NETEL TECHNOLOGY (HOLDINGS) LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8256

2017
ANNUAL REPORT

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

GEM has been positioned as a market designed to accommodate companies to which a high investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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

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

Contents

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

Yip Shui Man, Sophie

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

NOMINATION COMMITTEE

James Ang
Chiang Kin Kon
Chau Siu Keung

BANKER

The Hong Kong and Shanghai Banking
Corporation Limited

REGISTERED OFFICE

Century Yard Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-111
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

SHARE REGISTRAR *(in Cayman Islands)*

SMP Partners (Cayman) Limited
Royal Bank House – 3rd Floor,
24 Shedden Road, P.O. Box 1586,
Grand Cayman, KY1-1110,
Cayman Islands

SHARE REGISTRAR *(in Hong Kong)*

Computershare Hong Kong Investor Services Limited
Room 1712-16, 17th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

AUDITOR

Lau & Au Yeung C.P.A. Limited

COMPANY WEBSITE

http://www.neteltech.com.hk

GEM STOCK CODE

8256

Chairman's Statement

During this financial year, the Group further expanded its established customer base and successfully launched other connected products through research to customers. Based on the market demand of Shenzhen, the Group copies the services and develops new services in other parts of China, thus further promoting the business to the whole country. These revenues are reflected in the results of the current financial year and are clearly reflected in the first quarterly results of the coming year.

The first service launched in China by GBjobs.com Limited ("GBjobs"), a subsidiary of the Group, is to replace human by computer in respect of recruitment ("Computer Headhunter"). This service has been launched in Shenzhen and begins to generate cash flow. Such business will be further launched in other provinces and cities. It is exciting that customers return sustainably and the orders continue to increase.

NEW BUSINESSES

A. E-mart business

As the human resources managers of many institutions have no time and resources to develop employee welfare services, GBjobs, the subsidiary of the Group, developed GBmarts based on customer needs, cooperating with JD Alliance to serve as an electronic platform and provide products to the staff of GBjobs employers and the community at a reasonable price. Such business obviously continues to provide revenue for the Group. As such service is a horizontal expansion, it brings performance growth and limited rising costs, thereby enhancing the competitiveness of GBjobs.

The technical department of the Group is responsible for the software development of GBmarts. It needs to integrate with payment system, the supply systems of JD Alliance and other suppliers, which spend considerable development time, yet effectively secure its safety and maintenance. The related software has also become an intangible asset of the Group.

B. Cross-border Headhunting and Cross-border Recruitment Exhibition

The Group has conducted its Chinese business in Shenzhen since the end of 2016 and held regular human resource managers' exchange meetings in Shenzhen almost every month to exchange management and related human resources law lectures. Upon multiple meetings, the Group found that cross-border headhunting will be a hotspot in the future. After an in-depth study, the Group found that the governments of different Chinese cities have introduced incentive policies to attract overseas talents. The Group, therefore, believes that cross-border headhunting can develop the edges of GBjobs in Hong Kong and China and serve the needs of the community.

At the end of 2016, GBjobs was commissioned by the Shenzhen Human Resources Association to hold a meeting for human resources companies in Hong Kong. During the meeting, GBjobs met numerous Chinese listed companies in Nanshan District and found the opportunities for cross-border headhunting. GBjobs has accepted the invitation of Nanshan District to enjoy the preferential policies of the local government, and the renovation of another office in Shenzhen is in the process.

In order to accelerate the development of cross-border headhunting business, GBjobs has established agencies in Zhuhai, Guangzhou, Changsha, etc., and has entered into cross-border headhunting contracts. Upon the completion of the renovation of Nanshan District office, GBjobs will further strengthen the cross-border headhunting business.

The Group believes that holding cross-border recruitment exhibition is needed to accelerate the development of cross-border headhunting business. As such, at the beginning of 2017, the Group began the preparations for the International Talent Expo to be held at the Hong Kong Convention and Exhibition Centre on 26 and 27 August 2017, with the purpose of further expanding Hong Kong and cross-border recruitment business. As of the date of this report, the Expo has received the positive response from Hong Kong and mainland market customers and has obtained the support of the Shenzhen Human Resources Bureau, the Administration of Foreign Experts Affairs and other units, and they promised to attend the Expo. The Expo also received the promise from the Consulate General of Vietnam in Hong Kong to attend the forum. In addition, the governor of Batangas in the Philippines and the Swiss Business Counselor in Hong Kong will host the forum. The Expo will lay a further foundation of the cross-border headhunting services of the Group.

C. Big Data business

After eight years of efforts, GBjobs applies cobweb technology in the Internet world for the collection, analysis, and application of the relevant recruitment data. Whether it is cross-border headhunting, computer headhunting or E-mart, they have to use big data database. Therefore, big data has been already in operation and is the core technology of the Group.

Big data has been utilized for career planning, providing specific data needed for salary analysis reports of different regions and the employment of various industries in the entire market. Nowadays, big data has been noted by the relevant government authorities and enterprises, which is the intangible asset of the Group, thanks for the constant effort of all management and technical personnel.

OPPORTUNITIES OF FILIPINO LABOUR BUSINESS

The management of the Group has a very close relationship with the political and business sectors of the Philippines. During the listing of the Group in 2002, one of our original investors was a tycoon from the Philippines. At the end of 2016, the Chinese market has been opened for the Filipino domestic helpers who can serve foreign families in China. In the foreseeable future, China will open five cities for Filipino domestic helpers to work in China. The Group has entered into memorandum of understanding with Batangas in the Philippines to train Filipino domestic helpers to work in China. The Group believes that this market is very large and will be an essential business in the future by virtue of the Group's relationship and foundation in the Philippines and China.

The Group is a high-tech company and has adhered to its core value since listing. The Group accumulates certain intangible assets, including customer base, artificial intelligence technology for the replacement of human in the recruitment business, big data technology, E-mart applications, etc. The Group will continue to provide quality services to its customers as in the past.

Chairman's Statement

The difference between the current financial year and the previous years is that the Group has entered the Chinese market. China has a huge market demand but it needs a reasonable time to explore. Fortunately, numerous technologies and applications developed by the Group have commenced utilization in Shenzhen. In the near future, we will copy the business model in Shenzhen and promote to the whole country. The Group will engage agency as the distribution method to accelerate its business growth.

James Ang
Chairman

Hong Kong, 24 August 2017

Management Discussion and Analysis

FINANCIAL REVIEW

Results for the year

The Group recorded a total turnover of approximately HK$3.32 million for the year ended 31 May 2017, an increase of 40.08% from approximately HK$2.37 million for the year ended 31 May 2016. The increase was mainly attributable to the increase in e-commerce trading business during the year. The gross profit margin decreased from 73.09% for last year to 33.06% for this year. The decrease in overall gross profit margin was mainly attributable to the increase on turnover of e-commerce trading business which has lower profit margin.

The Group recorded a consolidated loss attributable to shareholders of approximately HK$21.21 million, as compared with the comparative amount of loss of approximately HK$23.25 million attained in the previous year. The decrease of the loss for the year was mainly due to the decrease in staff costs and share-based payments recorded in the current year.

The administrative expenses were decreased by 9.9% from approximately HK$24.55 million of last year to approximately HK$22.12 million for this year mainly due to the decrease in staff costs and share-based payments recorded in the current year.

Liquidity and Financing

For the year ended 31 May 2017, the Group incurred a loss of approximately HK$21.24 million and the net cash outflow from operations was approximately HK$18.45 million. The outflow was mainly attributable to operating loss before changes in working capital of approximately HK$17.38 million. With the cash inflow from issuance of shares by subscriptions, issuance of corporate bonds and exercise of share options of approximately HK$11.93 million, HK$7 million and HK$4.45 million respectively, net with the increase of the additions of intangible assets of approximately HK$1.71 million and decrease in amounts due to directors of approximately HK$0.13 million, the net cash and cash equivalents of the Group was increased by approximately HK$2.85 million.

As at 31 May 2017, the Group had a cash and cash equivalent balance of approximately HK$4.28 million. The gearing ratio, defined as total bank and finance lease borrowings divided by the shareholders' fund as at 31 May 2017 was not adopted as except for finance leases and corporate bonds, the Group did not have interest bearing liability (2016: Nil, except for finance leases). The Group had net current assets of approximately HK$0.72 million as at 31 May 2017 as compared with net current liabilities of approximately HK$3.24 million as at 31 May 2016.

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

Management Discussion and Analysis

BUSINESS REVIEW

The sales of the Group during the current year was increased by 40.08% over last year. The most encouraging news is the commencement and rapid growth of e-commerce business. Although it is a new business, one of the target customer bases is the GBjobs customers. This model saves money and strengthens the competitiveness of GBjobs.

We have also made a breakthrough in respect of computer headhunting, in which artificial intelligence is utilized to replace human by computer. The Group takes Shenzhen as a pilot of computer headhunting, and the customers using this service are satisfied. Regarding cross-border headhunting, the Group has begun to promote its business to other cities in the Pearl River Delta and to appoint joint agents to operate together. On 26 and 27 August 2017, the Group will hold a cross-border headhunting recruitment exhibition at the Hong Kong Convention and Exhibition Centre. This meeting is supported by the corporations and relevant authorities of Shenzhen, which will contribute to the development of the Group's business.

During this financial year, the Group entered the Chinese market, and the software developed in the past has been put into service, especially the big data business, which helps the applications of GBjobs, cross-border headhunting, computer headhunting, E-mart, etc.

The Group has started training recruits in Shenzhen at the end of 2016. The Group spent a considerable time for training, product and market integration, market research, price positioning, and organizing seminars and talks. The promotions of all products in China have been in place after the Spring Festival in 2017. Certain results began to reflect in this year and will be further reflected on the first quarter of the new year.

The Chinese market needs a reasonable time to operate, and the research and development of advanced technology also need a reasonable time. For the year, the Group is supported by investors as always. Fortunately, with the support of the Chinese market and the relevant authorities in Shenzhen, and some software have entered maturity, the Group will be reborn as long as the Shenzhen business model copied to other provinces and cities. During the process, the Group expects the sales growth will be much higher than the cost increase.

BUSINESS OUTLOOK

In the years to come, the Group will focus on further promotion of GBjobs and other derived horizontal development projects, such as E-mart, computer headhunting, cross-border headhunting, Cross-border recruitment exhibition, big data, etc., in the Pearl River Delta and the Yangtze River Delta, and the expansion of the Shenzhen operation model to other cities.

With the improvement of relationship between China and the Philippines and the fact that the Group has successfully sold telecommunications products to the Filipino workers in Hong Kong, these experiences and relationships will help the Group to export Filipino domestic helpers to China. The Group has entered memorandum of understanding with Provincial Government of Batangas in the Philippines in relation of training Filipino domestic helpers and exports to China; the Group has also been negotiating with a number of Chinese housekeeping companies for cooperation. It is estimated that there are over eight thousand housekeeping companies in Shanghai, and the monthly salary of a domestic helper in Shanghai is approximately RMB6,000. The media reported that China and the Philippines agreed the preliminary proposed monthly salary of Filipino domestic helpers of approximately RMB13,000. The market demand and consumption of these markets are positively in connection with the supply of the Group in the Philippines.

The export of Filipino domestic helpers to China can also drive GBjobs business in China, including E-mart, big data business, etc. Therefore, the Group considers that the opportunities brought by Filipino domestic helpers can kill birds with one stone.

The accumulated intellectual properties and intangible assets of the Group in the past eight years, including its relationships, customer base, database, value-added big data through database, etc. in China, Southeast Asia, Europe and the United States, etc., are the key elements to support the development of the Group and obtain investors' trust. The Group will further utilize its intangible assets to play an active role in conducting business and in attracting investment funds. The Group has noticed that overseas software companies can raise huge funds in the market only with their software. The Group will conduct further analysis with positioning in this regard.

In recent months, units in other cities, such as Chengdu and Hangzhou, have approached the Group to provide preferential policies. The Group will make reasonable decisions in due course.

All in all, the Group has accumulated years of experience and needs time for incubation like other high-tech companies; now it is time to take off and fly high.

EMPLOYEE INFORMATION

At 31 May 2017, the Group employed a total of 33 (2016: 29) employees including Directors. The salaries and benefits of the Group's employees are kept at a competitive level. The Group also operates a share option scheme where options to subscribe for shares of the Company may be granted to the executive Directors and full time employees of the Group. As at 31 May 2017, 179,920,000 (2016: 177,490,000) share options remained outstanding from the share option schemes.

Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. James Ang ("Mr. Ang"), aged 58, 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 30 years of experience in the 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 78, is a senior engineer who has been engaged in biomedical engineering and has accumulated extensive experience in the field for more than 48 years. 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, Tianjin 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 57, Mr. Ang's spouse, who has more than 28 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 worked 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 the Director of Charmfine Investment 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 42, was promoted to Chief Executive Officer ("CEO") of the Group in July 2013. He is the Chief Technology Officer of the Group and heads the Research and Development Department. Dr. Zhong has more than 18 years experience in telecommunication and computer systems. Prior to joining the Group, he was the Senior Research Engineer of TOSHIBA Telecommunication Research Lab in England, and was also 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 University of Edinburgh, United Kingdom.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chiang Kin Kon, ("Mr. Chiang"), aged 68, has been an independent non-executive director of the Company since May 2008. He has over 37 years of experience in property management fields and over 23 years of experience in business management. Mr. Chiang has also been involved in the property management industry in the PRC since 1994. He holds a higher diploma in Business Management from the Hong Kong Baptist College (now known as the Hong Kong Baptist University).

Mr. Wong Kwok Fai, ("Mr. Wong"), aged 51, 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 60, has been an independent non-executive director of the Company since May 2009. He has over 37 years experience in sales and marketing field and over 25 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.

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 summarised 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 2017, the Group has complied with the code provisions as set out in the Corporate Governance Code and Corporate Governance Report to the Appendix 15 of the GEM Listing Rules (the "CG Code"), except for the code provision A 1.8 and A 4.1 of the CG Code stipulated in the following paragraphs.

Under the code provision A 1.8 of the CG Code, an issuer should arrange appropriate insurance cover in respect of legal action against its directors. The Company has not arranged insurance cover in respect of legal action against its directors as the Board considers that the Board adopts prudent management policy. The needs for insurance policy will be reviewed from time to time.

Under the code provision A 4.1 of the CG Code, 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 of the CG Code.

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the rules set out in Rules 5.48 to 5.67 (where applicable) of the GEM Listing Rules as the code for dealing in securities of the Company by the Directors (the "Model Code"). The Company has made specific enquiry of all Directors of the Company, and the Directors have confirmed compliance with the Model Code during the year ended 31 May 2017.

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 Model Code. No incident of non-compliance was noted by the Company during the year ended 31 May 2017.

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 2017 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

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

A list of Directors of the Company and their role and function is posted on the website of the Company and the Stock Exchange.

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

There are currently three non-executive Directors on the Board, all of whom are independent. 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.

Mr. Chiang Kin Kon and Mr. Wong Kwok Fai have served more than 9 years since May 2008, but they do not involve day-to-day operation of the Company and through their extensive knowledge and experience, would contribute significantly to the continuous improvement on internal controls and other relevant financial and corporate governance matters of the Company. The Board believes that Mr. Chiang Kin Kon and Mr. Wong Kwok Fai are still independent to the Company and should be re-elected in the coming annual general meeting.

LIABILITY INSURANCE FOR THE DIRECTORS

The Company has not arranged insurance coverage on Directors' and officers' liabilities arising from the Group's business as the Board considers that the Board adopts prudent management policy. The Company reviews the extent of insurance coverage on an annual basis.

CONTINUOUS PROFESSIONAL DEVELOPMENT

All Directors have been given relevant guideline materials regarding the GEM Listing Rules and other applicable regulatory requirements and such induction materials will also be provided for every newly appointed Director of the Company. During the year, all Directors have participated in continuous professional development programme, such as attending seminars organised by qualified professionals or reading materials relevant to the Group's business and Directors' duties and responsibilities, in order to develop and refresh their knowledge and skills in relation to their contribution to the Board.

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

The Company has established a Nomination Committee with specific terms of reference which deals clearly with its authorities and duties. The Nomination Committee currently consists of two independent non-executive Directors, and an executive Director. Mr. James Ang, an executive Director, is the Chairman of the Nomination Committee, and the other members are Mr. Chiang Kin Kon and Mr. Chau Siu Keung, independent non-executive Directors.

The Nomination Committee is responsible for identifying potential new Directors and recommends to the Board for decision. A Director appointed by the Board is subject to election by shareholders at the first annual general meeting after his appointment in case of the appointment of additional Director or at the first general meeting after his appointment in case of filling of casual vacancy.

Under the Articles of Association of the Company, all Directors are subject to retirement by rotation and re-election by shareholders every three years.

Potential new Directors are selected on the basis of their qualifications, skill and experience which the Nomination Committee considers will make a positive contribution to the performance of the Board. The Nomination Committee is also responsible for reviewing the board diversity policy and evaluating the effectiveness and implementation of the said policy regularly.

BOARD DIVERSITY POLICY

During the year, the Board has adopted a board diversity policy which sets out the approach to achieve diversity on the Board. The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance.

The Company aims to achieve board diversity through the consideration of a number of aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. All Board appointments will be based on merits, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

BOARD MEETINGS

The full Board met twenty-two times during the year to discuss relevant business and strategy of the Company. The discussions covered the financial performance, new products and services to be deployed by the Company and also suggestions to further improve the operation.

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

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

The Chairman ensures that the management will supply the Board and its committees with all the 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 2017 is set out below:

	Attendance/Number of Meetings		
	Board	Audit Committee	Remuneration Committee
Executive Directors			
Mr. James Ang	22/22	Not applicable	Not applicable
Mr. Wei Ren	22/22	Not applicable	Not applicable
Ms. Yau Pui Chi, Maria	22/22	Not applicable	1/1
Dr. Zhong Shi	22/22	Not applicable	Not applicable
Independent Non-Executive Directors			
Mr. Chiang Kin Kon	22/22	4/4	1/1
Mr. Wong Kwok Fai	22/22	4/4	1/1
Mr. Chau Siu Keung	22/22	4/4	Not applicable

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 authorised to seek any information they require from any employee and obtain outside legal or other independent professional advice at the cost of the Company if they consider it necessary to discharge their duties as Directors of the Company.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company has established a 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 or her associates are involved in deciding his or her own remuneration.

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 financial position of the Group and of the results and cash flow for that period. In preparing the financial statements for the year ended 31 May 2017, the Directors have selected suitable accounting policies and applied them consistently by adopting appropriate Hong Kong Financial Reporting Standards.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board is responsible for maintaining sound and effective internal control and risk management systems for the Company to safeguard its assets and shareholders' interests. In consideration of the size of the Group, the Board does not consider to establish an internal audit function at present.

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

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 included 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 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 2017, 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 2017, the fees charged to accounts of the Group for Lau & Au Yeung statutory audit amounted to approximately HK$420,000 (2016: HK$420,000).

SHAREHOLDERS' RIGHTS

Procedures for shareholders to convene an extraordinary general meeting ("EGM") and to put forward proposals at general meeting

Any one or more shareholders holding at the date of deposit of the requisition not less than one-twentieth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an EGM to be called by the Board for the transaction of any business specified in such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting on a date not more than 28 days after the date on which the notice convening the meeting is given, the requisitionist(s) him/herself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures for putting enquiries to the Board

Shareholders may at any time send their enquiries and concerns to the Board in writing by addressing them to the principal place of business of Company in Hong Kong at Room C, 9/F, Max Share Centre, 373 King's Road, North Point, Hong Kong. Shareholders' enquiries and concerns will be forwarded to the Board and/or relevant Board Committees of the Company, where appropriate, to answer the shareholders' questions.

COMMUNICATION WITH SHAREHOLDERS

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. Enquiries 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.

CONSTITUTIONAL DOCUMENTS

There are no changes in the Company's constitutional documents during the year.

Environmental, Social and Governance Report

This Report is prepared according to Appendix 20 Environmental, Social and Governance Reporting Guide (the "ESG Reporting Guide") set out by The Stock Exchange of Hong Kong Limited on GEM Board ("GEM Board Listing Rules"), and describes the efforts that Netel Technology (Holdings) Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") made during the year ended 31 May 2017 to achieve its environmental, social and governance goals and provides the related policies implemented by the Group.

As this is the first ESG report of the Group, it would present mainly policies, initiatives and performance of the Group for the year ended 31 May 2017. It will also highlight material aspects identified during the year with the Board confirming that the report has been reviewed and approved to ensure all material issues and impacts are fairly presented. The ESG issues considered to be material are listed as follows:

ESG aspects as set forth in the ESG Guide	Material ESG issues for the Group
A. **Environmental**	
A.1 Emissions	Waste management and carbon emissions
A.2 Use of Resources	Use of electricity and water
A.3 Environment and Natural Resources	Measures in reducing environmental impact
B. **Social**	
B.1 Employment	Equal opportunities and labour practices
B.2 Health and Safety	Risk management and workplace health and safety
B.3 Development and Training	Employee development and training
B.4 Labour Standards	Child labour and forced labour
B.5 Supply Chain Management	Supplier management
B.6 Product Responsibility	Customer service and handling of personal data
B.7 Anti-corruption	Anti-corruption and money laundering
B.8 Community Investment	Community involvement

A. ENVIRONMENTAL

The Group promotes the practice of minimising the depletion of natural resources, i.e. electricity, timber, etc., and, strictly complies with environmental protection legislations, regulations, policies and standards. The Group advocates the corporate social responsibility to protect the environment and conserve the natural resources, and is dedicated to constructing a resources-saving and environmental-friendly company.

During the reporting period, the Group did not note any non-compliance of environmental laws and regulations, and the Group has taken adequate measures to reduce waste in accordance with applicable environmental legislation, regulations, policies and standards during the course of its business.

A 1. Emissions

Waste management

In view of the principal business activities of the Group, i.e. research and development of telecommunication and recruitment applications and provision of long distance call services and recruitment services, the Group has not produced a notable level of air and water pollutants.

The Group has established environmental policies which promote the principles of "reduce", "reuse" and "recycle" and reduce wastes at source in the offices, including: (i) providing reusable utensils to office employees to reduce the use of disposable utensils; (ii) reusing blank side of the printed papers in printing; and (iii) reusing envelopes for internal document circulation. In addition, categorization of wastes, e.g. scrap paper, plastic bottles, aluminium cans, etc. is encouraged to facilitate efficient recycling.

The Group has also strived to improve its waste management techniques including monitoring the latest environmental regulations and market trends on new environmental practices. The Group has also put continuous efforts to improve the effectiveness of its current practices. During the reporting period, no hazardous wastes resulting from the business activities of the Group were noted.

Carbon emissions

The major source of carbon emission of the Group is from the promotional light truck in which diesel is consumed to power the vehicle. The other source of carbon emission is from the daily operation of offices in which electricity is consumed for empowering the office equipment, lighting, computers and servers of the Group. The Group has established policies to reduce carbon emissions including: (i) limiting the use of the promotional vehicle to business use for generating headhunting and advertising income and for conducting promotional activities only; (ii) encouraging employees to take public transport when they need to work outside offices; and (iii) maintaining proper room temperature to reduce the consumption of electricity in the air-conditioning environment.

A 2. Use of Resources

Use of electricity

Electricity is consumed during the daily operations in offices through the use of air-conditioning, indoor lighting, functioning of office equipment and maintenance of computer server, etc. The Group has established guidelines on energy conservation, including: (i) encouraging staff to switch off lighting, air-conditioning and office equipment while they are off work, and turn the computers to sleep mode during lunch time; (ii) installing energy saving light bulbs at offices; (iii) using refrigerator with Grade 1 energy label at offices; and (iv) posting reminders at offices to arouse the consciousness of environmental protection and energy saving.

Use of water

The Group has not consumed a significant volume of water during its course of business. Water-saving measures are only applicable to the daily office work, including displaying water-saving signs at the offices and washroom as reminders for using water efficiently.

A 3. Environment and Natural Resources

The Group has adopted a series of policies to protect the environment and reduce the use of resources, including: (i) setting double-sided printing as default mode in the photocopiers and printers at offices; (ii) archiving the documents as softcopies and reducing the use of papers in daily office work; (iii) reminding staff to control the power and fuel for running the office air-conditioning, lighting, office equipment and motor vehicles; and (iv) developing training programme to improve employees' environmental protection awareness. The Group aims at reducing energy wastage and is committed to controlling its impact on the environment and natural resources in the long run.

B. SOCIAL

B 1. Employment

The Group strongly recognises employees as valuable assets and the key to success, and therefore makes efforts to improve the equality in the workplace by not discriminating against job applicants or existing employees on the basis of age, religion, race, gender, nationality, sexual orientation, political opinion, disability or marital status. The Group has formulated and implemented a comprehensive human resources policies and practices, including recruitment and promotion, compensation and dismissal, holidays, working hours, rest periods, rights on termination and other employee benefits to ensure equal treatment for all employees. These policies are stated in the employee handbook and distributed to employees upon their employment.

In order to enhance employees' loyalty and retain talented employees, the compensation system of the Group is based on individual performance. On top of the basic salary, incentives including commissions and share options are introduced and linked with individual performance to reward employees and encourage improvement.

In addition, the Group promotes work-life balance and hence organises and sponsors employee activities regularly, which includes lunch and dinner gathering, Christmas party with lucky draw, birthday celebration for employees, etc. to promote employee well-being.

During the reporting period, the Group has not received any complaints relating to the employment or discrimination issues, and there were no non-compliance cases in relation to the relevant occupational health and safety legislation, and no working days were lost due to work-related injuries. Meanwhile, the Group complies with Employment Ordinance and Mandatory Provident Fund Schemes Ordinance and other labour related law and regulations such as Labour Law and Labour Contract Law of PRC. In addition, the Group has reached the local minimum wage standards.

B 2. Health and Safety

The Group is committed to maintaining a safe, hygienic and productive workplace to all employees by taking the necessary work security measures to prevent the occurrence of workplace accidents. The Group develops and distributes the work safety guidelines among employees and provides adequate training to comply with all healthy and safety legislations and ordinances.

The Group is highly concerned about the health and safety of employees, and is dedicated to improving the working environment to prevent occupational disease. Occupational health and safety record is maintained to ensure that a healthy and safe workplace is provided to employees at all times. Regular office risk assessment is also undertaken to enhance workplace safety. In addition, the Group also recognises the importance on the development of mental health of employees, and hence organises periodic gatherings and other relaxing activities to relieve the employees' pressure at work.

During the reporting period, the Group has not violated any health and safety laws and regulations and achieved zero accidents in the workplace.

B 3. Development and Training

The Group focuses on the cultivation of potential talents and ensures that the skills and abilities of all employees are recognised and utilised to their full capacity. The Group develops and updates the training programme which aims specifically at increasing employees' knowledge on new services, improving operational skills, customer service and marketing techniques, and developing employees' management talents to fulfill their career goals. For new employees, the Group also provides orientation and induction programme to help them to familiarise with the new working environment.

In addition, the Group encourages its employees to advance and upgrade themselves by pursuing further studies or attempting professional examinations. The Group also supports employees to attend seminars which enhance their working skills during office hours. Besides, the Group will provide financial support to employees who successfully attain professional qualifications.

B 4. Labour Standards

The Group strictly complies with the relevant child labour and forced labour employment ordinance. All applicants' identity must be verified before employment. Before entering into employment contracts with employees, full explanation on the terms of employment must be given to ensure that all employees fully understand the content of the contracts before signing.

During the reporting period, no non-compliance issues were noted regarding labour standards as required by related laws and regulations.

B 5. Supply Chain Management

The Group takes initiatives to maintain long term relationship with its suppliers and vendors to ensure stable supply of goods and services. The Group regularly reviews the list of suppliers and the criteria on selecting suppliers, which is subject to the quality of goods and services, price, supply stability, delivery rate, customer services and environmental, social and ethical commitment. During the reporting period, no significant risks related to the supply chain at environmental and society levels were noted.

B 6. Product Responsibility

The Group is committed to providing reliable services by acting responsibly and protecting the interests of various stakeholders. The Group offers reliable services by providing customer services with quality and handling personal data with due care.

Providing customer services with quality

The Group aims at providing unique and satisfying customer services to achieve customer loyalty and maintain long term customer relationship. The Group provides training to employees who provide customer services to understand customers' needs and provide after-sale services. When designing marketing campaign, the Group ensures the information is accurate, reliable and not misleading to customers.

Handling personal data with due care

The Group handles a large amount of personal data during the conduct of its headhunting business. Therefore, the Group ensures all employees understand the procedures on handling personal data by signing to confirm the data protection policy designed by the Group in accordance with Personal Data (Privacy) Ordinance. Whenever there is a collection of personal data from the public, a Personal Information Collection Statement will be provided to ensure that the public understands the purpose of collecting their personal data and the fact that the Group will not use their personal data for any other purposes before the consent of the data subject. Besides, a Privacy Policy Statement is also published in the same paper form and the Groups' websites that collect the personal data so that the public can understand the policies and procedures of the Group in relation to the collection, holding and using of their personal data.

During the reporting period, no material non-compliance issues were noted regarding product responsibility as required by related laws and regulations.

B 7. Anti-corruption

The Group strives to maintain a high standard of business ethics and integrity during the course of its business. The Group's employees must comply with the code of ethics and laws and regulations in performing their daily work. In addition, the Group has established and communicated its internal guidelines for monitoring bribery, anti-money laundering and gifts or advantages received from suppliers or given to customers. A whistle-blowing channel is also established to encourage employees to report any suspicious cases, and any reported cases would be investigated and followed up timely by independent personnel.

During the reporting period, the Group does not aware of any corruption matters or any complaints relating to anti-money laundering against the Group or its employees.

B 8. Community Investment

The Group has devoted time and efforts to contribute to the society and encourage all employees to actively participate in environmental protection and various volunteer work for the community.

In the future, the Group will promote the health of its employees by organising sports activities and joint holding health talks, and will seek opportunities to work with various charitable organisations and join their community programme in order to promote the well-being of the society. By participating in community activities, the Group would be able to balance the interests among different stakeholders and achieve the goal of sustainable development.

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 2017.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding and is incorporated in the Cayman Islands. The activities of the subsidiaries are set out in Note 34 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.

BUSINESS REVIEW AND OUTLOOK

A review of the Group's performance, business activities and outlook is included in the section "Chairman's Statement" on pages 4 to 6 and the section "Management Discussion and Analysis" on pages 7 to 9 of the annual report.

Risks and uncertainties

The principal risks and uncertainties faced by the Group have been addressed in the section "Management Discussion and Analysis" in this report. In addition, various financial risks have been disclosed in Note 3 to the consolidated financial statements.

Environmental policies and performance

The Group recognises its responsibility to protect the environment from its business activities. The Group continually seeks to identify and manage environmental impacts attributable to its operational activities in order to minimise these impacts if possible. The Group has endeavoured to comply with laws and regulations regarding environmental protection and adopted effective environmental practices to ensure our business meets the required standards and ethics in respect of environmental protection.

Compliance with laws and regulations

The Group recognises the importance of compliance with regulatory requirements and has taken efforts to minimise the risks of non-compliance with such requirements. The Group has an on-going review on the newly enacted laws and regulations affecting the operations of the Group. The Group is not aware of any material breach of non-compliance with the laws and regulations that have a significant impact on the business and operations of the Group.

Key relationships with employees, customers and suppliers

The Group regularly reviews the employment policies on remuneration and other benefits and ensures that all its staff are reasonably remunerated. On the other hand, the Group maintains a good relationship and close contact with its customers and suppliers through various channels such as telephone, electronic mails and physical meetings to obtain their feedback and suggestions. The Group will also conduct review on the suppliers' performance on a regular basis.

FUND RAISING ACTIVITIES

To meet the imminent need of funding for general working capital of the Group to support its normal operation, the Company has completed various fund raising activities during the year. Details of fund raising activities and use of proceeds are set out in Note 25 to the consolidated financial statements.

SEGMENT INFORMATION

An analysis of the Group's performance by operating 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 2017 are set out in the Group's consolidated statement of profit or loss and other comprehensive income on page 41 of the annual report.

DIVIDEND

The Board of Directors does not recommend the payment of dividend in respect for the year ended 31 May 2017 (2016: Nil).

DONATIONS

Charitable and other donations made by the Group during the year amounted to HK$60,000.

RESERVES

Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 44 of the annual report.

FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five financial years ended 31 May 2017, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 113 of the annual report.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in Note 25 to the consolidated financial statements.

EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in Notes to the consolidated financial statements, no significant events have taken place subsequent to 31 May 2017 and up to the date of this report.

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.

PURCHASES, SALE OR REDEMPTION OF SECURITIES

For the year ended 31 May 2017, neither the Company nor any of its subsidiaries repurchased, sold or redeemed any of the Company's listed shares.

SHARE OPTION SCHEME

On 10 September 2012, the Company passed an ordinary resolution regarding the termination of the old share option scheme (the "Share Option Scheme") and adopted a new share option scheme (the "New Share Option Scheme") for the primary purpose of providing incentives and rewards to employees who have made contributions to the development of the Company. Under the terms of the New Share Option Scheme, the Board may, at its discretion, 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 New 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 of the options granted to each participant of the New 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 28 days from the offer date for each lot of share options granted. An option may be exercised in accordance with the terms of the New Share Option Scheme during a period to be notified by the Board.

The New Share Option Scheme is valid for a period of 10 years commencing from 10 September 2012.

The following shows the outstanding position as at 31 May 2017 with respect to their share options granted under the Share Option Scheme and New Share Option Scheme respectively:

	Date of grant	Exercise price HK$	Exercise period	Number of Share Options: Balance as at 1.6.2016	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	Balance as at 31.5.2017
Under Share Option Scheme								
Name of Directors								
Mr. James Ang	13.10.2009	0.233	13.10.2009 to 12.10.2019	1,550,000	–	(1,550,000)	–	–
Mr. Wei Ren	13.10.2009	0.233	13.10.2009 to 12.10.2019	1,500,000	–	–	–	1,500,000
	08.12.2010	0.150	08.12.2010 to 07.12.2020	1,000,000	–	–	–	1,000,000
Ms. Yau Pui Chi, Maria	13.10.2009	0.233	13.10.2009 to 12.10.2019	3,520,000	–	(3,520,000)	–	–
Dr. Zhong Shi	13.10.2009	0.233	13.10.2009 to 12.10.2019	3,200,000	–	–	–	3,200,000
	08.12.2010	0.150	08.12.2010 to 07.12.2020	1,000,000	–	–	–	1,000,000
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
				16,470,000	–	(5,070,000)	–	11,400,000
Other employees and individuals								
In aggregate								
	08.12.2010	0.150	08.12.2010 to 07.12.2020	940,000	–	–	–	940,000
	31.01.2011	0.182	31.01.2011 to 30.01.2021	22,800,000	–	–	–	22,800,000
	30.05.2011	0.1486	30.05.2011 to 29.05.2021	5,000,000	–	–	–	5,000,000
				28,740,000	–	–	–	28,740,000
Sub-total				45,210,000	–	(5,070,000)	–	40,140,000
Under New Share Option Scheme								
Name of Directors								
Mr. James Ang	14.10.2016	0.1184	14.10.2016 to 13.10.2026	–	8,560,000	(8,560,000)	–	–
Ms. Yau Pui Chi, Maria	14.10.2016	0.1184	14.10.2016 to 13.10.2026	–	8,560,000	(8,560,000)	–	–
Dr. Zhong Shi	16.05.2014	0.145	16.05.2014 to 15.05.2024	5,500,000	–	–	–	5,500,000
	12.10.2015	0.159	12.10.2015 to 11.10.2025	5,000,000	–	–	–	5,000,000
	12.02.2016	0.111	12.02.2016 to 11.02.2026	1,000,000	–	–	–	1,000,000
	14.10.2016	0.1184	14.10.2016 to 13.10.2026	–	1,000,000	–	–	1,000,000
Mr. Chiang Kin Kon	12.02.2016	0.111	12.02.2016 to 11.02.2026	1,000,000	–	–	–	1,000,000
	14.10.2016	0.1184	14.10.2016 to 13.10.2026	–	1,000,000	–	–	1,000,000
Mr. Wong Kwok Fai	12.02.2016	0.111	12.02.2016 to 11.02.2026	1,000,000	–	–	–	1,000,000
	14.10.2016	0.1184	14.10.2016 to 13.10.2026	–	1,000,000	–	–	1,000,000
Mr. Chau Siu Keung	12.02.2016	0.111	12.02.2016 to 11.02.2026	1,000,000	–	(1,000,000)	–	–
	14.10.2016	0.1184	14.10.2016 to 13.10.2026	–	1,000,000	–	–	1,000,000
				14,500,000	21,120,000	(18,120,000)	–	17,500,000
Other employees and individuals								
In aggregate								
	16.05.2014	0.145	16.05.2014 to 15.05.2024	7,880,000	–	–	–	7,880,000
	03.12.2014	0.1838	03.12.2014 to 02.12.2024	57,400,000	–	–	–	57,400,000
	12.10.2015	0.159	12.10.2015 to 11.10.2025	27,000,000	–	–	(5,000,000)	22,000,000
	12.02.2016	0.111	12.02.2016 to 11.02.2026	25,500,000	–	(10,200,000)	(2,500,000)	12,800,000
	14.10.2016	0.1184	14.10.2016 to 13.10.2026	–	22,200,000	–	–	22,200,000
				117,780,000	22,200,000	(10,200,000)	(7,500,000)	122,280,000
Sub-total				132,280,000	43,320,000	(28,320,000)	(7,500,000)	139,780,000
Total				177,490,000	43,320,000	(33,390,000)	(7,500,000)	179,920,000

During the year ended 31 May 2017, 43,320,000 share options were granted under the New Share Option Scheme (2016: 81,260,000), 33,390,000 share options were exercised (2016: 38,910,000), 7,500,000 share options were lapsed (2016: 8,328,000) and no share options were cancelled (2016: Nil).

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

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, Ms. Yau Pui Chi, Mr. Wei Ren, 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.

INDEPENDENCE CONFIRMATION

The Company has received an annual written confirmation from each of its independent non-executive Directors pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers all of the independent non-executive Directors are independent.

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 10 to 11 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.

PERMITTED INDEMNITY

During the year ended 31 May 2017 and up to the date of this report, permitted indemnity provision (as defined in section 9 of the Companies (Directors' Report) Regulation (Chapter 622D of the Laws of Hong Kong)) was and is being in force for the benefit of the Directors.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in the service contracts, no transactions, arrangements or 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 2017.

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

At 31 May 2017, apart from the details as follows, the Directors and chief executive do not have any other interests and/or 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"). The details were as follows:

		Number of shares held						
Name of Directors	Capacity	Personal interests	Family interests	Corporate interests	Number of share options held	Exercise price of share options HK$	Total interests	% of total issued shares
Mr. James Ang ("Mr. Ang")	Interest in controlled corporation	–	–	22,788,000 (Note 1)	–	–	22,788,000	1.92
	Beneficial owner	298,394,819	36,189,000 (Note 2)	–	–	–	334,583,819	28.12
Ms. Yau Pui Chi, Maria ("Ms. Yau") (Spouse of Mr. Ang)	Beneficial owner	36,189,000	321,182,819 (Note 3)	–	–	–	357,371,819	30.04
Mr. Wei Ren	Beneficial owner	500,000	–	–	1,500,000 1,000,000	0.233 0.150	3,000,000	0.25
Dr. Zhong Shi	Beneficial owner	–	–	–	3,200,000 1,000,000 5,500,000 5,000,000 1,000,000 1,000,000	0.233 0.150 0.145 0.159 0.111 0.1184	16,700,000	1.40

Name of Directors	Capacity	Number of shares held			Number of share options held	Exercise price of share options	Total interests	% of total issued shares
		Personal interests	Family interests	Corporate interests		HK$		
Mr. Chiang Kin Kon	Beneficial owner	–	–	–	2,300,000 1,000,000 1,000,000	0.233 0.111 0.1184	4,300,000	0.36
Mr. Wong Kwok Fai	Beneficial owner	–	–	–	1,200,000 1,000,000 1,000,000	0.233 0.111 0.1184	3,200,000	0.27
Mr. Chau Siu Keung	Beneficial owner	1,272,000	–	–	1,200,000 1,000,000	0.233 0.1184	3,472,000	0.29

Note:

1) These shares are registered as 3,190,000 shares held by Cyber Wealth Company Group Limited ("Cyber Wealth") and 19,598,000 shares held by Bluechip Combination Investments Limited ("Bluechip"). Cyber Wealth and Bluechip are companies wholly-owned by Mr. Ang.

2) These shares are registered as 36,189,000 shares held by Ms. Yau in person.

3) These shares are registered as 298,394,819 shares held by Mr. Ang in person; and 3,190,000 shares held by Cyber Wealth and 19,598,000 shares held by Bluechip.

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

Save as the interest disclosed above in respect of certain Directors, the Company has not been notified of any other shareholders who had interest and/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 Division 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 2017.

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 accounted for approximately 54% (2016: 32%) of the Group's total turnover for the year ended 31 May 2017.

Purchases for the largest supplier for the year ended 31 May 2017 represented approximately 52% (2016: 27%) of the Group's total purchases. The total purchases attributable to the five largest suppliers of the Group for the year ended 31 May 2017 accounted for approximately 78% (2016: 88%) of the total purchases of the Group for the year ended 31 May 2017.

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 2017, which constitute exempted connected transactions under the Rules Governing the Listing of Securities on the GEM ("GEM Listing Rules"), are disclosed in Note 32 to the consolidated financial statements.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

Save as disclosed in Directors' interests and short positions under the section "Directors' and Chief Executives' Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company or Any Associated Corporation", and 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 2017, 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 2.20 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 12 to 18 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 third quarter reports of the Group for the year. The Audit Committee has held regular meetings 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 one executive Director Ms. Yau Pui Chi, Maria. The Remuneration Committee has formulated and implemented the remuneration policy relating to directors and employees of the Group.

NOMINATION COMMITTEE

The Company has established a Nomination Committee with specific terms of reference which deals clearly with its authorities and duties. The Nomination Committee currently consists of two independent non-executive Directors, and an executive Director. Mr. James Ang, an executive Director, is the Chairman of the Nomination Committee, and other members are Mr. Chiang Kin Kon and Mr. Chau Siu Keung, independent non-executive Directors.

The Nomination Committee is responsible for identifying potential new Directors and recommends to the Board for decision. A Director appointed by the Board is subject to election by shareholders at the first annual general meeting after his appointment in case of the appointment of additional Director or at the first general meeting after his appointment in case of filling of casual vacancy.

Under the Articles of Association of the Company, all Directors are subject to retirement by rotation and re-election by shareholders every three years.

Potential new Directors are selected on the basis of their qualifications, skill and experience which the Nomination Committee considers will make a positive contribution to the performance of the Board. The Nomination Committee is also responsible for reviewing the board diversity policy and evaluating the effectiveness and implementation of the said policy regularly.

AUDITOR

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, 24 August 2017

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

Lau & Au Yeung C.P.A. Limited
21/F., Tai Yau Building
181 Johnston Road, Wanchai
Hong Kong

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

OPINION

We have audited the consolidated financial statements of Netel Technology (Holdings) Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 41 to 112, which comprise the consolidated statement of financial position as at 31 May 2017, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 May 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

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

EMPHASIS OF MATTERS

We draw attention to Note 2.1(a) in the consolidated financial statements which indicates that the Company and its subsidiaries incurred a total comprehensive loss of approximately HK$21,237,000 during the year ended 31 May 2017. As stated in Note 2.1(a), these events or conditions, along with other matters as set out in Note 2.1(a), indicate that a material uncertainty exists that may cast significant doubt on the Company and its subsidiaries' ability to continue as a going concern. Our opinion is not modified in respect of this matter.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

Key Audit Matter	How our audit addressed the Key Audit Matter
Recoverability of trade and other receivables	
As at 31 May 2017, the Group has trade and other receivables of HK$6.00 million and the provision for doubtful debts amounted to HK$4.04 million. The net receivables represented 14.97% of the Group's total assets. Trade receivables of the Group comprise mainly receivables from the sales of calling cards, recruitment related services including job posting, headhunt services and recruitment car rentals, and the e-commerce trading business. Management assessed the recoverability of trade and other receivables by reviewing customers' aging profile, credit history and status of subsequent settlement, and determine whether an impairment provision is required.	Our audit procedures in relation to the recoverability of trade and other receivables include: • Tested the accuracy of ageing of trade receivables on a sample basis; • Verified the balances of trade and other receivables by request and received of confirmations on a sample basis; • Understood the management's basis and assessment in relation to the recoverability of trade and other receivables;

KEY AUDIT MATTERS *(Continued)*

Key Audit Matter	How our audit addressed the Key Audit Matter
Recoverability of trade and other receivables *(Continued)*	
For the purpose of impairment assessment, significant judgement and assumptions, including the credit risks of customers, the timing and amount of realisation of these receivables, are required for the identification of impairment events and the determination of the impairment charge. For this reason, we identified the recoverability of trade and other receivables as a key audit matter.	• Tested the accuracy of calculation of impairment provision for trade receivables by management at the year end in accordance with the Group's stated provision policy; • Assessed the recoverability of outstanding receivables from customers with significant past due not impaired balances, through our discussion with management and latest correspondence with customers; and • Assessed the recoverability of balances by comparing the outstanding amounts as at year end against subsequent settlements.
Impairment assessment of internally generated intangible assets	
Refer to note 15 to the consolidated financial statements. As at 31 May 2017, the Group's intangible assets amounted to HK$5.77 million. The intangible assets are stated at cost less accumulated amortisation and impairment losses, if any. Management assessed the recoverable amounts of the intangible assets by preparing impairment assessment based on value in use calculations. The calculations require the Group to estimate the future cash flows expected to arise from the cash-generating units to which the intangible assets belonged to and the use of a suitable discount rate in order to calculate the present value. Significant estimation and judgement are required by management with respect to the use of discount rates and the underlying cash flows, in particular future revenue growth and capital expenditure, and other underlying assumptions as well.	Our audit procedures in relation to the impairment assessment of internally generated intangible assets include: • Evaluated and challenged the process by which the management's future cash flow forecasts and impairment assessment was prepared; • Assessed the appropriateness of the key assumptions including revenue growth rate and discount rate; • Found for the supporting and available evidence on the estimation and judgement made by the management in relation to the preparation of future cash flow forecasts and impairment assessment; • Checked the mathematical accuracy of the value in use calculations by the management for the purpose of impairment assessment; and

KEY AUDIT MATTERS *(Continued)*

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of internally generated intangible assets *(Continued)*	
For this reason, we identified the impairment assessment of intangible assets as a key audit matter.	• Considered the results of sensitivity analysis on reasonably possible downside changes in key assumptions adopted by the management.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all the information included in the Group's 2017 annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITY FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We 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.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

AUDITOR'S RESPONSIBILITY FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Franklin Lau Shiu Wai
Practising Certificate Number P01886

Hong Kong, 24 August 2017

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 May 2017

	Notes	2017 HK$'000	2016 HK$'000
Revenue	5&6	**3,315**	2,367
Cost of sales		**(2,219)**	(637)
Gross profit		**1,096**	1,730
Other income	6	**55**	25
Selling and marketing expenses		**(152)**	(454)
Administrative expenses		**(22,119)**	(24,551)
Operating loss	7	**(21,120)**	(23,250)
Finance costs	8	**(111)**	(44)
Share of profit/(loss) of associates		**–**	–
Loss before income tax		**(21,231)**	(23,294)
Income tax expense	9	**(6)**	–
Loss for the year		**(21,237)**	(23,294)
Other comprehensive income		**–**	–
Total comprehensive loss for the year		**(21,237)**	(23,294)
Loss for the year attributable to:			
– Equity holders of the Company		**(21,206)**	(23,247)
– Non-controlling interests		**(31)**	(47)
		(21,237)	(23,294)
Total comprehensive loss for the year attributable to:			
– Equity holders of the Company		**(21,206)**	(23,247)
– Non-controlling interests		**(31)**	(47)
		(21,237)	(23,294)
Loss per share attributable to equity holders of the Company			
– Basic and diluted	11	**HK (1.93 cents)**	HK (2.38 cents)

The notes on pages 46 to 112 form an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 May 2017

	Notes	2017 HK$'000	2016 HK$'000
ASSETS			
Non-current assets			
Plant and equipment	14	**905**	1,184
Intangible assets	15	**5,769**	4,897
Interests in associates	16	**3**	3
Interest in a joint venture	17	**50**	50
Available-for-sale financial assets	18	**–**	–
		6,727	6,134
Current assets			
Inventories	19	**134**	141
Trade receivables	20	**1,014**	505
Prepayments, deposits and other receivables	20	**948**	697
Bank balances and cash	21	**4,284**	1,436
		6,380	2,779
Total assets		**13,107**	8,913
EQUITY			
Capital and reserves			
Share capital	25	**23,793**	20,769
Share premium and reserves	26	**(23,438)**	(18,003)
		355	2,766
Non-controlling interests		**(142)**	(116)
Total equity		**213**	2,650

Consolidated Statement of Financial Position

As at 31 May 2017

	Notes	2017 HK$'000	2016 HK$'000
LIABILITIES			
Non-current liabilities			
Obligations under finance lease	24	**138**	242
Corporate bonds	29	**7,096**	–
		7,234	242
Current liabilities			
Trade payables	22	**2,141**	2,023
Receipt in advance, accruals and other payables	22	**2,986**	3,344
Amounts due to directors	23	**423**	556
Tax payable		**6**	–
Obligations under finance lease	24	**104**	98
		5,660	6,021
Total liabilities		**12,894**	6,263
Total equity and liabilities		**13,107**	8,913
Net current assets/(liabilities)		**720**	(3,242)
Total assets less current liabilities		**7,447**	2,892

The notes on pages 46 to 112 form an integral part of these consolidated financial statements.

The financial statements on pages 41 to 112 were approved by the Board of Directors on 24 August 2017 and were signed on its behalf.

James Ang
Director

Yau Pui Chi, Maria
Director

Consolidated Statement of Changes in Equity

For the year ended 31 May 2017

	Share Capital HK$'000	Share Premium HK$'000	Share Option Reserve HK$'000	Convertible Bonds Equity Component HK$'000	Other 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 2015	17,815	123,301	12,140	375	(9,251)	247	(142,767)	1,860	(110)	1,750
Loss for the year	–	–	–	–	–	–	(23,247)	(23,247)	(47)	(23,294)
Other comprehensive income	–	–	–	–	–	–	–	–	–	–
Total comprehensive loss for the year	–	–	–	–	–	–	(23,247)	(23,247)	(47)	(23,294)
Transactions with owners:										
Issue of shares by subscriptions	1,340	9,795	–	–	–	–	–	11,135	–	11,135
Issue of shares by placing	680	4,976	–	–	–	–	–	5,656	–	5,656
Issue of shares upon conversion of convertible bonds	156	1,858	–	(375)	–	–	–	1,639	–	1,639
Issue of shares upon exercise of share options	778	8,519	(3,021)	–	–	–	–	6,276	–	6,276
Grant of share options	–	–	1,670	–	–	–	–	1,670	–	1,670
Recognition of equity-settled share-based payments	–	–	2,309	–	–	–	–	2,309	–	2,309
Lapse of share options	–	–	(51)	–	–	–	51	–	–	–
Addition of non-controlling interests	–	–	–	–	–	–	–	–	49	49
Acquisition of non-controlling interests	–	–	–	–	(4,532)	–	–	(4,532)	(8)	(4,540)
Total transactions with owners	2,954	25,148	907	(375)	(4,532)	–	51	24,153	41	24,194
Balance at 31 May and 1 June 2016	20,769	148,449	13,047	–	(13,783)	247	(165,963)	2,766	(116)	2,650
Loss for the year	–	–	–	–	–	–	(21,206)	(21,206)	(31)	(21,237)
Other comprehensive income	–	–	–	–	–	–	–	–	–	–
Total comprehensive loss for the year	–	–	–	–	–	–	(21,206)	(21,206)	(31)	(21,237)
Transactions with owners:										
Issue of shares by subscriptions	2,356	9,575	–	–	–	–	–	11,931	–	11,931
Issue of shares upon exercise of share options	668	5,267	(1,483)	–	–	–	–	4,452	–	4,452
Grant of share options	–	–	1,151	–	–	–	–	1,151	–	1,151
Recognition of equity-settled share-based payments	–	–	1,261	–	–	–	–	1,261	–	1,261
Lapse of share options	–	–	(189)	–	–	–	189	–	–	–
Addition of non-controlling interests	–	–	–	–	–	–	–	–	5	5
Total transactions with owners	3,024	14,842	740	–	–	–	189	18,795	5	18,800
Balance at 31 May 2017	23,793	163,291	13,787	–	(13,783)	247	(186,980)	355	(142)	213

The other reserve represents the difference between the fair value of consideration paid to acquire non- controlling interests in subsidiaries, GBjobs.com Limited, Dolphins HR Consultancy Limited, Asian Talent Development Centre Limited, Netel Digital Marketing Limited (formerly known as GBjobs (SSP) Services Centre Limited) and 金飯碗人力資源服務(深圳)有限公司 and the amount of adjustment to non-controlling interests during the years ended 31 May 2016 and 2017.

The notes on pages 46 to 112 form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 May 2017

	Notes	2017 HK$'000	2016 HK$'000
Cash flows from operating activities			
Net cash used in operations	30	**(18,430)**	(16,720)
Interest paid		**(15)**	(20)
Net cash used in operating activities		**(18,445)**	(16,740)
Cash flows from investing activities			
Additions of intangible assets		**(1,713)**	(1,650)
Additions of plant and equipment		**(151)**	(592)
Investment in a joint venture		**–**	(50)
Net cash used in investing activities		**(1,864)**	(2,292)
Cash flows from financing activities			
Net proceeds from issuance of shares by subscriptions		**11,931**	11,135
Net proceeds from issuance of shares by placing		**–**	5,656
Net proceeds from issuance of corporate bonds		**7,000**	–
Net proceeds from exercise of share options		**4,452**	6,276
Coupon interest paid for convertible bonds		**–**	(12)
Additions of non-controlling interests		**5**	49
Acquisition of non-controlling interests		**–**	(4,540)
Decrease in amounts due to directors		**(133)**	(528)
Repayment of obligations under finance lease		**(98)**	(112)
Net cash generated from financing activities		**23,157**	17,924
Net increase/(decrease) in cash and cash equivalents		**2,848**	(1,108)
Cash and cash equivalents at beginning of the year		**1,436**	2,544
Cash and cash equivalents at end of the year	21	**4,284**	1,436

The notes on pages 46 to 112 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 research and development of telecommunication and recruitment applications, value-added service software and provision of related services, trading of telecommunication equipment, provision of long distance call services, online recruitment services, e-commerce platform and trading business.

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 (the "Board") of directors (the "Directors") of the Company on 24 August 2017.

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 notwithstanding that the Group had incurred a loss attributable to shareholders of approximately HK$21.21 million for the year ended 31 May 2017. 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:

- A major and controlling shareholder confirms that funds, if required, will be made available to the Company through shareholder's loans and exercising of share options to meet the present and future cashflow requirement from operation and settlement of its outstanding obligations

- Continuous development and improvement of the Group's products and services and future cash flows to be generated from new revenue source and new businesses

- Continuous effort to control cost of the Group

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 the consolidated financial statements on going concern basis is appropriate.

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

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

(b) The consolidated financial statements of the Group have been prepared under the historical cost convention and in accordance with all applicable 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 HKFRSs 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) New and amended standards adopted by the Group

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on or after 1 June 2016:

HKFRSs (Amendments)	Annual Improvements to HKFRSs 2012-2014 Cycle
HKAS 1 (Amendments)	Disclosure Initiative
HKAS 16 and HKAS 38 (Amendments)	Clarification of Acceptable Methods of Depreciation and Amortisation
HKAS 16 and HKAS 41 (Amendments)	Agriculture: Bearer Plants
HKAS 27 (Amendments)	Equity Method in Separate Financial Statements
HKFRS 10, HKFRS 12 and HKAS 28 (Amendments)	Investment Entities: Applying the Consolidation Exception
HKFRS 11 (Amendments)	Accounting for Acquisition of Interests in Joint Operation
HKFRS 14	Regulatory Deferral Accounts

The application of these new HKFRSs in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in those consolidated financial statements.

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

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

(ii) New standards and interpretations not yet adopted

HKFRSs (Amendments)	Annual Improvements to HKFRSs 2014-2016 Cycle[2]
HKAS 7 (Amendments)	Disclosure Initiative[1]
HKAS 12 (Amendments)	Recognition of Deferred Tax Assets for Unrealised Losses[1]
HKAS 40 (Amendments)	Transfers of Investment Property[3]
HKFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions[3]
HKFRS 4 (Amendments)	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[3]
HKFRS 9	Financial Instruments[3]
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
HKFRS 15	Revenue from Contracts with Customers[2]
HKFRS 15	Clarification to HKFRS 15[3]
HKFRS 16	Leases[4]
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration[3]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[4]

1 Effective for annual periods beginning on or after 1 January 2017

2 Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate

3 Effective for annual periods beginning on or after 1 January 2018

4 Effective for annual periods beginning on or after 1 January 2019

5 Effective for a date to be determined by the IASB

The above new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 June 2016 and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

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

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

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 was amended in 2010 and includes the requirements for the classification and measurement of financial liabilities and for derecognition. In 2013, HKFRS 9 was further amended to bring into effect a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements. A finalised version of HKFRS 9 was issued in 2014 to incorporate all the requirements of HKFRS 9 that were issued in previous years with limited amendments to the classification and measurement by introducing a "fair value through other comprehensive income" ("FVTOCI") measurement category for certain financial assets. The finalised version of HKFRS 9 also introduces an "expected credit loss" model for impairment assessments.

Key requirements of HKFRS 9 are described as follows:

- All recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

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

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

HKFRS 9 Financial Instruments *(Continued)*

- In the aspect of impairment assessments, the impairment requirements relating to the accounting for an entity's expected credit losses on its financial assets and commitments to extend credit were added. Those requirements eliminate the threshold that was in HKAS 39 for the recognition of credit losses. Under the impairment approach in HKFRS 9 it is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, expected credit losses and changes in those expected credit losses should always be accounted for. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition and, consequently, more timely information is provided about expected credit losses.

- HKFRS 9 introduces a new model which is more closely aligns hedge accounting with risk management activities undertaken by companies when hedging their financial and non-financial risk exposures. As a principle-based approach, HKFRS 9 looks at whether a risk component can be identified and measured and does not distinguish between financial items and non-financial items. The new model also enables an entity to use information produced internally for risk management purposes as a basis for hedge accounting. Under HKAS 39, it is necessary to exhibit eligibility and compliance with the requirements in HKAS 39 using metrics that are designed solely for accounting purposes. The new model also includes eligibility criteria but these are based on an economic assessment of the strength of the hedging relationship. This can be determined using risk management data. This should reduce the costs of implementation compared with those for HKAS 39 hedge accounting because it reduces the amount of analysis that is required to be undertaken only for accounting purposes.

HKFRS 9 will become effective for annual periods beginning on or after 1 January 2018 with early application permitted.

The directors of the Company anticipate that the adoption of HKFRS 9 in the future may have significant impact on amounts reported in respect of the Group's financial assets and financial liabilities.

Regarding the Group's financial assets, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

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

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

HKFRS 15 Revenue from Contracts with Customers

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Thus, HKFRS 15 introduces a model that applies to contracts with customers, featuring a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised. The five steps are as follows:

(i) Identify the contract with the customer;

(ii) Identify the performance obligations in the contract;

(iii) Determine the transaction price;

(iv) Allocate the transaction price to the performance obligations; and

(v) Recognise revenue when (or as) the entity satisfies a performance obligation.

HKFRS 15 also introduces extensive qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and the related Interpretations when it becomes effective.

HKFRS 15 will become effective for annual periods beginning on or after 1 January 2018 with early application permitted. The directors of the Company anticipate that the application of HKFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

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

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

HKFRS 16 Leases

HKFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessors and lessees. In respect of the lessee accounting, the standard introduces a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases with the lease term of more than 12 months, unless the underlying asset has a low value. At the commencement date of the lease, the lessee is required to recognise a right-of-use asset at cost, which consists of the amount of the initial measurement of the lease liability, plus any lease payments made to the lessor at or before the commencement date less any lease incentives received, the initial estimate of restoration costs and any initial direct costs incurred by the lessee. A lease liability is initially recognised at the present value of the lease payments that are not paid at that date.

Subsequently, the right-of-use asset is measured at cost less any accumulated depreciation and any accumulated impairment losses, and adjusted for any remeasurement of the lease liability. Lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payment made, and remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments. Depreciation and impairment expenses, if any, on the right-of-use asset will be charged to profit or loss following the requirements of HKAS 16 Property, Plant and Equipment, while interest accrual on lease liability will be charged to profit or loss.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

HKFRS 16 will supersede the current lease standards including HKAS 17 Leases and the related Interpretations when it becomes effective.

HKFRS 16 will be effective for annual periods beginning on or after 1 January 2019 with early application permitted provided that the entity has applied HKFRS 15 Revenue from Contracts with Customers at or before the date of initial application of HKFRS 16. The directors of the Company are in the process of assessing their impact on the consolidated financial statements of these requirements. However, it is not practicable to provide a reasonable estimate of the effect until the Group performs a detailed review.

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

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 May 2017.

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

In the Company's statement of financial position, the investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

(i) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

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

2.2 Consolidation *(Continued)*

(i) Business combinations *(Continued)*

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRSs.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 in profit or loss. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of profit or loss and other comprehensive income.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

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

2.2 Consolidation *(Continued)*

(ii) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(iii) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. It means the amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs.

2.3 Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in associates include goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profits or losses is recognised in the statement of profit or loss and other comprehensive income, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses of an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

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

2.3 Associates *(Continued)*

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the statement of profit or loss and other comprehensive income.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associate. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the associate have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gains or losses on dilution of equity interest in associates are recognised in statement of profit or loss and other comprehensive income.

2.4 Joint arrangements

The Group has applied HKFRS 11 to all joint arrangements. Under HKFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. The Group's investments in joint ventures include goodwill identified on acquisition. Upon the acquisition of the ownership interest in a joint venture, any difference between the cost of the joint venture and the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is accounted for as goodwill. When the Group's share of loss in a joint venture equals or exceeds its interests in the joint ventures, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

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

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

2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that make strategic decisions.

2.6 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 items.

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 charged to the statement of profit or loss and other comprehensive income during the financial period in which they are incurred.

Depreciation on both owned and leased plant and equipment is calculated using the straight-line method to allocate their 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 vehicles	20%

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals of plant and equipment are determined by comparing the proceeds with the carrying amount and are recognised in the statement of profit or loss and other comprehensive income.

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

2.7 Intangible assets

Cost associated with maintaining telecommunication and computer software programmes are recognised 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 Group are recognised 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 recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

An intangible asset with an infinite useful life shall be stated at cost less estimated net residual value and any accumulated impairment loss provision and amortised using the straight-line method or units of production method over its useful life when the asset is available for use. Intangible assets with indefinite life are not amortised.

The Group shall review the useful life of intangible asset with an infinite useful life and the amortisation method applied at least at the end of each reporting period. A change in the useful life or amortisation method used shall be accounted for as a change in accounting estimate. For an intangible asset with an indefinite useful life, the Group shall review the useful life of the asset in each accounting period. If there is evidence indicating that the useful life of that intangible asset is finite, the Group shall estimate the useful life of that asset and apply the accounting policies accordingly.

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

2.7 Intangible assets *(Continued)*

(i) Website development costs

Website development costs recognised as assets are amortised over their estimated useful lives of five years. The assets' useful lives and their amortisation method are reviewed annually.

(ii) Telecommunication and recruitment applications and value-added service software development costs

Telecommunication and recruitment applications and value-added service software development costs are amortised over their estimated useful lives of five years when the assets are available for use. The assets' useful lives and their amortisation method are reviewed annually.

2.8 Impairment of non-financial assets

Non-financial assets including intangible assets that have an indefinite useful life or those not ready for use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal 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). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 Available-for-sale financial assets

The Group classifies its financial assets as available-for-sale financial assets. The classification depends on the purposes for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of the investment within twelve months of the end of the reporting period.

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value.

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

2.9 Available-for-sale financial assets *(Continued)*

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

Available-for-sale financial assets that do not have quoted market prices in any active markets and those fair values cannot be reliably measured are stated at cost less impairment loss.

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the statement of profit or loss and other comprehensive income. Impairment losses recognised in the statement of profit or loss and other comprehensive income on equity instruments are not reversed through the statement of profit or loss and other comprehensive income.

2.10 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities 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 ("HK$"), 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 profit or loss and other comprehensive income, except when deferred in other comprehensive income as qualifying cash flow hedges or qualifying net investment hedges.

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

2.10 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 profit or loss and other 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 rate on the dates of the transactions); and

– all resulting currency translation differences are recognised in other comprehensive income.

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. Currency translation differences arising are recognised in other comprehensive income.

2.11 Leases

(a) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of profit or loss and other comprehensive income on a straight-line basis over the period of the lease.

(b) Finance leases

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

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

2.11 Leases *(Continued)*

(b) Finance leases *(Continued)*

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the statement of profit or loss and other 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 plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

2.12 Inventories

Inventories comprise mainly telecommunication 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.

2.13 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

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.

2.14 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

2.15 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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

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

2.16 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

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

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

2.17 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.

2.18 Current and deferred income tax

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

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company and its subsidiaries and associates operate and generate 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.

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

2.18 Current and deferred income tax *(Continued)*

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. The deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the 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 only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only where there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

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

2.19 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) Revenues in respect of provision of long distance call services, telecommunication applications and value-added services and recruitment agency services are recognised when the services are rendered.

(ii) Revenue from the sale of equipment and the e-commerce and trading business is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the equipment and goods are 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.

2.20 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 profit or loss and other 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.

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

2.20 Employee benefits *(Continued)*

(c) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to a termination when the entity has a detailed formal plan to terminate the employment of current employees without possibility of withdrawal. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than twelve months after the end of the reporting period are discounted to present value.

(d) Share-based payment transactions

The Group operates an equity-settled, share-based compensation plan, under which the entity receives services from directors and employees as consideration for equity instruments (options) of the Group.

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. The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled in employee benefit expense. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for share options that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

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

2.21 Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis other than those financial liabilities classified at fair value through profit or loss of which the interest is included in net gains or losses.

(a) Convertible bonds

Convertible bonds issued by the Group with conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments are separated into two components, liability and equity elements. Such convertible bonds are classified separately into respective items on initial recognition.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the gross proceeds of the issue of the convertible bonds and the fair value assigned to the liability component, representing the conversion option for the holder to convert the bond into equity, is included in convertible bonds equity reserve under equity.

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in convertible bonds equity reserve until the conversion option is exercised in which case the balance stated in convertible bonds equity reserve will be transferred to share premium. Where the conversion option remains unexercised at the expiry date, the balance stated in the convertible bonds equity reserve will be released to the retained earnings. No gain or loss is recognised in profit or loss upon conversion or at the expiry date of the option.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly against equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bonds using the effective interest method.

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

2.21 Financial liabilities and equity instruments *(Continued)*

(a) Convertible bonds *(Continued)*

When an entity extinguishes a convertible instrument before maturity through repurchase in which the original conversion privileges are unchanged, the entity allocates the consideration paid and any transaction costs for the repurchase to the liability and equity components of the instrument at the date of the transaction. The method used in allocating the consideration paid and transaction costs to the separate components is consistent with that used in the original allocation to the separate components of the proceeds received by the entity when the convertible instrument was issued.

Once the allocation of the consideration is made, any resulting gain or loss is treated in accordance with accounting principles applicable to the related component, as follows:

(i) the amount of gain or loss relating to the liability component is recognised in profit or loss; and

(ii) the amount of consideration relating to the equity component is recognised in equity.

Options to subscribe for convertible bonds are classified as equity instruments based on the contractual terms of the options and convertible bonds. On initial recognition, the fair value of the options to subscribe for convertible bonds is determined using option pricing model and recognised in "Option Bonds Reserve" included in equity. When the options are exercised, the carrying amount of options to subscribe for convertible bonds in "Option Bonds Reserve" will be transferred to "convertible bonds" together with the consideration received. Where the options to subscribe for convertible bonds remained unexercised at the expiry date, the balance stated in "Option Bonds Reserve" will be released to the retained earnings. No gain or loss is recognised in profit or loss upon conversion or expiration of the options to subscribe for convertible bonds.

(b) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(c) Corporate bonds

Corporate bonds issued by the Company with no conversion rights are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks, including credit risk, cash flow interest rate risk, foreign exchange risk and liquidity risk. These risks are managed by the Group's financial management policies and practices as described below to minimise potential effects on the Group's financial performance.

(a) Credit risk

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

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

181 – 365 days	50%
Over 365 days	100%

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

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

(b) Cash flow interest rate risk

As the Group has no significant interest-bearing assets or liabilities, except for certain finance lease liabilities and corporate bonds charged at pre-determined rates, 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 HK$ and its revenue, expenses, assets and liabilities are principally denominated in HK$, which do not pose significant foreign exchange risk at present. Procedures are in place to monitor possible exposure to foreign exchange 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 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.

	Less than 1 year or on demand HK$'000	**Between 2 and 5 years HK$'000**	**Over 5 years HK$'000**
As at 31 May 2017			
Trade and other payables	**5,127**	**–**	**–**
Amounts due to directors	**423**	**–**	**–**
Obligations under finance lease	**104**	**138**	**–**
Corporate bonds	**–**	**1,524**	**5,572**
	5,654	**1,662**	**5,572**

	Less than 1 year or on demand HK$'000	Between 2 and 5 years HK$'000	Over 5 years HK$'000
As at 31 May 2016			
Trade and other payables	5,367	–	–
Amounts due to directors	556	–	–
Obligations under finance lease	98	242	–
Corporate bonds	–	–	–
	6,021	242	–

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Capital risk management

The Group's objective when managing capital is 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 mainly consists of equity and amounts due to directors. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares and equity instruments to raise fund 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 is defined as total borrowings divided by the shareholders' fund. As at 31 May 2017, except for finance lease and corporate bonds, the Group did not have interest bearing liability (2016: Nil, except for finance lease). As such, gearing ratio was not adopted.

3.3 Fair value estimation

(a) 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.

(b) Fair value measurements recognised in the consolidated statement of financial position

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

(i) Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

(ii) Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation *(Continued)*

(b) *(Continued)*

(iii) Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

	2017				2016			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**	HK$'000	HK$'000	HK$'000	HK$'000
Assets								
Available-for-sale financial assets	**–**	**–**	**–**	**–**	–	–	–	–
Total assets	**–**	**–**	**–**	**–**	–	–	–	–

There was no transfer between Level 1 and Level 2 for the years ended 31 May 2017 and 2016.

3.4 Financial instruments by category

Other than the unlisted equity investments being classified as available-for-sale financial assets as disclosed in note 18 to the consolidated financial statements, all financial assets and liabilities of the Group as at 31 May 2017 and 2016 were loans and receivables and financial liabilities stated at amortised costs, respectively.

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

(a) Going concern

The Group's management's assessment of the going concern assumption involves making a judgment, at a particular point of time, about the future outcome of events or conditions which are inherently uncertain. Major events or conditions, which may give rise to business risks, that individually or collectively may cast significant doubt about the going concern assumption are set out in Note 2.1(a) to the consolidated financial statements.

(b) Useful lives of plant and equipment

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

(c) 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 other receivables and doubtful debt expenses in the year in which such estimate has been changed.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(d) Impairment of intangible and non-financial assets

Included in the consolidated statement of financial position as at 31 May 2017 are intangible assets in relation to website related and telecommunication and recruitment applications development projects (the "Projects"). In reviewing impairment on the Group's intangible assets, the Directors have reviewed the discounted future cash flows of the Projects and have considered, based on their estimates and judgments, on the future prospects and economic benefits of the Projects.

The Group tests annually whether other non-financial assets have suffered any impairment in accordance with the accounting policy stated in Note 2.8. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. The value-in-use calculation requires the Group 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.

(e) 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. The fair value of share-based payments is subsequently recognised in accordance with the accounting policy stated in Note 2.20.

(f) Useful lives of telecommunication and recruitment applications and value-added service software development costs

The Directors reviewed the useful lives of telecommunication and recruitment applications and value-added service software development costs, and considered that their useful lives were finite. Accordingly, the telecommunication and recruitment applications and value-added service software development costs are amortised over their estimated useful lives of five years when the assets are available for use.

5 SEGMENT INFORMATION

(a) Segment information

Information reported to the executive Directors of the Company, being the chief operating decision makers ("CODM"), for the purpose of resource allocation and assessment of segment performance focuses on the types of goods or services delivered or provided.

The executive Directors have identified that, the Group has four reportable operating segments, which are (i) sale of equipment, (ii) end-users direct sales of long distance call services, (iii) telecommunication, value-added and recruitment services and (iv) e-commerce platform and trading business.

5 SEGMENT INFORMATION *(Continued)*

(b) Business segments – primary reporting format

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

	2017				
	Sale of equipment HK$'000	Long distance call services-end-users direct sales HK$'000	Telecommunication, value-added and recruitment services HK$'000	e-commerce platform and trading business HK$'000	Total HK$'000
Segment revenue	106	484	1,059	1,666	3,315
Segment results	(671)	(2,640)	(7,839)	(6,025)	(17,175)
Other income					55
Operating loss					(17,120)
Unallocated costs					(4,000)
Finance costs					(111)
Loss before income tax					(21,231)
Income tax expense					(6)
Loss for the year					(21,237)

5 SEGMENT INFORMATION *(Continued)*

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

	2017				
	Sale of equipment HK$'000	Long distance call services- end-users direct sales HK$'000	Telecommunication, value-added and recruitment services HK$'000	e-commerce platform and trading business HK$'000	Total HK$'000
Segment assets	450	860	8,687	2,586	12,583
Unallocated assets					524
Total assets					13,107
Segment liabilities	2,036	2,067	3,609	3,584	11,296
Unallocated liabilities					1,598
Total liabilities					12,894
Capital expenditures	–	–	1,864	–	1,864
Unallocated capital expenditures					–
					1,864
Depreciation and amortisation	10	20	1,169	37	1,236
Unallocated depreciation and amortisation					–
					1,236

5 SEGMENT INFORMATION *(Continued)*

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

	2016				
	Sale of equipment HK$'000	Long distance call services- end-users direct sales HK$'000	Telecommunication, value-added and recruitment services HK$'000	e-commerce platform and trading business HK$'000	Total HK$'000
Segment revenue	131	569	1,667	–	2,367
Segment results	(1,023)	(4,048)	(14,189)	–	(19,260)
Other income					25
Operating loss					(19,235)
Unallocated costs					(4,015)
Finance costs					(44)
Loss before income tax					(23,294)
Income tax expense					–
Loss for the year					(23,294)

5 SEGMENT INFORMATION *(Continued)*

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

	2016				
	Sale of equipment HK$'000	Long distance call services- end-users direct sales HK$'000	Telecommunication, value-added and recruitment services HK$'000	e-commerce platform and trading business HK$'000	Total HK$'000
Segment assets	1,300	305	7,011	–	8,616
Unallocated assets					297
Total assets					8,913
Segment liabilities	1,942	451	1,235	–	3,628
Unallocated liabilities					2,635
Total liabilities					6,263
Capital expenditures	–	7	2,235	–	2,242
Unallocated capital expenditures					–
					2,242
Depreciation and amortisation	34	33	556	–	623
Unallocated depreciation and amortisation					576
					1,199

5 SEGMENT INFORMATION *(Continued)*

(c) Geographical segments – secondary reporting format

	2017 Segment revenue HK$'000	2017 Segment results HK$'000	2017 Total assets HK$'000	2017 Capital expenditures HK$'000
Hong Kong	**3,098**	**(19,893)**	**12,486**	**1,762**
Mainland China and other countries	**217**	**(1,393)**	**621**	**102**
	3,315	**(21,286)**	**13,107**	**1,864**
Other income		**55**		
Loss before income tax		**(21,231)**		
Income tax expense		**(6)**		
Loss for the year		**(21,237)**		

	2016 Segment revenue HK$'000	2016 Segment results HK$'000	2016 Total assets HK$'000	2016 Capital expenditures HK$'000
Hong Kong	2,266	(22,323)	8,234	1,857
Mainland China and other countries	101	(996)	679	385
	2,367	(23,319)	8,913	2,242
Other income		25		
Loss before income tax		(23,294)		
Income tax expense		–		
Loss for the year		(23,294)		

5 SEGMENT INFORMATION *(Continued)*

(d) Information about major customers

The Group's customers who contributed to 10% or more to the Group's revenue during the year, are as follows:

	2017 **HK$'000**	2016 HK$'000
From e-commerce platform and trading business:		
Customer A	**1,041**	–
Customer B	**399**	–
From telecommunication, value-added and recruitment services:		
Customer C	**–**	350

6 REVENUE AND OTHER INCOME

The Group is principally engaged in research and development of telecommunication and recruitment applications, value-added service software and provision of related services, trading of telecommunication equipment, provision of long distance call services, online recruitment services, e-commerce platform and trading business. Revenue and other income recognised during the year are as follows:

	2017 **HK$'000**	2016 HK$'000
Revenue		
Long distance call services	**484**	569
Sale of equipment	**106**	131
Telecommunication, value-added and recruitment services	**1,059**	1,667
e-commerce platform and trading business	**1,666**	–
	3,315	2,367
Other income		
Exchange gain	**13**	–
Sundry income	**42**	25
	55	25
	3,370	2,392

7 OPERATING LOSS

	2017 HK$'000	2016 HK$'000
Operating loss is stated after charging the following:		
Auditor's remuneration	**420**	420
Amortisation of intangible assets	**841**	854
Bad debt	**15**	4
Cost of inventories sold	**2,219**	637
Depreciation		
– owned assets	**284**	234
– leased assets	**111**	111
Loss on disposal of plant and equipment	**35**	59
Operating lease – land and buildings	**961**	1,451
Provision for doubtful debts	**46**	–
Provision for impairment of prepayments, deposits and other receivables	**–**	4
Staff costs (including directors' remuneration)		
– salaries, allowances and benefits in kind	**13,121**	13,815
– employee and individual share options benefits	**2,412**	3,137
– retirement benefits scheme contributions	**271**	243

8 FINANCE COSTS

	2017 HK$'000	2016 HK$'000
Interest expense on convertible bonds	**–**	24
Interest expense on corporate bonds	**96**	–
Finance lease interests	**15**	20
	111	44

9 INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2016: Nil) on the estimated assessable profit for the year.

	2017 HK$'000	2016 HK$'000
Hong Kong profits tax	**6**	–

9 INCOME TAX EXPENSE *(Continued)*

No deferred taxation has been provided as the Group has no material unprovided deferred tax assets or liabilities which are expected to be crystallised in the foreseeable future (2016: Nil).

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

	2017	2016
	HK$'000	HK$'000
Loss before income tax	**(21,200)**	(23,247)
Tax calculated at domestic tax rates applicable to profits in the respective countries	**(3,586)**	(3,835)
Income not taxable for taxation purposes	**(1)**	(2)
Expenses not deductible for taxation purposes	**591**	793
Tax losses not recognised	**3,182**	2,908
Accelerated depreciation not recognised	**(180)**	136
Income tax expense	**6**	–

10 DIVIDEND

The Directors do not recommend the payment of dividend in respect for the year ended 31 May 2017 (2016: Nil).

11 LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of basic loss per share is based on the Group's loss for the year attributable to the equity holders of the Company of approximately HK$21,206,000 (2016: HK$23,247,000) and the weighted average number of approximately 1,098,332,000 ordinary shares (2016: 977,331,000 ordinary shares) in issue during the year.

The dilutive loss per share is equal to the basic loss per share for the years ended 31 May 2017 and 2016 respectively, as the share options had anti-dilutive effects.

12 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2017 HK$'000	2016 HK$'000
Salaries, allowances and benefits in kind	**14,728**	15,355
Employee and individual share options benefits	**2,412**	3,137
Retirement benefits scheme contributions	**377**	353
	17,517	18,845

Note: Salaries paid to an executive Director and certain staff of the Group of approximately HK$1,713,000 (2016: HK$1,650,000), which were wholly and exclusively attributable to the development of telecommunication and recruitment applications and value-added service software, were capitalised as intangible assets as at 31 May 2017 and 2016.

13 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:

	2017					2016
	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Retirement benefits scheme contributions HK$'000	Employee share option benefits HK$'000	Total HK$'000	Total HK$'000
Executive Directors						
Mr. James Ang	–	7,239	18	231	7,488	8,233
Mr. Wei Ren	55	–	–	–	55	30
Ms. Yau Pui Chi, Maria	–	2,131	18	231	2,380	2,249
Dr. Zhong Shi	–	798	18	296	1,112	1,185
	55	10,168	54	758	11,035	11,697
Non-executive Directors						
Mr. Chiang Kin Kon	–	–	–	27	27	48
Mr. Wong Kwok Fai	–	–	–	27	27	83
Mr. Chau Siu Keung	–	–	–	27	27	83
	–	–	–	81	81	214
	55	10,168	54	839	11,116	11,911

13 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 three (2016: three) Directors whose emoluments have been reflected in the analysis presented above. The emoluments paid or payable to the remaining two (2016: two) individuals during the year are as follows:

	2017	2016
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**901**	954
Employee share options benefits	**532**	535
Retirement benefits scheme contributions	**34**	32
	1,467	1,521

The emoluments of these individuals fell within the following bands:

	Number of individuals	
	2017	2016
Emolument bands		
Nil to HK$1,000,000	**2**	2
	2	2

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.

14 PLANT AND EQUIPMENT

	Leasehold improvement HK$'000	Furniture, fixtures and equipment HK$'000	Computer and software HK$'000	Telecom-munication equipment HK$'000	Motor Vehicles HK$'000	Total HK$'000
At 1 June 2015						
Cost	1,365	1,507	1,383	11,515	1,151	16,921
Accumulated depreciation	(1,127)	(1,347)	(1,302)	(11,477)	(672)	(15,925)
Net book value	238	160	81	38	479	996
Year ended 31 May 2016						
Opening net book value	238	160	81	38	479	996
Additions	440	81	43	–	28	592
Disposals	(69)	–	–	–	–	(69)
Depreciation	(101)	(54)	(45)	(29)	(116)	(345)
Written-back on disposals	10	–	–	–	–	10
Closing net book value	518	187	79	9	391	1,184
At 31 May 2016						
Cost	1,736	1,588	1,426	11,515	1,179	17,444
Accumulated depreciation	(1,218)	(1,401)	(1,347)	(11,506)	(788)	(16,260)
Net book value	518	187	79	9	391	1,184
Year ended 31 May 2017						
Opening net book value	**518**	**187**	**79**	**9**	**391**	**1,184**
Additions	**33**	**67**	**51**	**–**	**–**	**151**
Disposals	**(568)**	**(2)**	**–**	**–**	**–**	**(570)**
Depreciation	**(148)**	**(73)**	**(49)**	**(7)**	**(118)**	**(395)**
Written-back on disposals	**534**	**1**	**–**	**–**	**–**	**535**
Closing net book value	**369**	**180**	**81**	**2**	**273**	**905**
At 31 May 2017						
Cost	**1,201**	**1,653**	**1,477**	**11,515**	**1,179**	**17,025**
Accumulated depreciation	**(832)**	**(1,473)**	**(1,396)**	**(11,513)**	**(906)**	**(16,120)**
Net book value	**369**	**180**	**81**	**2**	**273**	**905**

Note:

(i) As at 31 May 2017, the carrying amount of motor vehicles of approximately HK$250,000 (2016: HK$361,000) was held under finance lease.

(ii) No deprecation charge was capitalised as intangible assets as at 31 May 2017 and 2016.

15 INTANGIBLE ASSETS

	Website development HK$'000	Telecommunication and recruitment applications and value-added service software development HK$'000	Total HK$'000
At 1 June 2015			
Cost	222	7,187	7,409
Accumulated amortisation and impairment	(222)	(3,086)	(3,308)
Net book value	–	4,101	4,101
Year ended 31 May 2016			
Opening net book value	–	4,101	4,101
Additions	–	1,650	1,650
Amortisation	–	(854)	(854)
Closing net book value	–	4,897	4,897
At 31 May 2016			
Cost	222	8,837	9,059
Accumulated amortisation and impairment	(222)	(3,940)	(4,162)
Net book value	–	4,897	4,897
Year ended 31 May 2017			
Opening net book value	**–**	**4,897**	**4,897**
Additions	**–**	**1,713**	**1,713**
Amortisation	**–**	**(841)**	**(841)**
Closing net book value	**–**	**5,769**	**5,769**
At 31 May 2017			
Cost	**222**	**10,550**	**10,772**
Accumulated amortisation and impairment	**(222)**	**(4,781)**	**(5,003)**
Net book value	**–**	**5,769**	**5,769**

16 INTERESTS IN ASSOCIATES

Share of net assets of associates	2017 HK$'000	2016 HK$'000
Beginning of the year	**3**	3
Additions	**–**	–
Share of results, net of tax	**–**	–
End of the year	**3**	3

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

Name	Place of incorporation	Registered capital	Group's Interest	Measurement method
ITP Innovation Limited (Note a)	Hong Kong	10,000 ordinary shares	30%	Equity
Crown Multimedia & Information Services Corp. (Note b)	Philippines	Ordinary shares and preferred shares of PHP 1 each respectively	40%	Equity

Notes:

(a) The associate did not commence operation from the date of incorporation to 31 May 2017.

(b) Set out below are the summarized financial information for Crown Multimedia & Information Services Corp. ("Crown Multimedia"), which are accounted for using the equity method:

Summarised statement of financial position

	Crown Multimedia	
	2017 HK$'000	2016 HK$'000 (Restated)
Non-current assets	**210**	222
Current assets		
Cash and cash equivalents	**10**	11
Other current assets	**349**	470
	359	481
	569	703
Current liabilities		
Financial liabilities	**(1,915)**	(2,002)
Other current liabilities	**(471)**	(428)
	(2,386)	(2,430)
Net liabilities	**(1,817)**	(1,727)

16 INTERESTS IN ASSOCIATES *(Continued)*

Notes: *(Continued)*

(b) *(Continued)*

Summarised statement of comprehensive income

	Crown Multimedia	
	2017	2016
	HK$'000	HK$'000
		(Restated)
Revenue	**–**	–
Depreciation and amortisation	**(1)**	–
Loss before income tax	**(176)**	(162)
Income tax expense	**–**	–
Post-tax loss from continuing operations	**(176)**	(162)
Post-tax loss from discontinued operations	**–**	–
Other comprehensive income	**–**	–
Total comprehensive loss	**(176)**	(162)
Dividends received from associate	**–**	–

Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of its interest in associates is as follows:

Summarised financial information

	Crown Multimedia	
	2017	2016
	HK$'000	HK$'000
		(Restated)
Opening net liabilities at 1 June	**(1,727)**	(1,641)
Loss for the year	**(176)**	(162)
Other comprehensive income	**–**	–
Currency translation differences	**86**	76
Closing net liabilities	**(1,817)**	(1,727)
Interest in associates (40%)	**–**	–

17 INTEREST IN A JOINT VENTURE

	2017 **HK$'000**	2016 HK$'000
Beginning of the year	**50**	–
Additions	**–**	50
Other comprehensive income	**–**	–
Share of results, net of tax	**–**	–
End of the year	**50**	50

Notes:

(a) Netel Cyber Education Limited, a subsidiary of the Group, acquired 50% equity interest and formed a joint venture company named Sino Financial Big Data Limited. As at 31 May 2017, the joint venture company has not yet commenced any business.

(b) The results of Sino Financial Big Data Limited and its aggregated assets and liabilities at the end of the reporting period are shown below:

	2017 **HK$'000**	2016 HK$'000
Assets	**100**	100
Liabilities	**–**	–
Revenues	**–**	–
Profit/(loss)	**–**	–

There is no impairment charge of the investment in a joint venture for the year ended 31 May 2017.

18 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2017 **HK$'000**	2016 HK$'000
Unlisted equity securities (Note)	**–**	–

Note:

At 31 May 2017 and 2016, available-for-sale financial asset represented interest in unlisted equity securities issued by a private entity incorporated in Hong Kong. As the Directors consider the fair value of the available-for-sale financial asset cannot be measured reliably, it is stated at cost less accumulated impairment loss, if any.

19 INVENTORIES

	2017 HK$'000	2016 HK$'000
Telecommunication equipment	**134**	141

As at 31 May 2017 and 2016, all inventories are stated at cost.

20 TRADE AND OTHER RECEIVABLES

	2017 HK$'000	2016 HK$'000
Trade receivables (Notes a and b)	**1,014**	505
Other receivables, prepayments and deposits	**948**	697
	1,962	1,202

All the carrying amounts of trade receivables are denominated in Hong Kong Dollars ("HK$").

Note:

(a) Majority of the Group's revenue 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:

	2017 HK$'000	2016 HK$'000
0 – 30 days	**273**	244
31 – 60 days	**275**	130
61 – 90 days	**298**	35
91 – 180 days	**115**	63
181 – 365 days	**78**	21
Over 365 days	**4,016**	4,007
	5,055	4,500
Less: provision for doubtful debts	**(4,041)**	(3,995)
	1,014	505

(b) Trade receivables that are less than four months are not considered impaired. As at 31 May 2017, trade receivables of approximately HK$88,000 (2016: HK$79,000) were past due but not impaired. The aging analysis of these trade receivables is as follows:

	2017 HK$'000	2016 HK$'000
Past due but not impaired:		
0 – 60 days	**34**	46
61 – 120 days	**16**	7
121 – 365 days	**23**	3
Over 365 days	**15**	23
	88	79

21 BANK BALANCES AND CASH

Cash and cash equivalents include the following for the purposes of the consolidated statement of cash flows:

	2017 HK$'000	2016 HK$'000
Bank balances and cash	**4,284**	1,436
Denominated in:		
HK$	**4,201**	1,362
Renminbi	**83**	74
	4,284	1,436

22 TRADE AND OTHER PAYABLES

	2017 HK$'000	2016 HK$'000
Trade payables (Note a)	**2,141**	2,023
Other payables and accruals	**2,672**	1,750
Receipt in advance	**314**	1,594
	5,127	5,367

The carrying amounts of trade payables are denominated in HK$.

Note:

(a) Majority of the Group's purchases 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:

	2017 HK$'000	2016 HK$'000
0 – 30 days	**38**	55
31 – 60 days	**14**	49
61 – 90 days	**17**	42
91 – 180 days	**97**	189
181 – 365 days	**224**	–
Over 365 days	**1,751**	1,688
	2,141	2,023

23 AMOUNTS DUE TO DIRECTORS

Amounts due to directors are unsecured, interest-free and have no fixed terms of repayment.

24 OBLIGATIONS UNDER FINANCE LEASE

	2017 **HK$'000**	2016 HK$'000
Non-current obligations	**138**	242
Current obligations under finance lease	**104**	98
Total obligations under finance lease	**242**	340

Obligations under finance lease are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

	2017 **HK$'000**	2016 HK$'000
Gross obligations under finance lease – minimum lease payments:		
Not later than 1 year	**114**	114
Later than 1 year but not later than 5 years	**142**	256
	256	370
Future finance charges on finance lease	**(14)**	(30)
Present value of obligations under finance lease	**242**	340
The present value of obligations under finance lease is as follows:		
Not later than 1 year	**104**	98
Later than 1 year but not later than 5 years	**138**	242
	242	340

25 SHARE CAPITAL

	2017		2016	
	Number of shares ('000)	**HK$'000**	Number of shares ('000)	HK$'000
Authorised ordinary shares of HK$0.02 (2016: HK$0.02) each				
At 1 June and 31 May	**5,000,000**	**100,000**	5,000,000	100,000
Issued and fully paid ordinary shares of HK$0.02 (2016: HK$0.02) each				
At 1 June	**1,038,445**	**20,769**	890,753	17,815
Issue of shares by subscriptions (Note a)	**117,800**	**2,356**	67,000	1,340
Issue of shares by placing (Note b)	**–**	**–**	34,000	680
Issue of shares upon conversion of convertible bonds (Note c)	**–**	**–**	7,782	156
Issue of shares upon exercise of share options	**33,390**	**668**	38,910	778
At 31 May	**1,189,635**	**23,793**	1,038,445	20,769

Note:

(a) On 26 June 2015, the Company entered into a subscription agreement with an independent third party subscriber, Mega Way International Limited, for the allotment and issuance of approximately 30,000,000 ordinary shares at the subscription price of HK$0.242 per share. During the year ended 31 May 2016, approximately 30,000,000 ordinary shares of HK$0.02 each were allotted and issued to the subscriber at the price of HK$0.242 per share pursuant to the subscription agreement. The gross proceeds from the issue of ordinary shares was approximately HK$7,260,000, and the net proceeds, after deducting professional fees incurred by the Company, was approximately HK$7,210,000, and the net proceeds from the issue of ordinary shares were intended to be used for general working capital of the Group to support its normal operation. As at the date of this report, all proceeds have been utilised as intended.

On 26 January 2016, the Company entered into a subscription agreement with an independent third party subscriber, Asian Rabbit Group Limited, for the allotment and issuance of approximately 10,000,000 ordinary shares at the subscription price of HK$0.12 per share. During the year ended 31 May 2016, approximately 10,000,000 ordinary shares of HK$0.02 each were allotted and issued to the subscriber at the price of HK$0.12 per share pursuant to the subscription agreement. The gross proceeds from the issue of ordinary shares was approximately HK$1,200,000, and the net proceeds, after deducting professional fees incurred by the Company, was approximately HK$1,150,000, and the net proceeds from the issue of ordinary shares were intended to be used for general working capital of the Group to support its normal operation. As at the date of this report, all proceeds have been utilised as intended.

25 SHARE CAPITAL *(Continued)*

Note: *(Continued)*

(a) *(Continued)*

On 4 March 2016, the Company entered into a subscription agreement with an independent third party subscriber, Ms. Qiu Ziling, for the allotment and issuance of approximately 27,000,000 ordinary shares at the subscription price of HK$0.10 per share. During the year ended 31 May 2016, approximately 27,000,000 ordinary shares of HK$0.02 each were allotted and issued to the subscriber at the price of HK$0.10 per share pursuant to the subscription agreement. The gross proceeds from the issue of ordinary shares was approximately HK$2,700,000, and the net proceeds, after deducting professional fees incurred by the Company, was approximately HK$2,660,000, and the net proceeds from the issue of ordinary shares were intended to be used for general working capital of the Group to support its normal operation. As at the date of this report, all proceeds have been utilised as intended.

On 20 May 2016, the Company entered into a subscription agreement with an independent third party subscriber, Ms. Xu Li Qun, for the allotment and issuance of approximately 11,000,000 ordinary shares at the subscription price of HK$0.116 per share. During the year ended 31 May 2017, approximately 11,000,000 ordinary shares of HK$0.02 each were allotted and issued to the subscriber at the price of HK$0.116 per share pursuant to the subscription agreement. The gross proceeds from the issue of ordinary shares was approximately HK$1,276,000, and the net proceeds, after deducting professional fees incurred by the Company, was approximately HK$1,220,000, and the net proceeds from the issue of ordinary shares were intended to be used for general working capital of the Group to support its normal operation. As at the date of this report, all proceeds have been utilised as intended.

On 25 July 2016, the Company entered into subscription agreements with independent third party subscribers, Mr. Wong Wing Hong and Ms. Zeng Wen Bin, for the allotment and issuance of approximately 4,900,000 ordinary shares respectively at the subscription price of HK$0.10 per share. During the year ended 31 May 2017, approximately 4,900,000 ordinary shares respectively of HK$0.02 each were allotted and issued to the subscribers at the price of HK$0.10 per share pursuant to the subscription agreements. The gross proceeds from the issue of ordinary shares was approximately HK$980,000, and the net proceeds, after deducting professional fees incurred by the Company, was approximately HK$920,000, and the net proceeds from the issue of ordinary shares were intended to be used for general working capital of the Group to support its normal operation. As at the date of this report, all proceeds have been utilised as intended.

25 SHARE CAPITAL *(Continued)*

Note: *(Continued)*

(a) *(Continued)*

On 25 October 2016, the Company entered into a subscription agreement with an independent third party subscriber, Chinese Arts (Hong Kong) Auction Company Limited, for the allotment and issuance of approximately 25,000,000 ordinary shares at the subscription price of HK$0.10 per share. During the year ended 31 May 2017, approximately 25,000,000 ordinary shares of HK$0.02 each were allotted and issued to the subscriber at the price of HK$0.10 per share pursuant to the subscription agreement. The gross proceeds from the issue of ordinary shares was approximately HK$2,500,000, and the net proceeds, after deducting professional fees incurred by the Company, was approximately HK$2,400,000, and the net proceeds from the issue of ordinary shares were intended to be used for general working capital of the Group to support its normal operation. As at the date of this report, all proceeds have been utilised as intended.

On 11 January 2017, the Company entered into subscription agreements with independent third party subscribers, Chinese Arts (Hong Kong) Auction Company Limited and Ms. CEN, Weiji, for the allotment and issuance of approximately 6,000,000 ordinary shares respectively at the subscription price of HK$0.10 per share. During the year ended 31 May 2017, approximately 6,000,000 ordinary shares respectively of HK$0.02 each were allotted and issued to the subscribers at the price of HK$0.10 per share pursuant to the subscription agreements. The gross proceeds from the issue of ordinary shares was approximately HK$1,200,000, and the net proceeds, after deducting professional fees incurred by the Company, was approximately HK$1,140,000, and the net proceeds from the issue of ordinary shares were intended to be used for general working capital of the Group to support its normal operation. As at the date of this report, all proceeds have been utilised as intended.

On 22 May 2017, the Company entered into subscription agreements with independent third party subscribers, Ms. Luo Ying, Mr. Yeung King Pui and Ms. Li Yun Chi Candice, for the allotment and issuance of approximately 5,000,000, 5,000,000 and 50,000,000 ordinary shares respectively at the subscription price of HK$0.10 per share. During the year ended 31 May 2017, approximately 5,000,000, 5,000,000 and 50,000,000 ordinary shares respectively of HK$0.02 each were allotted and issued to the subscribers at the price of HK$0.10 per share pursuant to the subscription agreements. The gross proceeds from the issue of ordinary shares was approximately HK$6,000,000, and the net proceeds, after deducting professional fees incurred by the Company, was approximately HK$5,760,000, and the net proceeds from the issue of ordinary shares were intended to be used for general working capital of the Group to support its normal operation. As at the date of this report, all proceeds have been utilised as intended.

25 SHARE CAPITAL *(Continued)*

Note: *(Continued)*

(b) On 31 July 2015, the Company entered into a placing agreement with a placing agent for the allotment and issuance of approximately 20,000,000 new shares at a price of HK$0.179 per share to not less than six independent placees on a best effort basis. During the year ended 31 May 2016, approximately 20,000,000 new shares of HK$0.02 each were allotted and issued to the placees at the price of HK$0.179 per share pursuant to the placing agreement. The gross proceeds from the issue of new shares was approximately HK$3,580,000, and the net proceeds, after deducting professional fees incurred by the Company, was approximately HK$3,420,000, and the net proceeds from the issue of new shares were intended to be used for general working capital of the Group to support its normal operation. As at the date of this report, all proceeds have been utilized as intended.

On 4 November 2015, the Company entered into a placing agreement with a placing agent for the allotment and issuance of approximately 14,000,000 new shares at a price of HK$0.149 per share to not less than six independent placees on a best effort basis. During the year ended 31 May 2016, approximately 14,000,000 new shares of HK$0.02 each were allotted and issued to the placees at the price of HK$0.149 per share pursuant to the placing agreement. The gross proceeds from the issue of new shares was approximately HK$2,086,000, and the net proceeds, after deducting professional fees incurred by the Company, was approximately HK$1,960,000, and the net proceeds from the issue of new shares were intended to be used for general working capital of the Group to support its normal operation. As at the date of this report, all proceeds have been utilized as intended.

(c) On 22 April 2015, the Company entered into a subscription agreement with a third party subscriber (the "Subscriber"), in relation to the subscription of the convertible bonds in the principal amount of HK$2,000,000 (Note 28). The conversion price is HK$0.257 per conversion share.

During the year ended 31 May 2016, the Subscriber exercised the conversion rights of the Convertible Bonds to convert into approximately 7,782,000 ordinary shares of the Company of HK$0.02 each and the conversion shares were allotted and issued to the Subscriber pursuant to the subscription agreement. These shares rank pari passu in all respects with the existing shares.

26 RESERVES

	Share Premium HK$'000	Share Option Reserve HK$'000	Convertible Bonds Equity Component HK$'000	Other Reverse HK$'000	Exchange Reserve HK$'000	Accumulated Losses HK$'000	Total HK$'000
Balance at 1 June 2015	123,301	12,140	375	(9,251)	247	(142,767)	(15,955)
Loss for the year	–	–	–	–	–	(23,247)	(23,247)
Other comprehensive income	–	–	–	–	–	–	–
Total comprehensive loss for the year	–	–	–	–	–	(23,247)	(23,247)
Transactions with owners:							
– Issue of shares by subscriptions	9,795	–	–	–	–	–	9,795
– Issue of shares by placing	4,976	–	–	–	–	–	4,976
– Issue of shares upon conversion of convertible bonds	1,858	–	(375)	–	–	–	1,483
– Issue of shares upon exercise of share options	8,519	(3,021)	–	–	–	–	5,498
– Grant of share options	–	1,670	–	–	–	–	1,670
– Recognition of equity-settled share-based payments	–	2,309	–	–	–	–	2,309
– Lapse of share options	–	(51)	–	–	–	51	–
– Acquisition of non-controlling interests	–	–	–	(4,532)	–	–	(4,532)
Total transactions with owners	25,148	907	(375)	(4,532)	–	51	21,199
Balance at 31 May and 1 June 2016	148,449	13,047	–	(13,783)	247	(165,963)	(18,003)
Loss for the year	**–**	**–**	**–**	**–**	**–**	**(21,206)**	**(21,206)**
Other comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total comprehensive loss for the year	**–**	**–**	**–**	**–**	**–**	**(21,206)**	**(21,206)**
Transactions with owners:							
– Issue of shares by subscriptions	**9,575**	**–**	**–**	**–**	**–**	**–**	**9,575**
– Issue of shares upon exercise of share options	**5,267**	**(1,483)**	**–**	**–**	**–**	**–**	**3,784**
– Grant of share options	**–**	**1,151**	**–**	**–**	**–**	**–**	**1,151**
– Recognition of equity-settled share-based payments	**–**	**1,261**	**–**	**–**	**–**	**–**	**1,261**
– Lapse of share options	**–**	**(189)**	**–**	**–**	**–**	**189**	**–**
Total transactions with owners	**14,842**	**740**	**–**	**–**	**–**	**189**	**15,771**
Balance at 31 May 2017	**163,291**	**13,787**	**–**	**(13,783)**	**247**	**(186,980)**	**(23,438)**

27 SHARE-BASED PAYMENTS

(a) Share Option Scheme

Under a share option scheme approved and adopted by the shareholders on 10 September 2012 (the "New 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 New Share Option Scheme).

The subscription price determined by the Board 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 trading days immediately preceding the date of grant and; (iii) the nominal value of the Company's shares.

Further details of the New Share Option Scheme are set out in the Report of the Directors on pages 27 and 28.

27 SHARE-BASED PAYMENTS *(Continued)*

(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 outstanding as at 31 May 2017	Vesting condition	Contractual life of option
Options granted on 13 October 2009:			
– to Executive Directors	4,700,000	Not Applicable	10 years
– to Independent Non-Executive Directors	4,700,000	Not Applicable	10 years
	9,400,000		
Options granted on 8 December 2010:			
– to Executive Directors	2,000,000	Not Applicable	10 years
– to Employees	940,000	Not Applicable	10 years
	2,940,000		
Options granted on 31 January 2011:			
– to Individuals	**22,800,000**	Not Applicable	10 years
Options granted on 30 May 2011:			
– to Individuals	**5,000,000**	Not Applicable	10 years
Options granted on 16 May 2014:			
– to Executive Director	5,500,000	Vested and exercisable in 5 tranches (note a)	10 years
– to Employees	7,380,000	Vested and exercisable in 5 tranches (note a)	10 years
– to Individual	500,000	Vested and exercisable on the second anniversary of the date of grant	10 years
	13,380,000		

27 SHARE-BASED PAYMENTS *(Continued)*

(b) *(Continued)*

	Number of share options outstanding as at 31 May 2017	Vesting condition	Contractual life of option
Options granted on 3 December 2014:			
– to Employees	6,400,000	Vested and exercisable in 5 tranches (note b)	10 years
– to Individuals	51,000,000	Not Applicable	10 years
	57,400,000		
Options granted on 12 October 2015:			
– to Executive Director	5,000,000	Vested and exercisable in 5 tranches (note c)	10 years
– to Employees	19,000,000	Vested and exercisable in 5 tranches (note c)	10 years
– to Individuals	2,000,000	Vested and exercisable in 5 tranches (note c)	10 years
– to Individual	1,000,000	Vested and exercisable on the second anniversary of the date of grant	10 years
	27,000,000		
Options granted on 12 February 2016:			
– to Executive Director	1,000,000	Not Applicable	10 years
– to Independent Non-Executive Directors	2,000,000	Not Applicable	10 years
– to Employees	8,000,000	Not Applicable	10 years
– to Individuals	4,800,000	Not Applicable	10 years
	15,800,000		
Options granted on 14 October 2016:			
– to Executive Director	**1,000,000**	Vested and exercisable in 5 tranches (note d)	10 years
– to Independent Non-Executive Directors	**3,000,000**	Not Applicable	10 years
– to Employees	**11,500,000**	Vested and exercisable in 5 tranches (note d)	10 years
– to Individuals	**2,500,000**	Vested and exercisable in 5 tranches (note d)	10 years
– to Individuals	**8,200,000**	Not Applicable	10 years
	26,200,000		

27 SHARE-BASED PAYMENTS *(Continued)*

(b) *(Continued)*

Note:

(a) The share options granted to Dr. Zhong Shi, the executive Director, and other employees of the Group on 16 May 2014 are exercisable in the following manner:

Maximum options exercisable	Exercise period
20% of the options granted	16.11.2015 – 15.11.2016
40%* of the options granted	16.11.2016 – 15.11.2017
60%* of the options granted	16.11.2017 – 15.11.2018
80%* of the options granted	16.11.2018 – 15.11.2019
100%* of the options granted	16.11.2019 – 15.05.2024

* including those not previously exercised

(b) The share options granted to employees of the Group on 3 December 2014 are exercisable in the following manner:

Maximum options exercisable	Exercise period
20% of the options granted	16.11.2015 – 15.11.2016
40%* of the options granted	16.11.2016 – 15.11.2017
60%* of the options granted	16.11.2017 – 15.11.2018
80%* of the options granted	16.11.2018 – 15.11.2019
100%* of the options granted	16.11.2019 – 02.12.2024

* including those not previously exercised

(c) The share options granted to Dr. Zhong Shi, the executive Director, other employees and individuals of the Group on 12 October 2015 are exercisable in the following manner:

Maximum options exercisable	Exercise period
20% of the options granted	16.11.2016 – 15.11.2017
40%* of the options granted	16.11.2017 – 15.11.2018
60%* of the options granted	16.11.2018 – 15.11.2019
80%* of the options granted	16.11.2019 – 15.11.2020
100%* of the options granted	16.11.2020 – 11.10.2025

* including those not previously exercised

27 SHARE-BASED PAYMENTS *(Continued)*

(b) *(Continued)*

(d) The share options granted to Dr. Zhong Shi, the executive Director, other employees and individuals of the Group on 14 October 2016 are exercisable in the following manner:

Maximum options exercisable	Exercise period
20% of the options granted	16.11.2017 – 15.11.2018
40%* of the options granted	16.11.2018 – 15.11.2019
60%* of the options granted	16.11.2019 – 15.11.2020
80%* of the options granted	16.11.2020 – 15.11.2021
100%* of the options granted	16.11.2021 – 13.10.2026

* including those not previously exercised

During the year ended 31 May 2017, 43,320,000 share options were granted under the New Share Option Scheme (2016: 81,260,000), 33,390,000 share options were exercised (2016: 38,910,000), 7,500,000 share options were lapsed (2016: 8,328,000) and no share options were cancelled during the year (2016: Nil).

27 SHARE-BASED PAYMENTS *(Continued)*

(b) *(Continued)*

The fair value of the share option granted on 14 October 2016, 12 February 2016 and 12 October 2015 were determined by an independent valuer, Ascent Partners Valuation Service Limited, using the Binomial Option Pricing model. The following principal assumptions were adopted in the valuation:

	14 October 2016	12 February 2016	12 October 2015
Spot price	HK$0.1120	HK$0.111	HK$0.159
Exercise price	HK$0.1184	HK$0.111	HK$0.159
Annual risk-free interest rate	1.05%	1.409%	1.407%
Expected option life	3.25 years – 8.58 years	4.82 years – 4.93 years	5.15 years – 9.25 years
Expected dividend yield	Nil	Nil	Nil
Expected volatility	98.37%	96.38%	95.58%
Fair value at grant date	HK$1,963,000	HK$1,670,000	HK$4,120,000

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

In total, approximately HK$2,412,000 (2016: HK$3,979,000) of share-based payment expense has been recognised in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 May 2017, 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:

	2017		2016	
	Number of share options	Weighted average exercise price HK$	Number of share options	Weighted average exercise price HK$
At beginning of the year	177,490,000	0.167	143,468,000	0.181
Exercised during the year	(33,390,000)	0.133	(38,910,000)	0.161
Granted during the year	43,320,000	0.118	81,260,000	0.139
Lapsed during the year	(7,500,000)	0.143	(8,328,000)	0.163
At end of the year	179,920,000	0.162	177,490,000	0.167

The options outstanding at 31 May 2017 had a weighted average exercise price at HK$0.162 (2016: HK$0.167) and a weighted average remaining contractual life of 7.02 years (2016: 7.71 years).

28 CONVERTIBLE BONDS

Movement on the liability components of the convertible bonds is as follows:

Fair value of liability components	**2017** **HK$'000**	2016 HK$'000
Beginning of year	–	1,627
Coupon interests	–	(12)
Interest expense of convertible bonds	–	24
Conversion of convertible bonds	–	(1,639)
End of year	–	–

On 23 July 2014, the Company entered into an agreement with a subscriber, who is an independent third party to the Group, to subscribe for convertible bonds in the principal amount of HK$2,500,000 bearing interest at the coupon rate of 7% per annum payable half-yearly in arrears with a maturity of two years due 2016. The holder has the right to convert in whole or part of the principal amount of the bond into shares at a conversion price of HK$0.1245 per conversion share at any time following the issue of the convertible bonds and up to the close of business on the maturity date with the prior written consent of the Company. During the year ended 31 May 2015, the holder exercised the right to fully convert the convertible bonds into approximately 20,080,000 conversion shares at the conversion price of HK$0.1245 per share. The gross proceeds from the issue of the convertible bonds was HK$2,500,000 and the net proceeds, after deducting professional fees incurred by the Company, was approximately HK$2,445,000, and the net proceeds from the issue of the convertible bonds were intended to be used for general working capital of the Group to support its normal operation. As at the date of this report, all proceeds have been utilised as intended.

On 22 April 2015, the Company entered into an agreement with a subscriber, who is also an independent third party to the Group, to subscribe for convertible bonds in the principal amount of HK$2,000,000 bearing interest at the coupon rate of 7% per annum payable half-yearly in arrears with a maturity of two years due 2017. The holder has the right to convert in whole or part of the principal amount of the bond into shares at a conversion price of HK$0.257 per conversion share at any time following the issue of the convertible bonds and up to the close of business on the maturity date with the prior written consent of the Company. During the year ended 31 May 2016, the holder exercised the right to fully convert the convertible bonds into approximately 7,782,000 conversion shares at the conversion price of HK$0.257 per share. The gross proceeds from the issue of the convertible bonds was HK$2,000,000 and the net proceeds, after deducting professional fees incurred by the Company, was approximately HK$1,945,000, and the net proceeds from the issue of the convertible bonds were intended to be used for general working capital of the Group to support its normal operation. As at the date of this report, all proceeds have been utilised as intended.

28 CONVERTIBLE BONDS *(Continued)*

The values of the liability component and the equity component were determined at issuance of the convertible bonds. The fair value of the liability component was calculated using a discounted cash flow approach and is within level 3 of the fair value hierarchy. The key unobservable input of the valuation is the discount rate adopted of approximately 19%. The equity component is recognised initially as the difference between the net proceeds from the bonds and the fair values of the liability components and is included in the consolidated statement of changes in equity.

The following table gives information about how the fair values of the convertible bonds in issue during the year are determined, in particular, the valuation technique(s) and/or inputs used:

Financial assets/ financial liabilities	Fair value hierarchy	Basis of fair value measurement/ valuation technique(s) and key input(s)	Significant unobservable input(s)
Convertible bonds, issued on 29 May 2015	Level 3	Discounted cash flow and binomial model The fair value of liability component is estimated by computing present value of discounted future cash flows. The future cash flows are based on the forecasted residue loan proceeds availability on the date of maturity. The fair value of equity component is determined by using binomial models with key inputs: (i) expected volatility; (ii) risk-free rate; (ii) dividend yield.	Discount rate determined with reference to the yields of local government bonds and treasury bills, the spread premium necessary to compensate for the risks associated with the bond, and estimated country risk

Any significant increase in the discount rates would result in significant decrease in the fair value of convertible bonds.

29 CORPORATE BONDS

Movement of the corporate bonds is as follows:

	2017 HK$'000	2016 HK$'000
Beginning of year	–	–
Additions	7,000	–
Interest expense of corporate bonds	96	–
End of year	7,096	–

During the year ended 31 May 2017, the Company issued corporate bonds with the principal amount ranging from HK$500,000 to HK$1,000,000 in the aggregate total of HK$7,000,000, at the coupon rate of 8.5% per annum and for a term of 2.0 to 7.5 years.

30 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Reconciliation of operating loss to net cash used in operations:

	2017 HK$'000	2016 HK$'000
Operating loss	(21,120)	(23,250)
Adjustments for:		
Amortisation and impairment	841	854
Bad debt	15	4
Depreciation	395	345
Loss on disposal of plant and equipment	35	59
Provision for doubtful debts	46	–
Provision for impairment of prepayments, deposits and other receivables	–	4
Share-based payments	2,412	3,979
Operating loss before working capital changes	(17,376)	(18,005)
Decrease in inventories	7	44
Increase in trade and other receivables	(821)	(233)
(Decrease)/increase in trade and other payables	(240)	1,474
Net cash used in operations	(18,430)	(16,720)

31 COMMITMENTS

(a) Commitments under operating leases

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

	2017 HK$'000	2016 HK$'000
Not later than one year	**520**	751
Later than one year but not later than five years	**381**	93
	901	844

(b) Capital commitment

Capital expenditure contracted for at the end of the reporting period but not yet incurred is as follows:

	2017 HK$'000	2016 HK$'000
Plant and equipment	**–**	61

32 RELATED PARTY TRANSACTIONS

(a) 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:

	2017 HK$'000	2016 HK$'000
Rental expenses paid to a related company (Note 1)	**369**	381
Recruitment car rental income from a related company (Note 2)	**78**	–

Notes:

1 Rental expenses were paid to Charmfine Investment Limited, a related company beneficially owned by Mr. James Ang and Ms. Yau Pui Chi, Maria, at arm's length rates in accordance with the terms of the underlying agreements.

2 The related company is beneficially owned by Mr. James Ang.

(b) Key management compensation

The compensation of key management personnel paid or payable by the Group in respect of the year is set out in Note 13 to the consolidated financial statements.

33 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

Statement of financial position of the Company

As at 31 May 2017

	2017 HK$'000	2016 HK$'000
ASSETS		
Non-current assets		
Interests in subsidiaries	**1**	1
Current assets		
Other receivables	**15**	15
Total assets	**16**	16
EQUITY		
Capital and reserves		
Share capital	**23,793**	20,769
Share premium and reserves (Note (a))	**(32,133)**	(22,919)
Total equity	**(8,340)**	(2,150)
LIABILITIES		
Non-current liabilities		
Corporate bonds	**7,096**	–
Current liabilities		
Trade and other payables	**1,257**	890
Receipt in advance	**3**	1,276
	1,260	2,166
Total liabilities	**8,356**	2,166
Total equity and liabilities	**16**	16

The statement of financial position of the Company was approved by the Board of Directors on 24 August 2017 and was signed on its behalf.

James Ang
Director

Yau Pui Chi, Maria
Director

33 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY *(Continued)*

Note (a) – Reserve movement of the Company

	Share Premium HK$'000	Share Option Reserve HK$'000	Convertible Bonds Equity Component HK$'000	Accumulated Losses HK$'000	Total HK$'000
Balance at 1 June 2015	129,782	12,140	375	(162,488)	(20,191)
Loss for the year	–	–	–	(28,459)	(28,459)
Other comprehensive income	–	–	–	–	–
Total comprehensive loss for the year	–	–	–	(28,459)	(28,459)
Transactions with owners:					
– Issue of shares by subscriptions	9,795	–	–	–	9,795
– Issue of shares by placing	4,976	–	–	–	4,976
– Issue of shares upon conversion of convertible bonds	1,858	–	(375)	–	1,483
– Issue of shares upon exercise of share options	8,519	(3,021)	–	–	5,498
– Grant of share options	–	1,670	–	–	1,670
– Recognition of equity-settled share-based payments	–	2,309	–	–	2,309
– Lapse of share options	–	(51)	–	51	–
Total transactions with owners	25,148	907	(375)	51	25,731
Balance at 31 May and 1 June 2016	154,930	13,047	–	(190,896)	(22,919)
Loss for the year	**–**	**–**	**–**	**(24,985)**	**(24,985)**
Other comprehensive income	**–**	**–**	**–**	**–**	**–**
Total comprehensive loss for the year	**–**	**–**	**–**	**(24,985)**	**(24,985)**
Transactions with owners:					
– Issue of shares by subscriptions	**9,575**	**–**	**–**	**–**	**9,575**
– Issue of shares upon exercise of share options	**5,267**	**(1,483)**	**–**	**–**	**3,784**
– Grant of share options	**–**	**1,151**	**–**	**–**	**1,151**
– Recognition of equity-settled share-based payments	**–**	**1,261**	**–**	**–**	**1,261**
– Lapse of share options	**–**	**(189)**	**–**	**189**	**–**
Total transactions with owners	**14,842**	**740**	**–**	**189**	**15,771**
Balance at 31 May 2017	**169,772**	**13,787**	**–**	**(215,692)**	**(32,133)**

34 PRINCIPAL SUBSIDIARIES

(a) Details of the principal subsidiaries as at 31 May 2017 are as follows:

Name	Place of incorporation/ establishment	Principal activities and place of operations	Particulars of issued/ registered and fully paid share capital	Attributable equity interest held	
				2017	2016
DIRECTLY HELD:					
Think Gold Assets Limited	British Virgin Islands ("BVI")	Investment holding	100 ordinary shares of US$1 each	**100%**	100%
Nation Power Limited	BVI	Investment holding	1 ordinary share of US$1 each	**100%**	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	**100%**	100%
Pacific Long Distance Telephone Corporation Limited	Hong Kong	Provision of long distance call services and sale of long distance calling cards in Hong Kong	10,000 ordinary shares	**100%**	100%
Netel Cyber Education Limited	Hong Kong	Research and development of telecommunication applications software in Hong Kong	10,000 ordinary shares	**100%**	100%
3G Lab Limited	Hong Kong	Research and development of telecommunication applications software in Hong Kong	1 ordinary share	**100%**	100%
Lotus Communication Limited	Hong Kong	Research and development and provision of long distance call and value- added service applications software in Hong Kong	1 ordinary share	**100%**	100%

34 PRINCIPAL SUBSIDIARIES *(Continued)*

(a) Details of the principal subsidiaries at 31 May 2017 are as follows: *(Continued)*

Name	Place of incorporation/ establishment	Principal activities and place of operations	Particulars of issued/ registered and fully paid share capital	Attributable equity interest held	
				2017	2016
INDIRECTLY HELD (continued):					
北京金利德科技有限公司	The People's Republic of China (The "PRC")	Research and development of telecommunication application software and provision of recruitment agency services in the PRC	Registered capital of RMB2,000,000	**100%**	100%
Hong Kong Financial Talent Consultant Company Limited	Hong Kong	Provision of recruitment, advertisements and human resources consultancy services in Hong Kong	1 ordinary share	**100%**	100%
GBjobs.com Limited	Hong Kong	Research and development of recruitment applications and provision of recruitment services in Hong Kong	7,218,539 ordinary shares	**99.24%**	99.24%
Dolphins HR Consultancy Limited	Hong Kong	Provision of human resources consultancy services in Hong Kong	10,000 ordinary shares	**99.24%**	99.24%
Asian Talent Development Centre Limited	Hong Kong	Provision of education and related consultancy services in Hong Kong	10,000 ordinary shares	**99.24%**	99.24%
Netel Digital Marketing Limited (formerly known as GBjobs (SSP) Services Centre Limited)	Hong Kong	Provision of recruitment services in Hong Kong	10,000 ordinary shares	**99.24%**	99.24%
金飯碗人力資源服務(深圳)有限公司	The PRC	Provision of recruitment services in the PRC	Registered capital of RMB10,000,000	**99.24%**	99.24%
Cosmos Gold Trading Limited	Hong Kong	E-commerce and trading business in Hong Kong	10,000 ordinary shares	**50.61%**	N/A
Lotus 118 Limited	Hong Kong	Research and development and provision long distance call and value-added service applications software in Hong Kong	100 ordinary shares	**51%**	51%

35 COMPARATIVE FIGURES

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

36 APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 24 August 2017.

Five Years Financial Summary

	2017	2016	2015	2014	2013
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**3,315**	2,367	2,127	1,972	1,761
Share of profit/(loss) of associates	**–**	–	–	–	–
Loss attributable to shareholders	**(21,206)**	(23,247)	(20,547)	(16,521)	(14,008)
Assets and liabilities					
Total assets	**13,107**	8,913	8,806	6,938	8,509
Total liabilities	**(12,894)**	(6,263)	(7,056)	(6,677)	(8,440)
Non-controlling interests	**142**	116	110	115	129
Shareholders' fund	**355**	2,766	1,860	376	198