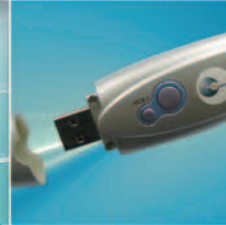




NETEL TECHNOLOGY (HOLDINGS) LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8256



Annual Report 2009

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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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This report, for which the directors of Netel Technology (Holdings) Limited (“Netel”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to Netel. The directors of Netel, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (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
Chau Siu Keung

COMPLIANCE OFFICER

James Ang

COMPANY SECRETARY

Ng Yee Man, Fiona

AUTHORISED REPRESENTATIVES

James Ang
Yau Pui Chi, Maria

AUDIT COMMITTEE

Chiang Kin Kon
Wong Kwok Fai
Chau Siu Keung

REMUNERATION COMMITTEE

Yau Pui Chi, Maria
Chiang Kin Kon
Wong Kwok Fai

BANKERS

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

9/F., Room C
Max Share Centre
373 King's Road
North Point
Hong Kong

REGISTRARS *(in Cayman Islands)*

Butterfield Service (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705
George Town Grand Cayman
Cayman Islands
British West Indies

REGISTRARS *(in Hong Kong)*

Computershare Hong Kong Investor Services Limited
Room 1806-7, 18th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

COMPANY WEBSITE

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

GEM STOCK CODE

8256



Chairman's Statement

The year of 2008-2009 was a milestone for our corporation. It is a year of redefining the business model to focus on Research and Development for 3G and IP application. It was also a year we successfully developed mobile IP phone software and unlimited text services using 3G application. Moreover Lotus Club with those new services was opened in June 2009 for Hong Kong Filipinos market that achievement was because of last year hard work and all staff commitment to success. Looking to future, Lotus Club will serve as our sales arm and I look forward to open more Lotus Club in Hong Kong and other area.

The strength of our Company was sales and marketing and the development of different telecom applications for the market. Today, in addition to this, we brought out another exciting strength that is our own team of Research and Development. I am sure combining the technology development with our existing channels, customer base and sales experiences; this will turn our company to another strategic level of success.

This year we also successfully concluded several subscriptions of new shares and part of the subscription is from our existing shareholders that clearly indicates the shareholders' full support and confidence in our operation.

Our next challenge is to expand our market to other geographical area such as China and other Asian countries. Furthermore developing our business into different applications reaching different customers base become an important mission for the coming years' business.

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

James Ang

Chairman

Hong Kong, 25 August 2009

Management Discussion and Analysis

FINANCIAL REVIEW

Results for the year

The Group recorded a total turnover of HK\$4.94 million in the year ended 31 May 2009, a decrease of 7.32% from HK\$5.33 million for the year ended 31 May 2008. The decrease was attributable in the decrease in calling card sales, and the sales of equipment. The gross profit margin decreased from 51.40% for last year to 45.57% for this year. The decrease in overall gross profit margin was mainly due to the contribution of the increase in sales of SIP and web phones was set off by the increase in carrier sales, which only contributed very thin profit margin.

The Group recorded a consolidated loss attributable to shareholders of HK\$2.97 million, as compared with the comparative amount of loss HK\$0.60 million attained in the previous year. The increase of the loss for the year was mainly due to the decrease of the contributions from other revenue and calling card sales.

The administrative expenses increased by 11.38% from HK\$6.15 million of last year to HK\$6.85 million for this year due to the new business development.

Liquidity and Financing

For the year ended 31 May 2009, the Group incurred a loss of approximately HK\$2.97 million and the net cash outflow from operations was approximately HK\$3.63 million. The outflow was mainly attributable to operating loss before changes in working capital of approximately HK\$0.97 million, decrease in payables of approximately HK\$2.62 million. With the increase of amount due to a director of approximately HK\$2.36 million, the net cash and cash equivalents of the Group was increased by approximately HK\$0.45 million.

As at 31 May 2009, the Group had a cash and cash equivalent balance of approximately HK\$0.90 million. The gearing ratio, defined as total bank and finance lease borrowings divided by the shareholders' fund as at 31 May 2009 was not applicable as there was negative shareholders' fund (2008: not applicable). The Group had net current liabilities of approximately HK\$18.92 million as at 31 May 2009 as compared with HK\$19.19 million as at 31 May 2008.

Most of the transactions of the Group are denominated in HK Dollars. 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

During the year, the Research and Development team has a significant achievement in the development of software with proven site test of integrating the voice over IP application into mobile phone usage. The Research and Development team made a lot of improvement on data compression and compatibility linking with various mobile operators, through the testing in Hong Kong and overseas. This function has extended the voice over IP application to a wider area and become more user friendly for customers.

Regarding to the expansion in the China market, the Company is dealing with a foreign English school to integrate their lessons into the Company's distance learning platform.

All the features will be new sources of revenue for the Company in the future. The Company is looking at new features of data application to serve the customers in a more effective and efficient way.

BUSINESS OUTLOOK

The VOIP business is growing with the help of the new features, the Company will bring the new features to international market, after the data product is ready, and it will become a total solution for customers to communicate by voice and data. The product will be offered to Philippines, Hong Kong and other countries.

The Company is making a lot effort on marketing the new business "Cyber Education". The Company believes cyber education will be one of the main businesses in future.

The Company has focusing on in-house research and development; the Company foresees that a lot of new applications will be put into service in coming year.

EMPLOYEE INFORMATION

At 31 May 2009, the Group employed a total of 16 (2008: 15) employees including Directors. The salaries and benefits of the Group's employees are kept at a competitive level. The Group also operates a share option scheme where options to subscribe for shares of the Company may be granted to the executive Directors and full time employees of the Group. As at 31 May 2009, no share options have been granted from the share option scheme.

Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. James Ang (“Mr. Ang”), aged 50, 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 22 years of experience in telecommunications industry. Prior to joining the Group in 1996, he served as a sales manager of Swire Telecom from 1984 to 1986 and was responsible for the establishment of offices in the PRC. After being employed with Swire Telecom, Mr. Ang served as a Director of the telecom division of AT&T from 1986 to 1995 and took charge of its business development in different countries. He obtained an honours diploma in Business and Management from the Hong Kong Baptist College (now known as the Hong Kong Baptist University). 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.

Mr. Wei Ren (“Mr. Wei”), aged 70, 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 49, Mr. Ang’s spouse, who has more than 20 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). 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. 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 60, has been independent non-executive director of the Company since May 2008. He has over 29 years of experience in property management fields and over 15 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 43, has been 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

Mr. Chau Siu Keung (“Mr. Chau”), aged 52, has been independent non-executive director of the company since May 2009. He has over 29 years experience in sales and marketing field and over 17 years of experience in business management. Mr. Chau is currently a director of a Hong Kong private limited company which is principally engaged in the trading and investment in Hong Kong and the People’s Republic of China.

FORMER INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Tam May Yuk (“Ms. Tam”), aged 59, resigned as an independent non-executive director of the company on February 2009. 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.

SENIOR MANAGEMENT

Dr. Zhong Shi (“Dr. Zhong”), is the Chief Technology Officer of the Group and is the head of the Research and Development Department. Dr. Zhong has more than 10 years experience in telecommunication and computer systems. Prior to joining the Group, he has been the Senior Research Engineer of TOSHIBA Telecommunication Research Lab in England, and also has been the Project Manager of Nan Tian Computer System in the People’s Republic of China (the “PRC”). He obtained his Ph.D. and M.S.C in Department of Computer Science, School of Informatics from University of Edinburgh, United Kingdom.

Ms. Ng Yee Man, Fiona (“Ms. Ng”), is the Financial Controller and Company Secretary of the Group. Ms. Ng 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 has been a qualified accountant and a company secretary for a listed company in Hong Kong.



Corporate Governance Report

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 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 2009, the Group has complied with the code provisions in the Code on Corporate Governance Practices (the "Code Provision(s)") 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 separate and should not be performed by the same individual. The division of responsibilities between the Chairman and Chief Executive Officer should be clearly established and set out in writing.

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

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 Provisions.

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 2009.

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 2009.

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 2009 and up to the date of this report were as follows:

Executive Directors

Mr. James Ang (*Chairman*)

Mr. Wei Ren

Ms. Yau Pui Chi, Maria

Independent Non-Executive Directors ("INEDs")

Mr. Chiang Kin Kon

Mr. Wong Kwok Fai

Mr. Chau Siu Keung (Appointed on 8 May 2009)

Ms. Tam May Yuk (Resigned on 2 February 2009)

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.

Corporate Governance Report

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

The Board as a whole is responsible for the appointment of its own members. The Board does not establish a Nomination Committee and is not considering to establish the same in view of the small size of the Board. The Chairman of the Board is responsible for identifying appropriate candidate and proposing qualified candidate to the Board for consideration.

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 full Board met seven 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.

Corporate Governance Report

ATTENDANCE RECORD AT BOARD, AUDIT COMMITTEE AND REMUNERATION COMMITTEE MEETINGS

The individual attendance record of each Director at the meetings of the Board, Audit Committee and Remuneration Committee during the year ended 31 May 2009 is set out below:

	Attendance/Number of Meetings		
	Board	Audit Committee	Remuneration Committee
<i>Executive Directors</i>			
Mr. James Ang	7/7	Not applicable	Not applicable
Mr. Wei Ren	7/7	Not applicable	Not applicable
Ms. Yau Pui Chi, Maria	7/7	Not applicable	1/1
<i>Independent Non-Executive Directors</i>			
Mr. Chiang Kin Kon	7/7	4/4	1/1
Mr. Wong Kwok Fai	7/7	4/4	1/1
Mr. Chau Siu Keung (Note 2)	3/3	0/0	Not applicable
Ms. Tam May Yuk (Note 3)	3/3	3/3	Not applicable

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. Chau Siu Keung was appointed as an independent non-executive Director with effect from 8 May 2009.
3. Ms. Tam May Yuk was resigned as an independent non-executive Director with effect from 2 February 2009.

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.



Corporate Governance Report

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, Mr. Chiang Kin Kon, an independent non executive Director, is the Chairman of the Remuneration Committee and other members are Mr. Wong Kwok Fai, an independent non executive Director, and Ms. Yau Pui Chi, Maria, an executive Director. The majority members of the Remuneration Committee are independent non-executive Directors of the Company.

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

During the year under review, one 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 2009, 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 Mr. Chau Siu Keung who together have sufficient accounting and financial management expertise, and business experience to carry out their duties.

The duties of Audit Committee 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, first and third quarter results of the Company for the year ended 31 May 2009, and was 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 2009, the fees charged to accounts of the Group for Lau & Au Yeung statutory audit amounted to approximately HK\$320,000.

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 2009.

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 17 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 2009 are set out in the Group’s condensed consolidated income statement on page 22 of the annual report.

DIVIDEND

The Board of Directors does not recommend the payment of a dividend in respect of the year ended 31 May 2009 (2008: 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 last five financial years ended 31 May 2009, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 64 of the annual report. This summary does not form part of the audited financial statements.

PURCHASES, SALE OR REDEMPTION OF SECURITIES

For the financial year ended 31 May 2009, neither the Company nor any of its subsidiaries repurchased, sold or redeemed any of the Company’s listed shares.

SHARE OPTIONS SCHEME

The Company’s share option scheme (the “Share Option Scheme”) was adopted on 4 December 2002 with a purpose to providing incentives and rewards to employees who have made contribution to the development of the Company. Under the terms of the Share Option Scheme, the Board may, at its discretion may grant share options to employees including directors, executives or officers of the Group, at a price not less than the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the offer date, the closing price of the shares on the Stock Exchange on the offer day or the nominal value of the shares, whichever is higher.

The maximum number of shares in respect of which options may be granted under the Share Option Scheme must not exceed 10% of the issued share capital of the Company and the maximum number of shares in respect of which options may be granted to any one participant must not exceed 30% of the maximum number of shares in issue from time to time. The total number of shares of the Company issued and to be issued upon exercise the options granted to each participant of the Share Option Scheme (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the issued share capital of the Company.

A nominal consideration of HK\$1 is payable within 21 days from the offer date for each lot of share options granted. An option may be exercised in accordance with the terms of the Share Option Scheme during a period to be notified by the Board.

The Share Option Scheme is valid for a period of 10 years commencing from 4 December 2002.

As at 31 May 2009, no share option was granted under the Share Option Scheme.



Report of the Directors

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

Ms. Yau Pui Chi, Maria

Independent Non-Executive Directors ("INEDs")

Mr. Chiang Kin Kon

Mr. Wong Kwok Fai

Mr. Chau Siu Keung (Appointed on 8 May 2009)

Ms. Tam May Yuk (Resigned on 2 February 2009)

In accordance with Article 87 of the Company's Article of Association, Mr. Wei Ren, Ms. Yau Pui Chi, Maria and Mr. Chau Siu Keung will retire from office by rotation and, being eligible offer themselves for re-election at the forthcoming annual general meeting.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Biographies of the Directors of the Company and the senior management of the Group are set out on pages 6 to 7 of the annual report.

DIRECTORS' SERVICE CONTRACTS

No Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

All the Directors have been appointed for no specific term, but subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's Articles of Association.

Report of the Directors

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 2009.

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

At 31 May 2009, 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 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	153,683,800	Personal, Family and Corporate Interest (Note)	29.28%
Ms. Yau Pui Chi, Maria (Spouse of Mr. Ang)	Long position	153,683,800	Personal and Family Interest	29.28%

Note: These Shares are registered as to 142,501,800 Shares held by Mr. Ang in person, 22,000 Shares held by Ms. Yau in person, and 6,380,000 Shares held by Cyber Wealth Company Group Limited ("Cyber Wealth") and 4,780,000 Shares held by Bluechip Combination Investments Limited ("Bluechip"). 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 2009.



Report of the Directors

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 2009.

Purchases for the largest supplier for the year ended 31 May 2009 represented approximately 53% of the Group's total purchases. The total purchases attributable to the five largest suppliers of the Group for the year ended 31 May 2009 accounted for approximately 69% of the total purchases of the Group for the year ended 31 May 2009.

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 2009, 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 2.18 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 of the annual report.

AUDIT COMMITTEE

The Audit Committee presently comprises three independent non-executive Directors of Mr. Chiang Kin Kon, Mr. Wong Kwok Fai and Mr. Chau Siu Keung. The Audit Committee has reviewed the accounting policies and practices adopted and the annual report, interim report, first quarter and three quarter reports of the Group for the year. The Audit Committee has held regular meeting since its formation, at a frequency of at least forth a year.

REMUNERATION COMMITTEE

The Remuneration Committee presently comprises two independent non-executive Directors of Mr. Chiang Kin Kon, Mr. Wong Kwok Fai and one executive Director Ms. Yau Pui Chi, Maria. The Remuneration Committee has formulate and implement the remuneration policy relating to directors and employees of the Group.

POST BALANCE SHEET EVENTS

Details of the significant events occurring after the balance sheet date are set out in note 30 to the consolidated financial statements.

AUDITORS

The accompanying consolidated financial statements have been audited by Lau & Au Yeung C.P.A. Limited. Lau & Au Yeung C.P.A. Limited will retire and a resolution to re-appoint Lau & Au Yeung C.P.A. Limited as auditor of the Company will be proposed at the forthcoming annual general meeting of the Company.

On behalf of the Board

James Ang
Chairman

Hong Kong, 25 August 2009

Independent Auditor's Report



劉歐陽會計師事務所有限公司

LAU & AU YEUNG C.P.A. LIMITED

Lau & Au Yeung C.P.A. Limited

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 63, which comprise the consolidated and company balance sheets as at 31 May 2009, 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.

Independent Auditor's Report

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

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

OPINION

In our opinion the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 May 2009 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\$15,894,000 and its current liabilities exceeded its current assets by approximately HK\$18,924,000. 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 new funds and 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, 25 August 2009

Franklin Lau Shiu Wai

Director

Practising Certificate Number P1886

Consolidated Income Statement

For the year ended 31 May 2009

	Notes	2009 HK\$'000	2008 HK\$'000
Turnover	5 & 6	4,943	5,326
Cost of sales		(2,690)	(2,589)
Gross profit		2,253	2,737
Other revenues	6	2,180	3,051
Selling and marketing expenses		(313)	(289)
Administrative expenses		(6,846)	(6,149)
Operating loss	7	(2,726)	(650)
Finance costs	8	–	(8)
Share of profit/(loss) of an associated company	18	(246)	148
Loss for the year		(2,972)	(510)
Attributable to:			
Equity holders of the Company		(2,972)	(598)
Minority interests		–	88
Loss for the year		(2,972)	(510)
Loss per share			
– basic and diluted	12	HK (0.6 cents)	HK (0.1 cents)

The notes on pages 27 to 63 form an integral part of these consolidated financial statements.

Consolidated Balance Sheet

As at 31 May 2009

	Notes	2009 HK\$'000	2008 HK\$'000
ASSETS			
Non-current assets			
Plant and equipment	15	2,717	3,943
Intangible asset	16	178	–
Investment in an associated company	18	135	429
		<u>3,030</u>	<u>4,372</u>
Current assets			
Inventories	19	–	30
Trade receivables	20	305	543
Prepayment, deposit and other receivables	20	2,280	2,451
Bank balances and cash	21	899	454
		<u>3,484</u>	<u>3,478</u>
Total assets		<u>6,514</u>	<u>7,850</u>
Current liabilities			
Trade payables	22	(9,720)	(9,885)
Receipt in advance, accruals and other payables	22	(4,561)	(7,011)
Amount due to a director	23	(8,127)	(5,770)
		<u>(22,408)</u>	<u>(22,666)</u>
Net current liabilities		<u>(18,924)</u>	<u>(19,188)</u>
Total assets less current liabilities		<u>(15,894)</u>	<u>(14,816)</u>
EQUITY			
Capital and reserves			
Share capital	24	5,248	4,878
Share premium and reserves	25	(21,142)	(19,782)
Equity attributable to equity holders of the Company		<u>(15,894)</u>	<u>(14,904)</u>
Minority interests		–	88
Total Equity		<u>(15,894)</u>	<u>(14,816)</u>

James Ang
Director

Yau Pui Chi, Maria
Director

The notes on pages 27 to 63 form an integral part of these consolidated financial statements.

Balance Sheet

As at 31 May 2009

	Notes	2009 HK\$'000	2008 HK\$'000
ASSETS			
Non-current assets			
Investments in subsidiaries	17	<u>1</u>	<u>1</u>
Current assets			
Other receivables	20	<u>127</u>	<u>15</u>
Total assets		<u>128</u>	<u>16</u>
Current liabilities			
Receipt in advance, accruals and other payables	22	<u>(3,606)</u>	<u>(2,228)</u>
Amount due to a director	23	<u>(292)</u>	<u>–</u>
		<u>(3,898)</u>	<u>(2,228)</u>
Net current liabilities		<u>(3,771)</u>	<u>(2,213)</u>
Total assets less current liabilities		<u>(3,770)</u>	<u>(2,212)</u>
EQUITY			
Capital and reserves			
Share capital	24	<u>5,248</u>	<u>4,878</u>
Share premium and reserves	25	<u>(9,018)</u>	<u>(7,090)</u>
Total equity		<u>(3,770)</u>	<u>(2,212)</u>

James Ang
Director

Yau Pui Chi, Maria
Director

The notes on pages 27 to 63 form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 May 2009

	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 2007	3,862	19,855	-	-	(50,045)	(26,328)	-	(26,328)
Issuance of new shares	34	1,127	-	-	-	1,161	-	1,161
Capitalisation of shareholder's loan	982	9,818	-	-	-	10,800	-	10,800
Translation of foreign exchange reserve	-	-	61	-	-	61	-	61
Loss for the year	-	-	-	-	(598)	(598)	88	(510)
Balance at 1 June 2008	4,878	30,800	61	-	(50,643)	(14,904)	88	(14,816)
Issuance of new shares	370	1,572	-	-	-	1,942	-	1,942
Translation of foreign exchange reserve	-	-	(48)	-	-	(48)	-	(48)
Transfer upon cessation of business of a subsidiary	-	-	-	-	88	88	(88)	-
Loss for the year	-	-	-	-	(2,972)	(2,972)	-	(2,972)
Balance at 31 May 2009	5,248	32,372	13	-	(53,527)	(15,894)	-	(15,894)

The notes on pages 27 to 63 form an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 May 2009

	Notes	2009 HK\$'000	2008 HK\$'000
Cash flows from operating activities			
Net cash used in operations	26	(3,632)	(6,033)
Interest paid		–	(3)
Net cash used in operating activities		(3,632)	(6,036)
Cash flow from investing activities			
Acquisition of intangible assets		(222)	–
Proceeds from sale of plant and equipment		–	680
Purchases of plant and equipment		–	(263)
Net cash (used in)/generated from investing activities		(222)	417
Cash flow from financing activities			
Net proceeds from issuance of ordinary shares		1,942	735
Capital elements of finance lease payments		–	(80)
Increase in amount due to a director		2,357	5,119
Net cash generated from financing activities		4,299	5,774
Net increase in cash and cash equivalents		445	155
Cash and cash equivalents at beginning of the year		454	299
Cash and cash equivalents at end of the year		899	454
Analysis of balances of cash and cash equivalents			
– Bank balances and cash		899	454

The notes on pages 27 to 63 form an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1 CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands. The Company's shares have been listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company 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 25 August 2009.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation and principal accounting policies

- (a) The consolidated financial statements have been prepared on a going concern basis, the Group had incurred a loss attributable to shareholders of HK\$2.97 million for the year ended 31 May 2009. As at 31 May 2009, the Group had net current liabilities and net liabilities of HK\$18.92 million and HK\$15.89 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:
- Subscriptions of new shares at the sum of HK\$4.8 million and placing of new shares at the sum of HK\$5.5 million subsequent to 31 May 2009;
 - Shareholder's loans, if required, 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 2009;
 - 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;

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation and principal accounting policies *(Continued)*

- The successful outcome to re-scheduling of the overdue liabilities; and
- The cost control measures.

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

- (b) The consolidated financial statements of the Group have been prepared under the historical cost convention and in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) 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 judgment in the progress of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4.

In 2009, the Group adopted HK (IFRIC) – Interpretation 11 “HKFRS 2 – Group and Treasury Share Transactions” issued by the HKICPA which is relevant to the Group’s operations. The adoption of this interpretation did not have significant effect on the results and financial position or changes in the accounting policies of the Group.

The following new or revised standards and amendments to existing standards have been published and are mandatory for the Group’s accounting periods beginning on or after 1 June 2009 or later periods, relevant to the Group and have not been early adopted:

Effective for the year ending 31 May 2010:

HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKAS 1 (Amendment)	Presentation of Financial Statements
HKAS 16 (Amendment)	Property, Plant and Equipment
HKAS 19 (Amendment)	Employee Benefits
HKAS 23 (Amendment)	Borrowing Costs
HKAS 27 (Amendment)	Consolidated and Separate Financial Statements
HKAS 31 (Amendment)	Interests in Joint Ventures
HKAS 36 (Amendment)	Impairment of Assets
HKAS 38 (Amendment)	Intangible Assets
HKFRS 2 (Amendment)	Share-based Payment Vesting Conditions and Cancellation
HKFRS 8	Operating Segments

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation and principal accounting policies *(Continued)*

Effective for the year ending 31 May 2011:

HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKFRS 3 (Revised)	Business Combination
HKFRS 5 (Amendment)	Non-current Assets Held for Sale and Discontinued Operations

The Group is assessing the impact of these new or revised standards and amendments. The adoption of these new or revised standards and amendments does not have significant impact on the Group's financial statements except for certain changes in presentation and disclosures, including the presentation of the statement of comprehensive income, disclosures of operating segment and enhanced disclosures about fair value measurement and liquidity risk.

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 deconsolidated from the date control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the group, other than those which were under common control. 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 liabilities 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 share of the identifiable net assets acquired by the group 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.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation *(Continued)*

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated except where there is any indication 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.

Details of the unconsolidated subsidiaries are set out in note 17 to the financial statements.

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 associates are accounted for using the equity method of accounting and are initially recognised at cost. The group's investment in 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 recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the group's share of losses of associates equals or exceeds its interest in the associates, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associates.

Unrealised gains on transactions between the group and its associates are eliminated to the extent of the group's interest in the associates. Unrealised 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.

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.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

2.5 Plant and equipment

Plant and equipment are 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 $\frac{1}{3}$ %
Telecommunication equipment	10%

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 and are recognized within "other operating income/expense", in the income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.6 Intangible assets

Cost associated with maintaining computer software programmes are recognized as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the company are recognized as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

Computer software development costs recognized as assets are amortised over their estimated useful lives of five years.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.7 Impairment of investments in subsidiaries and non-financial assets

Assets that have an indefinite useful life or have not yet available for use are not subject to amortization and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized 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 impairments are reviewed for possible reversal of the impairment at each reporting date.

2.8 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 Group's functional and presentation currency.

(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.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.8 Foreign currency translation *(Continued)*

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings, are taken to shareholders' equity. When a foreign operation is disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.9 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.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.10 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 the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.11 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.

2.12 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.

2.13 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.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.14 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the obligation. Provisions are not recognized for future operating losses.

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.

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.

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.

2.16 Current and Deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

The current income tax charge is calculated on the basis of the Hong Kong's tax laws enacted or substantively enacted by the balance sheet date in the countries where the company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It established provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.16 Current and Deferred income tax *(Continued)*

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 financial statements. However, if the deferred income tax 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, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

2.17 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.18 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.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.19 Related parties

A party is related to the Group if:

- (i) directly or indirectly through one or more intermediaries, the party:
 - (a) controls, is controlled by, or is under common control with, the Group;
 - (b) has an interest in the Group that gives it significant influence over the Group; or
 - (c) has joint control over the Group;
- (ii) the party is an associate of the company;
- (iii) the party is a joint venture in which the Group is a venturer;
- (iv) the party is a member of the key management personnel of the Group;
- (v) the party is a close member of the family of any individual referred to in (i) or (iv);
- (vi) 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 (iv) to (v).

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 365 days	50%
Over 365 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 receivables is limited as management are of the opinion that the recoverability of these balances are highly probable.

(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.

Notes to the Consolidated Financial Statements

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(c) Foreign exchange risk

Operations of the Group are mainly conducted in Hong Kong Dollars ("HK\$") and its revenue, expenses, assets and 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 year HK\$'000
As at 31 May 2009	
Trade and other payables	14,281
Amount due to a director	<u>8,127</u>
	<u>22,408</u>
	Less than 1 year HK\$'000
As at 31 May 2008	
Trade and other payables	16,896
Amount due to a director	<u>5,770</u>
	<u>22,666</u>

Notes to the Consolidated Financial Statements

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(d) Liquidity risk (Continued)

Company	Less than 1 year HK\$'000
As at 31 May 2009	
Trade and other payables	3,606
Amount due to a director	292
	<hr/>
	3,898
	<hr/>
	Less than 1 years HK\$'000
As at 31 May 2008	
Trade and other payables	2,228
Amount due to a director	–
	<hr/>
	2,228
	<hr/>

3.2 Capital risk management

The Group's objective 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.

Notes to the Consolidated Financial Statements

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(a) Going concern

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

(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 mainly in respect of certain carrier purchases 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.

(e) Impairment of non-financial assets

The Company tests annually whether assets have suffered any impairment in accordance with the accounting policy stated in note 2.7. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. The value-in-use calculation requires the Company to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value, which has been prepared on the basis of management's assumptions and estimates.

Notes to the Consolidated Financial Statements

5 SEGMENT INFORMATION

(a) Business segments – primary reporting format

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

	2009			Group HK\$'000
	Sale of equipment HK\$'000	Long distance call services End-users direct Sales HK\$'000	Carrier sales HK\$'000	
Turnover	1,039	3,207	697	4,943
Segment results	(544)	(3,158)	(30)	(3,732)
Other revenues				2,180
Operating loss				(1,552)
Unallocated cost				(1,420)
Finance costs				–
Loss for the year				(2,972)
Segment assets	510	4,355	1,216	6,081
Unallocated assets				433
Total assets				6,514
Segment liabilities	180	4,787	6,795	11,762
Unallocated liabilities				10,646
Total liabilities				22,408
Capital expenditures	–	–	–	–
Unallocated capital expenditures				222
				222
Depreciation	–	975	214	1,189
Unallocated depreciation				37
				1,226

Notes to the Consolidated Financial Statements

5 SEGMENT INFORMATION (Continued)

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

	2008			Group HK\$'000
	Sale of equipment HK\$'000	Long distance call services End-users direct sales HK\$'000	Carrier sales 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
Total liabilities				22,666
Capital expenditures	–	–	76	76
Unallocated capital expenditures				187
				263
Depreciation	–	935	199	1,134
Unallocated depreciation				92
				1,226

Notes to the Consolidated Financial Statements

5 SEGMENT INFORMATION (Continued)

(b) Geographical segments – secondary reporting format

	2009			
	Turnover HK\$'000	Segment results HK\$'000	Total assets HK\$'000	Capital expenditures HK\$'000
Hong Kong	3,620	(4,485)	6,088	222
Mainland China	296	(94)	–	–
Other countries	1,027	(573)	426	–
	<u>4,943</u>	<u>(5,152)</u>	<u>6,514</u>	<u>222</u>
Other revenues		<u>2,180</u>		
Operating loss		<u>(2,972)</u>		
	2008			
	Turnover HK\$'000	Segment results HK\$'000	Total assets HK\$'000	Capital expenditures HK\$'000
Hong Kong	3,977	(2,499)	7,232	263
Mainland China	–	–	–	–
Other countries	1,349	(1,054)	618	–
	<u>5,326</u>	<u>(3,553)</u>	<u>7,850</u>	<u>263</u>
Other revenues		<u>3,051</u>		
Operating loss		<u>(502)</u>		

Notes to the Consolidated Financial Statements

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	
	2009	2008
	HK\$'000	HK\$'000
Turnover		
Long distance call services	3,904	4,060
Sale of equipment	1,039	1,266
	4,943	5,326
Other revenues		
Bank interest income	–	2
Gain on disposal of plant and equipment	–	279
Over-provision of accruals and trade payable	2,159	1,661
Reversal of general provision for impairment of trade receivable	–	1,080
Sundry income	21	29
	2,180	3,051
	7,123	8,377

Notes to the Consolidated Financial Statements

7 OPERATING LOSS

	Group	
	2009	2008
	HK\$'000	HK\$'000
Operating loss is stated after charging/(crediting) the following:		
Auditor's remuneration	320	320
Amortisation	44	–
Cost of inventories sold	2,560	2,589
Depreciation	1,226	1,226
Gain on disposal of plant and equipment	–	(279)
Operating lease-land and buildings		
– Current year	298	228
– over provision in prior years	–	(214)
Provision for doubtful debts	486	–
Staff costs (including directors' remuneration)	2,999	2,694
Over provision of accruals and trade payable	(2,159)	(1,661)
Reversal of general provision for impairment of trade receivable	–	(1,080)

8 FINANCE COSTS

	2009	2008
	HK\$'000	HK\$'000
Interest on bank overdrafts	–	4
Other interests	–	4
	–	8

Notes to the Consolidated Financial Statements

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 (2008: 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 (2008: Nil).

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

	Group	
	2009	2008
	HK\$'000	HK\$'000
Loss for the year	(2,972)	(510)
Calculated at a statutory rate of 16.5% (2008: 17.5%)	(490)	(89)
Income not subject to taxation	33	(50)
Expenses not deductible for taxation purposes	413	296
Utilisation of tax loss	(637)	–
Tax losses not recognised	530	(251)
Accelerated depreciation not recognised	151	94
Taxation charges	–	–

10 NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

Net loss attributable to equity holders of the Company for the year ended 31 May 2009 dealt with in the consolidated financial statements was approximately HK\$2,972,000 (2008: HK\$598,000).

11 DIVIDENDS

The Directors do not recommend the payment of dividend in respect for the year ended 31 May 2009 (2008: Nil).

12 LOSS PER SHARE

The calculation of basic loss per share is based on the Group's loss for the year of approximately HK\$2,972,000 (2008: HK\$598,000) and the weighted average of 508,939,166 shares in issue during the year (2008: 420,722,760 shares).

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

Notes to the Consolidated Financial Statements

13 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	Group	
	2009 HK\$'000	2008 HK\$'000
Wages and salaries	2,915	2,552
Pension cost-defined contribution plans	84	142
	2,999	2,694

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			Total HK\$'000	Total HK\$'000
	2009	2008			
	Fees HK\$'000	Salaries, allowances and benefit in kind HK\$'000	Retirement benefits scheme contributions HK\$'000		
Executive Directors					
Mr. James Ang	–	599	2	601	512
Mr. Wei Ren	4	–	–	4	–
Ms. Yau Pui Chi, Maria	–	480	12	492	492
	4	1,079	14	1,097	1,004
Non-executive Directors					
Mr. Chiang Kin Kon	–	–	–	–	–
Mr. Wong Kwok Fai	10	–	–	10	–
Mr. Chau Siu Keung	–	–	–	–	–
Ms. Tam May Yuk	–	–	–	–	–
	10	–	–	10	–

Notes to the Consolidated Financial Statements

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

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2008: two) directors whose emoluments have been reflected in the analysis presented above. The emoluments payable to the remaining three (2008: three) individuals during the year are as follows:

	Group	
	2009	2008
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	886	925
Retirement benefit scheme contributions	25	33
	911	958

The emoluments of these individuals fell within the following bands:

	Group	
	Number of individuals	
	2009	2008
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.

Notes to the Consolidated Financial Statements

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	Total HK\$'000
At cost					
At 1 June 2007	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
Year ended 31 May 2009					
Opening net book value	96	5	6	3,836	3,943
Additions	–	–	–	–	–
Depreciation	(37)	(5)	(6)	(1,238)	(1,286)
Disposals	–	–	–	–	–
Write back on disposals	60	–	–	–	60
Closing net book value	119	–	–	2,598	2,717
At 31 May 2009					
Cost	885	1,159	981	11,515	14,540
Accumulated depreciation	(766)	(1,159)	(981)	(8,917)	(11,823)
Net book value	119	–	–	2,598	2,717

Notes to the Consolidated Financial Statements

16 INTANGIBLE ASSETS

Group

	Website development
	HK\$'000
At 1 June 2007 and 31 May 2008	
Cost	–
Accumulated amortisation	–
Net book value	–
Year ended 31 May 2009	
Opening net book value	–
Additions	222
Amortisation	(44)
Closing net book value	178
At 31 May 2009	
Cost	222
Accumulated amortisation	(44)
Net book value	178

Note:

The carrying amount of intangible assets as at 31 May 2009 of approximately HK\$178,000 (2008: Nil), represents development costs of computer software and technology incurred by the Group for its business operation.

17 INVESTMENTS IN SUBSIDIARIES

	Company	
	2009	2008
	HK\$'000	HK\$'000
Unlisted investments at cost (Note (a))	1	1
Amounts due from subsidiaries (Note (b))	12,638	7,246
	12,639	7,247
Less: Provision for investments in and amounts due from subsidiaries	(12,638)	(7,246)
	1	1

Notes to the Consolidated Financial Statements

17 INVESTMENTS IN SUBSIDIARIES (Continued)

Notes:

(a) Details of the principal subsidiaries at 31 May 2009 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 share 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 shares of HK\$1 each	100%
Pacific Honour Limited	Hong Kong	Sale of telecommunication equipment	1 ordinary share of HK\$1 each	100%
Netel Cyber Education Limited	Hong Kong	Provision of web education services	10,000 ordinary shares of HK\$1 each	100%
3G Lab Limited	Hong Kong	Research and development of telecom applications	10,000 ordinary shares of HK\$1 each	100%

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

Notes to the Consolidated Financial Statements

18 INVESTMENT IN AN ASSOCIATED COMPANY

	Group	
	2009 HK\$'000	2008 HK\$'000
Beginning of year	429	–
Addition of investment at cost	–	426
Share of results, net of tax	(246)	148
Unrealised profit on transaction with an associated company	–	(206)
Exchange difference	(48)	61
End of the year	135	429

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

Name	Place of incorporation	Registered capital	Assets	Liabilities	Revenues	Loss	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	762	420	27	246	40%

19 INVENTORIES

	Group	
	2009 HK\$'000	2008 HK\$'000
Long distance call cards	–	30
Less: provision for slow moving inventories	–	–
	–	30

As at 31 May 2009 and 31 May 2008, all inventories are stated at cost.

Notes to the Consolidated Financial Statements

20 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Trade receivables (Note (a))	305	543	–	–
Other receivables, prepayments and deposits	2,280	2,451	127	15
	2,585	2,994	127	15

All the carrying amounts of trade receivables are denominated in Hong Kong dollars.

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	
	2009 HK\$'000	2008 HK\$'000
0 – 30 days	87	293
31 – 60 days	35	22
61 – 90 days	45	10
91 – 180 days	31	26
181 – 365 days	216	64
Over 365 days	3,731	3,482
	4,145	3,897
Less: provision for doubtful debt	(3,840)	(3,354)
	305	543

Notes to the Consolidated Financial Statements

20 TRADE AND OTHER RECEIVABLES (Continued)

- (b) Trade receivable that are less than four months are not considered impaired. As at 31 May 2009, trade receivable of HK\$128,000 (2008: HK\$53,000) were past due but not impaired. The ageing analysis of these trade receivable is as follows:

	Group	
	2009	2008
	HK\$'000	HK\$'000
Past due:		
0 – 60 days	20	22
61 – 120 days	108	15
121 – 365 days	–	16
Over 365 days	–	–
	128	53

21 BANK BALANCES AND CASH

Bank balances and cash were denominated in HKD and of approximately HK\$899,000 (2008: HK\$454,000).

22 TRADE AND OTHER PAYABLES

	Group		Company	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade payables (Note (a))	9,720	9,885	925	–
Other payables and accruals	2,761	6,611	1,281	2,228
Receipt in advance	1,800	400	1,400	–
	14,281	16,896	3,606	2,228

The carrying amounts of trade payables are denominated in Hong Kong dollars.

Notes to the Consolidated Financial Statements

22 TRADE AND OTHER PAYABLES (Continued)

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	
	2009 HK\$'000	2008 HK\$'000
0 – 30 days	27	59
31 – 60 days	44	5
61 – 90 days	14	5
91 – 180 days	55	158
181 – 365 days	129	362
Over 365 days	9,451	9,296
	9,720	9,885

23 AMOUNT DUE TO A DIRECTOR

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

24 SHARE CAPITAL

	Company			
	2009		2008	
	Number of shares (‘000)	HK\$'000	Number of shares (‘000)	HK\$'000
Authorised ordinary shares of HK\$0.01 each				
At 31 May 2009 and 2008	1,000,000	10,000	1,000,000	10,000
Issued and fully paid ordinary shares of HK\$0.01 each				
At 1 June	487,781	4,878	386,230	3,862
Subscription of shares	37,040	370	2,500	25
Share issued for acquisition of an associated company	–	–	869	9
Capitalization of shareholder's loan	–	–	98,182	982
At 31 May	524,821	5,248	487,781	4,878

Notes to the Consolidated Financial Statements

25 RESERVES

(a) Group

	Share premium HK\$'000	Exchange reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Balance at 1 June 2007	19,855	–	(50,045)	(30,190)
Issuance of new shares				
– by subscription	710	–	–	710
– for acquisition of an associated company	417	–	–	417
Capitalisation of shareholder's loan	9,818	–	–	9,818
Translation of foreign exchange reserve	–	61	–	61
Loss for the year	–	–	(598)	(598)
Balance at 1 June 2008	30,800	61	(50,643)	(19,782)
Issuance of new shares				
– by subscription	1,572	–	–	1,572
Translation of foreign exchange reserve	–	(48)	–	(48)
Transfer upon cessation of business of a subsidiary	–	–	88	88
Loss for the year	–	–	(2,972)	(2,972)
Balance at 31 May 2009	32,372	13	(53,527)	(21,142)

Notes to the Consolidated Financial Statements

25 RESERVES (Continued)

(b) Company

	Share premium HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Balance at 1 June 2007	26,336	(32,480)	(6,144)
Issuance of new shares			
– by subscription	710	–	710
– for acquisition of an associated company	417	–	417
Capitalisation of shareholder's loan	9,818	–	9,818
Loss for the year	–	(11,891)	(11,891)
Balance at 1 June 2008	37,281	(44,371)	(7,090)
Issuance of new shares			
– by subscription	1,572	–	1,572
Loss for the year	–	(3,500)	(3,500)
Balance at 31 May 2009	38,853	(47,871)	(9,018)

26 CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of operating loss to net cash outflow from operations

	Group 2009 HK\$'000	2008 HK\$'000
Operating loss	(2,972)	(502)
Share of loss/(profit) of an associated company	246	(148)
Amortisation	44	–
Depreciation	1,226	1,226
Gain on disposal of plant and equipment	–	(279)
Provision/(reversal) for impairment of receivables	486	(1,080)
Operating loss before working capital changes	(970)	(783)
Decrease in inventories	30	56
(Increase)/decrease in trade and other receivables	(76)	623
Decrease in trade and other payables	(2,616)	(5,929)
Net cash outflow from operations	(3,632)	(6,033)

Notes to the Consolidated Financial Statements

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	
	2009	2008
	HK\$'000	HK\$'000
Not later than one year	298	216
Later than one year but not later than five years	226	120
	524	336

(b) The Group did not have material capital commitment as at 31 May 2009 and 2008.

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:

		Group	
	Note	2009	2008
		HK\$'000	HK\$'000
Rental expenses paid to Charmfine Investment Limited ("Charmfine")	(a)	120	192

Note:

(a) Charmfine is beneficially owned by Mr. James Ang and Ms. Yau Pui Chi, Maria. Rental expenses were charged at arm's length rates in accordance with the terms of the underlying agreements.

Notes to the Consolidated Financial Statements

29 LITIGATIONS

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

- (a) In September 2006, one of the subsidiary (the "Subsidiary") of the Group filed a statement of claim, including potential claims and disputed invoices of approximately HK\$2,700,000, against a telecom operator (the "Defendant"). In August 2008, the Defendant submitted statements of defence and claimed the Subsidiary outstanding amount of approximately HK\$3,200,000. In May 2009, the Court directed the parties to set down the case for trial and the trial was scheduled in November 2009. The Directors of the Company, having taken into consideration the advice from the Group's legal advisor, are of the opinion that the ultimate liability under these proceedings would not have a further impact on the financial position of the Group.
- (b) 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 defence. On 20 July 2005, the High Court ruled that the subsidiaries and the director had right to defence and refused to grant order to the Plaintiff. The Plaintiff failed to comply with the Court's direction that the case be set down for trial in August 2006 and up to date of this report the Plaintiff has failed to submit further evidence to substantiate the claim. The Directors of the Company, having taken into consideration the advice from the Group's legal advisor, are of the opinion that the Group has a strong ground to defence and the recorded account payable approximately HK\$2,200,000 to the Plaintiff is considered adequate.
- (c) The Group has litigation processing in respect of outstanding payable liabilities arising in the normal course of its business of approximately HK\$1,100,000. The amount of the liabilities is adequately recorded in accounts payable for the year ended 31 May 2009. The Directors of the Company are of the opinion that the ultimate liability under these proceedings, if any, would not have any significant impact on the financial position of the Group.

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

30 POST BALANCE SHEET EVENTS

(a) Subscription Agreements

On 15 May 2009, the Company entered into two subscription agreements with Mr. Au Yeung Kai Yin and Mr. Lam Yuk Woo, each of them would allot and issue of 21,428,000 new shares at the subscription price of HK\$0.056. The subscriptions were completed on 8 June 2009. Further details regarding the subscription agreements are set out in the Company's announcement dated 15 May 2009.

On 21 July 2009, the Company entered into two subscription agreements with Nation Development Limited and Top Network Investments Limited, each of them would allot and issue 10,000,000 new shares at the subscription price of HK\$0.12. The subscriptions will be completed on or before 21 October 2009. Further details regarding the subscription agreement are set out in the Company's announcement dated 21 July 2009.

Notes to the Consolidated Financial Statements

30 POST BALANCE SHEET EVENTS *(Continued)*

(b) Capitalisation Agreement

On 25 May 2009, the Company entered into a capitalisation agreement with Mr. James Ang pursuant to which Mr. Ang has conditionally agreed to subscribe for 71,430,000 consolidated shares at the capitalisation price of HK\$0.112 per consolidated share by capitalizing the loan, being a part of the shareholder's loan owed by the Company to Mr. Ang. On 3 July 2009, the Company held an extraordinary general meeting, approved the capitalisation agreement. The capitalisation was completed on 9 July 2009. Further details regarding the capitalisation agreement are set out in the Company's announcement and circular dated 25 May and 17 June 2009 respectively.

(c) Share Consolidation

On 3 July 2009, the Company held an extraordinary general meeting, approved that every two issued and unissued shares would be consolidated into one consolidated share. Upon the share consolidation, the authorized share capital of the Company became HK\$10,000,000 divided into 500,000,000 consolidated shares, was becoming effective after 4:30 p.m. on 3 July 2009. Further details regarding the share consolidation are set out in the Company's announcement and circular dated 25 May and 17 June 2009 respectively.

(d) Placing Agreement

On 21 August 2009, the Company entered into a placing agreement with the placing agent for placement of a maximum of 50,000,000 placing shares at a placing price of HK\$0.11. The placing will be completed on or before 21 November 2009. Further details regarding the placing agreement are set out in the Company's announcement dated 21 August 2009.

31 COMPARATIVE FIGURES

Certain comparative figures have been re-classified to conform with current year's presentation.

32 APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 25 August 2009.

Five Years Financial Summary

	2009 HK\$'000	2008 HK\$'000	2007 HK\$'000	2006 HK\$'000	2005 HK\$'000
Turnover	4,943	5,326	6,355	11,693	26,189
Loss attributable to shareholders	(2,972)	(598)	(6,007)	(5,245)	(13,289)
Assets and liabilities					
Total assets	6,514	7,850	8,044	9,460	13,013
Total liabilities	(22,408)	(22,666)	(34,372)	(29,779)	(28,082)
Minority interests	–	(88)	–	(2)	(7)
Shareholders' deficits	(15,894)	(14,904)	(26,328)	(20,321)	(15,076)