2007

Annual Report

NETEL TECHNOLOGY (HOLDINGS) LIMITED

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8256)

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 issuers.

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 ("Directors") of Netel Technology (Holdings) Limited ("Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange of Hong Kong Limited ("GEM Listing Rules"), for the purpose of giving information with regard to the Company. The Directors 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.

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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

BANKER

The Hongkong and Shanghai Banking
Corporation Limited

AUDITORS

Lau & Au Yeung C.P.A. Limited

REGISTERED OFFICE

Century Yard Cricket Square
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P.O. Box 2681GT
George Town
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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REGISTRARS *(in Cayman Islands)*

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WEBSITE

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GEM STOCK CODE

8256

Chairman's Statement

The last 2006-2007 fiscal year was a milestone of our Company to evolve to an international operator and migrate from IDD to voice over IP and WiFi phone business. As mentioned in our last couple reports that our Company right sized the IDD business and target to move to international market for Wimax business. I am glad to report that we sticked to our words and have come up the achievement along that line.

Netel is in the progress to acquire 40% of Crown Multimedia Philippines who is an operator holding the voice over IP licence that open our door to the Philippines local market on voice over IP application and Wimax opportunities. On the other hand, we opened a sales outlet in Central concentrating on the sales of voice over IP products in order to leverage the strength with Crown Multimedia Philippines.

Since we need additional capital to further expand the above business and we successfully concluded investment agreement with individual investor and that was announced in before when we reached the Agreement. The Company will further seek for additional funding for this purpose.

The Company will actively participate in the Philippines local market on the voice over IP business and to carry out our business as an international operator and this is the way to increase the profit margin and sales revenue for the Group.

In addition to the voice business of voice over IP, the Company also bring out additional value add services basing on the voice over IP platform which we already invested. This is to further differentiate ourselves from other competitors. The Group is also seeking for opportunities to further cultivate this business in other countries not just limited to Philippines or Asian countries.

Finally I would like to extend my sincere thanks to our shareholders, fellow staff of the Group who contributed a lot to the success of our last year evolution.

James Ang
Chairman

Hong Kong, 27th August 2007

Management Discussion and Analysis

RESULTS OF THE YEAR

The Group recorded a total turnover of HK$6.4 million in the year ended 31st May 2007. This is a decrease of 45.7% from HK$11.7 million compared with previous year ended 31st May 2006. This is due to the further streamlining of our IDD calling card business and our voice over IP business was just a start. The group achieved gross profit margin of 30.8% comparing with a gross margin of 40.8% for last year. The loss for the year increased from HK$ 5.3 million for last year to HK$6.0 million in this year. The administrative expenses decreased by HK$2.0 million from HK$9.8 million of last year to HK$7.8 million for this year. It was mainly due to the decrease of salary and allowance of HK$1.0 million, decrease of rental, depreciation and other administration expenses of HK$1.0 million.

BUSINESS REVIEW

During the year, the Company has further right sized the operation of IDD calling card business as the Management does not see any potential for future growth of this business. On the other hand, the Company further focuses on international market for voice over IP business and targets to get more funding for this operation.

After the proposed acquisition of 40% equity interests of Crown Multimedia in Philippines, the Group can utilise its voice over IP license to operate in Philippines which opens up opportunities such as using voice over IP to replace land line, using Wimax to certain extend replace mobile phone and of course IDD business that will open totally a new market in term of product and territories for the Group. And the Company successfully made a good start in this direction.

In addition to this voice business, the Company is also looking at other value added services by using the existing platform and carry out such business not just in the Philippines but other countries as well.

FINANCIAL REVIEW

Liquidity and Financing

For the year ended 31st May 2007, the Group incurred a loss of approximately HK$6.0 million and the net cash outflow from operations was approximately HK$2.3 million. The outflow was mainly attributable to operating loss before changes in working capital of approximately HK$3.4 million, increase in receivable of approximately HK$1.0 million and increase in payables of approximately HK$2.1 million. With the increase of amount due to a director of approximately HK$2.5 million, the net cash and cash equivalents of the Group increased by approximately HK$135,000.

As at 31st May 2007, the group had a cash and cash equivalent balance of approximately HK$299,000. The total obligations under finance lease of approximately HK$255,000 which was substantially short-term in nature and were secured by fixed assets of the Group. The gearing ratio, defined as total bank and finance lease borrowings divided by the shareholders' fund as at 31st May 2007 was not applicable as there was negative shareholders' fund (2006: not applicable). The Group had net current liabilities of approximately HK$31.4 million as at 31st May 2007 as compared with approximately HK$27.0 million as at 31st May 2006.

Management Discussion and Analysis

Most of the transactions of the Group are denominated in US Dollars and HK Dollars. As the exchange rate of US Dollar against HK dollars 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.

BUSINESS OUTLOOK

We put our words into action the company is moving from a local IDD operator to overseas voice over IP operator through acquisition and invest in foreign countries.

The revenue of voice over IP is increasing and the company has put more resources on this business that we just opened a sales outlet in central for this purpose.

Since this is our direction, we shall look for more similar opportunities in foreign counties, not limited to Philippine.

EMPLOYEE INFORMATION

At 31st May 2007, the Group employed a total of 9 (2006: 9) employees including Directors. The salaries and benefits of the Group's employees are kept at a competitive level. The Group also operates a share option scheme where options to subscribe for shares of the Company may be granted to the executive Directors and full time employees of the Group. As at 31st May 2007, no share options have been granted from the share option scheme.

Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. James Ang ("Mr. Ang"), age 48, 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 People's Republic of China. 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 47, 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 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 57, 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 48, 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 50, 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. Woo Moon Yuen ("Mr. Woo"), aged 31, 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.

Corporate Governance Report

The Group acknowledges the importance of corporate governance as a key for the value of the Group. The Group is also committed to a high standard of corporate governance that can properly protect and promote the interest of the shareholders and enhance the value of the corporation.

CORPORATE GOVERNANCE PRACTICES

The corporate governance principles of the company emphasise a quality Board, sound internal controls, transparency and accountability to all shareholders. Throughout the financial year ended 31st May 2007, the Group has compiled with the code provisions in the Code on Corporate Governance Practices (the Code) as set out in Appendix 15 of the GEM Listing Rules, except for the code provision A 2.1 stipulated in the following paragraphs.

The code provision A 2.1 stipulates that the roles of Chairman and Chief Executive Officer ("CEO") should be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and Chief Executive Officer should be clearly established and set out in writing.

Mr. James Ang is both the Chairman and CEO of the Company who is responsible for managing the Board and the Group's business. Mr. Ang has been the Chairman and CEO since the establishment of the Company. The Board considers that, with the present board structure and scope of business, there is no imminent need to separate the roles into two individuals. However, the Board will continue to review the effectiveness of the Group's corporate governance structure to assess whether the separation of the position of Chairman and CEO is necessary.

BOARD OF DIRECTORS

The Board comprises two executive Directors and three independent non-executive Directors. Each Director has relevant experiences, competence and skills appropriate to the requirement of the business of the Company. Two of the Directors have professional qualification, they provide valuable skills and ideas for the Corporation.

The Board members as at 31st May 2007 were:

Executive Directors
Mr. James Ang
Ms. Yau Pui Chi, Maria

Independent Non-Executive Directors ("INEDs")
Mr. Yeung Kam Yuen, Roderick
Mr. Li Chi Wing
Mr. Chan Chun Chung, William

Corporate Governance Report

The Board is responsible for directing the Group to success and enhancing shareholders' value by formulating the Group's overall strategy, key objectives and policies. The Board monitors and oversees the operating and financial performance of the Group pursuant to these objectives.

The Board has established two Board Committees, namely the Audit Committee and the Remuneration Committee, to oversee particular aspects of the Company's affairs and to assist in the execution of certain aspects of the Board's responsibilities.

The Board has also delegated the day-to-day management and operation of the Group's business to the management team.

There are currently three non-executive Directors on the Board, all of whom are independent. They have been appointed for a specific term and subject to retirement by rotation in accordance with the Company's Articles of Association and thus submit themselves, on a rotation basis, for re-election by shareholders.

AUDIT COMMITTEE

The Company has established an Audit Committee ("AC") with specific terms of reference explaining its role and authorities delegated by the Board. The AC consists of three independent non-executive Directors, Mr. Li Chi Wing, Mr. Chan Chun Chung, William and Mr. Yeung Kam Yuen, Roderick who together have sufficient accounting and financial management expertise, legal and business experience to carry out their duties.

The AC's principal duties include reviewing the Group's financial control, internal control and risk management, review and monitor the integrity of financial statements and reviewing annual, interim and quarterly financial statements and report before submission to the Board. The AC meets with the external auditors and the management of the Group to ensure that the audit findings are addressed properly.

The AC has reviewed the annual, interim and quarterly results of the Company for the year ended 31st May 2007 and was content that the accounting policies of the Group are in accordance with the generally accepted accounting practices in Hong Kong.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company has established a Remuneration Committee (RC) with specific terms of reference which deals clearly with its authorities and duties. Mr. Li Chi Wing, an independent non executive Director, is the Chairman of the RC and other members are Mr. Chan Chun Chung, William and Ms. Yau Pui Chi, Maria. All RC members are independent non-executive Directors of the Company.

The role and function of RC is to oversee Board remuneration matters, including recommend the Board the Company's policies and structure for the remuneration of the Directors and senior management, determine the remuneration packages of all executive Directors and senior management, review compensation to Directors and senior management in connection with any loss or termination of their office or appointment and to ensure that no Director or any of his associates is involved in deciding his own remuneration.

Corporate Governance Report

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

The Board as a whole is responsible for the appointment of its own members. The Board does not establish a Nomination Committee and is not considering to establish the same in view of the small size of the Board. The Chairman of the Board is responsible for identifying appropriate candidate and proposing qualified candidate to the Board for consideration. The Board will review profiles of the candidates recommended by the Chairman and make recommendation the appointment, re-election and retirement of the Directors. Candidates are appointed to the Board on the basis of their skill, competence and experience that they can contribute to the Company.

The Company believes that members of the Board, individually and collectively, have satisfactorily discharged duties and will review the need for Nomination Committee at a later time.

BOARD MEETINGS

The Board met five times in last year to discuss relevant business and strategy of the Company. The discussion also covered the financial performance, new products and services to be deployed by the company and also suggestion to further improve the operation.

The members of the Board fully complied with the required standard with respect to the securities dealings of the Company and there was no event of non-compliances.

During regular meetings of the Board, the Directors discuss and formulate the overall strategies of the Group, monitor financial performances and discuss the annual and interim results, set annual budgets as well as discuss on the corporate directions.

The Chairman ensures that management will supply the Board and its committees with all relevant information in a timely manner. They may make further enquiries if in their opinion it is necessary or appropriate to request for further information.

Corporate Governance Report

ATTENDANCE RECORD AT BOARD AND AUDIT COMMITTEE MEETINGS

The Directors' attendance at Board meetings and Audit Committee meetings during the year are set out below:

	Number of meeting attended/ Number of meeting held	
	Board	**Audit Committee**
Directors		
Executive Directors		
Mr. James Ang	5/5	N/A
Ms. Yau Pui Chi, Maria	5/5	N/A
Independent Non-Executive Directors		
Mr. Yeung Kam Yuen, Roderick	0/5	0/4
Mr. Li Chi Wing	5/5	4/4
Mr. Chan Chun Chung, William	5/5	4/4
Number of meeting held during the year	5	4

INTERNAL CONTROL

The Board is responsible for maintaining sound and effective internal systems for the Company to safeguard its assets and shareholders' interests.

The Board reviews the internal control system of the Group annually and will take any necessary and appropriate action to maintain adequate internal control system to safeguard Company's equity. The effectiveness of the internal control system was discussed on annual basis with the Audit Committee.

SHAREHOLDERS' RELATIONS

The Company commits to provide its shareholders with high standards of disclosure and financial transparency through the publication of annual, interim and quarterly reports, announcements and circulars made through Stock Exchange's website.

The Board also maintains an on-going dialogue with shareholders and use general meeting to communicate with shareholders. The Company encourages all shareholders to attend general meeting which provides a useful forum for shareholders to exchange views with the Board. The Chairman of the Board and members of relevant committees and senior management of the Company are also available to answer the shareholders' questions.

Corporate Governance Report

ACCOUNTABILITY AND AUDIT

The Directors are responsible for the preparation of financial statements for each financial period which give a true and fair view of the state of the affairs of the Group and of the results and cash flow for that period. In preparing the financial statements for the year ended 31st May 2007, the Directors have selected suitable accounting policies and applied them consistently by adopting appropriate Hong Kong Financial Reporting Standards.

AUDITORS' REMUNERATION

For the year ended 31st May 2007, the external auditors provided the following services to the Group:

	2007 **HK$'000**
Audit and taxation advisory services	**270**

Report of the Directors

The directors submit their annual report together with the audited financial statement for the year ended 31st May 2007.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding company incorporated in the Cayman Islands on 9th September 2002. The activities of the subsidiaries are set forth in note 16 to the consolidated financial statements.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 5 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set forth in the consolidated income statement on page 21.

The directors do not recommend the payment of a dividend in respect of the year ended 31st May 2007 (2006: Nil).

PLANT AND EQUIPMENT

Details of the movements in plant and equipment of the Group are set forth in note 15 to the consolidated financial statement.

SHARE CAPITAL

Details of the share capital of the Company are set forth in note 23 to the consolidated financial statement.

RESERVES

Movements in the reserves of the Group and the Company during the year are set forth in note 24 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31st May 2007, the Company had no reserve available for distribution to shareholders (2006: HK$380,000).

Report of the Directors

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association and there was 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 forth on page 57.

PURCHASES, 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 2007, 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*

* *Independent Non-executive Directors*

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

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, which expired on 24th November 2005. The services contracts shall continue thereafter until terminated by either party not less than three months' prior notice in writing.

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.

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. The service contract shall continue thereafter until terminated by either party giving to the other not less than three months' prior written notice.

Save as disclosed in this report, 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 27 to the consolidated financial statements, 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 31st May 2007 time during the year then ended.

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 2007, apart from the details as follows, the Directors and chief executives 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 2007, 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	36%
– five largest suppliers combined	62%

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 2007, which constitute exempted connected transactions under the Rules Governing the Listing of Securities on the GEM ("GEM Listing Rules"), are disclosed in note 27 to the consolidated financial statements.

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

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.

AUDITORS

The accompanying consolidated financial statements 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, 27th August 2007

Independent Auditor's Report

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

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

We have audited the consolidated financial statements of Netel Technology (Holdings) Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 21 to 57, which comprise the consolidated and company balance sheets as at 31st May 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to the 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

Independent Auditor's Report

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st May 2007 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

MATERIAL UNCERTAINTY CONCERNING GOING CONCERN BASIS OF ACCOUNTING

Without qualifying our opinion, we draw attention to note 2(a) to the consolidated financial statements concerning the adoption of the going concern basis on which the consolidated financial statements have been prepared. As explained in note 2(a) to the consolidated financial statements, the Group's total liabilities exceeded its total assets by approximately HK$26,328,000 and its current liabilities exceeded its current assets by approximately HK$31,367,000. The consolidated financial statements 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, the raising of shareholder's loans and other cost control measures to cover the Group's operating costs and to meet its financial commitments. The directors, after careful review of the future cash flow projection of the Group, have concluded that the preparation of the consolidated financial statements on a going concern basis is appropriate. The consolidated financial statements do not include any adjustments that would result from the failure of such measures. We consider that the fundamental uncertainty has been adequately accounted for and disclosed in the consolidated financial statements and our opinion is not qualified in the respect.

Lau & Au Yeung C.P.A. Limited
Certified Public Accountants
Hong Kong, 27th August 2007

Franklin Lau Shiu Wai
Director
Practising Certificate Number P1886

Consolidated Income Statement

For the year ended 31st May 2007

	Notes	2007 HK$'000	2006 HK$'000
Turnover	5&6	**6,355**	11,693
Cost of sales		**(4,395)**	(6,920)
Gross profit		**1,960**	4,773
Other revenues	6	**–**	319
Selling and marketing expenses		**(172)**	(309)
Administrative expenses		**(7,784)**	(9,812)
Operating loss	7	**(5,996)**	(5,029)
Finance costs	8	**(13)**	(221)
Loss for the year		**(6,009)**	(5,250)
Attributable to:			
Equity holders of the Company		**(6,007)**	(5,245)
Minority interests		**(2)**	(5)
Loss for the year		**(6,009)**	(5,250)
Loss per share			
– basic and diluted	12	**HK(1.6 cents)**	HK (1.4 cents)

The notes on pages 26 to 56 form an integral part of these consolidated financial statements.

Consolidated Balance Sheet

As at 31st May 2007

	Notes	2007 HK$'000	2006 HK$'000
ASSETS			
Non-current assets			
Plant and equipment	15	**5,121**	6,850
Current assets			
Inventories	17	**86**	185
Trade and other receivables	18	**2,538**	2,261
Bank balances and cash	19	**299**	164
		2,923	2,610
Total assets		**8,044**	9,460
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	23	**3,862**	3,862
Reserves	24	**(30,190)**	(24,183)
		(26,328)	(20,321)
Minority interests		**–**	2
Total equity		**(26,328)**	(20,319)
LIABILITIES			
Non-current liabilities			
Long-term liabilities	22	**82**	172
Current liabilities			
Trade and other payables	20	**22,788**	20,640
Amount due to a director	21	**11,329**	8,877
Current portion of long-term liabilities	22	**173**	90
		34,290	29,607
Total liabilities		**34,372**	29,779
Total equity and liabilities		**8,044**	9,460
Net current liabilities		**(31,367)**	(26,997)
Total assets less current liabilities		**(26,246)**	(20,147)

James Ang
Director

Yau Pui Chi, Maria
Director

The notes on pages 26 to 56 form an integral part of these consolidated financial statements.

Balance Sheet

As at 31st May 2007

	Notes	2007 HK$'000	2006 HK$'000
ASSETS			
Non-current assets			
Investments in subsidiaries	16	**1**	5,901
Current assets			
Other receivables	18	**15**	37
Total assets		**16**	5,938
EQUITY			
Capital and reserves			
Share Capital	23	**3,862**	3,862
Reserves	24	**(6,144)**	380
Total equity		**(2,282)**	4,242
LIABILITIES			
Current liabilities			
Accruals and other payables	20	**1,748**	1,696
Amount due to a director	21	**550**	–
Total liabilities		**2,298**	1,696
Total equity and liabilities		**16**	5,938
Net current liabilities		**(2,283)**	(1,659)
Total assets less current liabilities		**(2,282)**	4,242

James Ang
Director

Yau Pui Chi, Maria
Director

The notes on pages 26 to 56 form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31st May 2007

	Share capital HK$'000	Share premium HK$'000	Merger reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
Balance at 1st June 2005	3,862	19,855	39,307	(78,093)	(15,069)	(7)	(15,076)
Loss for the year	–	–	–	(5,250)	(5,250)	5	(5,245)
Balance at 1st June 2006	3,862	19,855	39,307	(83,343)	(20,319)	(2)	(20,321)
Transfer due to Group restructuring	–	–	(39,307)	39,307	–	–	–
Loss for the year	–	–	–	(6,009)	(6,009)	2	(6,007)
Balance at 31st May 2007	3,862	19,855	–	(50,045)	(26,328)	–	(26,328)

The notes on pages 26 to 56 form an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31st May 2007

	Notes	2007 HK$'000	2006 HK$'000
Cash flows from operating activities			
Net cash used in operations	25(a)	**(2,307)**	(5,690)
Interest paid		**(13)**	(181)
Net cash used in operating activities		**(2,320)**	(5,871)
Cash flows from investing activities			
Proceeds from sale of plant and equipment		**10**	–
Purchases of plant and equipment		**–**	(516)
Interest received		**–**	1
Net cash generated from/(used in) investing activities		**10**	(515)
Cash flows from financing activities	25(b)		
Capital elements of finance lease payments		**(7)**	(635)
Repayments of bank loans		**–**	(134)
Increase in amount due to a director		**2,452**	7,187
Net cash generated from financing activities		**2,445**	6,418
Net increase in cash and cash equivalents		**135**	32
Cash and cash equivalents at beginning of the year		**164**	132
Cash and cash equivalents at end of the year		**299**	164
Analysis of balances of cash and cash equivalents			
– Bank balances and cash		**299**	164

The notes on pages 26 to 56 form an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1 CORPORATE INFORMATION

Netel Technology (Holdings) Limited (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). The address of its registered office is Century Yard Circket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman KY1-1111, Cayman Islands. The shares of the Company have been listed on the Growth Enterprise Market ("GEM") of the Stock Exchange of Hong Kong Limited since 20th December 2002.

The Company is an investment holding company and its subsidiaries (together, the "Group") are principally engaged in trading of telecommunication equipment and provision of long distance call services in Hong Kong. There were no significant changes in the nature of the Group's principal activities during the year.

The consolidated financial statements are presented in thousands of units of Hong Kong dollars (HK$'000), unless otherwise stated. The consolidated financial statements have been approved for issue by the board of directors of the Company on 27th August 2007.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

(a) The consolidated financial statements have been prepared on a going concern basis, the Group had incurred a loss attributable to shareholders of HK$6.0 million for the year ended 31st May 2007. As at 31st May 2007, the Group had net current liabilities and net liabilities of HK$31.3 million and HK$26.3 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 consolidated financial statements, 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:

- Shareholder's loans of not less than HK$5.0 million will be made available to the Company to meet the present and future cashflow requirement from operation and settlement of claims set forth in the annual report for the year ended 31st May 2007;
- 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;

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(a) *(Continued)*

- The successful outcome to re-scheduling of the overdue liabilities; 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 consolidated financial statements on going concern basis is appropriate.

(b) The consolidated financial statements of the Group have been prepared under historical cost convention and in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The preparation of the consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the progress of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assignations and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

The adoption of standards, amendments and interpretations to existing standards:

(i) Standards, amendments and interpretations to existing standards effective in 2007 which are relevant to the Group's operations

HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The adoption of these amendments and interpretations had no material impact on the consolidated financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(b) *(Continued)*

(ii) Standards, amendments and interpretations to existing standards effective in 2007 which are not relevant to the Group's operations

HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 Amendment	The Fair Value Option
HKAS 39 and HKFRS 4 Amendment	Financial Guarantee Contracts
HKFRS 1 Amendment and HKFRS 6	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HK(IFRIC)-Int 5	Rights to Interests arising from Decommissioning, Restoration Environmental Rehabilitation Funds
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK (IFRIC)-Int 9	Reassessment of Embedded Derivatives

(iii) Standards and interpretations published are not yet effective and have not been early adopted by the Group

HKAS 1	Capital Disclosures
HKAS 23 (Revised)	Borrowing Costs
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating segments
HK (IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK (IFRIC)-Int 11	HKFRS 2 Group and Treasury Share Transactions
HK (IFRIC)-Int 12	Service Concession Arrangements

The above standards and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1st November 2006 or later periods. The Group has not early adopted these standards and interpretations to existing standards and has started considering their potential impact. Based on the preliminary assessment, the Group believes that the adoption of these standards and interpretations to existing standards, if applicable, will not result in substantial changes to the Group's accounting policies.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation

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

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liability and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

The gain or loss on the disposal of a subsidiary is calculated by reference to the net assets at the date of disposal including the attributable amount of goodwill but does not include any attributable goodwill previously eliminated against reserves.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the entities within the Group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the functional and presentation currency of the Company.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

2.5 Plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and any impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.5 Plant and equipment *(Continued)*

Depreciation of both owned and leased plant and equipment is calculated using the straight-line method to allocate the costs to their residual values over their estimated useful lives, as follows:

Leasehold improvement	20%
Furniture, fixtures and equipment	20%
Computer and software	$33^{1}/_{3}$%
Telecommunication equipment	10%
Motor vehicles	20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Gains or losses on disposal of plant and equipment are determined by comparing proceeds with carrying amount. These are included in the income statement.

2.6 Impairment of investments in subsidiaries and non-financial assets

Assets that have an indefinite useful life or have not yet available for use are not subject to amortization and are tested annually for impairment.

Assets that are subject to amortization and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of the fair value of an asset less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Assets other than goodwill that suffered an impairments are reviewed for possible reversal of the impairment at each reporting date.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.7 Assets under leases

(i) Finance leases

The Group leases certain plant and equipment. Leases of plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased plant and equipment and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balances outstanding. The corresponding rental obligations, net of finance charges, are included in other short- term and other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

(ii) Operating leases

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

2.8 Inventories

Inventories comprise mainly long distance calling cards and are stated at the lower of cost and net realisable value. Cost comprises purchase costs which are 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.

2.9 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of provision is recognised in the income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.10 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand and deposits held at call with banks less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

2.11 Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.12 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.13 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income 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.

2.14 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements.

2.15 Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

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

(ii) 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.

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

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.16 Employee benefits

(i) *Employee leave entitlements*

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

(ii) *Pension obligations*

The Group operates a defined contribution retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

(iii) *Termination benefits*

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.17 Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is a member of the key management personnel of the Group;

(c) the party is a close member of the family of any individual referred to in (a) or (b);

(d) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (b) or (c).

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group is exposed to cash flow interest rate risk, foreign currency risk and liquidity risk. These risks are managed by the Group's financial management policies and practices as described below to minimize potential effects on the Group's financial performance.

(a) Cash flow interest rate risk

The Group has no significant interest-bearing assets, its income and operating cash flows are substantially independent of changes in market interest rates.

(b) Foreign currency risk

Operations of the Group are mainly conducted in Hong Kong Dollars ("HK$") and United States Dollars ("US$") and its revenue, expenses, assets, liabilities and borrowings are principally denominated in HK$ and US$, which do not pose significant foreign currency risk at present. Procedures are in place to monitor possible exposure to foreign currency risk in the operations on a continuous basis.

Notes to the Consolidated Financial Statements

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash. The Group currently relies on funding from its directors and is exploring other business opportunities which can provide more stable streams of cash inflow.

3.2 Fair value estimation

The carrying value less impairment provision of trade receivables and payables are a reasonable approximation of their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements used in preparing the consolidated financial statements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimate and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities of the Group are discussed below:

(a) Going concern

The Group's management's assessment of the going concern assumption involves making a judgment, at a particular point of time, about the future outcome of events or conditions which are inherently uncertain. Major events or conditions, which may give rise to business risks, that individually or collectively may cast significant doubt about the going concern assumption are set out in Note 2(a) to the consolidated financial statements.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(b) Useful lives of plant and equipment

The directors determine the estimated useful lives and residual values for its plant and equipment. The directors revise the depreciation charge when useful lives are different from previous estimates. Obsolete or non-strategic assets, that have been abandoned or sold, shall be written off or written down.

(c) Contingent liabilities in respect of litigations and claims

The Group has been engaged in a number of litigations and claims in respect of certain carrier purchases and unsettled rentals in the past. Contingent liabilities arising from these litigations and claims have been assessed by management with reference to legal advice. Provisions on the possible obligation, if appropriate, are made based on management's best estimates and judgments.

(d) Estimated provision for doubtful debts

The Group makes provision for doubtful debts based on an assessment of the recoverability of trade and other receivables. Provisions are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgment and estimate. Where the expectation is different from the original estimate, such difference will impact carrying value of trade and bills receivable and other receivables and doubtful debt expenses in the year in which such estimate has been changed.

Notes to the Consolidated Financial Statements

5 SEGMENT INFORMATION

(a) Business segments – primary reporting format

The following table presents revenue, results and certain assets, liabilities and expenditure information for the Group's business segments.

	2007			
		Long distance call services		
	Sale of equipment HK$'000	End-users direct sales HK$'000	Carrier sales HK$'000	Group HK$'000
Turnover	61	6,162	132	6,355
Segment results	(334)	(3,584)	(374)	(4,292)
Other revenues				–
Operating loss				(4,292)
Unallocated cost				(1,704)
Finance costs				(13)
Loss for the year				(6,009)
Segment assets	256	6,245	1,436	7,937
Unallocated assets				107
Total assets				8,044
Segment liabilities	2,551	13,071	16,268	31,890
Unallocated liabilities				2,482
Total liabilities				34,372
Capital expenditures	–	–	–	–
Depreciation	–	1,228	178	1,406
Unallocated depreciation				100
				1,506

Notes to the Consolidated Financial Statements

5 SEGMENT INFORMATION *(Continued)*

(a) Business segments – primary reporting format *(Continued)*

	2006			
		Long distance call services		
	Sale of equipment	End-users direct sales	Carrier sales	Group
	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	1,983	9,630	80	11,693
Segment results	(26)	(2,321)	(682)	(3,029)
Other revenues				319
Operating loss				(2,710)
Unallocated cost				(2,319)
Finance costs				(221)
Loss for the year				(5,250)
Segment assets	1,086	5,873	2,268	9,227
Unallocated assets				233
Total assets				9,460
Segment liabilities	1,845	11,848	14,302	27,995
Unallocated liabilities				1,784
Total liabilities				29,779
Capital expenditures	–	306	210	516
Unallocated capital expenditures				–
				516
Depreciation	47	1,241	372	1,660
Unallocated depreciation				–
				1,660

5 SEGMENT INFORMATION *(Continued)*

(b) Geographical segments – secondary reporting format

2007

	Turnover HK$'000	Segment results HK$'000	Total assets HK$'000	Capital expenditures HK$'000
Hong Kong	**6,355**	**(5,996)**	**8,044**	**–**
Mainland China	**–**	**–**	**–**	**–**
Other countries	**–**	**–**	**–**	**–**
	6,355	**(5,996)**	**8,044**	**–**
Other revenues		**–**		
Operating loss		**(5,996)**		

2006

	Turnover HK$'000	Segment results HK$'000	Total assets HK$'000	Capital expenditures HK$'000
Hong Kong	9,608	(3,679)	9,372	516
Mainland China	11	(21)	1	–
Other countries	2,074	(1,648)	87	–
	11,693	(5,348)	9,460	516
Other revenues		319		
Operating loss		(5,029)		

6 TURNOVER AND REVENUES

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

	Group	
	2007	2006
	HK$'000	HK$'000
Turnover		
Long distance call services	**6,294**	9,710
Sale of equipment	**61**	1,983
	6,355	11,693
Other revenues		
Bank interest income	**–**	1
Sundry income	**–**	318
	–	319
	6,355	12,012

Notes to the Consolidated Financial Statements

7 OPERATING LOSS

Operating loss is stated after charging the following:

	Group 2007 HK$'000	2006 HK$'000
Charging		
Auditor's remuneration		
– current year	**270**	410
– over provision in prior year	**(160)**	–
Cost of inventories sold	**722**	1,329
Depreciation		
– owned plant and equipment	**1,384**	1,539
– leased plant and equipment	**121**	121
Loss on disposal of plant and equipment	**213**	567
Net exchange loss	**–**	7
Operating leases in respect of land and buildings	**737**	1,042
Provision for impairment of receivables	**739**	260
Provision for slow moving inventories	**99**	–
Staff costs (including directors' emoluments) *(Note 13)*	**2,588**	3,645

8 FINANCE COSTS

	Group 2007 HK$'000	2006 HK$'000
Interests on bank overdrafts	**5**	25
Interest element of finance leases	**–**	156
Other interests	**8**	40
	13	221

9 INCOME TAX

No provision for Hong Kong Profits tax has been made in the consolidated financial statements as the Group has no estimated assessable profit for the year (2006: Nil).

No deferred taxation has been provided as the Group has no material unprovided deferred tax assets or liabilities which are expected to be crystallized in the foreseeable future (2006: Nil).

Income tax on the Group's loss before income tax differs from the theoretical amount that would arise using the statutory tax rate as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Loss before income tax	**(6,007)**	(5,245)
Calculated at a statutory rate of 17.5% (2006: 17.5%)	**(1,051)**	(918)
Income not subject to taxation	**(3)**	–
Expenses not deductible for taxation purposes	**134**	71
Tax losses not recognised	**789**	738
Accelerated depreciation not recognised	**131**	109
Income tax charges	–	–

10 NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

Net loss attributable to equity holders of the Company for the year ended 31st May 2007 dealt with in the consolidated financial statements was approximately HK$6,524,000 (2006: HK$716,000).

11 DIVIDENDS

The Directors do not recommend the payment of dividend in respect for the year ended 31st May 2007 (2006: Nil).

12 LOSS PER SHARE

Basic loss per share is calculated by dividing the Group's loss attributable to equity holders of the Company of approximately HK$6,007,000 (2006: loss of approximately HK$5,245,000) by the weighted average number of 386,230,000 ordinary shares in issue during the year (2006: 386,230,000 shares).

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

Notes to the Consolidated Financial Statements

13 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	Group	
	2007	2006
	HK$'000	HK$'000
Wages and salaries	**2,501**	3,551
Pension cost-defined contribution plans	**87**	94
	2,588	3,645

14 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:

	Group				
	2007				2006
	Fees	**Salaries, allowances and benefits in kind**	**Retirement benefit scheme contributions**	**Total**	Total
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**	HK$'000
Executive Directors					
Mr. James Ang	**–**	**600**	**12**	**612**	612
Ms. Yau Pui Chi, Maria	**–**	**480**	**12**	**492**	492
	–	**1,080**	**24**	**1,104**	1,104
Non-executive Directors					
Mr. Yeung Kam Yuen, Roderick	**48**	**–**	**–**	**–**	48
Mr. Li Chi Wing	**48**	**–**	**–**	**–**	48
Mr. Chan Chun Chung, William	**48**	**–**	**–**	**–**	48
	144	**–**	**–**	**–**	144

None of the directors of the Company waived any emoluments paid by the Group during the year (2006: Nil).

Notes to the Consolidated Financial Statements

14 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 (2006: two) directors whose emoluments have been reflected in the analysis presented above. The emoluments payable to the remaining three (2006: three) individuals during the year are as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**721**	770
Retirement benefit scheme contributions	**31**	30
	752	800

The emoluments of these individuals fell within the following bands:

	Group Number of individuals	
	2007	2006
Emolument bands		
Nil to HK$1,000,000	**3**	3
	3	3

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.

15 PLANT AND EQUIPMENT

Group

	Leasehold improvement HK$'000	Furniture and office equipment HK$'000	Computer and software HK$'000	Telecom-munication equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
At cost						
At 1st June 2005	781	1,214	1,151	12,392	20	15,558
Accumulated depreciation	(430)	(798)	(863)	(4,903)	(3)	(6,997)
Net book value	351	416	288	7,489	17	8,561
Year ended 31st May 2006						
Opening net book value	351	416	288	7,489	17	8,561
Additions	302	4	–	210	–	516
Depreciation	(138)	(181)	(172)	(1,165)	(4)	(1,660)
Disposals	(50)	(21)	(95)	(401)	–	(567)
Closing net book value	465	218	21	6,133	13	6,850
At 31st May 2006						
Cost	1,000	1,159	981	12,068	20	15,228
Accumulated depreciation	(535)	(941)	(960)	(5,935)	(7)	(8,378)
Net book value	465	218	21	6,133	13	6,850
Year ended 31st May 2007						
Opening net book value	**465**	**218**	**21**	**6,133**	**13**	**6,850**
Depreciation	**(161)**	**(174)**	**(13)**	**(1,157)**	**(1)**	**(1,506)**
Disposals	**(211)**	**–**	**–**	**–**	**(12)**	**(223)**
Closing net book value	**93**	**44**	**8**	**4,976**	**-**	**5,121**
At 31st May 2007						
Cost	**698**	**1,159**	**981**	**12,068**	**-**	**14,906**
Accumulated depreciation	**(605)**	**(1,115)**	**(973)**	**(7,092)**	**-**	**(9,785)**
Net book value	**93**	**44**	**8**	**4,976**	**-**	**5,121**

Note: The net book values of office equipment held under finance leases were zero (2006: HK$121,000).

16 INVESTMENTS IN SUBSIDIARIES

	Company 2007 HK$'000	Company 2006 HK$'000
Unlisted investments at cost *(Note (a))*	**1**	6,499
Amounts due from subsidiaries *(Note (b))*	**7,491**	19,402
	7,492	25,901
Less: Provision for investments in and amounts due from subsidiaries	**(7,491)**	(20,000)
	1	5,901

Notes:

(a) Details of the principal subsidiaries at 31st May 2007 are as follows:

Name	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued/registered and fully paid share capital	Attributable equity interest held
DIRECTLY HELD:				
Think Gold Assets Limited	British Virgin Islands ("BVI")	Investment holding in Hong Kong	100 ordinary shares of US$1 each	100%
INDIRECTLY HELD:				
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%
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 share 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	Sale of telecommunication equipment	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.

Notes to the Consolidated Financial Statements

17 INVENTORIES

	Group	
	2007	2006
	HK$'000	HK$'000
Long distance call cards	**185**	185
Less: provision for slow moving inventories	**(99)**	–
	86	185

As at 31st May 2007 and 31st May 2006, all inventories are stated at cost.

18 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade receivables *(Note (a) & (b))*	**688**	835	**–**	–
Other receivables, prepayments and deposits	**1,850**	1,426	**15**	37
	2,538	2,261	**15**	37

Notes:

(a) The carrying amounts of trade receivables are denominated in the following currencies:

	2007	2006
	HK$'000	HK$'000
Hong Kong dollars	**4,920**	4,349
United Stated dollars	**202**	181
Less: provision for impairment of receivables	**(4,434)**	(3,695)
The carrying amounts of trade receivables approximate their fair value:	**688**	835

18 TRADE AND OTHER RECEIVABLES *(Continued)*

(b) Majority of the Group's turnover are entered into on credit terms ranging from 30 to 120 days. Ageing analysis of trade receivables at the respective balance sheet dates is as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
0 – 30 days	**209**	321
31 – 60 days	**100**	56
61 – 90 days	**48**	45
91 – 180 days	**376**	129
181 – 365 days	**286**	275
Over 365 days	**4,103**	3,704
	5,122	4,530
Less: provision for impairment of receivables	**(4,434)**	(3,695)
	688	835

19 BANK BALANCES AND CASH

Bank balances and cash were denominated in HKD and of approximately HK$299,000 (2006: HK$164,000).

Notes to the Consolidated Financial Statements

20 TRADE AND OTHER PAYABLES

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade payables *(Note (a) & (b))*	**11,718**	10,268	**–**	–
Other payables and accruals	**10,459**	9,349	**1,748**	1,696
Receipt in advance	**611**	1,023	**–**	–
	22,788	20,640	**1,748**	1,696

Notes:

(a) The carrying amounts of trade payables are denominated in the following currencies:

	2007	2006
	HK$'000	HK$'000
Hong Kong dollars	**6,176**	5,319
United Stated dollars	**5,542**	4,949
The carrying amounts of trade payables approximate their fair value:	**11,718**	10,268

(b) Majority of the Group's purchase are entered into on credit terms ranging from 60 to 90 days. Ageing analysis of trade payables at respective balance sheet dates is as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
0 – 30 days	**237**	661
31 – 60 days	**211**	360
61 – 90 days	**267**	199
91 – 180 days	**354**	385
181 – 365 days	**1,197**	1,427
Over 365 days	**9,452**	7,236
	11,718	10,268

21 AMOUNT DUE TO A DIRECTOR

Amount due to a director is interest-free, unsecured and has no fixed terms of repayment.

22 LONG-TERM LIABILITIES

	Group	
	2007	2006
	HK$'000	HK$'000
Obligation under finance leases *(note (a))*	**255**	262
Less: Current portion of long-term liabilities	**(173)**	(90)
	82	172
The analysis of the above is as follows:		
Wholly repayable within five years	**255**	262
Current portion of long-term liabilities	**(173)**	(90)
	82	172

Note:

(a) Obligations under finance lease are payable within the following periods:

	Group	
	2007	2006
	HK$'000	HK$'000
Within one year	**173**	90
In the second year	**82**	90
In the third to fifth years	**–**	82
	255	262

23 SHARE CAPITAL

	Company	
	Number of shares	
	('000)	**HK$'000**
Authorised ordinary shares of HK$0.01 each		
At 31st May 2007 and 2006	**1,000,000**	**10,000**
Issued and fully paid ordinary shares of HK$0.01 each		
At 31st May 2007 and 2006	**386,230**	**3,862**

24 RESERVES

(a) Group

Movements in the reserves of the Group during the year are set out below:

	Share premium	Merger reserve *(Note)*	Accumulated losses	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Balance at 1st June 2005	19,855	39,307	(78,100)	(18,938)
Loss for the year	–	–	(5,245)	(5,245)
Balance at 1st June 2006	19,855	39,307	(83,345)	(24,183)
Transfer due to Group restructuring	–	(39,307)	39,307	–
Loss for the year	–	–	(6,007)	(6,007)
Balance at 31st May 2007	19,855	–	(50,045)	(30,190)

Note: Merger reserve represented 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 was transferred to offset the accumulated loss of the Group as a result of Group restructuring.

(b) Company

	Share premium	Accumulated losses	Total
	HK$'000	HK$'000	HK$'000
Balance at 1st June 2005	26,336	(25,240)	1,096
Loss for the year	–	(716)	(716)
Balance at 1st June 2006	26,336	(25,956)	380
Loss for the year	–	(6,524)	(6,524)
Balance at 31st May 2007	26,336	(32,480)	(6,144)

Notes to the Consolidated Financial Statements

25 CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of operating loss to net cash outflow from operations

	Group	
	2007	2006
	HK$'000	HK$'000
Operating loss	**(5,996)**	(5,029)
Interest received	**–**	(1)
Depreciation	**1,506**	1,660
Loss on disposal of plant and equipment	**213**	567
Provision for slow moving inventories	**99**	–
Provision for impairment of receivables	**739**	260
Operating loss before working capital changes	**(3,439)**	(2,543)
Decrease in inventories	**–**	8
(Increase)/decrease in trade and other receivables	**(1,016)**	1,606
Increase/(decrease) in trade and other payables	**2,148**	(4,761)
Net cash outflow from operations	**(2,307)**	(5,690)

(b) Analysis of changes in financing during the year

	Group			
	Share capital including share premium and merger reserve	**Bank loans and obligations under finance leases**	**Amount due to a director**	**Minority interests**
	HK$'000	HK$'000	HK$'000	HK$'000
At 1st June 2005	63,024	1,031	1,690	7
Minority interests' share of loss	–	–	–	(5)
Cash (outflows)/inflow from financing	–	(769)	7,187	–
At 1st June 2006	63,024	262	8,877	2
Minority interests' share of loss	–	–	–	(2)
Cash (outflow)/inflow from financing	–	(7)	2,452	–
At 31st May 2007	63,024	255	11,329	–

Notes to the Consolidated Financial Statements

26 COMMITMENTS

(a) Commitments under operating leases

The future aggregate minimum lease payments under non-cancellable operating lease in respect of building as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Not later than one year	**441**	642
Later than one year but not later than five years	**120**	267
	561	909

(b) The Group did not have material capital commitment as at 31st May 2007 and 2006.

27 RELATED PARTY TRANSACTIONS

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

		Group	
		2007	2006
	Note	**HK$'000**	HK$'000
Rental expenses paid to Charmfine Investment Limited ("Charmfine")	(a)	**120**	120
Commission paid to minority shareholder of a subsidiary		**–**	202

Note:

(a) 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.

28 LITIGATIONS

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

(a) On 16 December 2004, a writ was issued by a telecom service provider ("plaintiff") against two wholly-owned subsidiaries of the Group and a director of the Company 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 20 July 2005, the High Court ruled that the subsidiaries and the director had 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 is not expected in the near future. As at 31 May 2007, the net payable recorded in the consolidated balance sheet of the Group to the service provider was approximately HK$3,649,000 and is considered adequate by the directors.

(b) Other than the writs as mentioned above, up to the date of this report, the Group has a number of litigation processings in respect of outstanding liabilities arising in the normal course of its business of approximately HK$1,511,000. The Directors of the Company are in the process to negotiate with the creditors for revision of 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 2007.

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

29 APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 27th August 2007.

Five Years Financial Summary

	2007 HK$'000	2006 HK$'000	2005 HK$'000	2004 HK$'000	2003 HK$'000
Turnover	**6,355**	11,693	26,189	52,829	46,096
Loss attributable to shareholders	**(6,007)**	(5,245)	(13,289)	(18,481)	(9,358)
Assets and liabilities					
Total assets	**8,044**	9,460	13,013	18,391	27,273
Total liabilities	**(34,372)**	(29,779)	(28,082)	(26,146)	(16,547)
Minority interests	**–**	(2)	(7)	–	–
Shareholders' (deficits)/fund	**(26,328)**	(20,321)	(15,076)	(7,755)	10,726