment HK$'000	Motor Vehicle HK$'000	Total HK$'000
At cost						
At 1st June 2004	808	1,229	1,085	12,516	–	15,638
Additions	2	20	66	82	20	190
Disposals	(29)	(35)	–	(206)	–	(270)
At 31st May 2005	**781**	**1,214**	**1,151**	**12,392**	**20**	**15,558**
Accumulated depreciation						
At 1st June 2004	304	576	622	3,678	–	5,180
Charge for the year	140	230	241	1,240	3	1,854
Disposals	(14)	(8)	–	(15)	–	(37)
At 31st May 2005	**430**	**798**	**863**	**4,903**	**3**	**6,997**
Net book value						
At 31st May 2005	**351**	**416**	**288**	**7,489**	**17**	**8,561**
At 31st May 2004	504	653	463	8,838	–	10,458
Net book value of leased assets:						
At 31st May 2005	**–**	**242**	**–**	**2,199**	**–**	**2,441**
At 31st May 2004	–	363	–	2,700	–	3,063

12. INVESTMENTS IN SUBSIDIARIES

	Company 2005 HK$'000	2004 HK$'000
Unlisted investments at cost *(note (a))*	**6,499**	6,499
Due from subsidiaries *(note (b))*	**20,067**	14,713
Less: Provision for investments in and amounts due from subsidiaries	**(20,000)**	(14,500)
	6,566	6,712

(a) The following is a list of the principal subsidiaries at 31st May 2005:

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%

12. INVESTMENTS IN SUBSIDIARIES *(Continued)*

(a) *(Continued)*

Name	Place of Incorporation	Principal activities and place of operation	Particulars of Issued and fully paid share capital	Interest held
Shares held indirectly:				
Silver Holdings Limited	Hong Kong	Sale of long distance call cards in Hong Kong	2 ordinary shares of HK$1 each	100%
True Capital Holdings Limited	BVI	Sale of telecommunication equipment	100 ordinary shares of US$1 each	51%
Pacific Honour Limited	Hong Kong	Inactive	1 ordinary shares of HK$1 each	100%

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

13. INVENTORIES

	Group	
	2005	2004
	HK$'000	HK$'000
Telecommunication equipment	**28**	28
Long distance call cards	**413**	435
	441	463
Less: provision for slow moving inventories	**(248)**	–
	193	463

As at 31st May 2005 and 31st May 2004, all inventories are stated at cost.

14. ACCOUNTS AND OTHER RECEIVABLES

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Accounts receivables *(note (a))*	**2,300**	2,877	**–**	–
Prepayments and deposits	**1,827**	2,072	**69**	74
	4,127	4,949	**69**	74

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	
	2005	2004
	HK$'000	HK$'000
0-30days	**707**	1,041
31-60 days	**558**	634
61-90 days	**198**	426
91-180 days	**610**	596
181-365 days	**1,659**	478
Over 365 days	**2,003**	6,664
	5,735	9,839
Less: provision for doubtful debt	**(3,435)**	(6,962)
	2,300	2,877

15. ACCOUNTS AND OTHER PAYABLES

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Accounts payables *(note (a))*	**12,203**	13,943	**–**	–
Accruals and other payables	**11,000**	5,349	**1,677**	1,158
Receipt in advance	**2,158**	2,158	**–**	–
	25,361	21,450	**1,677**	1,158

Note:

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

	Group	
	2005	2004
	HK$'000	HK$'000
0-30days	**2,109**	2,994
31-60 days	**687**	3,011
61-90 days	**383**	1,633
91-180 days	**973**	3,456
181-365 days	**3,752**	729
Over 365 days	**4,299**	2,120
	12,203	13,943

16. DUE TO A DIRECTOR

The balance was unsecured, interest-free and had no fixed term of repayment.

17. LONG-TERM LIABILITIES

	Group 2005 HK$'000	Group 2004 HK$'000
Bank loans, secured *(note (a))*	**134**	651
Obligations under finance leases *(note (b))*	**897**	1,867
	1,031	2,518
Less: Current portion of long-term liabilities	**(971)**	(1,687)
	60	831

The analysis of the above is as follows:

	Group 2005 HK$'000	Group 2004 HK$'000
Wholly repayable within five years	**1,031**	2,518
Current portion of long-term liabilities	**(971)**	(1,687)
	60	831

(a) At 31st May 2005, the Group's bank loans were repayable as follows:

	Group 2005 HK$'000	Group 2004 HK$'000
Within one year	**134**	396
In the second year	**–**	192
In the third to fifth year	**–**	63
	134	651

The bank loans were secured by corporate guarantee given by the Company and personal guarantees given by Mr. James Ang and Ms. Yau Pui Chi Maria, the Directors of the Company.

17. LONG-TERM LIABILITIES *(Continued)*

(b) Finance lease liabilities

At 31st May 2005, the Group's finance leases liabilities were repayable as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Within one year	**847**	1,374
In the second year	**60**	525
In the third to fifth year	**–**	60
	907	1,959
Future finance charges on finance leases	**(10)**	(92)
	897	1,867

The present value of finance lease liabilities is as follows:

	2005	2004
Within one year	**837**	1,291
In the second year	**60**	516
In the third to fifth year	**–**	60
	897	1,867

Obligations under finance leases are repayable by equal monthly instalments to 17th May 2007. Interest is charged on the outstanding balances at 7% to 9%.

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

18. SHARE CAPITAL

	Authorised ordinary shares of HK$0.01 each	
	No. of Shares	HK$'000
At 31st May 2005	**1,000,000,000**	**10,000**
At 1st May 2004	1,000,000,000	10,000

	Issued and fully paid ordinary Shares of HK$0.01 each	
	No. of Shares	HK$'000
At 1st June 2004	380,000,000	3,800
Issue during the year *(Note)*	6,230,000	62
At 31st May 2005	**386,230,000**	**3,862**
At 31st May 2004	380,000,000	3,800

Note: The Company allotted and issued 6,230,000 shares of HK$0.01 each at a price of HK$1.0 per share in September 2004.

19. RESERVES

(a) Group

	Share premium	Merger reserve	Accumulated losses	Total
	HK$'000	HK$'000 *(Note)*	HK$'000	HK$'000
At 1st June 2004	13,949	39,307	(64,811)	(11,555)
Issuance of shares	6,168	–	–	6,168
Share issue expenses	(262)	–	–	(262)
Loss for the year	–	–	(13,289)	(13,289)
At 31st May 2005	**19,855**	**39,307**	**(78,100)**	**(18,938)**
At 1st June 2003	13,949	39,307	(46,330)	6,926
Loss for the year	–	–	(18,481)	(18,481)
At 31st May 2004	13,949	39,307	(64,811)	(11,555)

19. RESERVES *(Continued)*

(a) Group *(Continued)*

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 are deemed to have been in issue throughout the accounting periods presented in the consolidated balance sheet.

(b) Company

	Share premium HK$'000	Accumulated Losses HK$'000	Total HK$'000
At 1st June 2004	20,430	(18,602)	1,828
Issuance of shares	6,168	–	6,168
Share issue expenses	(262)	–	(262)
Loss for the year	–	(6,638)	(6,638)
At 31st May 2005	**26,336**	**(25,240)**	**1,096**
At 1st June 2003	20,430	(11,831)	8,599
Loss for the year	–	(6,771)	(6,771)
At 31st May 2004	20,430	(18,602)	1,828

20. CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of loss for the year to net cash outflow generated from operations

	2005 HK$'000	2004 HK$'000
Loss before minority interests	**(13,282)**	(18,481)
Interest expense	**229**	272
Interest income	**(9)**	(43)
Depreciation	**1,854**	1,917
Loss on disposal of fixed assets	**233**	38
Provision for obsolete stock	**248**	–
Provision for doubtful debt	**1,757**	–
Operating loss before working capital changes	**(8,970)**	(16,297)
Decrease/(increase) in inventories	**22**	(7)
(Increase)/decrease in accounts and other receivables	**(935)**	5,753
Increase in accounts and other payables	**3,911**	8,341
Increase in amount due to a director	**1,362**	313
Increase in receipt in advance	**–**	1,172
Net cash outflow generated from operations	**(4,610)**	(725)

20. CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(b) Analysis of changes in financing during the year

	Share capital including share premium and merger reserve HK$'000	Bank loans and obligations under finance leases HK$'000	Minority Interests HK$'000
At 1st June 2004	57,056	2,518	–
Issuance of shares	5,968	–	–
Minority interests' share of profits	–	–	7
Net cash outflow from financing	–	(1,487)	–
At 31st May 2005	**63,024**	**1,031**	**7**
At 1st June 2003	57,056	2,771	–
Inception of finance leases	–	861	–
Inception of bank loans	–	500	–
Net cash outflow from financing	–	(1,614)	–
At 31st May 2004	57,056	2,518	–

21. COMMITMENTS UNDER OPERATING LEASES

At 31st May 2005, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2005 HK$'000	2004 HK$'000
Within one year	**2,003**	3,491
In the second to fifth year	**–**	1,969
	2,003	5,460

22. CONTINGENT LIABILITIES

At 31st May 2005, the Company had the following contingent liabilities:

(a) The Company had given unconditional guarantee to a third party to secure the due payment of rental expenses payable by a subsidiary to the extent of HK$552,000 (2004: HK$1,668,000).

(b) The Company had contingent liabilities of HK$748,000 (2004: HK$1,137,000) in respect of guarantees for due performance of a subsidiary under finance lease obligations.

23. LITIGATIONS

As at the date of this report, the Group has been involved in material litigations as follows:

(a) On 16th December 2004, a writ was issued by a telecom service provider (the "Plaintiff") against two subsidiaries of the Group and a director of the Company as guarantor for outstanding and disputed invoices amounting to approximately HK$4,357,000 and claimed that the subsidiaries and the Director have no right to defense. On 20th July 2005, the High Court ruled that the subsidiaries and the Director have right to defense and refused to grant order to the plaintiff. The Directors are of the opinion that the negotiation of the disputed balances and the reconciliation of call records will involve lengthy process. As such, settlement of the case cannot be reached in the foreseeable future. No further action was taken by the plaintiff since the date of order up to the date of this report.

The Directors are of the opinion that the ultimate liability under this proceeding, if any, would not have any significant impact on the financial position of the Group as adequate provision has been made in the accounts for the year ended 31st May 2005.

(b) On 6th January 2005, a writ was issued by a software provider against a subsidiary of the Group for outstanding and disputed invoices amounting to approximately HK$281,000. On 29th July 2005, the subsidiary made a counter claim against the software provider of approximately HK$4,418,000 for the damages made to the Group. The Directors are of the opinion that the ultimate liability under this proceeding, if any, would not have any significant impact on the financial position of the Group as adequate provision has been made in the accounts for the year ended 31st May 2005.

(c) On 16th June 2005, a writ was issued by a bank against the Company, a subsidiary and two Directors of the Company as guarantors for outstanding finance lease principal and interests of approximately HK$680,000 and outstanding instalment loan principal and interests of approximately HK$152,000. The Directors of the Company are in the process to negotiate with the bank for a revised repayment schedule in the near future. Full provision of the liabilities has been made in the accounts.

23. LITIGATIONS *(Continued)*

(d) Other than the writs as mentioned above, up to the date of this report, the Group has a number of litigation processing in respect of outstanding liabilities arising in the normal course of its business of approximately HK$1,061,000. The Directors of the Company are in the process to negotiate with the creditors for repayment schedule of the outstanding balances.

The Directors 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 as adequate provisions have been made in the accounts for the year ended 31st May 2005.

Apart from the actions against the Group disclosed above, there are no other material outstanding writs and litigations against the Group and/or the Company.

24. 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	
		2005	2004
	Note	**HK$'000**	HK$'000
Rental expenses paid to Charmfine Investments Limited ("Charmfine")	(i)	**120**	120

Note:

(i) Charmfine is beneficially owned by Mr. James Ang and Ms. Yau Pui Chi Maria. Rental expenses were charged in accordance with the terms of the underlying agreements.

25. ULTIMATE HOLDING COMPANY

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

26. APPROVAL OF ACCOUNTS

The accounts were approved by the Board of Directors on 29th August 2005.

FIVE YEAR FINANCIAL SUMMARY

	2005	2004	2003	2002	2001
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**26,189**	52,829	46,096	69,016	39,437
(Loss)/profit attributable to shareholders	**(13,289)**	(18,481)	(9,358)	4,599	(13,701)
Assets and liabilities					
Total assets	**13,013**	18,391	27,273	31,377	16,074
Total liabilities	**(28,082)**	(26,146)	(16,547)	(31,013)	(52,599)
Minority interests	**(7)**	–	–	–	–
Shareholders' (deficits)/funds	**(15,076)**	(7,755)	10,726	364	(36,525)