NETEL TECHNOLOGY (HOLDINGS) LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8256

Annual Report 2008

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

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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.

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Corporate Information

DIRECTORS

Executive Directors

James Ang
Wei Ren
Yau Pui Chi, Maria

Independent Non-Executive Directors

Chiang Kin Kon
Wong Kwok Fai
Tam May Yuk

COMPLIANCE OFFICER

James Ang

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Ng Yee Man, Fiona

AUTHORISED REPRESENTATIVES

James Ang
Yau Pui Chi, Maria

AUDIT COMMITTEE

Chiang Kin Kon
Wong Kwok Fai
Tam May Yuk

REMUNERATION COMMITTEE

Yau Pui Chi, Maria
Chiang Kin Kon
Wong Kwok Fai

BANKER

The Hong Kong and Shanghai Banking Corporation 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

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

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COMPANY WEBSITE

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

GEM STOCK CODE

8256

Chairman's Statement

The year of 2007-2008 was a significant year for our Company. We are trying every effort to turn around and reinforce the new business model .The Company has utilized the voice over IP license of Crown Multi-media in Philippines so we are able to launch/enhance the voice over IP business there. In addition to this, we are also able to carry out the value added services by utilizing our telecom platform. This year, we have invested a lot of resources on the value added services such as cyber education. The Company has established an operation in China and preparing Mandarin distance learning for the world market.

In this year, the Philippines voice over IP business has undergone a steady growth and several new applications have been developed. As a matter of fact, we are moving from traditional IDD calling card business and developing a new platform for voice over IP calling cards that was launched recently. We believe the new revenue stream will be the value added services from overseas market.

The Company was able to turn around this year mainly due to our further right size the company by consolidating the technical operation centre together with our administration and sales office. This consolidation improves our efficiency and reduces our operation cost significantly.

As showing a strong confidence in the future of the Company, I personally further invested in Netel by capalising my personal loan into shares, that was completed in this year and was significantly improve the balance sheet of the Company.

Finally I would like to extend my sincere thanks to all our shareholders, colleagues and friends who have contributed a lot to our success of last year result.

James Ang
Chairman

Hong Kong, 25 August 2008

Management Discussion and Analysis

FINANCIAL REVIEW

Results for the year

The Group recorded a total turnover HK$5.3 million in the year ended 31 May 2008, a decrease of 16.2% from HK$6.4 million for the year ended 31 May 2007. The decrease was attributable in the decrease in calling card sales & carrier sales. The gross profit margin increased from 30.8% for last year to 51.4% for this year. The increase in overall gross profit margin was mainly attributable to the increase in the provision of SIP and web phones service.

The Group recorded a consolidated loss attributable to shareholders of HK$0.6 million, as compared with the comparative amount of loss HK$6.0 million attained in the previous year. The decrease of the loss for the year was mainly due to the improvement of gross profit margin as the company is shifting from the business of wholesales minutes to the business of voice over IP and the result of cost reduction on the operations and the reversal of certain provision of liabilities, as a result of discount offered by creditors, and over-charge by telecom service providers.

The administrative expenses decreased by 21% from HK$7.8 million of last year to HK$6.1 million for this year as a result of cost control measures.

Liquidity and Financing

For the year ended 31 May 2008, the Group incurred a loss of approximately HK$0.5 million and the net cash outflow from operations was approximately HK$6.0 million. The outflow was mainly attributable to operating loss before changes in working capital of approximately HK$0.8 million, decrease in inventories of approximate HK$0.1 million, decrease in receivables of approximately HK$0.6 million and decrease in payables of approximately HK$5.9 million. With the increase of amount due to a director of approximately HK$5.12 million, the net cash and cash equivalents of the Group was increased by approximately HK$0.20 million.

As at 31 May 2008, the Group had a cash and cash equivalent balance of approximately HK$ 0.5 million. The gearing ratio, defined as total bank and finance lease borrowings divided by the shareholders' fund as at 31 May 2008 was not applicable as there was negative shareholders' fund (2007: not applicable). The Group had net current liabilities of approximately HK$19.2 million as at 31 May 2008 as compared with HK$31.4 million as at 31 May 2007.

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.

Management Discussion and Analysis

BUSINESS REVIEW

The Group has consolidated the technical centre with the administration and sales office that help to improve the efficiency of operation and further reduce our cost of operation. Besides, the Group has invested in developing new platform for value added services, such as distance learning, the system has just been completed recently.

The Group's associated company in Philippines assists the Group to further penetrate into the voice over IP market in the Philippines. The Company will also launch the value added services to the existing distribution networks and customers in the Philippines.

The Group has established an operation in China and is preparing to launch Mandarin training course through our worldwide distribution channels. There will be further investment made on the human resources, hardware and software for this new business. In addition to the Mandarin training, the Group is also planning to carry out several new lines of value added services through the platform.

BUSINESS OUTLOOK

The Company has been moving from traditional IDD operation to voice over IP and value added services. In addition, the Group also branches out the business from Hong Kong to China and other overseas countries, such as Philippines. This movement is aim to capture more revenue and profit for the Group.

The profit margin of IDD business is decreasing in last couple years as the cost of operation in Hong Kong is very high. The Group therefore aims to diversify and expands, its geographical market out of Hong Kong.

The Group also believes the new technology of WiFi and WiMax are another new generation of telecom services, so the Group's effort has been made on how to leverage the existing system with the new technologies and develop a new range of services.

Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. James Ang ("Mr. Ang"), age 49, 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 21 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 known as 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.

Mr. Wei Ren, ("Mr. Wei"), aged 69, he has engaged in biomedical engineering and accumulated extensive experience in such field for more than 40 years, he is a senior engineer. He was awarded several prizes of cities and provinces in the People's Republic of China. He has been engaged as a committee member of the Associate of China Biomedical Engineering, Tinajin Biofeedback Specialized Committee; deputy chairman and chief secretary of the Associate of Biomedical Engineering and Biofeedback Study in the People's Republic of China.

Ms. Yau Pui Chi Maria ("Ms. Yau"), aged 48, Mr. Ang's spouse, who has more than 19 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 known as 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chiang Kin Kon, ("Mr. Chiang"), aged 59, has been an independent non-executive Director of the Company since May 2008. He has over 28 years of experience in property management fields and over 14 years of experience in business management. Mr. Chiang has also been involved in the property management industry in the People's Republic of China (the "PRC") since 1994. He holds a higher diploma in Business Management from the Hong Kong Baptist College (now known as the Hong Kong Baptist University).

Mr. Wong Kwok Fai, ("Mr. Wong"), aged 42, has been an independent non-executive Director of the company since May 2008. He holds a bachelor degree in Accountancy from the City University of Hong Kong and is a fellow member of the Hong Kong Institute of Certified Public Accountants. Mr. Wong has extensive experience in auditing, accounting, financial management and company secretarial in Hong Kong. He has worked for an international accounting firm and has been a financial controller and company secretary of a listed company in Hong Kong.

Directors and Senior Management

Ms. Tam May Yuk ("Ms. Tam"), aged 58, has been an independent non-executive Director of the company since March 2008. She has over 30 years of experience in electronics manufacturing fields. Ms. Tam is currently a director of a Hong Kong private limited company which is principally engaged in the electronics manufacturing services in Hong Kong and the People's Republic of China and of another Hong Kong private limited company which is principally engaged in the investment.

FORMER INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Li Chi Wing ("Mr. Li"), aged 49, resigned as an independent non-executive Director of the Company in May 2008. He obtained an honours diploma in Business and Management from the Hong Kong Baptist College (now known as 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.

Mr. Chan Chun Chung William ("Mr. Chan"), aged 51, resigned as an independent non-executive Director of the Company in May 2008. He has been practicing 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.

Mr. Yeung Kam Yuen Roderick ("Mr. Yeung"), aged 58, resigned as an independent non-executive Director of the Company in August 2008. He 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.

SENIOR MANAGEMENT

Ms. Ng Yee Man, Fiona ("Ms. Ng"), aged 39, is the Financial Controller and Company Secretary of the Group. She is a fellow member of the Association of Chartered Certified Accountants, and an associate member of the Hong Kong Institute of Certified Public Accountants. She is also an associate member of both the Institute of Chartered Secretaries and Administrators in United Kingdom and Hong Kong Institute of Chartered Secretaries. Prior to joining the Group, she was a qualified accountant and a company secretary for a listed company in Hong Kong.

The Company periodically reviews its corporate governance practices to ensure that they continue to meet the requirements of the Code, and acknowledges the important role of its Board in providing effective leadership and direction to the Company's business, and ensuring the transparency and accountability of the Company's operations.

The key corporate governance principles and practices of the Company are summarized as follows:

CORPORATE GOVERNANCE PRACTICES

The Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules provide for code provisions (the "Code Provisions") and recommended best practices with respect to: 1) 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 31 May 2008, 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 and A.4.1 stipulated in the following paragraphs.

The code provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer ("CEO") should be separated 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.

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

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the rules set out in Rules 5.48 to 5.67 (where applicable) of the GEM Listing Rules as the code for dealing in securities of the Company by the Directors (the "Code"). The Company has made specific enquiry of all Directors of the Company, and the Directors have confirmed compliance with the Code during the year ended 31 May 2008.

Specific employees who are likely to be in possession of unpublished price-sensitive information of the Group are also subject to compliance with the same Code. No incident of non-compliance was noted by the Company for the year ended 31 May 2008.

Corporate Governance Report

BOARD OF DIRECTORS

The Board comprises three 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.

The Directors of the Board members of the Company during the year ended 31 May 2008 and up to the date of this report were as follows:

Executive Directors

Mr. James Ang *(Chairman)*	
Mr. Wei Ren	(Appointed on 30 May 2008)
Ms. Yau Pui Chi, Maria	

Independent Non-Executive Directors ("INEDs")

Mr. Chiang Kin Kon	(Appointed on 20 May 2008)
Mr. Wong Kwok Fai	(Appointed on 20 May 2008)
Mr. Yeung Kam Yuen, Roderick	(Resigned on 04 August 2008)
Ms. Tam May Yuk	(Appointed on 03 April 2008)
Mr. Li Chi Wing	(Resigned on 02 May 2008)
Mr. Chan Chun Chung, William	(Resigned on 31 May 2008)

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 is currently three of the non-executive Directors on the Board, all of whom are independent. All the non-executive Directors have been appointed for no specific term and they are 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.

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.

All directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting. 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 six 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, interim and quarterly 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.

ATTENDANCE RECORD AT BOARD AND AUDIT COMMITTEE MEETINGS

The individual attendance record of each Director at the meetings of the Board and Audit Committee during the year ended 31 May 2008 is set out below:

	Attendance/ Number of Meetings	
	Board	**Audit Committee**
Executive Directors		
Mr. James Ang	6/6	Not applicable
Mr. Wei Ren (Note 2)	0/0	Not applicable
Ms. Yau Pui Chi, Maria	6/6	Not applicable
Independent Non-Executive Directors		
Mr. Chiang Kin Kon (Note 3)	0/0	0/0
Mr. Wong Kwok Fai (Note 4)	0/0	0/0
Ms. Tam May Yuk (Note 5)	1/1	1/1
Mr. Li Chi Wing (Note 6)	6/6	4/4
Mr. Yeung Kam Yuen, Roderick (Note 7)	0/6	0/4
Mr. Chan Chun Chung, William (Note 8)	6/6	4/4

Notes:

1. The counting of attendance for existing Directors started the joining date of Directors or committee members. The counting of attendance for former Directors ended upon his ceasing to be a Director or committee member.

2. Mr. Wei Ren was appointed as an executive Director with effect from 30 May 2008.

3. Mr. Chiang Kin Kon was appointed as an independent non-executive Director with effect from 20 May 2008.

4. Mr. Wong Kwok Fai was appointed as an independent non-executive Director with effect from 20 May 2008.

5. Ms. Tam May Yuk was appointed as an independent non-executive Director with effect from 03 April 2008.

6. Mr. Li Chi Wing resigned as an independent non-executive Director with effect from 02 May 2008.

7. Mr. Yeung Kam Yuen, Roderick resigned as an independent non-executive Director with effect from 04 August 2008.

8. Mr. Chan Chun Chung, William resigned as an independent non-executive Director with effect from 31 May 2008.

The Board complied with Rules 5.01 and 5.02 of the GEM Listing Rules relating to the appointment of all the three independent non-executive Directors. Each of the independent non-executive Directors has made an annual confirmation of independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company is of the view that all independent non-executive Directors meet the independence guidelines set out in Rule 5.09 of the GEM Listing Rules.

SUPPLY OF AND ACCESS TO INFORMATION AND ACCESS TO LEGAL AND OTHER PROFESSIONAL ADVICE

To allow the Directors, in particular, all the independent non-executive Directors to make informed decisions and properly discharge their duties and responsibilities; the Company Secretary ensures the relevant Board papers are sent to all the Directors in a timely manner. All Board papers and minutes are also made available for inspection by the Directors and the Committees. All Directors, in particular, the independent non-executive Directors are informed and authorized to seek any information it requires from any employee and obtain outside legal or other independent professional advice at the cost of the Company if they consider necessary to discharge their duties as Directors of the Company.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company has established Remuneration Committee with specific terms of reference which deals clearly with its authorities and duties. The Remuneration Committee currently consists of two independent non-executive Directors and an executive Director; Ms. Yau Pui Chi, Maria, an executive Director, is the Chairman of the Remuneration Committee and other members are Mr. Wong Kwok Fai, an independent non executive Director, and Mr. Chiang Kin Kon, an independent non executive Director. The majority members of the Remuneration Committee are independent non-executive Directors of the Company.

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

During the year under review, no meeting was held by the Remuneration Committee.

ACCOUNTABILITY AND AUDIT

The Directors are responsible for the preparation of financial statements for each financial period which gives 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 31 May 2008, the Directors have selected suitable accounting policies and applied them consistently by adopting appropriate Hong Kong Financial Reporting Standards.

Corporate Governance Report

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.

AUDIT COMMITTEE

The Company has established an Audit Committee with specific terms of reference explaining its role and authorities delegated by the Board. The Audit Committee currently consists of three independent non-executive Directors, Mr. Chiang Kin Kon, Mr. Wong Kwok Fai, and Ms. Tam May Yuk who together have sufficient accounting and financial management expertise, and business experience to carry out their duties.

The duties of Audit Committee are included 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 Audit Committee meets with the external auditors and the management of the Group to ensure that the audit findings are addressed properly.

The Audit Committee has reviewed the annual, interim and quarterly results of the Company for the year ended 31 May 2008, and were content that the accounting policies of the Group are in accordance with the generally accepted accounting practices in Hong Kong.

AUDITORS' REMUNERATION

Lau & Au Yeung C.P.A. Limited has been appointed by the shareholders annually as the external auditors of the Group since 2002. For the year ended 31 May 2008, the fees charged to accounts of the Group for Lau & Au Yeung statutory audit amounted to approximately HK$320,000, in addition approximately HK$100,000 was charged for other services. The non-statutory audit services mainly consist of special audits.

SHAREHOLDERS' RELATIONS

Communication with shareholders could enhance the confidence of investors. The primary communication channel between the Company and its shareholders include the publication of annual, interim and quarterly reports, announcements, circulars, annual general meeting and other general meetings. The Group's website provides regularly updated Group information to shareholders. Enquires on matters relating to shareholdings and the business of the Group are welcome, and are dealt with in an informative and timely manner.

The Group encourages all shareholders to attend annual general meeting which provides a useful forum for shareholders to exchange views with the Board.

Report of the Directors

The Board of Directors (the "Board") of Netel Technology (Holdings) Limited (the "Company") is pleased to present their annual report and the audited financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 May 2008.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding incorporated in the Cayman Islands. The activities of the subsidiaries are set out 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 ended 31 May 2008 are set out in the Group's condensed consolidated income statement on page 22.

DIVIDEND

The Board of Directors does not recommend the payment of a dividend in respect of the year ended 31 May 2008 (2007: NIL).

RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in note 25 to the consolidated financial statements.

PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 24 to the consolidated financial statements.

Report of the Directors

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights in the articles of association of the Company (the "Articles of Association) requiring the Company to offer new shares to the existing shareholders in proportion to their shareholding, and there is no restriction against such rights under the laws of the Cayman Islands.

SUMMARY OF FINANCIAL INFORMATION

A summary of the operating results, assets and liabilities of the Group for the five financial years ended 31 May 2008 is set out on page 60.

PURCHASES, SALE OR REDEMPTION OF SECURITIES

For the financial year ended 31 May 2008 , neither the Company nor any of its subsidiaries repurchased, sold or redeemed any of the Company's listed shares.

SHARE OPTIONS

Pursuant to written resolution of the sole shareholder of the Company dated 4 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 31 May 2008, no share option was granted under the Share Option Scheme.

DIRECTORS

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

Executive Directors

Mr. James Ang *(Chairman)*	
Mr. Wei Ren	(Appointed on 30 May 2008)
Ms. Yau Pui Chi, Maria	

Independent Non-Executive Directors ("INEDs")

Mr. Chiang Kin Kon	(Appointed on 20 May 2008)
Mr. Wong Kwok Fai	(Appointed on 20 May 2008)
Mr. Yeung Kam Yuen, Roderick	(Resigned on 04 August 2008)
Ms. Tam May Yuk	(Appointed on 03 April 2008)
Mr. Li Chi Wing	(Resigned on 02 May 2008)
Mr. Chan Chun Chung, William	(Resigned on 31 May 2008)

Report of the Directors

In accordance with Article 87 of the Company's Article of Association, Mr. James Ang, Mr. Wei Ren, Mr. Chiang Kin Kon, Mr. Wong Kwok Fai, and Ms. Tam May Yuk will retire from office by rotation and, being eligible offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

The Company entered into "Service Contracts" with Ms. Yau Pui Chi, Maria of three years commencing from 25 November 2002, which expired on 24 November 2005. The services contracts shall continue thereafter until terminated by either party not less than three months' prior notice in writing or to make payments equivalent to not less than three month's emoluments to terminate the service (other than statutory compensation).

Under the above service contracts, Ms. Yau Pui Chi, Maria is entitled to a fixed salary of HK$480,000 per annum subject to an annual increment as approved by the Board.

The Company entered into revised "Service Contracts" with Mr. James Ang of three years commencing from 1 June 2008, which will be expired on 31 May 2011. The services contracts shall continue thereafter until terminated by either party not less than three months' prior notice in writing or to make payments equivalent to not less than three month's emoluments to terminate the service (other than statutory compensation).

Under the above service contract, Mr. James Ang does not entitle any fixed salary, but entitled to discretionary bonus as recommended by the Board of the Company and approved by the Board reference to his duties, his performance and the performance of the Company.

Each of the executive Directors will also be entitled to all reasonable out-of-pocket expenses.

Save as disclosed in this report, none of the Directors has entered into any service agreements with any members of the Group, but will be subject to retirement by rotation and re-election in accordance with the Article of Association.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in the service contracts, 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 financial year ended 31 May 2008.

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 31 May 2008, 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 or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Rule 5.49 to 5.67 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the "GEM Listing Rules"), were as follows:

Ordinary shares of HK$0.01 each in the Company

Name of Directors		Number of Shares held	Nature of Interest	Percentage
Mr. James Ang ("Mr. Ang")	Long position	282,021,800	Personal and Corporate Interest (Note)	57.81%
Ms. Yau Pui Chi, Maria (Spouse of Mr. Ang)	Long position	282,021,800	Family Interest	57.81%

Note: These Shares are registered as to 27,749,800 Shares held by Mr. Ang in person, 192,200,000 Shares in the name of Nanette Profits Limited ("Nanette"), 5,692,000 Shares in the name of Benevolent Trading Limited ("Benevolent"), 6,380,000 Shares in the name of Cyber Wealth Company Group Limited ("Cyber Wealth") and 50,000,000 Shares in the name of Bluechip Combination Investments Limited ("Bluechip"). Nanette, Benevolent, Cyber Wealth and Bluechip are companies wholly-owned by Mr. Ang.

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

Save as the interests disclosed above in respect of certain directors, the Company has not been notified of any other shareholders who had interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or recorded in the register of substantial shareholders maintained by the Company under Section 336 of the SFO, or who is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of the Company as at 31 May 2008.

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 Group's sales to its five largest customers did not exceed 30% of the Group's total turnover for the year ended 31 May 2008.

Purchases for the largest supplier for the year ended 31 May 2008 represented approximately 31% of the Group's total purchases. The total purchases attributable to the five largest suppliers of the Group for the year ended 31 May 2008 accounted for approximately 73% of the total purchases of the Group for the year ended 31 May 2008.

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 31 May 2008, which constitute exempted connected transactions under the Rules Governing the Listing of Securities on the GEM ("GEM Listing Rules"), are disclosed in note 28 to the consolidated financial statements.

DIRECTORS' INTEREST IN COMPETING BUSINESS

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

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company as at the date of this annual report, the Company has maintained the prescribed public float under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rule").

Report of the Directors

RETIREMENT SCHEME

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees in Hong Kong under the jurisdiction of the Hong Kong Employment Ordinance. Particulars of the MPF are set out in Note 2.17 to the consolidated financial statements.

CORPORATE GOVERNANCE

Particulars of the Company's corporate governance practices are set out in the Corporate Governance Report on page 8 to 13.

AUDIT COMMITTEE

The Audit Committee presently comprises three independent non-executive Directors of Mr. Chiang Kin Kon, Mr. Wong Kwok Fai and Ms. Tam May Yuk. The Audit Committee has reviewed the accounting policies and practices adopted and the annual report of the Group for the year. The Audit Committee has held regular meeting since its formation, at a frequency of at least four times a year.

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, 23 August 2008

Independent Auditor's Report

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
21/F., Tai Yau Building
181 Johnston Road, Wanchai
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 22 to 59, which comprise the consolidated and company balance sheets as at 31 May 2008, 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 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.

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 31 May 2008 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 2.1(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 2.1(a) to the consolidated financial statements, the Group's total liabilities exceeded its total assets by approximately HK$14,816,000 and its current liabilities exceeded its current assets by approximately HK$19,188,000. 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 financing 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, 23 August 2008

Franklin Lau Shiu Wai
Director
Practising Certificate Number P1886

Consolidated Income Statement

For the Year Ended 31 May 2008

	Notes	2008 HK$'000	2007 HK$'000
Turnover	5&6	**5,326**	6,355
Cost of sales		**(2,589)**	(4,395)
Gross profit		**2,737**	1,960
Other revenues	6	**3,051**	–
Selling and marketing expenses		**(289)**	(172)
Administrative expenses		**(6,149)**	(7,784)
Loss from operations	7	**(650)**	(5,996)
Finance costs	8	**(8)**	(13)
Share of profit of an associated company	17	**148**	–
Loss for the year		**(510)**	(6,009)
Attributable to:			
Equity holders of the Company		**(598)**	(6,007)
Minority interests		**88**	(2)
Loss for the year		**(510)**	(6,009)
Loss per share			
– basic and diluted	12	**HK(0.1 cents)**	HK(1.6 cents)

The notes on pages 27 to 59 form an integral part of these consolidated financial statements.

Consolidated Balance Sheet

At as 31 May 2008

	Notes	2008 HK$'000	2007 HK$'000
Non-Current Assets			
Plant and equipment	15	**3,943**	5,121
Investment in an associated company	17	**429**	–
		4,372	5,121
Current Assets			
Inventories	18	**30**	86
Trade receivables	19	**543**	688
Prepayment, deposit and other receivables	19	**2,451**	1,850
Bank balances and cash	20	**454**	299
		3,478	2,923
Total Assets		**7,850**	8,044
Current Liabilities			
Trade payables	21	**(9,885)**	(11,718)
Receipt in advance, accruals and other payables	21	**(7,011)**	(11,070)
Amount due to a director	22	**(5,770)**	(11,329)
Current portion of long-term liabilities	23	**–**	(173)
		(22,666)	(34,290)
Net Current Liabilities		**(19,188)**	(31,367)
Total Assets Less Current Liabilities		**(14,816)**	(26,246)
Non-Current Liabilities			
Long-term liabilities	23	**–**	(82)
Net Liabilities		**(14,816)**	(26,328)
Equity			
Share capital	24	**4,878**	3,862
Share premium and reserves	25	**(19,782)**	(30,190)
Equity attributable to equity holders of the Company		**(14,904)**	(26,328)
Minority interests		**88**	–
Total Equity		**(14,816)**	(26,328)

James Ang
Director

Yau Pui Chi, Maria
Director

The notes on pages 27 to 59 form an integral part of these consolidated financial statements.

Balance Sheet

As at 31 May 2008

	Notes	2008 HK$'000	2007 HK$'000
ASSETS			
Non-current assets			
Investments in subsidiaries	16	**1**	1
Current assets			
Other receivables	19	**15**	15
Total assets		**16**	16
EQUITY			
Capital and reserves			
Share Capital	24	**4,878**	3,862
Reserves	25	**(7,090)**	(6,144)
Total equity		**(2,212)**	(2,282)
LIABILITIES			
Current liabilities			
Accruals and other payables	21	**2,228**	1,748
Amount due to a director	22	**–**	550
Total liabilities		**2,228**	2,298
Total equity and liabilities		**16**	16
Net current liabilities		**(2,213)**	(2,283)
Total assets less current liabilities		**(2,212)**	(2,282)

James Ang
Director

Yau Pui Chi, Maria
Director

The notes on pages 27 to 59 form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 May 2008

	Share capital HK$'000	Share premium HK$'000	Exchange reserve HK$'000	Merger Reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
Balance at 1 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 1 June 2007	3,862	19,855	–	–	(50,045)	(26,328)	–	(26,328)
Issue of new shares								
– by subscription	25	710	–	–	–	735	–	735
– for acquisition of an associate	9	417	–	–	–	426	–	426
Capitalisation of shareholder's loan	982	9,818	–	–	–	10,800	–	10,800
Translation of foreign reserve	–	–	61	–	–	61	–	61
(Loss)/profit for the year	–	–	–	–	(598)	(598)	88	(510)
Balance at 31 May 2008	4,878	30,800	61	–	(50,643)	(14,904)	88	(14,816)

The notes on pages 27 to 59 form an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 May 2008

	Notes	2008 HK$'000	2007 HK$'000
Cash flows from operating activities			
Net cash used in operations	26(a)	**(6,033)**	(2,307)
Interest paid		**(3)**	(13)
Net cash used in operating activities		**(6,036)**	(2,320)
Cash flow from investing activities			
Proceeds from sale of plant and equipment		**680**	10
Purchases of plant and equipment		**(263)**	–
Net cash generated from investing activities		**417**	10
Cash flow from financing activities	26(b)		
Net proceeds from issuance of ordinary shares		**735**	–
Capital elements of finance lease payments		**(80)**	(7)
Increase in amount due to a director		**5,119**	2,452
Net cash generated from financing activities		**5,774**	2,445
Net increase in cash and cash equivalents		**155**	135
Cash and cash equivalents at beginning of the year		**299**	164
Cash and cash equivalents at end of the year		**454**	299
Analysis of balances of cash and cash equivalents			
– Bank balances and cash		**454**	299

The notes on pages 27 to 59 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 9 September 2002 as an exempted company with limited liability under the Companies Law of Cayman Islands. The address of its registered office is Century Yard Circket Square, Hutchins Drive, P.O. Box 2681GT, George Town, Grand Cayman, 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 20 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 23 August 2008.

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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$0.6 million for the year ended 31 May 2008. As at 31 May 2008, the Group had net current liabilities and net liabilities of HK$19.2 million and HK$14.8 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 31 May 2008;
- 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;
- 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(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 judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

For the year ended 31 May 2008, the Group has adopted new standard, amendment and interpretations, which are relevant to its operations:

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

HKFRS 7	Financial Instruments: Disclosures
HKAS 1 (Amendment)	Capital Disclosures
HK(IFRIC) – Int 8	Scope of HKFRS 2
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment

The adoption of these new standard, amendment and interpretations does not have any significant impact on the results and financial position or changes to the accounting policies of the Group with exception of HKAS 1 (Amendment) and HKFRS 7 which require additional disclosures in the financial statements.

(ii) The following standard, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods, relevant to the Group and have not been early adopted:

HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions
HKAS 1 (Revised)	Presentation of financial statements
HKAS 23 (Revised)	Borrowing Costs
HKFRS 2 (Amendment)	Share-based Payment – Vesting Conditions and Cancellation
HKFRS 8	Operating Segments
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKFRS 3 (Revised)	Business Combinations

The adoption of these standards, amendments and interpretations is not expected to have any significant impact on the financial position of the Group.

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 31 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 unrealized 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 Associated company

Associates are entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investment in an associates are accounted for by the equity method of accounting and is initially recognised at cost. The group's investment in an associates include goodwill, net of any accumulated impairment loss, identified on acquisition.

The group's share of its associates post-acquisition profits or losses is recognized in the consolidated income statement, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the group's share of losses associates equals or exceeds its interest in the associates, including any other unsecured receivables, the group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associates.

Unrealized gains on transactions between the group and its associates are eliminated to the extent of the group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the associates have been changed where necessary to ensure consistency with the policies adopted by the group.

Dilution gains and losses in associates are recognised in the income statements.

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

2.4 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.5 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.

2.6 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.

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.7 Impairment of investments in subsidiaries, associate 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.

2.8 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.9 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.

2.10 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.

2.11 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.

2.12 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.13 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.

2.14 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 realized 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.

2.15 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.16 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.

2.17 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)*

2.18 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 credit risk, 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) Credit risk

The Group is exposed to credit risk in relation to its cash and bank balances, trade receivables, deposits and other receivables. The Group's maximum exposure to credit risk is the carrying amounts of these financial assets.

To manage this risk, the management has monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the management reviews regularly the recoverable amount of each individual trade receivable. The Group currently adopts the following rates for provision on long outstanding debts to ensure that adequate impairment provision is made for any irrecoverable amounts:

Over 180 but less than 360 days	50%
Over 360 days	100%

The credit risk on deposits with bank is limited because the counterparties are banks with sound credit ratings assigned by international credit-rating agencies.

The credit risk on deposits and other receivable is limited as management are of the opinion that the recoverability of these balances are highly probable.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) 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.

(c) Foreign currency risk

Operations of the Group are mainly conducted in Hong Kong Dollars ("HK$") and its revenue, expenses, assets, liabilities and borrowings are principally denominated in HK$, 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.

(d) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of credit facilities. The Group aims to finance its operations with its own capital and earnings and borrowings or credit facilities utilised during the year. Management considers that the Group does not have any significant liquidity risk.

The table analyses the Group's and the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Group	**Less than 1 years**
	HK$'000
As at 31 May 2008	
Trade and other payables	16,896
Amount due to a director	5,770
Current portion of long-term liabilities	–
	22,666

	Less than 1 years
	HK$'000
As at 31 May 2007	
Trade and other payables	22,788
Amount due to a director	11,329
Current portion of long-term liabilities	173
	34,290

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(d) Liquidity risk *(Continued)*

Company	**Less than 1 years**
	HK$'000
As at 31 May 2008	
Accruals and other payables	2,228
Amount due to a director	–
	2,228

	Less than 1 years
	HK$'000
As at 31 May 2007	
Accruals and other payables	1,748
Amount due to a director	550
	2,298

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders.

The capital structure of the Group consists of equity and advances from directors. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debts. The Group monitors capital on the mechanism of comparing total debts and total equity, to determine when new investment or advance from directors is required to commit the current debts.

Since the Group does not raise fund from any interest bearing borrowings, no gearing ratio is adopted by the Group on the capital risk management.

3.3 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 2.1(a) to the consolidated financial statements.

(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 judgements.

(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.

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.

		2008		
		Long distance call services		
	Sale of equipment HK$'000	End-users direct Sales HK$'000	Carrier sales HK$'000	Group HK$'000
Turnover	1,266	3,977	83	5,326
Segment results	(1,029)	(1,532)	(25)	(2,586)
Other revenues				3,051
Operating profit				465
Unallocated cost				(967)
Finance costs				(8)
Loss for the year				(510)
Segment assets	205	5,681	1,191	7,077
Unallocated assets				773
Total assets				7,850
Segment liabilities	3,388	7,760	9,072	20,220
Unallocated liabilities				2,446
				22,666
Capital expenditures	–	–	76	76
Unallocated capital expenditures				187
				263
Depreciation	–	935	199	1,134
Unallocated depreciation				92
				1,226

5 SEGMENT INFORMATION *(Continued)*

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

	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
				34,272
Capital expenditures	–	–	–	–
Unallocated capital expenditures				–
				–
Depreciation	–	1,228	178	1,406
Unallocated depreciation				100
				1,506

5 SEGMENT INFORMATION *(Continued)*

(b) Geographical segments – secondary reporting format

	2008			
	Turnover HK$'000	Segment results HK$'000	Total assets HK$'000	Capital expenditures HK$'000
Hong Kong	**3,977**	**(2,499)**	**5,681**	**263**
Mainland China	**–**	**–**	**–**	**–**
Other countries	**1,349**	**(1,054)**	**1,396**	**–**
	5,326	**(3,553)**	**7,077**	**263**
Other revenues		**3,051**		
Operating loss		**(502)**		

	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)		

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	
	2008	2007
	HK$'000	HK$'000
Turnover		
Long distance call services	**4,060**	6,294
Sale of equipment	**1,266**	61
	5,326	6,355
Other revenues		
Bank interest income	**2**	–
Gain on disposal of Plant & equipment	**279**	–
Over-provision of accruals and trade payable	**1,661**	–
Reversal of general provision for impairment of trade receivable	**1,080**	–
Sundry income	**29**	–
	3,051	–
	8,377	6,355

7 OPERATING LOSS

	2008 HK$'000	2007 HK$'000
Loss from operations has been arrived at after charging/(crediting):		
Auditor's remuneration		
– current year	**320**	270
– over provision in prior years	**–**	(160)
Cost of inventories sold	**2,589**	722
Depreciation and amortisation on:		
– Owned assets	**1,226**	1,384
– Leased assets	**–**	121
(Profit)/Loss on disposal of plant and equipment	**(279)**	213
Operating lease-land and buildings		
– current year	**228**	737
– over provision in prior years	**(214)**	–
Provision for impairment of trade receivables	**–**	739
Provision for slow moving inventories	**–**	99
Staff costs (including directors' remuneration)	**2,694**	2,588
Over provision of accruals and trade payable	**(1,661)**	–
Reversal of general provision for impairment of trade receivable	**(1,080)**	–

8 FINANCE COSTS

	2008 HK$'000	2007 HK$'000
Interests on bank overdrafts	**4**	5
Other interests	**4**	8
	8	13

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 (2007: 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 (2007: Nil).

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

	2008 **HK$'000**	2007 HK$'000
Loss before income tax	**(510)**	(6,009)
Calculated at a statutory rate of 17.5% (2007: 17.5%)	**(89)**	(1,051)
Income not subject to taxation	**(50)**	(3)
Expenses not deductible for taxation purposes	**296**	134
Tax losses not recognised	**(251)**	789
Accelerated depreciation not recognised	**94**	131
Income tax charges	**–**	–

10 NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

Net loss attributable to equity holders of the Company for the year ended 31 May 2008 dealt with in the consolidated financial statements was approximately HK$598,000 (2007: HK$6,007,000).

11 DIVIDENDS

The Company does not recommend the payment of any dividend for the year ended 31 May 2008.

12 LOSS PER SHARE

Basic loss per share is calculated by dividing the Group's loss attributable to equity holders of the Company of HK$598,000 (2007: loss of HK$6,007,000) by the weighted average number of 420,722,760 ordinary shares in issue during the year (2007: 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.

13 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	Group	
	2008	2007
	HK$'000	HK$'000
Wages and salaries	**2,552**	2,501
Pension cost-defined contribution plans	**142**	87
	2,694	2,588

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				
	2008				2007
	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	**–**	**500**	**12**	**512**	612
Ms. Yau Pui Chi, Maria	**–**	**480**	**12**	**492**	492
	–	**980**	**24**	**1,004**	1,104
Non-executive Directors					
Mr. Chiang Kin Kon	**–**	**–**	**–**	**–**	–
Mr. Wong Kwok Fat	**–**	**–**	**–**	**–**	–
Mr. Tam May Yuk	**–**	**–**	**–**	**–**	–
Mr. Yeung Kam Yuen, Roderick	**–**	**–**	**–**	**–**	48
Mr. Li Chi Wing	**–**	**–**	**–**	**–**	48
Mr. Chan Chun Chung, William	**–**	**–**	**–**	**–**	48
	–	**–**	**–**	**–**	144

None of the directors of the Company waived any emoluments paid by the Group during the year (2007: Nil).

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 (2007: two) directors whose emoluments have been reflected in the analysis presented above. The emoluments payable to the remaining three (2007: three) individuals during the year are as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**925**	721
Retirement benefit scheme contributions	**33**	31
	958	752

The emoluments of these individuals fell within the following bands:

	Group	
	Number of individuals	
	2008	2007
	HK$'000	HK$'000
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 1 June 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 31 May 2006						
Opening net book amount	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 31 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
Year ended 31 May 2008						
Opening net book value	**93**	**44**	**8**	**4,976**	**–**	**5,121**
Additions	**187**	**–**	**–**	**76**	**–**	**263**
Depreciation	**(184)**	**(39)**	**(2)**	**(1,001)**	**–**	**(1,226)**
Disposals	**–**	**–**	**–**	**(215)**	**–**	**(215)**
Closing net book value	**96**	**5**	**6**	**3,836**	**–**	**3,943**
At 31 May 2008						
Cost	**885**	**1,159**	**981**	**11,515**	**–**	**14,540**
Accumulated depreciation	**(789)**	**(1,154)**	**(975)**	**(7,679)**	**–**	**(10,597)**
Net book value	**96**	**5**	**6**	**3,836**	**–**	**3,943**

16 INVESTMENTS IN SUBSIDIARIES

	Company 2008 HK$'000	Company 2007 HK$'000
Unlisted investments at cost (Note (a))	**1**	1
Amounts due from subsidiaries (Note (b))	**7,246**	7,491
	7,247	7,492
Less: Provision for investments in and amounts due from subsidiaries	**(7,246)**	(7,491)
	1	1

Notes:

(a) Details of the principal subsidiaries at 31 May 2008 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%
Nation Power Limited	BVI	Investment holding in Hong Kong	1 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%

16 INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ Establishment	Principal activities and place of operation	Particulars of issued/registered and fully paid share capital	Attributable equity interest held
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%
Netel Cyber Education Limited	Hong Kong	Provision of web education service	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.

17 INVESTMENT IN AN ASSOCIATED COMPANY

	Group	
	2008	2007
	HK$'000	HK$'000
Beginning of year	**–**	–
Addition of investment at cost	**426**	–
Share of results, net of tax	**148**	–
Unrealised profit on transaction with an associated company	**(206)**	–
Exchange difference	**61**	–
End of the year	**429**	–

17 INVESTMENT IN AN ASSOCIATED COMPANY *(Continued)*

The group's interests in its principal associates, which are unlisted, are as follows:

Name	Place of incorporation	Registered capital	Assets	Liabilities	Revenues	Profit	Group's interest
			HK$'000	HK$'000	HK$'000	HK$'000	
Crown Multimedia & Information Services Corp.	Philippine	Ordinary shares of 1 PHP each Preferred shares of 1 PHP each	948	313	349	148	40%

18 INVENTORIES

	Group	
	2008	2007
	HK$'000	HK$'000
Long distance call cards	**30**	185
Less: provision for slow moving inventories	**–**	(99)
	30	86

As at 31 May 2008, all inventories are stated at cost.

19 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade receivables (Note (a))	**543**	688	**–**	–
Other receivables, prepayments and deposits	**2,451**	1,850	**15**	15
	2,994	2,538	**15**	15

19 TRADE AND OTHER RECEIVABLES *(Continued)*

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

	Group	
	2008	2007
	HK$'000	HK$'000
Hong Kong dollars	**3,897**	4,920
United Stated dollars	**–**	202
Less: provision for impairment of receivables	**(3,354)**	(4,434)
The carrying amounts of trade receivables approximate their fair value:	**543**	688

Note:

(a) 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	
	2008	2007
	HK$'000	HK$'000
0 – 30 days	**293**	209
31 – 60 days	**22**	100
61 – 90 days	**10**	48
91 – 180 days	**26**	376
181 – 365 days	**64**	286
Over 365 days	**3,482**	4,103
	3,897	5,122
Less: provision for impairment of receivables	**(3,354)**	(4,434)
	543	688

(b) Trade receivable that are within four months are not considered impaired. As at 31 May 2008, trade receivable of HK$53,000 (2007: HK$331,000) were past due but not impaired. The ageing analysis of these trade receivable is as follow:

	Group	
	2008	2007
	HK$'000	HK$'000
0 – 60 days	**22**	331
61 – 120 days	**15**	–
121 – 365 days	**16**	–
Over 365 days	**–**	–
	53	331

20 BANK BALANCES AND CASH

Bank balances and cash were denominated in HKD and of approximately HK$454,000 (2007: HK$299,000).

21 TRADE AND OTHER PAYABLES

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade payables (Note (a))	**9,885**	11,718	**–**	–
Other payables and accruals	**6,611**	10,459	**2,228**	1,748
Receipt in advance	**400**	611	**–**	–
	16,896	22,788	**2,228**	1,748

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

	Group	
	2008	2007
	HK$'000	HK$'000
Hong Kong dollars	**9,885**	6,176
United Stated dollars	**–**	5,542
The carrying amounts of trade payables approximate their fair value:	**9,885**	11,718

Note:

(a) 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	
	2008	2007
	HK$'000	HK$'000
0 – 30 days	**59**	237
31 – 60 days	**5**	211
61 – 90 days	**5**	267
91 – 180 days	**158**	354
181 – 365 days	**362**	1,197
Over 365 days	**9,296**	9,452
	9,885	11,718

22 AMOUNT DUE TO A DIRECTOR

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

23 LONG-TERM LIABILITIES

	Group	
	2008	2007
	HK$'000	HK$'000
Obligation under finance leases (note (a))	–	255
Less: Current portion of long-term liabilities	–	(173)
	–	82
The analysis of the above is as follows:		
Wholly repayable within five years	–	255
Current portion of long-term liabilities	–	(173)
	–	82

Notes:

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

	Group	
	2008	2007
	HK$'000	HK$'000
Within one year	–	173
In the second year	–	82
In the third to fifth years	–	–
	–	255

24 SHARE CAPITAL

	Company	
	Number of shares ('000)	HK$'000
Authorised ordinary shares of HK$0.01 each		
At 31 May 2008 and 2007	**1,000,000**	**10,000**
Issued and fully paid ordinary shares of HK$0.01 each		
At 1 April	**386,230**	**3,862**
Subscription of shares	**2,500**	**25**
Shares issued for acquisition of an associated company	**869**	**9**
Capitalization of shareholder's loan	**98,182**	**982**
At 31 May 2008	**487,781**	**4,878**

25 RESERVES

(a) Group

	Share premium	Exchange reserve	Merger reserve (Note)	Accumulated losses	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Balance at 1 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 1 June 2007	19,855	–	–	(50,045)	(30,190)
Issue of new shares					
– by subscription	710	–	–	–	710
– for acquisition of an associate company	417	–	–	–	417
Capitalisation of shareholder's loan	9,818	–	–	–	9,818
Translation of foreign reserve	–	61	–	–	61
Loss for the year	–	–	–	(598)	(598)
Balance at 31 May 2008	30,800	61	–	(50,643)	(19,782)

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 was transferred to offset the accumulated loss of the Group a result of Group restructuring.

(b) Company

	Share premium	Accumulated losses	Total
	HK$'000	HK$'000	HK$'000
Balance at 1 June 2006	26,336	(25,956)	380
Loss for the year	–	(6,524)	(6,524)
Balance at 1 June 2007	26,336	(32,480)	(6,144)
Issue of shares			
– by subscription	710	–	710
– for acquisition of an associated company	417	–	417
Loss for the year	–	(2,073)	(2,073)
Balance at 31 May 2008	27,463	(34,553)	(7,090)

26 CONSOLIDATED CASH FLOW STATEMENT

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

	Group	
	2008	2007
	HK$'000	HK$'000
Operating loss	**(502)**	(5,996)
Share of profit of an associated company	**(148)**	–
Interest received	**–**	–
Depreciation	**1,226**	1,506
(Profit)/loss on disposal of plant and equipment	**(279)**	213
Provision for slow moving inventories	**–**	99
(Reversal)/provision for impairment of receivables	**(1,080)**	739
Operating loss before working capital changes	**(783)**	(3,439)
Decrease in inventories	**56**	–
Decrease/(increase) in trade and other receivables	**623**	(1,016)
(Decrease)/increase in trade and other payables	**(5,929)**	2,148
Net cash outflow from operations	**(6,033)**	(2,307)

(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 1 June 2006	63,024	262	8,877	2
Minority interests' share of loss	–	–	–	(2)
Transfer due to Group restructuring	(39,307)	–	–	–
Cash (outflows)/inflow from financing	–	(7)	2,452	–
At 1 June 2007	23,717	255	11,329	–
Proceeds from issuance of shares capital	11,962	–	–	–
Minority interests' share of profit	–	–	–	88
Cash outflow from financing	–	(80)	(5,559)	–
Waiver	–	(175)	–	–
At 31 May 2008	35,679	–	5,770	88

26 CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(c) Major non-cash transactions

In pursuant to the Company's circulars and the announcements dated 3 October and 23 October 2007 respectively, the Group completed acquisition of 40% equity interest in Crown Multimedia and Information Services Corporation, an associated company incorporated in the Republic of the Philippines by alloting 868,900 new ordinary Shares of HK$0.49 each. The total consideration was approximately HK$426,000.

In pursuant to the Company's circulars and the announcements dated 4 February and 25 February 2008 respectively, 98,181,000 new ordinary shares of HK$0.01 each were issued to a controlling shareholder upon the capitalisation of Shareholder's loan at a capitalisation price of HK$0.11 per share. The loan capitalised was approximately HK$10,800,000.

27 COMMITMENTS

(a) Commitments under operating leases

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

	Group	
	2008	2007
	HK$'000	HK$'000
Not later than one year	**216**	441
Later than one year but not later than five years	**120**	120
	336	561

(b) The Group did not have material capital commitment as at 31 May 2008 and 2007.

28 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:

	Note	Group 2008 HK$'000	Group 2007 HK$'000
Rental expenses paid to Charmfine Investment Limited ("Charmfine")	(a)	**192**	120
Services income received from an associated company		**51**	–
Sale of equipment to an associated company		**683**	–
		926	120

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.

29 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 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 plaintiff failed to comply with the Court's direction that the case be set down for trial in August 2006 and up to date of this announcement the plaintiff has failed to submit further evidence to substantiate the claim. The Directors have sought the opinion from the legal advisor of the Group to review the legal position on this case as at the year and conclude that the Group has a strong ground to defend and the net payable approximately HK$2,166,000 to the plaintiff is considered adequate.

(b) Other litigations

The Group has a number of litigation processings in respect of outstanding payable liabilities arising in the normal course of its business of approximately HK$1,105,000. The amount of the liabilities is adequately recorded in accounts payable for the year ended 31 May 2008. 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.

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.

30 APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 23 August 2008.

Five Years Financial Summary

	2008	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**5,326**	6,355	11,693	26,189	52,829
Loss attributable to shareholders	**(598)**	(6,007)	(5,245)	(13,289)	(18,481)
Assets and liabilities					
Total assets	**7,850**	8,044	9,460	13,013	18,391
Total liabilities	**(22,666)**	(34,372)	(29,779)	(28,082)	(26,146)
Minority interests	**(88)**	–	(2)	(7)	–
Shareholders' deficits	**(14,904)**	(26,328)	(20,321)	(15,076)	(7,755)