NETEL TECHNOLOGY (HOLDINGS) LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8256

ANNUAL REPORT 2010

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 (the "GEM Listing Rules") for the purpose of giving information with regard to Netel. The directors of Netel, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

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Corporate Information

DIRECTORS

Executive Directors

James Ang *(Chairman)*
Wei Ren
Yau Pui Chi, Maria
Zhong Shi

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

Wong Kwok Fai
Chiang Kin Kon
Chau Siu Keung

REMUNERATION COMMITTEE

Chiang Kin Kon
Yau Pui Chi, Maria
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 2681
Grand Cayman
KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

REGISTRARS *(in Cayman Islands)*

Butterfield Fund Service (Cayman) Limited
Butterfield House
68 Fort Street
Grand Cayman
Cayman Islands

REGISTRARS *(in Hong Kong)*

Computershare Hong Kong Investor Services Limited
Room 1806-7, 18th Floor
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Hong Kong

COMPANY WEBSITE

http://www.neteltech.com.hk

GEM STOCK CODE

8256

Chairman's Statement

Fiscal year of 2009 was a year of substantial investment in Netel's future as we set up our Research & Development Team to devise more innovative and value-added solutions to customers and worked to establish the presence in the China market. To facilitate our strategic expansion, the Company successfully raised fund in the market that supports the further enhancement of our service capabilities and market penetration.

One of our business initiatives to be highlighted is our self-developed new recruitment services software that makes finding jobs by SMS platform and job matching possible. We are pleased to launch our Golden Bowl employment services (www.gbjobs.com) in mid of the 2010 in Hong Kong, Guangdong Province and Beijing. More new and customized services will be evolved from this platform.

In the era of mobile and internet, the Group is evolving from a voice IDD telecom operator to a value-added, application services provider. And our business also expands geographically to China.

These and other initiatives are components of our drive to strengthen Netel's long-term operating results. As part of this ongoing commitment, each of our businesses is implementing additional strategies aimed at enhancing their future growth and profitability. We expect to realize the initial positive impact from these new strategies in the fiscal year of 2010, which should be a year of improved performance for Netel.

Finally, I would like to extend my sincere thanks to our team members, investors and business partners who share the same vision and faith with us.

James Ang
Chairman

Hong Kong, 13 August 2010

Management Discussion and Analysis

FINANCIAL REVIEW

Results for the year

The Group recorded a total turnover of HK$3.32 million for the year ended 31 May 2010, a decrease of 32.79% from HK$4.94 million for the year ended 31 May 2009. The decrease was attributable in the decrease in calling card sales, and the sales of equipment. The gross profit margin increased from 45.57% for last year to 50.20% for this year. The increase in overall gross profit margin was mainly attributable to the significant decrease in carrier sales that only contributed very thin profit margin and the increase in sales of SIP and web phones.

The Group recorded a consolidated loss attributable to shareholders of HK$9.78 million, as compared with the comparative amount of loss of HK$2.97 million attained in last 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 were significantly increased by 67.74% from HK$6.85 million for last year to HK$11.49 million for this year. The increase of the loss attributable to shareholders, was mainly caused by the increase of the administrative expenses. The increase of the administrative expenses was incurred for the new business development and the new operations in China. During the year, the Company has set up three offices in China.

Liquidity and Financing

For the year ended 31 May 2010, the Group incurred a loss attributable to shareholders of approximately HK$9.78 million and the net cash outflow from operations was approximately HK$10.03 million. The outflow was mainly attributable to operating loss before changes in working capital of approximately HK$6.54 million, increase in receivable of approximately HK$0.02 million and decrease in payables of approximately HK$3.36 million. The net cash and cash equivalents of the Group was increased by approximately HK$5.23 million.

As at 31 May 2010, the Group had a cash and cash equivalent balance of approximately HK$6.12 million. The gearing ratio, defined as total borrowings divided by the shareholders' fund as at 31 May 2010 was not applicable as there was no significant interest bearing liability except for a finance lease (2009: not applicable). The Group had net current liabilities of approximately HK$2.09 million as at 31 May 2010 as compared with HK$18.92 million as at 31 May 2009. Overall, the net assets of the Group were approximately HK$1.48 million.

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

Management Discussion and Analysis

BUSINESS REVIEW

In this year, the Company was keen on expanding its business to Guangzhou and Beijing in China by setting up new operation branches there. The Guangzhou office serves dual purposes of performing the Research and Development ("R&D") and opening up the market in Southern China. The establishment in Beijing which is subsidiary of the Group, will develop and strengthen the long term relationship with central government- related ministries and also our strategic customers.

A range of new products such as value-added telecom services were developed and launched. One of the significant products is the employment matching service. By using the powerful internet searching and matching engine, the employer requirements and criteria and the employee's qualification credentials can be matched and through the short message platform, instant job alert message can be sent to the employee. The time of recruitment is shortened. It is noted that unemployment is due to "lack of communication means" and this online recruitment platform can bridge the communication and shorten the time on finding a suitable job or recruiting the right candidate. This service is not only a commercial product that generates income in a long run but also a social product that improves the Group's commitment to social responsibility.

Furthermore, the R&D team is becoming mature and more capable which is an asset of the Group. The next challenge is how to branch out more new and creative applications to create a large customer base.

The Group also has business cooperation with a subsidiary of one of the ministries of PRC Central Government. The Company is honored to be appointed to develop a web-based platform to communicate with Information Technology ("IT") industry suppliers and customers across the nation. Leverage on this platform, a lot of IT industry-related activities will be carried out such as discussion forum, new applications, research, rating, etc. With the strong support of the government policy, the Company is confident that this will be widely accepted and adopted by the industry users.

BUSINESS OUTLOOK

To diversify the business scope, the Company is transforming from a voice telecom company to a multimedia, value-added services provider, internet application-related enterprise. It is expected that new source of revenue will be mainly generated from the lucrative PRC market.

Since the Company has been investing heavily in the R&D, and in terms of technology, the Group is capable to devise new products and services and be ready to modify and improve the services from time to time to cater for the requirements of consumers. However, to build up a brand of new services such as Golden Bowl (www.gbjobs.com), more efforts in brand cultivation, marketing are required. With a strong believe that such recruitment service and the user-friendly SMS technology will benefit both employees and job seekers, the Company is dedicated to promote usage of this recruitment service.

Technology is the core essence of the Group's business that is a powerful mean to improve the human lives. In the business spectrum, it will create business opportunities and growth driver for the Group as a whole.

EMPLOYEE INFORMATION

At 31 May 2010, the Group employed a total of 35 (2009: 16) 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 Directors and full time employees of the Group. As at 31 May 2010, 19,000,000 share options have been granted from the share option scheme.

Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. James Ang ("Mr. Ang"), age 51, 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 23 years of experience in telecommunications industry. Prior to joining the Group in 1996, he served as a sales manager of Swire Telecom from 1984 to 1986 and was responsible for the establishment of offices in the People's Republic of China (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 71, he has engaged in biomedical engineering and accumulated extensive experience in such field for more than 41 years, he is a senior engineer. He was awarded several prizes of cities and provinces in the PRC. 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 PRC.

Ms. Yau Pui Chi, Maria ("Ms. Yau"), aged 50, Mr. Ang's spouse, who has more than 21 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 PRC and Hong Kong. She also worked in Inni Company as an assistant manager from 1984 to 1990. She has been a 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.

Dr. Zhong Shi ("Dr. Zhong"), aged 35, he has been an executive director of the Company since June 2010. He is the Chief Technology Officer of the Group and is the head of the Research and Development Department. Dr. Zhong has more than 11 years of 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 PRC. He obtained his Ph.D. and MS.C in Department of Computer Science, School of Informatics from the University of Edinburgh, United Kingdom.

Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chiang Kin Kon, ("Mr. Chiang"), aged 61, has been an independent non-executive director of the Company since May 2008. He has over 30 years of experience in property management fields and over 16 years of experience in business management. Mr. Chiang has also been involved in the property management industry in 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 44, has been an independent non-executive director of the Company since May 2008. He holds a bachelor degree in Accountancy from the City University of Hong Kong and is a fellow member of the Hong Kong Institute of Certified Public Accountants. Mr. Wong has extensive experience in auditing, accounting, financial management and company secretarial in Hong Kong. He has worked for an international accounting firm and has been a financial controller and company secretary of a listed company in Hong Kong.

Mr. Chau Siu Keung, ("Mr. Chau"), aged 53, has been an independent non-executive director of the Company since May 2009. He has over 30 years of experience in sales and marketing field and over 18 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 PRC.

SENIOR MANAGEMENT

Ms. Ng Yee Man, Fiona ("Ms. Ng"), is the 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 on Corporate Governance Practices, 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 2010, the Group has compiled 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 separated and should not be performed by the same individual. The division of responsibilities between the Chairman and Chief Executive Officer should be clearly established and set out in writing.

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

Under the Code Provision A 4.1, non-executive directors should be appointed for a specific term and subject to re-election. However, all the independent non-executive directors of the Company are not appointed for specific terms but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Articles 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 2010.

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 2010.

Corporate Governance Report

BOARD OF DIRECTORS

The Board comprises four 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 2010 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
Dr. Zhong Shi (Appointed on 17 June 2010)

Independent Non-Executive Directors ("INEDs")

Mr. Chiang Kin Kon
Mr. Wong Kwok Fai
Mr. Chau Siu Keung

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

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

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

There is currently three of the non-executive Directors on the Board, all of whom are independent. All the non-executive Directors have been appointed for no specific term and they are subject to retirement by rotation in accordance with the Company's Articles of Association and thus submit themselves, on a rotation basis, for re-election by shareholders.

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

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

All directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting. The Board will review profiles of the candidates recommended by the Chairman and make recommendation the appointment, re-election and retirement of the Directors. Candidates are appointed to the Board on the basis of their skill, competence and experience that they can contribute to the Company.

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

BOARD MEETINGS

The full Board met thirteen 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 suggest further improvement of the operation.

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

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

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

ATTENDANCE RECORD AT BOARD, 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 2010 is set out below:

	Attendance/Number of Meetings		
	Board	Audit Committee	Remuneration Committee
Executive Directors			
Mr. James Ang	13/13	Not applicable	Not applicable
Mr. Wei Ren	13/13	Not applicable	Not applicable
Ms. Yau Pui Chi, Maria	13/13	Not applicable	2/2
Dr. Zhong Shi (Note 2)	0/0	Not applicable	Not applicable
Independent Non-Executive Directors			
Mr. Chiang Kin Kon	13/13	4/4	2/2
Mr. Wong Kwok Fai	13/13	4/4	2/2
Mr. Chau Siu Keung	13/13	4/4	Not applicable

Notes:

1. The counting of attendance for existing Directors started the joining date of Directors or committee members.

2. Dr. Zhong Shi was appointed as an executive Director with effect from 17 June 2010.

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

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

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

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company has established Remuneration Committee with specific terms of reference which deals clearly with its authorities and duties. The Remuneration Committee currently consists of two independent non-executive Directors and an executive Director; 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, two meetings were 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 2010, the Directors have selected suitable accounting policies and applied them consistently by adopting appropriate Hong Kong Financial Reporting Standards.

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 include reviewing the Group's financial control, internal control and risk management, reviewing and monitoring 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 2010, 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 2010, the audit fees charged to financial statements of the Group amounted to approximately HK$380,000.

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 2010.

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 2010 are set out in the Group's consolidated statement of comprehensive income on page 25 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 2010 (2009: Nil).

RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in Note 26 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 25 to the consolidated financial statements.

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 2010, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 76 of the annual report. This summary does not form part of the audited financial statements.

PURCHASES, SALE OR REDEMPTION OF SECURITIES

For the year ended 31 May 2010, 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 provide 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.

The following shows the outstanding position of participants as at 31 May 2010 with respect to their share options granted under the Share Option Scheme:

Name of Directors	Date of grant	Exercise price HK$	Exercise period	Number of Share Options: Balance as at 1.6.2009	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	Balance as at 31.5.2010
Mr. James Ang	13.10.2009	0.233	13.10.2009 to 12.10.2019	–	4,800,000	–	–	4,800,000
Mr. Wei Ren	13.10.2009	0.233	13.10.2009 to 12.10.2019	–	1,500,000	–	–	1,500,000
Ms. Yau Pui Chi, Maria	13.10.2009	0.233	13.10.2009 to 12.10.2019	–	4,800,000	–	–	4,800,000
Dr. Zhong Shi	13.10.2009	0.233	13.10.2009 to 12.10.2019	–	3,200,000	–	–	3,200,000
Mr. Chiang Kin Kon	13.10.2009	0.233	13.10.2009 to 12.10.2019	–	2,300,000	–	–	2,300,000
Mr. Wong Kwok Fai	13.10.2009	0.233	13.10.2009 to 12.10.2019	–	1,200,000	–	–	1,200,000
Mr. Chau Siu Keung	13.10.2009	0.233	13.10.2009 to 12.10.2019	–	1,200,000	–	–	1,200,000
					19,000,000	–	–	19,000,000

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
Dr. Zhong Shi (Appointed on 17 June 2010)

Independent Non-Executive Directors ("INEDs")

Mr. Chiang Kin Kon
Mr. Wong Kwok Fai
Mr. Chau Siu Keung

In accordance with Article 87(1) of the Company's Articles of Association, Mr. Chiang Kin Kon, and Mr. Wong Kwok Fai will retire from office by rotation and, being eligible; offer themselves for re-election at the forthcoming annual general meeting.

Further in accordance with Article 86(3) of the Company's Articles of Association, Dr. Zhong Shi will retire at the forthcoming annual general meeting and, being eligible; offer himself for re-election as director 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 7 to 8 of the annual report.

DIRECTORS' SERVICE CONTRACTS

None of the Directors has a service contract with the Company or any of its subsidiaries which is not determinable by the employer 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.

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 2010.

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

At 31 May 2010, apart from the details as follows, the Directors and chief executives do not have any other interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO, or as 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$0.02 each in the Company

Name of Directors		Number of Shares held	Nature of Interest	Percentage
Mr. James Ang ("Mr. Ang")	Long position	149,498,900 (Note a)	Personal, Family and Corporate Interest	32.27%
Ms. Yau Pui Chi, Maria ("Ms. Yau", spouse of Mr. Ang)	Long position	149,498,900 (Note a)	Personal and Family Interest	32.27%
Mr. Wei Ren ("Mr. Wei")	Long position	2,000,000 (Note b)	Personal Interest	0.45%

Note:

(a) These Shares are registered as to 126,959,900 Shares and 4,800,000 Share Options held by Mr. Ang in person, 799,000 Shares and 4,800,000 Share Options held by Ms. Yau in person, and 3,190,000 Shares held by Cyber Wealth Company Group Limited ("Cyber Wealth") and 8,950,000 Shares held by Bluechip Combination Investments Limited ("Bluechip"). Cyber Wealth and Bluechip are companies wholly-owned by Mr. Ang.

(b) These Shares are registered as to 500,000 Shares and 1,500,000 Share Options held by Mr. Wei in person.

The interests of the Directors in the share options of the Company are disclosed under the section"Share Option Scheme" of this report.

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

At 31 May 2010, the following interest of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO.

Ordinary shares of HK$0.02 each in the Company

Name of Shareholders	Number of Shares held	Nature of Interest	Percentage
Top Network Investments Limited	32,828,000	Beneficial Owner	7.08%

Save as the above disclosure, and 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 2010.

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 20% of the Group's total turnover for the year ended 31 May 2010.

Purchases for the largest supplier for the year ended 31 May 2010 represented approximately 50% of the Group's total purchases. The total purchases attributable to the five largest suppliers of the Group for the year ended 31 May 2010 accounted for approximately 70% of the total purchases of the Group for the year ended 31 May 2010.

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 2010, which constitute exempted connected transactions under the Rules Governing the Listing of Securities on the GEM ("GEM Listing Rules"), are disclosed in Note 30 to the consolidated financial statements.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

Save as disclosed in the share option scheme under the section "Share Option Scheme" of this report, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Directors or their respective spouses or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

DIRECTORS' INTEREST IN COMPETING BUSINESS

For the year ended 31 May 2010, the Directors are not aware of any business or interest of the Directors, the management shareholders and their respective associates (as defined under the GEM Listing Rules) that compete or may compete with the business of the Group and any other conflicts of interests which any such person has or may have with 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").

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 2.19 to the consolidated financial statements.

CORPORATE GOVERNANCE

Particulars of the Company's corporate governance practices are set out in the Corporate Governance Report on pages 9 to 14 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 four times a year.

REMUNERATION COMMITTEE

The Remuneration Committee presently comprises two independent non-executive Directors of Mr. Chiang Kin Kon, Mr. Wong Kwok Fai and an 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.

EVENTS AFTER THE REPORTING PERIOD

Details of the significant events occurring after the reporting period are set out in Note 32 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, 13 August 2010

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 25 to 75, which comprise the consolidated and company statements of financial position as at 31 May 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows 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 2010 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.

EMPHASIS OF MATTERS

Without qualifying our opinion, we draw attention to Note 2.1(a) in the consolidated financial statements which indicates that the Group incurred a total comprehensive loss of approximately HK$9,642,000 during the year ended 31 May 2010 and as of that date, the Group's current liabilities exceeded its current assets by approximately HK$2,086,000. These conditions, along with other matters as set out in Note 2.1(a), indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern.

Lau & Au Yeung C.P.A. Limited
Certified Public Accountants

Hong Kong, 13 August 2010

Franklin Lau Shiu Wai
Director
Practising Certificate Number P1886

Consolidated Statement of Comprehensive Income

For the year ended 31 May 2010

	Notes	2010 HK$'000	2009 HK$'000
Turnover	5 & 6	**3,317**	4,943
Cost of sales		**(1,652)**	(2,690)
Gross profit		**1,665**	2,253
Other revenues	6	**666**	2,180
Selling and marketing expenses		**(415)**	(313)
Administrative expenses		**(11,489)**	(6,846)
Operating loss	7	**(9,573)**	(2,726)
Finance costs	8	**(21)**	–
Share of loss of an associated company	18	**(185)**	(246)
Loss for the year attributable to equity holders of the Company		**(9,779)**	(2,972)
Other comprehensive income			
Translation of foreign exchange reserve		**137**	(48)
Total comprehensive loss for the year attributable to equity holders of the Company		**(9,642)**	(3,020)
Loss per share	12		
– Basic		**HK (2.3 cents)**	HK (0.6 cents)
– Diluted		**HK (2.2 cents)**	N/A

The notes on pages 30 to 75 form an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 May 2010

	Notes	2010 HK$'000	2009 HK$'000
ASSETS			
Non-current assets			
Plant and equipment	15	**2,733**	2,717
Intangible assets	16	**1,098**	178
Investment in an associated company	18	**87**	135
		3,918	3,030
Current assets			
Inventories	19	**92**	–
Trade receivables	20	**162**	305
Prepayment, deposit and other receivables	20	**2,293**	2,280
Financial assets at fair value through profit or loss	21	**278**	–
Bank balances and cash	22	**6,124**	899
		8,949	3,484
Total assets		**12,867**	6,514
EQUITY			
Capital and reserves			
Share capital	25	**9,265**	5,248
Share premium and reserves	26	**(7,786)**	(21,142)
Total equity		**1,479**	(15,894)
LIABILITIES			
Non-current liabilities			
Borrowings	24	**353**	–
Current liabilities			
Trade payables	23	**9,364**	9,720
Receipt in advance, accruals and other payables	23	**1,553**	4,561
Amount due to a director		**–**	8,127
Borrowings	24	**118**	–
		11,035	22,408
Total liabilities		**11,388**	22,408
Total equity and liabilities		**12,867**	6,514
Net current liabilities		**(2,086)**	(18,924)
Total assets less current liabilities		**1,832**	(15,894)

James Ang
Director

Yau Pui Chi, Maria
Director

The notes on pages 30 to 75 form an integral part of these consolidated financial statements.

Statement of Financial Position

As at 31 May 2010

	Notes	2010 HK$'000	2009 HK$'000
ASSETS			
Non-current assets			
Investments in subsidiaries	17	**1**	1
Current assets			
Other receivables	20	**15**	127
Total assets		**16**	128
EQUITY			
Capital and reserves			
Share capital	25	**9,265**	5,248
Share premium and reserves	26	**(10,310)**	(9,018)
Total equity		**(1,045)**	(3,770)
LIABILITIES			
Current liabilities			
Receipt in advance, accruals and other payables	23	**1,061**	3,606
Amount due to a director		**–**	292
Total liabilities		**1,061**	3,898
Total equity and liabilities		**16**	128
Net current liabilities		**(1,046)**	(3,771)
Total assets less current liabilities		**(1,045)**	(3,770)

James Ang
Director

Yau Pui Chi, Maria
Director

The notes on pages 30 to 75 form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 May 2010

	Share Capital HK$'000	Share Premium HK$'000	Share option Reserve HK$'000	Exchange Reserve HK$'000	Accumulated Losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
Balance at 1 June 2008	4,878	30,800	–	61	(50,643)	(14,904)	88	(14,816)
Comprehensive loss of the year	–	–	–	–	(2,972)	(2,972)	–	(2,972)
Other comprehensive income								
Translation of foreign exchange reserve	–	–	–	(48)	–	(48)	–	(48)
Total comprehensive loss for the year	–	–	–	(48)	(2,972)	(3,020)	–	(3,020)
Transactions with owners								
Issue of shares by subscriptions	370	1,572	–	–	–	1,942	–	1,942
Transfer upon cessation of business of a subsidiary	–	–	–	–	88	88	(88)	–
Total transactions with owners	370	1,572	–	–	88	2,030	(88)	1,942
Balance at 1 June 2009	5,248	32,372	–	13	(53,527)	(15,894)	–	(15,894)
Comprehensive loss of the year	–	–	–	–	(9,779)	(9,779)	–	(9,779)
Other comprehensive income								
Translation of foreign exchange reserve	–	–	–	137	–	137	–	137
Total comprehensive loss for the year	–	–	–	137	(9,779)	(9,642)	–	(9,642)
Transactions with owners								
Issue of shares by subscriptions	1,389	8,730	–	–	–	10,119	–	10,119
Issue of shares by placing	1,200	6,388	–	–	–	7,588	–	7,588
Issue of shares by capitalisation of shareholder's loan	1,428	6,108	–	–	–	7,536	–	7,536
Equity settled share-based transactions	–	–	1,772	–	–	1,772	–	1,772
Total transactions with owners	4,017	21,226	1,772	–	–	27,015	–	27,015
Balance at 31 May 2010	9,265	53,598	1,772	150	(63,306)	1,479	–	1,479

The notes on pages 30 to 75 form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 May 2010

	Notes	2010 HK$'000	2009 HK$'000
Cash flows from operating activities			
Net cash used in operations	28	**(10,011)**	(3,632)
Interest paid		**(21)**	–
Net cash used in operating activities		**(10,032)**	(3,632)
Cash flow from investing activities			
Acquisition of intangible assets		**(958)**	(222)
Purchases of plant and equipment		**(506)**	–
Purchases of financial assets at fair value through profit or loss		**(278)**	–
Net cash used in investing activities		**(1,742)**	(222)
Cash flow from financing activities			
Net proceeds from issuance of ordinary shares		**17,243**	1,942
(Decrease)/increase in amount due to a director		**(127)**	2,357
Repayment of finance lease liabilities		**(117)**	–
Net cash generated from financing activities		**16,999**	4,299
Net increase in cash and cash equivalents		**5,225**	445
Cash and cash equivalents at beginning of the year		**899**	454
Cash and cash equivalents at end of the year		**6,124**	899
Analysis of balances of cash and cash equivalents			
– Bank balances and cash	28	**6,124**	899

The notes on pages 30 to 75 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 13 August 2010.

2 BASIS OF PREPARATION AND PRINCIPAL 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$9.78 million for the year ended 31 May 2010 and had net current liabilities of HK$2.09 million as at 31 May 2010. 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 end of the reporting period 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$5.10 million subsequent to 31 May 2010;
- 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 2010;
- Cash to be generated from new revenue source and new business development;
- Commitment on continuous development and improvement of the Group's products and services;

2 BASIS OF PREPARATION AND PRINCIPAL 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.

(i) Standards, amendment and interpretations effective in 2009

In the current year, the Group has applied the following new and amended HKFRSs issued by the HKICPA which are or have become effective.

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 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Share-based Payment Vesting Conditions and Cancellation
HKFRS 7 (Amendment)	Financial Instruments – Disclosures
HKFRS 8	Operating Segments

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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

(i) Standards, amendment and interpretations effective in 2009 *(Continued)*

HKAS 1 (Revised), "Presentation of Financial Statements"

The revised standard prohibits the presentation of items of income and expenses (that is, "non-owner changes in equity") in the statement of changes in equity, requiring "non-owner changes in equity" to be presented separately from owner changes in equity in a statement of comprehensive income. As a result the group presents in the statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard.

HKFRS 7 (Amendment), "Financial Instruments – Disclosures"

The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures.

HKAS 23 (Revised), "Borrowing costs"

In respect of borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009, the Group capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The Group previously recognised all borrowing costs as an expense immediately. This change in accounting policy was due to the adoption of HKAS 23 Borrowing costs (2007) in accordance with the transition provisions of the standard; comparative figures have not been restated.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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

(i) Standards, amendment and interpretations effective in 2009 *(Continued)*

HKFRS 1 & HKAS 27 (Amendments), Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate

The amendments to HKAS 27 have removed the requirement that dividends out of pre-acquisition profits should be recognised as a reduction in the carrying amount of the investment in the investee, rather than as income. As a result, as from 1 January 2009 all dividends receivables from subsidiaries, associates and jointly controlled entities, whether out of pre- or post-acquisition profits, will be recognised in the Group's profit or loss and the carrying amount of the investment in the investee will not be reduced unless that carrying amount is assessed to be impaired as a result of the investee declaring the dividend. In such case, in addition to recognising dividend income in profit or loss, the Group would recognise an impairment loss. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any dividends receivable in the current or future periods and previous periods have not been restated.

(ii) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
HKAS 24 (Revised)	Related Party Disclosures[5]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
HKAS 32 (Amendment)	Classification of Rights Issures[4]
HKAS 39 (Amendment)	Eligible Hedged Items[1]
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards[1]
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[3]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[3]
HKFRS 3 (Revised)	Business Combinations[1]
HKFRS 9	Financial Instruments[7]
HK(IFRIC)-Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[5]
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners[1]
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments[6]

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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

(ii) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group *(Continued)*

[1] Effective for annual periods beginning on or after 1 July 2009
[2] Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010 as appropriate
[3] Effective for annual periods beginning on or after 1 January 2010
[4] Effective for annual periods beginning on or after 1 February 2010
[5] Effective for annual periods beginning on or after 1 January 2011
[6] Effective for annual periods beginning on or after 1 July 2010
[7] Effective for annual periods beginning on or after 1 January 2013

The above standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 July 2009 or later periods. The Group has started considering their potential impact. Based on the preliminary assessment, the Group believes that the adoption of these standards, amendments and interpretations to existing standards, if applicable, will not result in substantial changes to the Group's accounting policies. The Group has not early adopted these standards and interpretations to existing standards, if applicable, in the financial statements for the year ended 31 May 2010.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation *(Continued)*

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 to 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 statement of comprehensive income.

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 statement of financial position, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of the subsidiaries are accounted for by the Company on the basis of dividend received and receivables.

Details of the unconsolidated subsidiaries are set out in Note 17 to the consolidated 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 statement of comprehensive income, 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Associated company *(Continued)*

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 statement of financial position, the investment in associates are stated at cost less provision for impairment losses. The results of associates are accounted for by the Company on the basis of dividends received and receivable.

2.4 Segment reporting

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

2.5 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 statement of comprehensive income 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%
Motor vehicle	20%

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.5 Plant and equipment *(Continued)*

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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 statement of comprehensive income.

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.

(i) Website development costs

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

(ii) Telecom applications and value-added services software development costs

Intangible assets with indefinite useful lives are not amortized. The intangible asset and its status are reviewed annually to determine whether events and circumstances continue to support indefinite useful life. Should the useful life of an intangible asset change from indefinite to finite, the change would be accounted for prospectively from the date of change and in accordance with the policy for amortization of intangible assets with finite lives as set out above.

The assets' useful lives and their amortization method are reviewed annually.

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 Financial assets at fair value through profit or loss

The Company classifies its financial assets as fair value through profit or loss. The classification depends on the purposes for which the financial asset was acquired. Management determines the classification of its financial assets at initial recognition.

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorized as held for trading unless they are designated as hedges.

2.9 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 statement of comprehensive income, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.9 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 statement of financial position presented are translated at the closing rate at the end of that reporting period;

– income and expenses for each statement of comprehensive income 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 statement of comprehensive income 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.

2.10 Leases

(a) 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 statement of comprehensive income on a straight-line basis over the lease periods.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.10 Leases *(Continued)*

(b) Finance leases

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

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

2.11 Inventories

Inventories comprise mainly long distance calling cards and telecom equipments 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.

2.12 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 statement of comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.13 Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at cost. For the purpose of the statement of cash flows, 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 statement of financial position, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

2.14 Trade and other payables

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

2.15 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.

2.16 Contingent liabilities

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.17 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of comprehensive income, 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 end of the reporting period 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.

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 end of the reporting period 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.

2.18 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)*

2.19 Employee benefits

(a) 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 end of the reporting period is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the end of the reporting period for the expected future cost of such paid leave earned during the year by the employees and carried forward.

(b) 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 statement of comprehensive income 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.

(c) 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 the end of the reporting period are discounted to present value.

(d) Share based payment transactions

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed over the relevant vesting periods to the statement of comprehensive income, with the corresponding amount credited to share based employee option reserve within equity.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.20 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 Group;

(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, and financial assets at fair value through profit or loss. The Group's maximum exposure to credit risk is the carrying amounts of these financial assets.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) Credit risk *(Continued)*

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 and financial assets at fair value through profit or loss 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.

(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.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(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 end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Group	**Less than 1 year HK$'000**	**Between 2 and 5 years HK$'000**
As at 31 May 2010		
Trade and other payables	**10,917**	**–**
Borrowings	**118**	**353**
	11,035	**353**

	Less than 1 year HK$'000	Between 2 and 5 years HK$'000
As at 31 May 2009		
Trade and other payables	14,281	–
Amount due to a director	8,127	–
	22,408	–

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 2010	
Trade and other payables	**1,061**
Amount due to a director	**–**
	1,061

	Less than 1 year HK$'000
As at 31 May 2009	
Trade and other payables	3,606
Amount due to a director	292
	3,898

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.

The gearing ratio, defined as total borrowings divided by the shareholders' fund as at 31 May 2010 was not applicable as there was no significant interest bearing liability except for a finance lease (2009: not applicable).

3 FINANCIAL RISK MANAGEMENT *(Continued)*

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 assets and liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(a) Going concern

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

(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.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(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.

(f) Share-based payments

The fair value of option granted is measured using the Binomial Option Pricing Model based on various assumptions on volatility, option life and nature, dividend yield and annual risk-free interest rate, excluding the impact of any non-market vesting conditions, which generally represent the best estimate of the fair values of the share options at date of grant.

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.

	2010			
		Long distance call services		
	Sale of equipment HK$'000	End-users direct sales HK$'000	Carrier sales HK$'000	Group HK$'000
Turnover	1,005	2,270	42	3,317
Segment results	(2,124)	(5,523)	(171)	(7,818)
Other revenues				666
Operating loss				(7,152)
Unallocated cost				(2,606)
Finance costs				(21)
Loss for the year				(9,779)
Segment assets	4,151	3,395	2,435	9,981
Unallocated assets				2,886
Total assets				12,867
Segment liabilities	215	2,193	6,526	8,934
Unallocated liabilities				2,454
Total liabilities				11,388
Capital expenditures	–	–	–	–
Unallocated capital expenditures				2,058
				2,058
Depreciation	16	774	148	938
Unallocated depreciation				134
				1,072

5 SEGMENT INFORMATION *(Continued)*

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

	2009			
		Long distance call services		
	Sale of equipment HK$'000	End-users direct sales HK$'000	Carrier sales HK$'000	Group HK$'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

5 SEGMENT INFORMATION *(Continued)*

(b) Geographical segments – secondary reporting format

2010

	Turnover HK$'000	Segment results HK$'000	Total assets HK$'000	Capital expenditures HK$'000
Hong Kong	**2,336**	**(8,390)**	**12,468**	**2,058**
Mainland China	**104**	**(197)**	**–**	**–**
Other countries	**877**	**(1,858)**	**399**	**–**
	3,317	**(10,445)**	**12,867**	**2,058**
Other revenues		**666**		
Operating loss		**(9,779)**		

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	–
	4,943	(5,152)	6,514	222
Other revenues		2,180		
Operating loss		(2,972)		

6 TURNOVER AND OTHER REVENUES

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

	Group	
	2010	2009
	HK$'000	HK$'000
Turnover		
Long distance call services	**2,312**	3,904
Sale of equipment	**1,005**	1,039
	3,317	4,943
Other revenues		
Over-provision of accruals and trade payable	**–**	2,159
Sundry income	**666**	21
	666	2,180
	3,983	7,123

7 OPERATING LOSS

	Group	
	2010	2009
	HK$'000	HK$'000
Operating loss is stated after charging/(crediting) the following:		
Auditor's remuneration		
– Provision for current year	**380**	320
– Over provision in prior years	**35**	–
Amortisation	**44**	44
Cost of inventories sold	**1,652**	2,690
Depreciation		
– owned	**1,013**	1,226
– leased	**59**	–
Operating lease-land and buildings	**679**	298
Provision for doubtful debts	**149**	486
Staff costs (including directors' remuneration)	**6,479**	2,999

8 FINANCE COSTS

	2010	2009
	HK$'000	HK$'000
Finance lease interests	**21**	–

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 (2009: 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 (2009: Nil).

9 INCOME TAX *(Continued)*

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	
	2010	2009
	HK$'000	HK$'000
Loss for the year	**(9,779)**	(2,972)
Calculated at a statutory rate of 16.5% (2009: 16.5%)	**(1,614)**	(490)
Income not subject to taxation	**–**	33
Expenses not deductible for taxation purposes	**67**	413
Utilisation of tax loss	**–**	(637)
Tax losses not recognised	**1,596**	530
Accelerated depreciation not recognised	**(49)**	151
Taxation charges	**–**	–

10 NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

Net loss attributable to equity holders of the Company for the year ended 31 May 2010 dealt with in the consolidated financial statements was approximately HK$9,779,000 (2009: HK$2,972,000).

11 DIVIDENDS

The Directors do not recommend the payment of dividend in respect for the year ended 31 May 2010 (2009: 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$9,779,000 (2009: HK$2,972,000) and the weighted average number of 430,699,844 ordinary shares in issue during the year (2009: 508,939,166 shares).

Diluted loss per share for the year (2009: Not applicable) is calculated by adjusting the weighted average number of 430,699,844 ordinary shares in issue by 12,024,657 ordinary shares to assume conversion of all dilutive potential ordinary shares granted under the Company's Option Scheme. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

13 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	Group	
	2010	2009
	HK$'000	HK$'000
Wages and salaries	**4,598**	2,915
Share-based payments	**1,772**	–
Pension cost-defined contribution plans	**109**	84
	6,479	2,999

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					
	2010					2009
	Fees	Salaries, allowances and benefit in kind	Retirement benefits scheme contributions	Employee share option benefits	Total	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive Directors						
Mr. James Ang	–	1,475	33	448	1,956	601
Mr. Wei Ren	24	–	–	140	164	4
Ms. Yau Pui Chi, Maria	–	957	24	448	1,429	492
	24	2,432	57	1,036	3,549	1,097
Non-executive Directors						
Mr. Chiang Kin Kon	–	–	–	214	214	–
Mr. Wong Kwok Fai	24	–	–	112	136	10
Mr. Chau Siu Keung	24	–	–	112	136	–
Ms. Tam May Yuk (Resigned on 2 February 2009)	22	–	–	–	22	–
	70	–	–	438	508	10

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 (2009: two) directors whose emoluments have been reflected in the analysis presented above. The emoluments payable to the remaining three (2009: three) individuals during the year are as follows:

	Group	
	2010	2009
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**1,049**	886
Retirement benefit scheme contributions	**32**	25
	1,081	911

The emoluments of these individuals fell within the following bands:

	Group Number of individuals	
	2010	2009
Emolument bands		
Nil to HK$1,000,000	**3**	3
	3	3

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

15 PLANT AND EQUIPMENT

Group

	Leasehold improvement HK$'000	Furniture and office equipment HK$'000	Computer and software HK$'000	Telecom– munication equipment HK$'000	Motor Vehicle HK$'000	Total HK$'000
At 1 June 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
Depreciation	(37)	(5)	(6)	(1,238)	–	(1,286)
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
Year ended 31 May 2010						
Opening net book value	**119**	**–**	**–**	**2,598**	**–**	**2,717**
Additions	**172**	**126**	**208**	**–**	**588**	**1,094**
Depreciation	**(59)**	**(8)**	**(31)**	**(921)**	**(59)**	**(1,078)**
Closing net book value	**232**	**118**	**177**	**1,677**	**529**	**2,733**
At 31 May 2010						
Cost	**1,057**	**1,285**	**1,189**	**11,515**	**588**	**15,634**
Accumulated depreciation	**(825)**	**(1,167)**	**(1,012)**	**(9,838)**	**(59)**	**(12,901)**
Net book value	**232**	**118**	**177**	**1,677**	**529**	**2,733**

Note:

(i) As at 31 May 2010, the carrying amount of motor vehicle of approximately HK$529,000 (2009: Nil) was held under a finance lease.

(ii) Deprecation charges of approximately HK$6,000 (2009: Nil) for certain computer and software, which were wholly and exclusively utilised for the software development of telecom applications and value-added services, were capitalised as intangible assets as at 31 May 2010.

16 INTANGIBLE ASSETS

Group

	Website development HK$'000	Telecom applications and value added service software development HK$'000	Total HK$'000
At 1 June 2008			
Cost	–	–	–
Accumulated amortisation	–	–	–
Net book value	–	–	–
Year ended 31 May 2009			
Opening net book value	–	–	–
Additions	222	–	222
Amortisation	(44)	–	(44)
Closing net book value	178	–	178
At 31 May 2009			
Cost	222	–	222
Accumulated amortisation	(44)	–	(44)
Net book value	178	–	178
Year ended 31 May 2010			
Opening net book value	178	–	178
Additions	–	964	964
Amortisation	(44)	–	(44)
Closing net book value	134	964	1,098
At 31 May 2010			
Cost	222	964	1,186
Accumulated amortisation	(88)	–	(88)
Net book value	134	964	1,098

Note:

The carrying amount of intangible assets as at 31 May 2010 of approximately HK$1,098,000 (2009: HK$178,000), represents development costs of website portal and software on value-added services incurred by the Group for its business operation.

17 INVESTMENTS IN SUBSIDIARIES

	Company 2010 HK$'000	2009 HK$'000
Unlisted investments at cost (Note a)	**1**	1
Amounts due from subsidiaries (Note b)	**34,215**	12,638
	34,216	12,639
Less: Provision for investments in and amounts due from subsidiaries	**(34,215)**	(12,638)
	1	1

Notes:

(a) Details of the principal subsidiaries at 31 May 2010 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%

17 INVESTMENTS IN SUBSIDIARIES *(Continued)*

Notes: *(Continued)*

Name	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued/registered and fully paid share capital	Attributable equity interest held
INDIRECTLY HELD: *(Continued)*				
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%
Lotus Communication Limited	Hong Kong	Research and development and provision of long distance call and value-added services of telecom application	1 ordinary share of HK$1 each	100%

(b) The amounts due are unsecured, interest-free and not repayable within the next twelve months from the end of the reporting period.

18 INVESTMENT IN AN ASSOCIATED COMPANY

	Group 2010 HK$'000	2009 HK$'000
Beginning of year	**135**	429
Share of results, net of tax	**(185)**	(246)
Exchange difference	**137**	(48)
End of the year	**87**	135

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

Name	Place of incorporation	Registered capital	Assets HK$'000	Liabilities HK$'000	Revenues HK$'000	Loss HK$'000	Group's interest
Crown Multimedia & Information Services Corp.	Philippine	Ordinary shares of 1 PHP each Preferred shares of 1 PHP each	10,238	8,941	483	2,772	40%

19 INVENTORIES

	Group 2010 HK$'000	2009 HK$'000
Telecom equipments	**92**	–

As at 31 May 2010, all inventories are stated at cost (2009: Nil).

20 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade receivables (Note a)	**162**	305	**–**	–
Other receivables, prepayments and deposits	**2,293**	2,280	**15**	127
	2,455	2,585	**15**	127

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. Aging analysis of trade receivables at the respective end of the reporting period is as follows:

	Group	
	2010	2009
	HK$'000	HK$'000
0 – 30 days	**98**	87
31 – 60 days	**22**	35
61 – 90 days	**9**	45
91 – 180 days	**8**	31
181 – 365 days	**34**	216
Over 365 days	**3,980**	3,731
	4,151	4,145
Less: provision for doubtful debt	**(3,989)**	(3,840)
	162	305

20 TRADE AND OTHER RECEIVABLES *(Continued)*

Note: *(Continued)*

(b) Trade receivable that are less than four months are not considered impaired. As at 31 May 2010, trade receivable of HK$31,000 (2009: HK$128,000) were past due but not impaired. The aging analysis of these trade receivable is as follows:

	Group	
	2010	2009
	HK$'000	HK$'000
Past due but not impaired:		
0 – 60 days	**6**	20
61 – 120 days	**25**	108
	31	128

21 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2010	2009
	HK$'000	HK$'000
Listed equities in Hong Kong, at fair value	**278**	–

Financial assets at fair value through profit or loss are presented within "investing activities" in the consolidated statement of cash flows.

Changes in fair values of financial assets at fair value through profit or loss are recorded in "other operating expenses/income" in the consolidated statement of comprehensive income.

The fair value of listed equity securities is based on their bid prices in an active market.

22 BANK BALANCES AND CASH

Bank balances and cash were denominated in HKD and of approximately HK$6,124,000 (2009: HK$899,000).

23 TRADE AND OTHER PAYABLES

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade payables (Note a)	**9,364**	9,720	**401**	925
Other payables and accruals	**1,116**	2,761	**660**	1,281
Receipt in advance	**437**	1,800	**–**	1,400
	10,917	14,281	**1,061**	3,606

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

Note:

(a) Majority of the Group's purchase are entered into on credit terms ranging from 60 to 90 days. Aging analysis of trade payables at respective end of the reporting period is as follows:

	Group	
	2010	2009
	HK$'000	HK$'000
0 – 30 days	**459**	27
31 – 60 days	**27**	44
61 – 90 days	**18**	14
91 – 180 days	**42**	55
181 – 365 days	**–**	129
Over 365 days	**8,818**	9,451
	9,364	9,720

24 BORROWINGS

	Group 2010 HK$'000	2009 HK$'000
Non-current		
Finance lease liabilities	**353**	–
Current		
Finance lease liabilities	**118**	–
Total borrowings	**471**	–

(a) Finance lease liabilities

Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

	Group 2010 HK$'000	2009 HK$'000
Gross finance lease liabilities – minimum lease payments:		
Not later than 1 year	**138**	–
Later than 1 year but not later than 5 years	**415**	–
	553	–
Future finance charges on finance leases	**(82)**	–
Present value of finance lease liabilities	**471**	–
The present value of finance lease liabilities is as follows:		
Not later than 1 year	**118**	–
Later than 1 year but not later than 5 years	**353**	–
	471	–

25 SHARE CAPITAL

	Company			
	2010		2009	
	Number of shares ('000)	**HK$'000**	Number of shares ('000)	HK$'000
Authorised ordinary shares of HK$0.02 (2009: HK$0.01) each				
At 1 June	**1,000,000**	**10,000**	1,000,000	10,000
Consolidation of shares (Note c)	**(500,000)**	**–**	–	–
Increase of authorised share capital (Note f)	**4,500,000**	**90,000**	–	–
At 31 May	**5,000,000**	**100,000**	1,000,000	10,000
Issued and fully paid ordinary shares of HK$0.02 (2009: HK$0.01) each				
At 1 June	**524,821**	**5,248**	487,781	4,878
Consolidation of shares (Note c)	**(283,839)**	**–**	–	–
Issue of shares by subscriptions (Notes b, e, h, i)	**90,856**	**1,389**	–	–
Issue of shares by subscriptions	**–**	**–**	37,040	370
Issue of shares by placing (Notes d, g)	**60,000**	**1,200**	–	–
Issue of shares by capitalization of shareholder's loan (Note a)	**71,430**	**1,428**	–	–
At 31 May	**463,268**	**9,265**	524,821	5,248

Note:

(a) On 25 May 2009, the Company entered into a capitalization agreement with an executive director of the Company Mr. James Ang ("Mr. Ang") pursuant to which Mr. Ang conditionally agreed to subscribe for 71,430,000 consolidated shares at the capitalization price of HK$0.112 per consolidated share by capitalizing a part of the shareholder's loan owed by the Group to Mr. Ang. On 3 July 2009, the Company passed an ordinary resolution at the extraordinary general meeting and approved the capitalization agreement. On 9 July 2009, 71,430,000 new shares of HK$0.02 each were allotted and issued to Mr. Ang pursuant to the capitalization agreement. These shares rank pari passu in all respects with the existing shares.

(b) On 8 June 2009, 42,856,000 new shares of HK$0.01 each were allotted and issued to two third party subcribers ("Subscribers") at a price of HK$0.056 per share pursuant to respective subscription agreements dated 15 May 2009. Each of the Subscribers was allotted and issued of 21,428,000 new shares respectively. These shares rank pari passu in all respects with the existing shares.

25 SHARE CAPITAL *(Continued)*

Note: *(Continued)*

(c) Pursuant to an ordinary resolution passed at the extraordinary general meeting on 3 July 2009, every two issued and unissued shares of the Company of HK$0.01 each were consolidated into one consolidated share of HK$0.02 each.

(d) On 31 August 2009, 50,000,000 new shares of HK$0.02 each were allotted and issued at a price of HK$0.11 per share to the placees pursuant to the placing agreement dated 21 August 2009 for placement of a maximum of 50,000,000 placing shares. These shares rank pari passu in all respects with the existing shares.

(e) On 14 September 2009, 20,000,000 new shares of HK$0.02 each were allotted and issued to two third party subscribers ("Subscribers") at a price of HK$0.12 per share pursuant to the subscription agreements dated 21 July 2009. Each of the Subscribers was allotted and issued of 10,000,000 new shares respectively. These shares rank pari passu in all respects with the existing shares.

(f) Pursuant to an ordinary resolution passed at the annual general meeting held on 21 October 2009, the authorized share capital of the Company was increased from HK$10,000,000 divided into 500,000,000 shares of HK$0.02 each to HK$100,000,000 divided into 5,000,000,000 shares of HK$0.02 each by the creation of 4,500,000,000 shares of HK$0.02 each, ranking pari passu with the existing ordinary shares of the Company in all respects.

(g) On 25 November 2009, 10,000,000 new shares of HK$0.02 each were allotted and issued at a price of HK$0.2778 per share to the placees pursuant to the placing agreement dated 16 November 2009 for placement of a maximum of 10,000,000 placing shares. These shares rank pari passu in all respects with the existing shares.

(h) On 4 May 2010, 18,000,000 new shares of HK$0.02 each were allotted and issued to two third party subscribers ("Subscribers") at a price of HK$0.20 per share pursuant to respective subscription agreements dated 19 April 2010. The Subscribers were allotted and issued of 10,000,000 and 8,000,000 new shares respectively. These shares rank pari passu in all respects with the existing shares.

(i) On 14 May 2010, 10,000,000 new shares of HK$0.02 each were allotted and issued to a third party subscriber at a price of HK$0.20 per share pursuant to the subscription agreement dated 7 May 2010. These shares rank pari passu in all respects with the existing shares.

26 RESERVES

(a) Group

	Share premium HK$'000	Share option reserve HK$'000	Exchange reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
Balance at 1 June 2008	30,800	–	61	(50,643)	(19,782)
Comprehensive loss for the year	–	–	–	(2,972)	(2,972)
Other comprehensive income:					
– Translation of foreign exchange reserve	–	–	(48)	–	(48)
Total comprehensive loss for the year	–	–	(48)	(2,972)	(3,020)
Transactions with owners:					
– Issue of shares by subscriptions	1,572	–	–	–	1,572
– Transfer upon cessation of business of a subsidiary	–	–	–	88	88
Total transactions with owners	1,572	–	–	88	1,660
Balance at 1 June 2009	32,372	–	13	(53,527)	(21,142)
Comprehensive loss for the year	–	–	–	(9,779)	(9,779)
Other comprehensive income:					
– Translation of foreign exchange reserve	–	–	137	–	137
Total comprehensive loss for the year	–	–	137	(9,779)	(9,642)
Transactions with owners:					
– Issue of shares by subscriptions	8,730	–	–	–	8,730
– Issue of shares by placing	6,388	–	–	–	6,388
– Issue of shares by capitalisation of shareholder's loan	6,108	–	–	–	6,108
– Equity-settled share-based transactions	–	1,772	–	–	1,772
Total transactions with owners	21,226	1,772	–	–	22,998
Balance at 31 May 2010	53,598	1,772	150	(63,306)	(7,786)

26 RESERVES *(Continued)*

(b) Company

	Share premium HK$'000	Share option reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
Balance at 1 June 2008	37,281	–	(44,371)	(7,090)
Comprehensive loss for the year	–	–	(3,500)	(3,500)
Transactions with owners:				
– Issue of shares by subscriptions	1,572	–	–	1,572
Total transactions with owners	1,572	–	–	1,572
Balance at 1 June 2009	38,853	–	(47,871)	(9,018)
Comprehensive loss for the year	–	–	(24,290)	(24,290)
Transactions with owners:				
– Issue of shares by subscriptions	8,730	–	–	8,730
– Issue of shares by placing	6,388	–	–	6,388
– Issue of shares by capitalisation of shareholder's loan	6,108	–	–	6,108
– Equity-settled share-based transactions	–	1,772	–	1,772
Total transactions with owners	21,226	1,772	–	22,998
Balance at 31 May 2010	60,079	1,772	(72,161)	(10,310)

27 SHARE-BASED PAYMENTS

(a) Share Option Scheme

Under a share option scheme approved and adopted by the shareholders on 4 December 2002 (the "Share Option Scheme"), the Directors of the Company may, at their discretion, invite eligible participants including the Company's directors, independent non-executive directors, other employees of the Group, any consultants, advisers, managers or officers of the Group, and the shareholders of the Company, to take up options to subscribe for shares in the Company representing up to a maximum of 10% of the shares in issue from time to time (excluding shares issued on exercise of options under the Share Option Scheme).

The subscription price determined by the board of directors will not be less than the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheets on the date of grant; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of grant and; (iii) the nominal value of the Company's shares.

(b) The terms and conditions of the grant that existed during the year are as follows, whereby all options are settled by physical delivery of shares.

	Number of share options	Vesting condition	Contractual life of option
Option granted:			
– to Executive Directors	11,100,000	Not Applicable	10 years
– to Independent Non-executive Directors ("INEDs")	4,700,000	Not Applicable	10 years
– to Employee	3,200,000	Not Applicable	10 years

On 13 October 2009, the Company granted 19,000,000 share options to the Directors, the INEDs and the employee at a consideration of HK$1 respectively with an exercise price of HK$0.233 per share.

The fair value of the options granted was determined using the Binomial Option Pricing model. The following principal assumptions were used in the valuation:

Share price immediately before the date of grant	HK$0.225
Exercise price	HK$0.233
Annual risk-free interest rate	2.226%
Expected option life	10 years
Expected dividend yield	Nil
Expected volatility	91.35%
Fair value at grant date	HK$1,772,000

27 SHARE-BASED PAYMENTS

(b) *(Continued)*

The underlying expected volatility was determined based on the historical volatility of the share price of the Company.

In total, approximately HK$1,772,000 (2009: Nil) of share-based payment expense has been included in the consolidated statement of comprehensive income for the year ended 31 May 2010, the corresponding amount of which has been credited to share option reserve.

(c) The number and weighted average exercise price of share options are as follows:

	Group			
	2010		2009	
	Number of share options	**Weighted average exercise price HK$**	Number of share options	Weighted average exercise price HK$
At beginning of the year	**–**	**–**	–	–
Granted during the year	**19,000,000**	**0.233**	–	–
At the end of the year	**19,000,000**	**0.233**	–	–

The options outstanding at 31 May 2010 had an exercise price at HK$0.233 (2009: Nil) and a weighted average remaining contractual life of 9.33 years (2009:Nil).

28 CONSOLIDATED STATEMENT OF CASH FLOWS

Reconciliation of operating loss to net cash used in operations

	Group	
	2010	2009
	HK$'000	HK$'000
Operating loss	**(9,573)**	(2,726)
Amortisation	**44**	44
Depreciation	**1,072**	1,226
Share-based payments	**1,772**	–
Provision for impairment of receivables	**149**	486
Operating loss before working capital changes	**(6,536)**	(970)
(Increase)/decrease in inventories	**(92)**	30
Increase in trade and other receivables	**(19)**	(76)
Decrease in trade and other payables	**(3,364)**	(2,616)
Net cash used in operations	**(10,011)**	(3,632)

29 COMMITMENTS

(a) Commitments under operating leases

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

	Group	
	2010	2009
	HK$'000	HK$'000
Not later than one year	**850**	298
Later than one year but not later than five years	**836**	226
Later than five years	**480**	–
	2,166	524

(b) The Group did not have material capital commitment as at 31 May 2010 and 2009.

30 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	
		2010	2009
	Note	**HK$'000**	HK$'000
Rental expenses paid to Charmfine Investment Limited ("Charmfine")	(a)	**120**	120

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.

31 LITIGATIONS

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

(a) In September 2006, one of the subsidiaries (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. On 2 December 2009, the matter was adjourned for the parties to amend the pleadings. As at the date of this report, no trial date has been fixed. 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 (the "Plaintiff") against two wholly owned subsidiaries of the Group and a director of the Company (the "Director") 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 a number of outstanding litigations in respect of liabilities arising from the normal course of its business of approximately HK$895,000. The amount of the liabilities are adequately recorded as accounts payable as at 31 May 2010. The Directors of the Company are of the opinion that ultimate liability under there 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.

32 EVENTS AFTER THE REPORTING PERIOD

a. Subscription Agreement

On 31 May 2010, the Company entered into two subscription agreements with two third party subscribers, each of them would be alloted and issued of 15,000,000 new shares at the subscription price of HK$0.17. The subscriptions will be completed on or before 30 August 2010. Further details regarding the Subscription Agreements are set out in the Company's announcement dated 31 May 2010.

b. Acquisition Agreement

On 16 December 2009, the Company entered into the Acquisition Agreement with 廣州市新科信息技術有限公司 (the "Vendor") for conditional sales and purchases agreement in connection with the acquisition of the 49% equity interest in 廣州數科網絡有限公司. The proposed completion date was 16 June 2010. On 15 June 2010, the Company and the Vendor mutually agreed to extend the date of Completion from 16 June 2010 to 16 December 2010 (or such date as the parties may agree). Further details regarding the Acquisition Agreement and the extension of the completion date are set out in the Company's announcements dated 16 December 2009, 17 December 2009 and 15 June 2010 respectively.

33 COMPARATIVE FIGURES

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

34 APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 13 August 2010.

Five Years Financial Summary

	2010 HK$'000	2009 HK$'000	2008 HK$'000	2007 HK$'000	2006 HK$'000
Turnover	**3,317**	4,943	5,326	6,355	11,693
Loss attributable to shareholders	**(9,779)**	(2,972)	(598)	(6,007)	(5,245)
Assets and liabilities					
Total assets	**12,867**	6,514	7,850	8,044	9,460
Total liabilities	**(11,388)**	(22,408)	(22,666)	(34,372)	(29,779)
Non-controlling interests	**–**	–	(88)	–	(2)
Shareholders' fund/(deficits)	**1,479**	(15,894)	(14,904)	(26,328)	(20,321)