IIN INTERNATIONAL LIMITED

(incorporated in the Cayman Islands with limited liability)

ANNUAL REPORT 2001

GEM Characteristics

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

Given the emerging nature of companies listed on the GEM, there is a risk that securities traded on the 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 the GEM.

The principal means of information dissemination on the GEM is publication on the Internet website operated by The Stock Exchange of Hong Kong Limited. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on the GEM-listed issuers.

Corporate Profile

IIN International Limited (the Company) (Stock Code: 8128) is a network solution provider in the People s Republic of China (the PRC), engaging principally in providing network solutions to the PRC telecommunications service providers (primarily fixed line, mobile and data communications operators). The Company and its subsidiaries (the Group) was founded in 1997 with overseas headquarter based in Hong Kong and domestic headquarter in Beijing, the PRC. The Company was listed on the Growth Enterprise Market (GEM) of Stock Exchange of Hong Kong Limited on 30 November 2001.

The services provided by the Group to the PRC telecommunications service providers are network infrastructure solutions, network management solutions and other network solutions.

The provision of network infrastructure solutions comprises both the self-developed proprietary Broadband Data Network Information Platform and the integration of third-party software and hardware. In providing the Broadband Data Network Information Platform, the Group can offer its own proprietary software for the functions of user access management and billing.

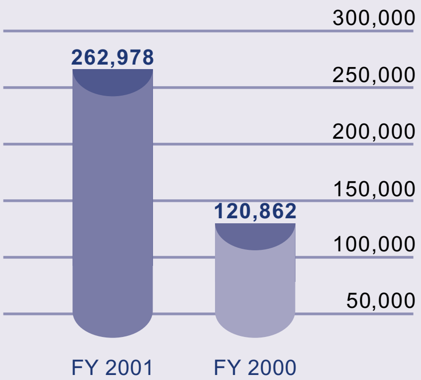
The network management solutions offered by the Group are used by the PRC telecommunications service providers to monitor the effective and efficient functioning of their telecommunications networks. The solutions provided include the IIN-Acterna PSTN SS7 Signalling Monitoring System, the CPEM 8000 Power and Environmental Monitoring System, the Local Exchange Network Management and Monitoring System and the Network Management and Safeguard System.

In servicing major PRC telecommunications service providers, the Group has established key strategic alliances with the Data Network Integration and Development Centre under the Data Communications Bureau of China Telecom, Hunan Post and Telecommunications Technical Centre, US-based Acterna and Changsha Galaxy Computer Company of the National University of Defense Technology of China.

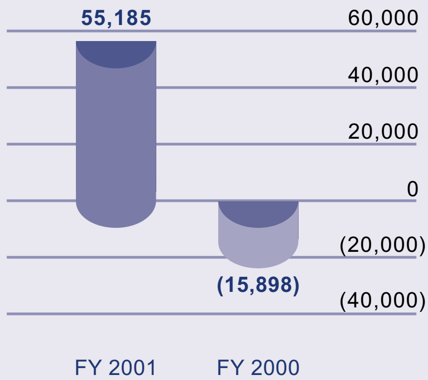
The Group also created a strong clientele in education institutions, medical institutions, state-owned enterprises and government agencies in the PRC, providing them with network solutions.

Content

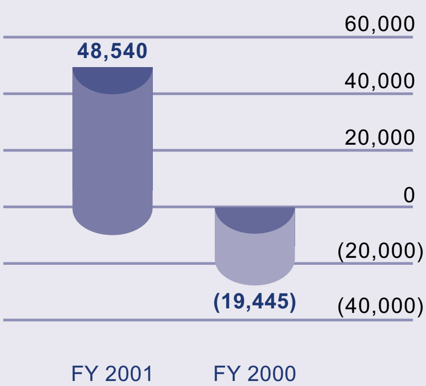
Financial Highlights



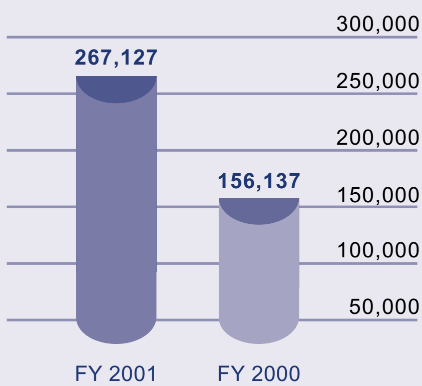
Turnover
(HK$'000)



Operating Profit/Loss (before interest and taxation)
(HK$'000)



Net Profit/Loss Attributable to Shareholders
(HK$'000)



Total Assets
(HK$'000)

The summary of the consolidated/combined results of the Group includes the results of the Company and its subsidiaries as if the current Group structure has been in existence throughout the financial periods, or from the respective dates of their incorporation/establishment or acquisition by the Group where this is a shorter period, and is presented on the basis set out in note 2 to the financial statements. The summary of the combined results of the Group for the period from 17 December 1998 to 30 September 1999 and for the year ended 30 September 2000 has been extracted from the consolidated financial statements of the Company for the period from 17 December 1998 to 30 September 1999, for the year ended 30 September 2000 and for the seven months ended 30 April 2001 prepared for the purpose of the listing of the Company's shares on the GEM of the Stock Exchange. The consolidated results of the Group for the year ended 30 September 2001 are as set out on page 31 of the annual report.

The only published consolidated/combined balance sheets of the Group that have been prepared to date are those as at 30 September 1999, 2000 and 2001. The combined balance sheet as at 30 September 1999 and the consolidated balance sheet as at 30 September 2000 have been extracted from the audited consolidated financial statements of the Company for the period from 17 December 1998 to 30 September 1999, for the year ended 30 September 2000 and for the seven months ended 30 April 2001 prepared for the purpose of the listing of the Company's shares on the GEM of the Stock Exchange. The consolidated balance sheet as at 30 September 2001 is as set out on page 33 of the annual report.

Corporate Information

Registered office
Huntlaw Building, P.O. Box 2804
George Town
Grand Cayman
Cayman Islands

Head office and principal place of business in Hong Kong
Suite 804
9 Queen's Road Central
Central
Hong Kong

Company secretary
Cheng Wing Tsan, *AHKSA, ASCPA*

Compliance officer
Cheng Wing Tsan, *AHKSA, ASCPA*

Audit committee
Chan Wai Dune (Chairman)
Ng Ching Wo
Wu Shu Min

Qualified accountant
Cheng Wing Tsan, *AHKSA, ASCPA*

Authorised representatives
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Hong Kong

Cheng Wing Tsan, *AHKSA, ASCPA*
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Tai Hing Garden Phase 2
Tuen Mun
Hong Kong

Principal bankers
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Bonham Strand
35-45 Bonham Strand East
Sheung Wan
Hong Kong

Cayman Islands principal share registrar and transfer office
Bank of Butterfield International
(Cayman) Limited
P.O. Box 705
Butterfield House
Fort Street
George Town
Grand Cayman
British West Indies
Cayman Islands

Hong Kong branch share registrar and transfer office
Central Registration Hong Kong Limited
Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

Auditors
Ernst & Young
Certified Public Accountants
15th Floor, Hutchison House
10 Harcourt Road
Central
Hong Kong

Chairman's Statement

For and on behalf of the Board of Directors (the "Board") of IIN International Limited (the "Company") together with its subsidiaries (the "Group"), I am pleased to announce the audited consolidated results for the year ended 30 September 2001.

The fiscal year 2001 was a landmark year for the Group. Despite the global economic downturn, and further compounded by the September 11 terrorist attacks in the United States, the Group successfully achieved a profitability of HK$48.5 million and was listed on the Growth Enterprise Market ("GEM") of the Stock Exchange of Hong Kong Limited on 30 November 2001. The offering was oversubscribed, indicating investors' confidence in our business and future prospects, and raised proceeds of more than HK$145 million.

Although there was a worldwide slowdown in the global telecommunications industry, the PRC stood as the notable exception. The PRC is expected to sustain its phenomenal growth rate for the next decade. The entry into the World Trade Organisation ("WTO") and the hosting of 2008 Olympics Games in Beijing will offer great impetus to the growing trend. According to the Ministry of Information Industry of the PRC (the "MII"), the data communications network sector will continue to enjoy the highest growth potential in the PRC. Total investments in data communications grew from US$203.7 million in 1995 to US$1.6 billion in 2000. Investments are expected to reach almost US$12 billion by 2005. As one of the network solutions providers in the PRC with significant exposure in the data communication sector, the Group is strategically positioned to take full advantage of these opportunities.

The Group is a network solutions provider in the PRC, engaged principally in providing network solutions to the PRC telecommunications service providers (primarily fixed line, mobile and data communications operators). The services provided to the PRC telecommunications service providers are network infrastructure solutions, network management solutions and other network solutions. These three areas of businesses have gained critical mass and created a competitive edge in their respective fields during the fiscal year. Through strategic alliances and a joint venture with other prominent players in the field, strong capabilities in research and product development, coupled with an experienced team of management and technology experts with in-depth industry knowledge, the Group has achieved sustainable growth rate in the PRC's fast-growing data network business.

Network infrastructure solutions, comprising 83% of the total turnover of the Group in the fiscal year, includes both the Broadband Data Network Information Platform, developed by the Group, and the integration of third-party software and hardware. The Group intends to enhance the functionality of the Group's existing network solutions and expand the range of the Group's new network solutions.

The Group successfully commenced and completed the development of proprietary network management solutions for China Telecom's PTAs and PTBs. These included the CPEM 8000 Power and Environmental Monitoring System, the IIN-Acterna PSTN SS7 Signaling Monitoring System, the Local Exchange Network Management and Monitoring System and the Network Management and

Safeguard System, the Group will also continue to expand its range of network solutions for telecommunications service providers with a focus in developing IP network management and broadband value-added services.

Looking ahead, the provision of network infrastructure and network management solutions in the PRC is highly competitive with rapidly evolving customers' requirements and technological advancement. In the provision of network infrastructure solutions, the Group faces keen competition with large number of players competing to service a limited number of telecommunications service providers, price-cut strategy and counterparts having longer history and international expertise in the provision of network infrastructure solutions.

While these challenges prevail, the Directors are confident that by drawing from the extensive experience of the Executive Directors, cutting-edge technological expertise of the management team and the joint venture with Data Network Integration and Development Centre of China Telcom, the incumbent and largest telecommunications carrier in the PRC, the Group is well positioned to compete against its rivals in the provision of network infrastructure solutions.

The PRC's entry into the WTO will open up the telecommunications market for foreign competitors to invest in the PRC's telecommunications services in stages. The intensified competition will lead to price reduction and demand for better service. Telecommunications service providers will be urged to adopt new software applications and management systems to manage their networks more efficiently and effectively.

In the provision of network management solutions, the Directors believe that the Group possesses competitive advantages over its competitors in providing a comprehensive suite of proprietary network management solutions to telecommunications service providers. Through a large portfolio of proprietary network management solutions, including the CPEM 8000 Power and Environmental Monitoring System, the IIN-Acterna PSTN SS7 Signalling Monitoring System, the Local Exchange Network Management and Monitoring System and the Network Management and Safeguard System, the Group provides a full range of network management functionality for telecommunications service providers to manage their telecommunications networks.

Setting our sights firmly in the future, the Group is committed to establishing itself as a leading network solutions provider in the PRC telecommunications sector. The Group plans to strengthen its current market position by leveraging its well-maintained relationship with China Telecom and by expanding into different geographic areas. With the aim to increase market penetration, the Group also plans to seek new business relationships with other growing telecommunications service providers in the PRC and maintain its high business growth through continual efforts in research and development of new products.

Overall, the year under review is highlighted with significant moves, particularly the listing on the GEM on 30 November 2001. We managed to achieve sustainable earnings growth, thus establishing our businesses on solid grounds. I would like to express my sincere thanks to the management and staff for their commitment and dedication to the business of the Group, and to the loyal shareholders and strategic partners for supporting our unwavering efforts in the PRC telecommunications sector.

Wu Shu Min
Chairman

Management Discussions and Analysis

Market Overview

Demand for Network Infrastructure Solutions

Industry experts forecast spending on telecommunications and information technology services in the PRC will reach unprecedented levels in the next five years. International Data Corporation ("IDC") estimates that there are now some 68,000 broadband subscribers in the PRC. This figure is expected to soar to approximately 8.3 million by 2005. In anticipation of increased competition following the World Trade Organisation ("WTO") accession, the PRC telecommunications carriers are in a desperate hurry to upgrade their broadband networks. According to the Ministry of Information Industry of the PRC ("MII"), total investments in data communications grew from US$203.7 million in 1995 to US$1.6 billion in 2000, representing a compound annual growth rate of 50.2%. MII forecasts that this figure will reach US$12.0 billion by 2005.

These investments translate to tremendous opportunities for network consulting and integration and network solutions services. The Directors believe that the Group is well positioned to take full advantage of these opportunities and capture a significant market share.

PTAs and PTBs are the major customers of the Group. PTAs are provincial telecommunications corporations of China Telecom established at the provincial level, and PTBs are municipal telecommunications corporations of China Telecom established at the municipal or county level, both of which provide telecommunication services in the PRC.

Demand for Network Management Solutions

The Directors are fully cognisant of the increasing demand for network management solutions. The Group will benefit from:

– the PRC's entry to the WTO, giving a dramatic boost to the market for new telecommunications and data communications service providers. The PRC not only needs new systems but also needs to expand and upgrade its existing systems; and

– new technologies and consolidation in the telecommunications industry, creating great demand for technology improvement and the combination of networks to meet changing market requirements.

Financial Review

Turnover

Total turnover for the fiscal year 2001 amounted to approximately HK$263.0 million, representing a 117.6% increase than that of HK$120.9 million generated in 2000. Turnover generated from network infrastructure solutions, network management solutions and other network solutions accounted for approximately HK$218.4 million, 83.0% of total turnover, approximately HK$20 million, 7.6% of total turnover, and approximately HK$24.6 million, 9.4% of total turnover, respectively. The increase in turnover was primarily due to the winning and completion of larger scale provincial telecommunications infrastructure projects in Shandong, Shanghai and Tianjin.

Cost of sales and gross profit

Proportional to the increase in total sales volume, cost of sales increased to approximately HK$190.6 million in 2001 from approximately HK$88.1 million in 2000. Gross margin for the Group increased to approximately 27.5% in 2001 from 27.1% in 2000. The slight increase in gross margin was primarily attributable to the increase in contribution from sales of proprietary network management solutions.

Other revenue

Other revenue for the fiscal year 2001 amounted to approximately HK$31.2 million, which included interest income of approximately HK$1.0 million, gain on disposal of subsidiaries of approximately HK$29.0 million and other miscellaneous income of approximately HK$1.2 million.

Selling and distribution costs, administrative and other operating expenses

The Group also continued to expand its sales and marketing network. As a result, selling and distribution costs for 2001 totalled approximately HK$10.2 million. This represents a decrease of HK$1.2 million from that of 2000. While continuing on expanding its sales and marketing network, the Group completed the process of streamlining the team of sales and marketing staff established in 2000 to promote the Group's products as part of its internal management reorganisation effort and instituted a cost control policy (which was mainly used to control the fixed costs of all the representative offices, including costs and expenses relating to salaries, administration, housing and communications) to better control selling and distribution expenses. In addition, during 2001, the Directors believe that the initial set-up stage for various regional offices and the initial marketing phase in those new geographic regions were completed; as such, less travelling and entertainment costs were incurred by the Group. The staff in a separate marketing team that was set up in 2000 for the initial marketing phase were reassigned to other tasks. As a result of the above measures and completion of the initial set-up stage and marketing phase, sales and marketing staff costs decreased from approximately HK$3.0 million in 2000 to approximately HK$2.2 million in 2001, travelling and entertainment costs decreased from approximately HK$3.5 million in 2000 to approximately HK$2.2 million in 2001.

Total administrative expenses were approximately HK$30.0 million for 2001 and HK$33.5 million for 2000. Administrative salaries amounted to approximately HK$10.2 million for 2001 and HK$8.0 million in 2000. The increase in administrative salaries for 2001 as compared to 2000 was a result of recruitment. The Group had approximately 420 employees as at 30 September 2001 (2000: 400 employees). In addition, travelling and entertainment expenses amounted to approximately HK$3.0 million in 2001 and HK$5.2 million in 2000. Rental expenses for 2001 amounted to approximately HK$2.0 million for 2001 and HK$0.8 million for 2000. Depreciation expense was approximately HK$3.8 million in 2001 and HK$1.4 million in 2000.

Total other operating expenses amounted to approximately HK$8.2 million in 2001 and HK$5.2 million in 2000. Provision for doubtful debts amounted to approximately HK$6.6 million in 2001 and HK$3.2 million in 2000, which was a direct result of increase in turnover. Amortisation costs for 2001 totalled approximately HK$1.6 million in 2001 and HK$2.0 million in 2000.

Financial resources and liquidity

The Group continues to be in a healthy financial position with shareholders funds amounted to HK$102.5 million as at 30 September 2001 (2000: HK$49.8 million). Current assets amounted to approximately HK$233.2 million as at 30 September 2001 (2000: HK$117.8 million), of which approximately HK$21.1 million (2000: HK$29.3 million) were cash and bank balances. Approximately HK$16.6 million (2000: HK$26.3 million) of such cash and bank balances were placed in time deposit accounts to secure certain bank borrowings of approximately HK$15.1 million as at 30 September 2001 (2000: HK$25.3 million). The remaining bank borrowings of approximately HK$14 million (2000: HK$14.8 million) were secured by a legal charge on the leasehold properties of the Group situated in the PRC.

As at 30 September 2001, the Group's total borrowings amounted to approximately HK$66.1 million (2000: HK$40 million) and mainly comprised of bank borrowings of approximately HK$29.1 million which are repayable within one year, two convertible bonds of HK$37.0 million which were redeemed on December 2001.

The Group's gearing ratio as at 30 September 2001 was 60% (2000: 66%).

Contingent liabilities

As of the date of this announcement, the Directors are not aware of any material contingent liabilities.

Business Review

Network Infrastructure Solutions

The business of Network Infrastructure Solutions is the core revenue stream of the Group, representing HK$218.4 million, or 83.0% of the total turnover for the year ended 30 September 2001. The Group's major product in this area is its proprietary Broadband Data Network Information Platform. It also provides integration of third-party software and hardware.

The Broadband Data Network Information Platform enables telecommunications service providers to (1) allow Internet users to access the data communications network; (2) create user access accounts, perform user access management and create user account billing systems; (3) provide Internet domain name services; (4) provide user e-mail services and (5) provide security functions. The Broadband Data Network Information Platform can further integrate third-party hardware and third-party software and/or the Group's proprietary software to perform the functions of user access management and billing.

The Group offers the Broadband Data Network Information Platform through IIN Network Technology Limited ("IIN Technology") and Beijing IIN, a joint venture established by the Group with the Data Network Integration and Development Centre of China Telecom. Since 1998, the Group has provided the Broadband Data Network Information Platform to ChinaNet in Changsha, Yongzhou and Guiyang cities and Shandong Province. Since March 2001, the Group has expanded its market coverage and secured contracts to provide network infrastructure solutions to the Shanghai Telecom Corporation and Tianjin Telecom Corporation.

Network Management Solutions

For the year ended 30 September 2001, network management solutions contributed to HK$20.0 million in turnover, 7.6% of the total. The Group offers a portfolio of network management solutions and is able to combine multiple functionality of network management software under a centralised network management location.

CPEM 8000 Power and Environmental Monitoring System

The CPEM 8000 Power and Environmental Monitoring System enables telecommunications service providers to perform remote and centralised monitoring, alarming and management control of the power supply and environmental conditions in each of the sub-stations and facilities within a telecommunications network, using technologies in sensoring, remote control and surveillance. Upon the completion of development in 1999, the system was sold to eight PTBs at municipal level. On 18 August 2000, the Group concluded an agreement with Guiyang Guoxin Technology Department Co. Ltd. to develop and market the Group's first mobile version of the CPEM 8000 Power and Environmental Monitoring System to Guizhou Province.

Local Exchange Network Management and Monitoring System

The Local Exchange Network Management and Monitoring System allows telecommunications service providers to perform remote and centralised monitoring and management control of local exchanges within a PSTN from a centralised location. This system was jointly developed with the Hunan Post and Telecommunications Technical Centre under the Hunan PTA. On 13 October 2000, the Group signed a contract to market and promote the system in 14 centres in Hunan Province and first installed it in Yongzhou City in Hunan.

IIN-Acterna PSTN SS7 Signaling Monitoring System

The IIN-Acterna PSTN SS7 Signaling Monitoring System enables telecommunications service providers to perform real-time monitoring and configuration management of SS7 signals; network fault management and performance measurement of SS7 signals and statistical analysis on capacity usage and network performance; call trace service management and billing management. The Group signed a three-year development cooperation agreement on 1 June 1999, with Switching Test Solutions AG (which subsequently was merged with TTC Inc. of the United States to form Acterna, Inc., a NASDAQ listed company) to develop the IIN-Acterna PSTN SS7 Signaling Monitoring System.

Network Management and Safeguard System

The Network Management and Safeguard System supplies management solutions and security alarm and safeguard solutions to the network systems of large enterprises including the telecommunications corporations. Developing this system through Hunan Galaxy, the Group has reached an agreement for and completed the installation of this system at the Yueyang PTB.

IP Network Management and Monitoring System

The Group has also completed development of the first version of the IP Network Management and Monitoring System through Beijing IIN.

Other Network Solutions

The Group also provides network solutions including design, implementation and maintenance of network systems for customers in other market sectors in the PRC such as educational institutions, medical institutions, state-owned enterprises and government agencies. These accounted for HK$24.6 million of the Group's turnover.

Corporate Development

Convertible bonds

The Group entered into two separate convertible bonds subscription agreements during the year. The first agreement, dated 16 January 2001, was for the subscription by MasterLink Securities (Hong Kong) Corporation Limited of a HK$10,000,000 unsecured floating rate (at 4.0 per cent. per annum above the best lending rate quoted by the Hongkong and Shanghai Banking Corporation Limited (payable if the convertible bond is not converted into shares) plus an additional interest at 5.0 per cent. of the principal amount of the convertible bond (payable if certain factors are satisfied, including the level of Placing Price and if the convertible bond is not converted into shares)) convertible bond issued by the Company and guaranteed by Mr. Wu Shu Min, a director of the Company. The second agreement, dated 27 April 2001, was for the subscription by Technique Enterprises Limited of a HK$27,000,000 unsecured fixed rate (at 13.0 per cent. per annum) convertible bond issued by the Company and guaranteed by Mr. Wu Shu Min and Mr. Zhu Rong, directors of the Company.

Pursuant to the convertible bond agreements, prior to the Company's listing on the GEM, the holders of the convertible bonds have elected not to exercise their respective conversion rights. The Company has therefore repaid all convertible bonds of the principal amount together with accrued interests calculated up to but excluding 7 December 2001. The aggregate principal amount of the convertible bonds outstanding is HK$37,000,000. The aggregate redemption amount together with accrued interest is HK$40,618,194. The repayment is in line with the intended applications of the use of proceeds as mentioned in the Prospectus. The redemption is funded by the Company's placing proceeds of HK$37,000,000 and the remaining balance is funded by the Company's internally generated cash. The Company will have sufficient working capital for its intended growth after the repayment of the convertible bonds.

Research and development

The Group carried out the following research and development activities in fiscal year 2001: (1) started and completed the development of China Telecom version 5.0 for the CPEM 8000 Power and Environmental Monitoring System; (2) started and completed the China Telecom version 1.0 for the IP network management and monitoring system; (3) completed the development of the Internet Data Centre Solution; (4) completed the development of China Telecom versions 1.0 and 1.5 for the Network Management and Safeguard System; (5) continues to develop the China Telecom version for the IIN-Acterna PSTN SS7 Signaling Monitoring System.

Gain on disposal of subsidiaries

On 31 December 2000, the Group entered into a sale and purchase agreement with IIN Network Education (BVI) Limited and IIN Medical Industrial (BVI) Limited in relation to the disposal of the Group's entire interest in the Disposed Operations. The disposal of the Disposed Operations was a result of the decision of the Company to focus its business on a single line of business, being the telecommunications sector.

The net gain resulting from the disposal of the Disposed Operations attributable to the Group on 31 December 2000 amounted to approximately HK$29.0 million.

Prospects

The Directors are aware that the high demand of network solutions in the PRC is coupled with high competition with rapidly evolving customer requirements and accelerating technological advancement.

The Directors believe that the Group is well positioned to outstrip its competitors in the provision of network infrastructure solutions. The joint venture with the Data Network Integration and Development Centre will enable the Group to keep abreast of the latest customer requirements and maintain its standards through continuous development and application of customised cutting-edge technologies. Despite the Group's relatively short track record, the Group is managed by a team of executives having extensive telecommunications experience in the PRC. Their in-depth technological expertise also sharpens the Group's competitive edge.

The Directors are convinced that the Group's in-depth knowledge of national backbone down to local exchange and last miles networks in the PRC makes it eminently suitable to provide network management solutions to telecommunications networks operators in the PRC. The Group enjoys advantages over its competitors in providing a comprehensive suite of proprietary network management solutions to telecommunications service providers. The large portfolio of proprietary network management solutions offered by the Group provides a full range of management functionality in configuration, fault, performance and maintenance management for telecommunications service providers to manage their telecommunications network resources. The strategic alliance with the Data Network Integration and Development Centre of China Telecom also puts the Group in a unique position to develop the IP Network Management and Monitoring System for the PTAs and PTBs of China Telecom.

The Directors are confident that the Group's solid foundation in network infrastructure solutions and network management solutions will ensure its continued success and growth in the highly competitive telecommunications network solutions field.

To meet its objective of becoming a leading network solutions provider in the PRC telecommunications sector, the Group will introduce a wide range of new initiatives during the coming year as laid down in the Prospectus.

Directors and Senior Management Profiles

Directors

Executive Directors

Wu Shu Min (吳樹民), aged 38, Chairman of the Company, is responsible for the strategic direction of the Group. He has over 16 years of experience in the PRC telecommunications industry, commencing his career in the Science Research Institute of Hunan Telecom in 1985. In 1994, he joined Hunan Tricom Communication Equipment Co., Ltd. as the China representative before he established Hunan IIN with other Old Shareholders in 1997.

Chang Ye Min, William (鄭益敏), aged 53, President and Chief Executive Officer and an authorised representative of the Company, is responsible for the overall management of the Group. Mr. Chang holds a bachelor degree and a master degree in Electrical Engineering with the Carleton University in Canada and is a member of the Association of Professional Engineers of Ontario, Canada. Prior to joining the Group in November 1998, Mr. Chang was the president and chief operating officer of Tricom Holdings Limited, responsible for, among others, the overall strategic planning of the company and driving the company's business expansion into the PRC market. Before that, Mr. Chang was the vice president and general manager of Mitel (Far East) Limited and had an extensive career with Mitel Corporation of Canada for over 18 years, holding key positions in the company's headquarter in Canada and was a key member of the senior management team responsible for the company's research and development and new product strategy. Mr. Chang has over 23 years of experience in the IT industry.

Li Zhi Sheng (李志勝), aged 37, Chief Operating Officer of the Company, is responsible for the business operations and general management of the Group. Mr. Li holds a bachelor degree in Engineering with Zhejiang University and a Master degree in Business Administration with Hunan University in the PRC. He has further acquired his knowledge in telecommunications technology after attending a specialist training for Siemens telephone switching system in 1986 and Advanced Telecommunications Management Training Program sponsored by AT&T in 1994. Prior to joining the Group in March 2000, Mr. Li served as the director general of the PTB in Changsha city. He worked with the Changsha PTB for 15 years during which he held various key positions and was responsible for technical management and project management. He has over 17 years of experience in the PRC telecommunications industry.

Cheng Wing Tsan (鄭榮燦), aged 40, the compliance officer and General Manager of Finance and Corporate Affairs of the Company, is responsible for the financial management and corporate affairs of the Company. Mr. Cheng is an associate of the Hong Kong Society of Accountants and an associate of the Australian Society of Certified Practising Accountants. He holds a bachelor degree in Financial Administration with the University of New England in Australia. Prior to joining the Group in August 2001, he was the deputy general manager of COL Group Limited. Before that, he worked with Ping An Insurance Company of China, Ltd. for over six years where he served as the assistant general manager of the planning department during his last appointment at the company's head office. Mr. Cheng has over 10 years of experience in financial management and also has experience as company secretary.

Non-executive Directors

Zhu Rong (朱嶸), aged 34, has been a non-executive Director since June 2001. Before that, he was the Vice Chairman of the Company, responsible for the strategic direction of the Group. Mr. Zhu studied computer communications and graduated from the Hunan University in the PRC in 1987. He has over 10 years of extensive working experience in the PRC telecommunications industry.

Wong Kwong Chi (王幹芝), aged 50, has been a non-executive Director since December 1999. Mr. Wong is currently an executive vice president and a director of Transpac Capital Ltd. He was the chairman of the Hong Kong Venture Capital Association, and is the vice chairman of the Hong Kong Electronic Industries Association Ltd. and a member of the Young Industrialists Council Limited. He holds a bachelor degree in Science and a Master degree in Business Administration with the Chinese University of Hong Kong.

Dr. Lo Wai Shun (勞維信), aged 40, has been a non-executive Director since December 1999. Dr. Lo has been working in the IT industry for more than 11 years. He is currently the chief executive officer of a Hong Kong-based investment management company engaged in venture capital and incubation activities. He previously worked with AT&T Bell Laboratories, and Cable & Wireless Innovations, Inc. during which he was involved in business development of the company. He holds a bachelor degree in Science and a master degree in Philosophy with the Chinese University of Hong Kong and a PhD in Physics with the Brown University in the United States.

Woo Chin Pang, Adrian (胡展鵬), aged 42, has been a non-executive Director since August 2000. Mr. Woo is a vice president of Transpac Capital Ltd. He holds a bachelor degree in Applied Science with the University of Toronto in Canada.

Independent Non-executive Directors

Chan Wai Dune (陳維端), aged 49, has been an independent non-executive Director since August 2000. Mr. Chan founded Charles W D Chan & Co. as a sole proprietor and is currently the managing director of Charles Chan, Ip & Fung CPA Limited. He is a fellow of each of the Chartered Association of Certified Accountants, the Taxation Institute of Hong Kong and the Hong Kong Society of Accountants. He was appointed as a lay member of the Insider Dealing Tribunal in Hong Kong and was appointed as a member of the Selection Committee for the First Government of the Hong Kong Special Administrative Region.

Ng Ching Wo (吳正和), aged 51, has been an independent non-executive Director since August 2000. Mr. Ng was admitted as a solicitor in the United Kingdom in 1985 and in Hong Kong in 1987. He is a partner of the law firm, Fong & Ng, in Hong Kong which has acted as the legal adviser and company secretary of IIN Network Technology Limited, IIN Software Technology Limited and IIN Network Operations Limited. Mr. Ng holds a bachelor degree of Science (Hon.), a master degree of Science and an LL.B with the University of Alberta in Canada.

Chen Junliang (陳俊亮), aged 68, has been an independent non-executive Director since August 2000. Mr. Chen is a professor of the Beijing University of Posts and Telecommunications and is engaged with the National Laboratory of Switching Technology and Telecommunications Networks. Mr. Chen is a member of each of the Chinese Academy of Sciences and the Chinese Academy of Engineering. He is a member of the board of directors of the Chinese Institute of Communications and has been engaged in teaching activities in the PRC telecommunications area.

Senior Management

Guan Li Jun (關立軍), aged 52, is a General Manager of Administration, responsible for the Group's administrative services in the PRC. Mr. Guan holds a Master degree of Business Administration with the Nankai University in the PRC and has nearly 17 years of experience in administration. Prior to joining the Group in December 1999, Mr. Guan was engaged in management position in two companies in the telecommunications and electronics industries.

Yang Xiao Ming (楊小明), aged 36, is a Vice President of the Group's China operation and the General Manager of the Group's subsidiary, Hunan Galaxy. Mr. Yang holds a bachelor degree in Computer and Telecommunications with the Beijing University of Posts and Telecommunications in the PRC. Prior to joining the Group in September 2000, he worked as a senior engineer of the Telecommunications Equipment Office, and a deputy supervisor of the Network Optimization Office of the PTA in Hunan province. He also worked as a deputy general manager of Hunan Schlumberger Telecommunications Equipment Co. Ltd. in the PRC.

Tu Bo (涂波), aged 37, is a General Manager of the Group's subsidiary, Hunan IIN International. Mr. Tu holds a bachelor degree in Telecommunications Engineering with the Beijing University of Posts and Telecommunications in the PRC. Prior to joining the Group in March 1999, he worked for 湖南省微波通訊局 (Microwave Communications Bureau in Hunan Province).

Chen Hong (陳洪), aged 31, is a Deputy General Manager of the Group's subsidiary, Beijing IIN. Prior to joining the Group in August 1999, he worked in various technical and management positions in the PTB in Changsha city.

Report of the Directors

The directors herein present their first annual report and the audited financial statements of the Company and the Group for the year ended 30 September 2001.

Group reorganisation

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 14 December 1999 under the Companies Law (1998 Revision) of the Cayman Islands. Pursuant to a reorganisation scheme (the "Group Reorganisation") to rationalise the Group structure in preparation for the listing of the Company's shares on the Growth Enterprise Market (the "GEM") operated by The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the Group on 31 December 1999. Further details of the Group Reorganisation, together with details of the subsidiaries acquired pursuant thereto, are set out in notes 1, 14 and 20 to the financial statements and in the Company's prospectus dated 26 November 2001.

Subsequent to the balance sheet date, on 30 November 2001, the shares of the Company were listed on the GEM of the Stock Exchange by way of placement.

Principal activities

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 14 to the financial statements. There were no changes in the nature of the Group's principal activities during the year.

Segmental information

An analysis of the Group's turnover and contribution to profit/(loss) from operating activities by principal activity and by geographical area for the year ended 30 September 2001 is as follows:

	Turnover		Contribution to profit/(loss) from operating activities	
	2001 HK$'000	2000 HK$'000	2001 HK$'000	2000 HK$'000
By principal activity:				
Network infrastructure solutions	218,367	71,900	42,761	8,271
Network management solutions	20,012	22,300	10,738	4,323
Other network solutions for sectors other than telecommunications	24,599	26,662	8,641	8,746
	262,978	120,862	62,140	21,340
Other revenue			31,242	1,433
Administrative expenses			(29,958)	(33,466)
Other operating expenses			(8,239)	(5,205)
			55,185	(15,898)
By geographical area:				
People's Republic of China, excluding Hong Kong and Macau ("PRC"):	262,978	120,862	26,139	(15,898)
Hong Kong	–	–	–	–
	262,978	120,862	26,139	(15,898)
Gain on disposal of subsidiaries			29,046	–
			55,185	(15,898)

Results and dividends

The Group's profit for the year ended 30 September 2001 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 31 to 74.

The directors do not recommend the payment of any dividend in respect of the year ended 30 September 2001.

Subsequent to the balance sheet date, on 19 November 2001, a special dividend (the "Special Dividend") of approximately HK$44,566,000 was declared and approved by the board of directors and shareholders of the Company for the benefit of the shareholders whose names appeared on the register of members of the Company on 31 October 2001 (except for Messrs. Wong Lee Ping, Lo Wai Shun and Chan Kam Ching, all being shareholders of the Company, who had waived their entitlements thereto). Details of the Special Dividend are set out in note 25(a) to the financial statements.

Summary of financial information

The following is a summary of the consolidated/combined results of the Group and the assets and liabilities of the Group prepared on the basis set out in notes 1 and 2 below.

RESULTS

	Year ended 30 September		Period from 17 December 1998 to 30 September
	2001 HK$'000	2000 HK$'000	1999 HK$'000
TURNOVER	262,978	120,862	20,031
PROFIT/(LOSS) BEFORE TAX	49,952	(17,999)	(4,263)
Tax	(1,400)	(1,088)	–
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES BEFORE MINORITY INTERESTS	48,552	(19,087)	(4,263)
Minority interests	(12)	(358)	126
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	48,540	(19,445)	(4,137)

ASSETS AND LIABILITIES

	30 September		
	2001 HK$'000	2000 HK$'000	1999 HK$'000
Fixed assets	29,451	30,128	26,133
Intangible assets	4,441	8,256	3,798
Interests in jointly-controlled entities	–	–	7,481
Current assets	233,235	117,753	44,408
Current liabilities	(160,876)	(102,952)	(61,708)
Total assets less current liabilities	106,251	53,185	20,112
Minority interests	(3,714)	(3,360)	(1,799)
Total net assets	102,537	49,825	18,313

Summary of financial information (continued)

Notes:

1. The summary of the consolidated/combined results of the Group includes the results of the Company and its subsidiaries as if the current Group structure has been in existence throughout the financial periods, or from the respective dates of their incorporation/establishment or acquisition by the Group where this is a shorter period, and is presented on the basis set out in note 2 to the financial statements. The summary of the combined results of the Group for the period from 17 December 1998 to 30 September 1999 and for the year ended 30 September 2000 has been extracted from the consolidated financial statements of the Company for the period from 17 December 1998 to 30 September 1999, for the year ended 30 September 2000 and for the seven months ended 30 April 2001 prepared for the purpose of the listing of the Company's shares on the GEM of the Stock Exchange. The consolidated results of the Group for the year ended 30 September 2001 are as set out on page 31 of the annual report.

2. The only published consolidated/combined balance sheets of the Group that have been prepared to date are those as at 30 September 1999, 2000 and 2001. The combined balance sheet as at 30 September 1999 and the consolidated balance sheet as at 30 September 2000 have been extracted from the audited consolidated financial statements of the Company for the period from 17 December 1998 to 30 September 1999, for the year ended 30 September 2000 and for the seven months ended 30 April 2001 prepared for the purpose of the listing of the Company's shares on the GEM of the Stock Exchange. The consolidated balance sheet as at 30 September 2001 is as set out on page 33 of the annual report.

Fixed assets

Details of movements in the fixed assets of the Group during the year are set out in note 12 to the financial statements.

Intangible assets

Details of movements in the intangible assets of the Group during the year are set out in note 13 to the financial statements.

Subsidiaries

Particulars of the Company's principal subsidiaries are set out in note 14 to the financial statements.

Bank loans

Details of bank loans of the Group are set out in note 18 to the financial statements.

Convertible bonds

Details of the convertible bonds of the Company and the Group are set out in note 19 to the financial statements.

Share capital and share options

Details of movements in the Company's share capital and share options during the year, together with reasons therefor, and details of the Company's share option scheme are set out in note 20 to the financial statements.

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 21 to the financial statements.

Post balance sheet events

Details of the significant post balance sheet events of the Group are set out in note 25 to the financial statements.

Distributable reserves

At 30 September 2001, the Company's reserves available for distribution, calculated in accordance with the Companies Law (2001 Second Revision) of the Cayman Islands, amounted to HK$73,682,000. This includes the Company's share premium account, in the amount of HK$73,714,000 at 30 September 2001, which may be distributed provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business. Subsequent to the balance sheet date, the Special Dividend of approximately HK$44,566,000 was distributed out of the Company's share premium account immediately following the listing of the Company's shares on the GEM of the Stock Exchange on 30 November 2001. The details of this are set out in note 25(a) to the financial statements.

Pre-emptive rights

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, being the jurisdiction in which the Company is incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Purchase, redemption or sale of listed securities of the Company

The Company's shares were listed on the GEM of the Stock Exchange on 30 November 2001 by way of placement. Save as disclosed above, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year and up to the date of this report.

Major customers and suppliers

In the year under review, sales to the Group's five largest customers accounted for 74% of the total sales for the year and sales to the largest customer included therein amounted to 32%. Purchases from the Group's five largest suppliers accounted for 92% of the total purchases for the year and purchases from the largest supplier included therein amounted to 56%.

To the best knowledge of the directors, neither the directors, their associates, nor any shareholders who owned more than 5% of the Company's issued share capital, had any beneficial interest in the Group's five largest customers and/or five largest suppliers during the year.

Directors

The directors of the Company during the year and as at the date of this annual report were as follows:

Executive directors:	
Mr. Chang Ye Min, William	
Mr. Wu Shu Min	
Mr. Li Zhi Sheng	
Mr. Cheng Wing Tsan	(appointed on 1 August 2001)
Mr. Zhu Rong (Note)	(resigned on 1 June 2001)
Mr. Chang Xiao Hui	(resigned on 1 August 2001)
Non-executive directors:	
Mr. Wong Kwong Chi	
Mr. Lo Wai Shun	
Mr. Woo Chin Pang, Adrian	
Mr. Zhu Rong (Note)	(appointed on 1 June 2001)
Independent non-executive directors:	
Mr. Chan Wai Dune	
Mr. Ng Ching Wo	
Mr. Chen Junliang	

Note: Mr. Zhu Rong was appointed as an executive director on 31 December 1999. On 1 June 2001, he resigned as an executive director and was appointed as a non-executive director.

In accordance with articles 87 and 88 of the Company's articles of association, one-third of the directors will retire, and being eligible, offer themselves for re-election at the forthcoming annual general meeting. The independent non-executive directors are not appointed for specific terms but are subject to retirement by rotation in accordance with the Company's articles of association.

Directors and senior management biographies

Biographical details of the directors of the Company and of the senior management of the Group are set out on pages 13 to 15 of the annual report.

Directors' service contracts

Each of the executive directors has entered into a director's service contract (as supplemented by a supplemental agreement) with II Networks International Limited, a wholly-owned subsidiary of the Company, for an initial term of two years (in respect of Messrs. Wu Shu Min and Chang Ye Min, William commencing from 18 July 1999, in respect of Mr. Li Zhi Sheng, commencing from 1 March 2000, and in respect of Mr. Cheng Wing Tsan, commencing from 1 August 2001), which thereafter will continue for a period of 18 months unless otherwise terminated by either party to the service contract by serving to the other not less than three months' written notice or by making payment in lieu of such notice. The earliest possible time for sending a three months' notice to terminate such appointment by either party to the other will be no earlier than the first anniversary date of the listing of the Company's shares on the GEM of the Stock Exchange.

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

Directors' interests in contracts

Save as disclosed in note 3 to the financial statements, no director had a significant beneficial interest, either direct or indirect, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

Directors' remuneration

Details of the aggregate directors' remuneration are as follows:

	2001 HK$'000	2000 HK$'000
Non-executive directors		
Fees	–	–
Independent non-executive directors		
Fees	182	35
Executive directors		
Fees	–	–
Other emoluments:		
Basic salaries, other allowances and benefits in kind	6,095	5,817
Discretionary bonus	–	–
Pension contributions	–	–
	6,277	5,852

Directors' remuneration (continued)

There were six executive directors receiving individual emoluments of approximately HK$2,148,000 (2000: HK$2,000,000), HK$1,297,000 (2000: HK$648,000), HK$1,297,000 (2000: HK$1,077,000), HK$946,000 (2000: HK$1,096,000), HK$277,000 (2000: HK$996,000) and HK$130,000 (2000: Nil) for the year.

There were three independent non-executive directors receiving individual fees of approximately HK$70,000 (2000: HK$13,000), HK$56,000 (2000: HK$11,000) and HK$56,000 (2000: HK$11,000) for the year.

During the year, no emoluments were paid by the Group to the non-executive directors.

No value is included in directors' remuneration in respect of share options granted during the financial periods presented because in the absence of a readily available market value for the options on the Company's shares, the directors are unable to arrive at an accurate assessment of the value of the share options granted.

The number of directors whose remuneration fell within the following bands is as follows:

	2001	2000
Nil to HK$1,000,000	9	8
HK$1,000,001 – HK$1,500,000	2	2
HK$1,500,001 – HK$2,000,000	–	1
HK$2,000,001 – HK$2,500,000	1	–

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

During the year, no emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as compensation for loss of office.

Five highest paid employees

The five highest paid employees included five directors (2000: five) during the year, whose remuneration is set out above.

Directors' interests in share capital

Subsequent to the balance sheet date, on 30 November 2001, the shares of the Company were listed on the GEM of the Stock Exchange. At the date of this report, the interests of the directors and their associates in the share capital of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")), as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance, were as follows:

	Number of issued ordinary shares of US$0.01 each in the Company held and nature of interests (adjusted for the consolidation and capitalisation issue of the Company's shares subsequent to the balance sheet date)				
Name of director	Personal	Family	Corporate	Other	Total
Mr. Chang Ye Min, William	26,840,000	–	–	–	26,840,000
Mr. Wu Shu Min	194,823,000	–	–	–	194,823,000
Mr. Zhu Rong	118,750,000	–	–	–	118,750,000
Mr. Lo Wai Shun	5,014,000	–	–	–	5,014,000
Mr. Li Zhi Sheng (Note 1)	–	48,705,000	–	–	48,705,000
Mr. Wong Kwong Chi (Note 2)	–	–	–	3,375,420	3,375,420

Note 1: These shares are held by Ms. Zhou Jian Hong, the spouse of Mr. Li Zhi Sheng, an executive director of the Company.

Note 2: These 3,375,420 shares together with a further 359,572,930 shares, are held by Multico Holdings Limited ("MHL"). The sole shareholder of MHL is Transpac Nominees Pte Ltd. which in turn is a wholly-owned subsidiary of Transpac Capital Pte Ltd.. Transpac Nominees Pte Ltd., through MHL, holds 362,948,350 ordinary shares of the Company as nominee for three investment funds, namely Transpac Capital 1996 Investment Trust, Transpac Capital Parallel 1996 Investment Trust and Transpac Managers III Ltd. in respect of approximately 95.96%, 3.11% and 0.93% of the 362,948,350 ordinary shares of the Company. Mr. Wong Kwong Chi, a non-executive director of the Company, is beneficially interested in approximately 6.70% of the share capital of Transpac Managers III Ltd., which in turn is interested in 3,375,420 ordinary shares of the Company.

Save as disclosed above, none of the directors of the Company or their associates had any personal, family, corporate or other interests in the issued share capital of the Company or any of its associated corporations, as defined in the SDI Ordinance.

Directors' rights to acquire shares

Prior to the listing of the Company's shares on the GEM of the Stock Exchange, the board of directors was authorised, at its absolute discretion, to grant options (the "Pre-IPO Share Options") to employees, including directors of the Company or any of its subsidiaries, to subscribe for shares in the Company under the terms of a share option plan (the "Pre-IPO Share Option Plan") adopted by the Company on 7 January 2000. Further details of the Pre-IPO Share Option Plan are set out in note 20 to the financial statements. The Pre-IPO Share Option Plan became effective for a period of eight years commencing from 7 January 2000 (date of adopting the Pre-IPO Share Option Plan). Details of the Pre-IPO Share Options granted to the directors under the Pre-IPO Share Option Plan are as follows:

	Number of shares subject to Pre-IPO Share Option						
Name of director	As at 1 October 2000	Granted during the year	As at 30 September 2001	Adjusted for consolidation and capitalisation of shares subsequent to 30 September 2001	As at the date of this report	Adjusted exercise price per share* US$	Exercise period of share options
Mr. Wu Shu Min	1,000,000	–	1,000,000	4,000,000	5,000,000	0.0192	7 January 2000 to 6 January 2008
	2,000,000	–	2,000,000	8,000,000	10,000,000	0.0192	26 February 2000 to 25 February 2008
Mr. Chang Ye Min, William	3,000,000	–	3,000,000	12,000,000	15,000,000	0.0192	7 January 2000 to 6 January 2008
	1,000,000	–	1,000,000	4,000,000	5,000,000	0.0660	23 May 2000 to 22 May 2008
Mr. Li Zhi Sheng	1,000,000	–	1,000,000	4,000,000	5,000,000	0.0660	23 May 2000 to 22 May 2008
Mr. Cheng Wing Tsan	–	200,000	200,000	800,000	1,000,000	0.0660	20 July 2001 to 19 July 2009
Mr. Zhu Rong	1,000,000	–	1,000,000	4,000,000	5,000,000	0.0192	7 January 2000 to 6 January 2003
	9,000,000	200,000	9,200,000	36,800,000	46,000,000		

* The exercise price per share was adjusted for the consolidation and capitalisation issue of the Company's shares subsequent to the balance sheet date.

Directors' rights to acquire shares (continued)

Subsequent to the balance sheet date, on 22 November 2001, the Company conditionally adopted a further share option scheme (the "Scheme") for a period of ten years from the date on which the Scheme was adopted. The Scheme became unconditional upon the listing of the Company's shares on the GEM of the Stock Exchange on 30 November 2001. As at the date of this report, no share options were granted under the Scheme.

Save as disclosed above and other than in connection with the Group Reorganisation and the Company's placing of shares on the GEM of the Stock Exchange, at no time during the year and up to the date of this report was the Company or any of its subsidiaries a party to any arrangement to enable the Company's directors, their respective spouse, or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Substantial shareholders

At the date of this report, the following parties had registered an interest of 10% or more in the issued share capital of the Company that were required to be recorded in the register of interests pursuant to Section 16(1) of the SDI Ordinance:

Name	Percentage of holding	Number of shares held
Mr. Wu Shu Min	13.88%	194,823,000
MHL (Note)	25.86%	362,948,350

Note: The sole shareholder of MHL is Transpac Nominees Pte Ltd. which in turn is a wholly-owned subsidiary of Transpac Capital Pte Ltd.. Transpac Nominees Pte Ltd., through MHL, holds 362,948,350 ordinary shares of the Company as nominee for three investment funds, namely Transpac Capital 1996 Investment Trust, Transpac Capital Parallel 1996 Investment Trust and Transpac Managers III Ltd. in respect of approximately 95.96%, 3.11% and 0.93% of the 362,948,350 ordinary shares of the Company. Mr. Wong Kwong Chi, a non-executive director of the Company, is beneficially interested in approximately 6.70% of the share capital of Transpac Managers III Ltd., which in turn is interested in 3,375,420 ordinary shares of the Company. The above beneficial interests in the Company held by Mr. Wong Kwong Chi have been disclosed as his other interests in the paragraph headed "Directors' interests in share capital" above.

Save as disclosed above, no persons had registered an interest of 10% or more in the issued share capital of the Company that was required to be recorded in the register of interests pursuant to Section 16(1) of the SDI Ordinance.

Related party and connected transactions

Details of the significant related party transactions of the Group are set out in note 3 to the financial statements.

With respect to those related party transactions which also constitute continuing connected transactions entered into by the Group under the rules governing the listing of securities on the GEM of the Stock Exchange (the "GEM Listing Rules") as set out in note 3 to the financial statements, the Stock Exchange, on application by the Company for the purpose of the listing of the Company's shares on the GEM of the Stock Exchange subsequent to the balance sheet date, granted to the Company a waiver from strict compliance with the connected transaction requirements as set out in the GEM Listing Rules.

The independent non-executive directors of the Company have reviewed and confirmed that those non-exempted continuing connected transactions have been entered into:

(a) in the ordinary and usual course of business of the Group;

(b) on normal commercial terms (to the extent that there are comparable transactions) or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms not less favourable to the Group than terms available to or from (as appropriate) independent third parties; and

(c) in accordance with the relevant agreement governing such transactions on terms that are fair and reasonable and in the interests of the independent shareholders of the Company as a whole.

Competition and conflict of interests

None of the directors, the management shareholders or substantial shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete with the business of the Group or has any other conflict of interest with the Group.

Disclosure under Chapter 17 of the GEM Listing Rules

As at 30 September 2001, the Group had a trade receivable of approximately HK$53.3 million due from Shanghai Hua Li Communications Information Limited (上海華立通信信息有限公司), a trade customer of the Group. This trading balance, which was resulted from sales of goods and rendering of services by the Group in its ordinary course of business, was unsecured and repayable in accordance with the credit terms agreed with this customer. No collateral was required to be made by the customer and no interest is charged on such balance. This balance represented approximately 54% which was more than 25% of the Group's net tangible assets as at that date. Save for the aforesaid, the directors are not aware of any circumstances which could give rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

Sponsors' Interests

At the date of this report, ING Bank N.V. and Core Pacific-Yamaichi Capital Limited ("CPY"), their directors, employees or associates, did not have any interest in the share capital of the Company or any of its subsidiaries, or any right to subscribe for or to nominate persons to subscribe for the share capital of the Company or any of its subsidiaries.

Pursuant to the agreement dated 26 November 2001 entered into between the Company and CPY, CPY received, and will receive, fees for acting as the Company's retained sponsor for the period from 30 November 2001 to 30 September 2004.

Pension scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all employees who are eligible to participate in the MPF Scheme. The MPF Scheme became effective from 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account 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. Prior to 30 November 2000, the Group did not operate any retirement benefit scheme for its Hong Kong employees. The contributions amounted to approximately HK$16,500 for the year.

According to the relevant PRC regulations, the Company's subsidiaries in the PRC are required to participate in the employee retirement scheme operated by the relevant local government bureau in the PRC and to make contributions for their eligible employees. The retirement scheme contributions, which are based on a certain percentage of the salaries of the PRC subsidiaries' employees, are charged to the profit and loss account in the period to which they relate and represent the amount of contributions payable by these subsidiaries to this scheme. The contributions amounted to approximately HK$214,000 for the year.

In the opinion of the directors, the Group had no significant obligations for long service payments to its employees pursuant to the requirements under the Employment Ordinance, Chapter 57 of the Laws of Hong Kong, at 30 September 2001.

Audit committee

The Company has established an audit committee (the "Committee") on 22 August 2000. The Committee comprises Mr. Chan Wai Dune and Mr. Ng Ching Wo, independent non-executive directors, and Mr. Wu Shu Min, an executive director. The Group's financial statements for the year ended 30 September 2001 have been reviewed by the Committee, who were of the opinion that such statements complied with the applicable accounting standards, and the Stock Exchange and legal requirements, and that adequate disclosures had been made.

Compliance with Rules 5.28 to 5.39 of the GEM Listing Rules

None of the Directors of the Company is aware of any information that would reasonably indicate that the Company or any of its subsidiaries is not, following the listing of the Company's shares on the GEM on 30 November 2001, in compliance with the standards of good practice concerning the general management responsibilities of the board of directors as set out in Rules 5.28 to 5.39 of the GEM Listing Rules.

Auditors

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD
Chang Ye Min, William
Director

Hong Kong
24 December 2001

IIN

Report of the Auditors

ERNST & YOUNG
安永會計師事務所

To the members
IIN International Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 31 to 74 which have been prepared in accordance with the accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30 September 2001 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

Hong Kong
24 December 2001

Consolidated Profit And Loss Account

Year ended 30 September 2001

	Notes	2001 HK$'000	2000 HK$'000
Turnover	4	262,978	120,862
Cost of sales		(190,601)	(88,122)
Gross profit		72,377	32,740
Other revenue	4	31,242	1,433
Selling and distribution costs		(10,237)	(11,400)
Administrative expenses		(29,958)	(33,466)
Other operating expenses		(8,239)	(5,205)
Profit/(loss) from operating activities	5	55,185	(15,898)
Finance costs	7	(5,233)	(2,509)
Share of profits less losses of jointly-controlled entities		–	408
Profit/(loss) before tax		49,952	(17,999)
Tax	8	(1,400)	(1,088)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS		48,552	(19,087)
Minority interests		(12)	(358)
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	9	48,540	(19,445)
Dividend	10	–	–
EARNINGS/(LOSS) PER SHARE	11		
– Basic		HK5.33 cents	(HK2.26) cents
– Diluted		HK5.13 cents	N/A

Note: Under the pro forma basis of presentation as set out in note 2(ii) to the financial statements, which is presented for information purposes only, the pro forma combined net profit from ordinary activities attributable to shareholders of the Group for the year ended 30 September 2001 amounted to approximately HK$26,294,000 (2000: HK$1,739,000). Further details of the pro forma combined profit and loss accounts of the Group for the two years ended 30 September 2000 and 2001 are set out in note 2(ii) to the financial statements.

Consolidated Statement of Recognised Gains and Losses

30 September 2001

	Notes	2001 HK$'000	2000 HK$'000
Revaluation surplus on leasehold land and buildings	21	4,171	–
Net gain not recognised in the consolidated profit and loss account		4,171	–
Net profit/(loss) from ordinary activities attributable to shareholders		48,540	(19,445)
Total recognised gains and losses		52,711	(19,445)

Consolidated Balance Sheet

30 September 2001

	Notes	2001 HK$'000	2000 HK$'000
NON-CURRENT ASSETS			
Fixed assets	12	29,451	30,128
Intangible assets	13	4,441	8,256
		33,892	38,384
CURRENT ASSETS			
Inventories	15	786	5,222
Trade and retention receivables		152,498	52,203
Bills receivable		–	14,056
Prepayments, deposits paid and other receivables		12,354	15,883
Due from shareholders	16	–	1,131
Due from related companies	17	46,448	–
Due from directors	17	50	–
Pledged bank deposits	18	16,592	26,311
Cash and bank balances		4,507	2,947
		233,235	117,753
CURRENT LIABILITIES			
Trade payables		76,270	48,173
Accrued liabilities, deposits received and other payables		16,053	13,634
Interest-bearing bank loans, secured	18	29,065	40,057
Convertible bonds	19	37,000	–
Tax payable		2,488	1,088
		160,876	102,952
NET CURRENT ASSETS		72,359	14,801
TOTAL ASSETS LESS CURRENT LIABILITIES		106,251	53,185
MINORITY INTERESTS		(3,714)	(3,360)
		102,537	49,825
CAPITAL AND RESERVES			
Share capital	20	1,414	1,414
Reserves	21	101,123	48,411
		102,537	49,825

CHANG YE MIN, WILLIAM
Director

CHENG WING TSAN
Director

Consolidated Cash Flow Statement

Year ended 30 September 2001

	Notes	2001 HK$'000	2000 HK$'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	22(a)	(19,797)	(38,441)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		1,008	980
Interest paid		(5,233)	(2,509)
Net cash outflow from returns on investments and servicing of finance		(4,225)	(1,529)
TAX		–	–
INVESTING ACTIVITIES			
Proceeds from registered capital of a subsidiary paid up by minority shareholders		–	1,269
Development expenses		(3,401)	(6,085)
Acquisition of subsidiaries	22(c)	–	(361)
Cash outflow from disposal of subsidiaries	22(d)	(55)	–
Purchases of fixed assets		(1,505)	(5,800)
Proceeds from disposal of fixed assets		–	54
Net cash outflow from investing activities		(4,961)	(10,923)
NET CASH OUTFLOW BEFORE FINANCING ACTIVITIES		(28,983)	(50,893)
FINANCING ACTIVITIES	22(b)		
Drawdown/(repayment) of bank loans, net		(9,497)	22,954
Drawdown of other loan		5,000	–
Repayment of other loan		(5,000)	–
Issue of convertible bonds		37,000	–
Issue of shares		–	31,690
Decrease/(increase) in pledged fixed deposits		3,039	(17,334)
Net cash inflow from financing activities		30,542	37,310
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		1,559	(13,583)

Consolidated Cash Flow Statement

Year ended 30 September 2001

	Notes	2001 HK$'000	2000 HK$'000
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		1,559	(13,583)
Effect of foreign exchange rate changes, net		1	2
Cash and cash equivalents at beginning of year		2,947	16,528
CASH AND CASH EQUIVALENTS AT END OF YEAR		4,507	2,947
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		4,507	2,947

Balance Sheet

30 September 2001

	Notes	2001 HK$'000	2000 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	14	112,096	73,997
CURRENT ASSETS			
Due from shareholders	16	–	1,131
CURRENT LIABILITIES			
Convertible bonds	19	37,000	–
NET CURRENT ASSETS/(LIABILITIES)		(37,000)	1,131
		75,096	75,128
CAPITAL AND RESERVES			
Share capital	20	1,414	1,414
Reserves	21	73,682	73,714
		75,096	75,128

CHANG YE MIN, WILLIAM
Director

CHENG WING TSAN
Director

Notes to Consolidated Financial Statements

30 September 2001

1. GROUP REORGANISATION AND CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 14 December 1999 under the Companies Law (1998 Revision) of the Cayman Islands. Pursuant to a reorganisation scheme (the "Reorganisation") to rationalise the Group's structure in preparation for the public listing of the Company's shares on The Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the companies now comprising the Group (as detailed in note 14) on 31 December 1999. This was accomplished by acquiring the entire issued share capital of II Networks International Limited ("II Networks"), the Group's former holding company, in consideration of and in exchange for the Company's allotted and issued share capital.

Further details of the Reorganisation and the subsidiaries acquired pursuant thereto are set out in notes 14 and 20 to the financial statements and in the Company's prospectus dated 26 November 2001 (the "Prospectus"). Subsequent to the balance sheet date, the shares of the Company were listed on the GEM of the Stock Exchange on 30 November 2001.

During the year, the Group was principally engaged in the provision of network solutions to telecommunication service providers in the People's Republic of China, excluding Hong Kong and Macau (the "PRC").

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and consolidation

The Group's financial statements are presented using the following bases:

i. The Reorganisation involved companies under common control. The consolidated financial statements have been prepared using the merger basis of accounting in accordance with the Statement of Standard Accounting Practice ("SSAP") No. 2.127 "Accounting for Group Reconstructions". On this basis, the Company has been treated as the holding company of its subsidiaries acquired through the Reorgansation for the whole of the year ended 30 September 2000, rather than from the date of their acquisitions on 31 December 1999. Accordingly, the consolidated results and cash flows of the Group for the year ended 30 September 2000 include the results and cash flows of the Company and its subsidiaries with effect from 1 October 1999 or since their respective dates of incorporation/establishment or acquisition by the Group, where this is a shorter period. In the opinion of the directors, the consolidated financial statements prepared on the above basis present more fairly the results and state of affairs of the Group as a whole as the principal activities of the Group were carried out by those subsidiaries summarised in note 14 prior to and after the Reorganisation.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of presentation and consolidation (continued)

ii. For information purposes only, the pro forma combined profit and loss accounts for the two years ended 30 September 2000 and 2001 include the results of the Company and its subsidiaries with effect from 1 October 1999 or since their respective dates of incorporation/establishment or acquisition by the Group, where this is a shorter period, on a combined basis as if the current Group structure had been in existence throughout the two years ended 30 September 2001. For the purpose of presenting the pro forma combined results of the Group, the results of IIN Network Education Limited ("IIN Education HK"), IIN Medical Industrial Limited ("IIN Medical HK"), Hunan IIN Network Education Co., Ltd ("IIN Education PRC") and Hunan IIN Medical Network Technology Development Co., Ltd ("IIN Medical PRC"), former subsidiaries of the Company which were disposed of to certain controlling shareholders of the Group on 31 December 2000 (collectively referred to as the "Disposed Operations") have been excluded.

Accordingly, the net gain resulting from the disposal of the Disposed Operations attributable to the Group on 31 December 2000 of HK$29,046,000 and the net operating losses of the Disposed Operations for the period from 1 October 2000 to 31 December 2000 of HK$6,800,000 (year ended 30 September 2000: net operating losses of HK$21,184,000) have been excluded for the presentation of the pro forma combined results of the Group for the two years ended 30 September 2000 and 2001.

The above pro forma basis of presentation has been adopted for the preparation of the accountants' report included in the Prospectus.

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of presentation and consolidation (continued)

For information purposes only, the following is the pro forma combined profit and loss accounts of the Group for the two years ended 30 September 2000 and 2001.

	Note	2001 HK$'000	2000 HK$'000
Turnover		262,087	118,712
Cost of sales		(190,251)	(87,495)
Gross profit		71,836	31,217
Other revenue		2,196	1,461
Selling and distribution costs		(7,359)	(9,535)
Administrative expenses		(25,855)	(14,494)
Other operating expenses		(7,828)	(3,910)
Profit from operating activities		32,990	4,739
Finance costs		(5,147)	(1,650)
Share of profits less losses of jointly-controlled entities		–	408
Profit before tax		27,843	3,497
Tax		(1,400)	(1,088)
PROFIT BEFORE MINORITY INTERESTS		26,443	2,409
Minority interests		(149)	(670)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		26,294	1,739
EARNINGS PER SHARE	11		
– Basic		HK2.89 cents	HK0.20 cents
– Diluted		HK2.78 cents	HK0.20 cents

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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:

– from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

– from the rendering of services, when the relevant services have been rendered;

– royalties, on an accrual basis in accordance with the terms of the relevant agreements;

– rental income, on a time proportion basis over the lease terms; and

– interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable.

Fixed assets and depreciation

Fixed assets are stated at cost or valuation less accumulated depreciation.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of the fixed asset.

Changes in the values of fixed assets are dealt with as movements in the asset valuation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is recognised as income to the extent that it reverses a revaluation deficit of the same asset previously charged to the profit and loss account. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained earnings as a movement in reserves.

Notes to Consolidated Financial Statements

30 September 2001

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation (continued)

Depreciation is calculated on the straight-line basis to write off the cost or valuation less any residual value of each asset over the following estimated useful lives:

Leasehold land and buildings	Over the lease terms
Computer equipment	4 to 8 years
Office equipment, furniture and fixtures	4 years
Motor vehicles	8 years
Leasehold improvement	5 years or over the lease terms, whichever is shorter

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Where in the opinion of the directors, the recoverable amounts of fixed assets have declined below their carrying amounts, provisions are made to write down the carrying value of such assets to their recoverable amounts. Recoverable amounts are not determined using discounted cash flows. Reductions in recoverable amounts are charged directly to the profit and loss account.

As a result of the listing of the Company's shares on the GEM of the Stock Exchange after the balance sheet date, the Group has revalued certain of its fixed assets as at 30 September 2001 as disclosed in the Prospectus. In order to reflect the financial effect involved in the remeasurement of certain of the Group's fixed assets on a valuation basis principally involved the incorporation of a surplus on revaluation in the amount of HK$4,300,000 (including the minority interests' share of the surplus in revaluation amounted to approximately HK$129,000) in the consolidated financial statements of the Group for the year ended 30 September 2001, the Group changed in its accounting policy for the remeasurement of the Group's fixed assets as set out in note 12 to the financial statements. The revaluation surplus of HK$4,300,000 is credited to the asset revaluation reserve during the current year.

Lease rights on medium term leases of properties

Lease rights on medium term leases of properties are stated at cost less accumulated depreciation. Depreciation is calculated on the straight-line basis to write off the cost of the lease rights over the terms of the leases.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Franchise costs

The costs incurred in connection with the granting of franchises for certain software products to the Group are capitalised and amortised on the straight-line basis over the franchise periods. Where there are diminutions in values, other than those considered to be temporary in nature, the franchise costs are written down to values determined by the directors.

Research and development costs

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five years, commencing from the date when the products are put into commercial production.

Inventories

Inventories are stated at the lower of cost and net realisable value after making due allowances for obsolete or slow moving items. Cost is determined on the first-in, first-out basis and, in the case of work in progress, comprises direct materials, direct labour and an appropriate portion of direct overheads. Net realisable value is based on estimated selling prices less any further costs expected to be incurred to completion and disposal.

Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors.

Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been diminutions in values, other than those considered to be temporary in nature, when they are written down to values determined by the directors.

Notes to Consolidated Financial Statements

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Jointly-controlled entities

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and where none of the participating parties has unilateral control over the economic activity. Joint venture arrangements which involve the establishment of a separate entity in which the Group and other parties have an interest are referred to as jointly-controlled entities.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated profit and loss and consolidated reserves, respectively. Where the profit sharing ratio is different from the Group's equity interest, the share of post-acquisition results of the jointly-controlled entities is determined based on the agreed profit sharing ratio. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any provisions for diminutions in values, other than those considered to be temporary in nature, deemed necessary by the directors.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences in the recognition of revenue and expenses for tax and for financial reporting purposes, to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill and capital reserve

Goodwill arising on the acquisition of subsidiaries and jointly-controlled entities represents the excess of the purchase consideration over the fair values of the underlying net assets acquired at the date of acquisition and is eliminated against reserves in the year of acquisition.

The capital reserve arising on the acquisition of subsidiaries and jointly-controlled entities represents the excess of the fair values ascribed to the acquired subsidiaries or jointly-controlled entities' underlying net assets at the date of acquisition over the purchase consideration paid for such subsidiaries or jointly-controlled entities.

On disposal of subsidiaries or jointly-controlled entities, the relevant portion of attributable goodwill and capital reserve previously eliminated against reserves is written back and included in the calculation of the gain or loss on disposal.

Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries and jointly-controlled entities are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

Basis of preparation

These financial statements have been prepared in accordance with SSAPs, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the revaluation of certain fixed assets as further explained above.

3. RELATED PARTY AND CONNECTED TRANSACTIONS

During the year, the Group entered into the following related party transactions, in addition to those disclosed elsewhere in the financial statements.

(i) On 31 December 2000, the Group entered into a sale and purchase agreement (the "Disposal Agreement") with IIN Network Education (BVI) Limited ("IIN Education BVI") and IIN Medical Industrial (BVI) Limited ("IIN Medical BVI") in relation to the disposal of the Group's entire interest in the Disposed Operations. Pursuant to the Disposal Agreement, the Group disposed of its entire interest in IIN Education HK and IIN Education HK's subsidiary, IIN Education PRC, to IIN Education BVI at a consideration of HK$5,000,000, which was based on the amount of share capital of IIN Education HK paid up by the Group. The Group also disposed of its entire interest in IIN Medical HK and IIN Medical HK's subsidiary, IIN Medical PRC, to IIN Medical BVI at a consideration of HK$3,000,000, which was based on the amount of share capital of IIN Medical HK paid up by the Group. Certain directors and shareholders of the Company are also the controlling shareholders (the "Controlling Shareholders") of IIN Education BVI and IIN Medical BVI, including Multico Holdings Limited, Messrs. Wu Shu Min and Zhu Rong. The Controlling Shareholders have jointly and severally, unconditionally and irrevocably guaranteed to the Group, for the period up to 31 December 2001, the due and punctual performance by each of IIN Medical BVI and IIN Education BVI of all their obligations under the Disposal Agreement and have undertaken to indemnify and continue to indemnify the Group for the warranty period up to 31 December 2001 against all losses, damages, costs and expenses of whatsoever nature which may be suffered or incurred by IIN Medical BVI, IIN Education BVI and the Disposed Operations.

The consideration for the disposal of the Disposed Operations in the aggregate amount of HK$8,000,000 remained unsettled at 30 September 2001 and was settled in full through the set-off of a special dividend declared by the Company subsequent to 30 September 2001 as instructed by those shareholders who are entitled to the special dividend. Further details of the declaration and distribution of special dividend are disclosed in note 25(a) to the financial statements.

(ii) During the year, Ms. Chang Shu Lan, a close family member of Mr. Chang Ye Min, William, who is an executive director and a shareholder of the Company, granted a loan of HK$5,000,000 to the Company. Interest of approximately HK$424,000 was charged on this loan, representing an interest rate of 18% per annum, which was determined by reference to the estimated prevailing interest rate that would have been charged for a bank loan of a similar nature in Hong Kong. The principal amount of the loan was repaid during the year.

3. RELATED PARTY AND CONNECTED TRANSACTIONS (continued)

(iii) During the year, the Company entered into a subscription agreement in relation to the issue of a convertible bond to an independent third party for a principal amount of HK$10,000,000, which was supported by a personal guarantee executed by Mr. Wu Shu Min, one of the Company's executive directors and shareholders, granted at nil consideration. Further details of the subscription agreement are set out in note 19(a) to the financial statements. Subsequent to the balance sheet date, this personal guarantee was released following the repayment of the bond.

(iv) During the year, the Company entered into a subscription agreement in relation to the issue of a convertible bond to an independent third party for a principal amount of HK$27,000,000, which was supported by personal joint and several guarantees executed by Mr. Wu Shu Min, one of the Company's executive directors and shareholders, and Mr. Zhu Rong, one of the Company's non-executive directors and shareholders, granted at nil consideration. Further details of the subscription agreement are set out in note 19(b) to the financial statements. Subsequent to the balance sheet date, these personal guarantees were released following the repayment of the bond.

(v) Prior to the disposal of the Disposed Operations, the Group entered into a subcontracting agreement with IIN Medical PRC whereby the Group was engaged to provide network solutions to a hospital located in the PRC with a contract value of RMB5,400,000 (equivalent to approximately HK$5,047,000). The subcontracting work was completed during the year.

(vi) During the year ended 30 September 2000, the Group was granted a short term bank loan which amounting to RMB4,000,000 (equivalent to approximately HK$3,738,000), secured by IIN Education PRC's bank deposit of HK$4,680,000 at nil consideration. This deposit pledge remained valid upon the disposal of the Disposed Operations on 31 December 2000 and was only released following the repayment of the related bank loan by the Group on 26 March 2001.

(vii) During the year, the Group entered into an agreement with 郵電數據網絡集成開發中心, the PRC investor of Beijing IIN Data Network Technology Co., Ltd. ("Beijing IIN"), a PRC subsidiary of the Group, in respect of the supply of equipment and software with a contract sum of approximately RMB19,723,000 (equivalent to approximately HK$18,432,000). The contract was completed during the year.

3. RELATED PARTY AND CONNECTED TRANSACTIONS (continued)

The following related party transactions also constitute continuing connected transactions as defined under the rules governing the listing of securities on the GEM of the Stock Exchange ("GEM Listing Rules") subsequent to the listing of the Company's shares on the GEM of the Stock Exchange on 30 November 2001.

(viii) As at 31 December 2000, the Group had entered into an agreement with IIN Education BVI and IIN Medical BVI, the holding companies of the Disposed Operations, for the provision of services, premises and intellectual properties. Pursuant to the agreement, the Group granted for a period of three years commencing from 1 October 2000, to IIN Education BVI, IIN Medical BVI and the Disposed Operations:

(a) a licence to use the Group's office premises on a cost sharing basis, based on the actual size of the premises occupied or used by the Disposed Operations, for a monthly fee as agreed between the Company and the Disposed Operations on the last business day of each calendar month. The maximum annual licence fees charged to IIN Education BVI and IIN Medical BVI are capped at HK$1,500,000 each. During the year, the Group charged licence fees of approximately HK$686,000 and HK$1,457,000 to IIN Medical BVI and IIN Education BVI, respectively.

(b) a non-exclusive licence to conduct business using the intellectual properties, including the trademarks and logos of the Company in Hong Kong and the PRC, for a fixed royalty fee of HK$38,000 per annum. During the year, the Group charged royalty fees of approximately HK$28,000 and HK$28,000 to IIN Medical BVI and IIN Education BVI, respectively.

The continuing connected transactions as set out in (viii) (b) above are exempted connected transactions under the GEM Listing Rules.

The granting of the licences by the Group to IIN Education BVI and IIN Medical BVI as set out in viii (a) above constitutes non-exempt continuing connected transactions under the GEM Listing Rules. In this respect, the Company has obtained a conditional waiver from the Stock Exchange from announcement requirements and shareholders' approval requirements under the GEM Listing Rules. The full details of the waiver are set out in the section headed "Waivers from compliance with the GEM Listing Rules and the Companies Ordinance" in the Prospectus.

4. TURNOVER AND REVENUE

Turnover represents the net invoiced value of goods sold, after allowances for returns, trade discounts and business tax where applicable, and services rendered. All significant intra group transactions have been eliminated on consolidation.

An analysis of the Group's turnover and revenue is as follows:

	2001 HK$'000	2000 HK$'000
Turnover	262,978	120,862
Other revenue:		
Bank interest income	1,008	980
Gain on disposal of subsidiaries	29,046	–
Others	1,188	453
	31,242	1,433
Total revenue	294,220	122,295

5. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

The Group's profit/(loss) from operating activities is arrived at after charging/(crediting):

	2001 HK$'000	2000 HK$'000
Auditors' remuneration	800	160
Cost of inventories sold and services provided	190,601	88,122
Staff costs (including the directors' and senior executives' emoluments)	18,278	17,974
Less: amount capitalised as deferred development costs	(3,175)	(2,505)
	15,103	15,469
Depreciation	3,786	3,660
Amortisation of deferred development costs	1,485	1,934
Amortisation of franchise costs	–	47
Write off of franchise costs	155	–
Operating lease rentals in respect of land and buildings	2,599	1,446
Provision of doubtful debts	6,599	3,224
Loss on disposal of fixed assets	24	20
Bank interest income	(1,008)	(980)
Gain on disposal of subsidiaries	(29,046)	–

6. DIRECTORS' REMUNERATION

Directors' remuneration, disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance, Chapter 32 of the Laws of Hong Kong is as follows:

	Group	
	2001 HK$'000	2000 HK$'000
Fees	182	35
Other emoluments	6,095	5,817
Pension contributions	–	–
	6,277	5,852

No value is included in directors' remuneration in respect of share options granted during the financial periods presented because in the absence of a readily available market value for the options of the Company's shares, the directors are unable to arrive at an accurate assessment of the value of the share options granted.

For information purposes only, under the pro forma basis of presentation as set out in note 2(ii) to the financial statements, the directors' remuneration of the Group amounted to HK$5,380,000 for the year ended 30 September 2001 (2000: HK$2,341,000).

7. FINANCE COSTS

	Group	
	2001 HK$'000	2000 HK$'000
Interest on:		
Bank loans wholly repayable within five years	2,392	2,509
Convertible bonds	2,417	–
Other loan	424	–
	5,233	2,509

8. TAX

	Group	
	2001 HK$'000	2000 HK$'000
Hong Kong	1,400	1,088
Elsewhere	–	–
	1,400	1,088

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profits during the year ended 30 September 2001.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

No PRC corporate income tax has been provided for Hunan IIN Technologies Engineering Co., Limited, Hubei IIN-Galaxy Network Co., Limited and Hunan IIN Education Information Co., Limited as none of these entities generated any net assessable profits attributable to their operations in the PRC during the year (2000: Nil).

No PRC corporate income tax has been provided for Beijing IIN, Hunan IIN International Co., Ltd. ("Hunan IIN International") and Hunan IIN-Galaxy Software Development Co., Limited ("Hunan Galaxy"), which are Sino-foreign joint ventures registered in the PRC, as all of these entities are entitled to certain tax incentives under the relevant PRC tax laws and the net assessable profits generated during the year are therefore not taxable (2000: Nil).

Deferred tax has not been provided as there were no significant timing differences which would give rise to a deferred tax liability at the balance sheet date (2000: Nil).

9. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company for the year was HK$32,000 (2000: Nil).

10. DIVIDEND

No dividends were paid or declared by the Company or its subsidiaries during the year (2000: Nil).

Subsequent to the balance sheet date on 19 November 2001, a special dividend (the "Special Dividend") of approximately HK$44,566,000 was declared by the Company to certain of its shareholders, details of which are set out in note 25(a) to the financial statements.

Notes to Consolidated Financial Statements

11. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share for the two years ended 30 September 2001, together with the pro forma amounts for the two years ended 30 September 2001, is based on the following data:

	Group			
	Consolidated		Pro forma combined (For information purposes only (Note 2))	
	2001 HK$'000	2000 HK$'000	2001 HK$'000	2000 HK$'000
Earnings				
Net profit/(loss) attributable to shareholders, used in the basic earnings per share calculation	48,540	(19,445)	26,294	1,739
Shares				
Weighted average number of shares in issue for the purpose of basic earnings per share calculation	911,197,350	860,286,363	911,197,350	860,286,363
Effect of dilutive potential ordinary shares	34,680,400	N/A	34,680,400	24,644,283
Weighted average number of shares in issue for the purpose of diluted earnings per share calculation	945,877,750	N/A	945,877,750	884,930,646

The calculation of the basic earnings/(loss) per share for the year ended 30 September 2001 is based on the net profit/(loss) from ordinary activities attributable to shareholders for the year and the weighted average of 911,197,350 shares in issue during the year (2000: 860,286,363 shares), adjusted to reflect the share consolidation and capitalisation issue subsequent to the balance sheet date as described more fully in note 20 to the financial statements.

11. EARNINGS/(LOSS) PER SHARE (continued)

The calculation of diluted earnings per share, on the consolidation basis, for the year ended 30 September 2001 is based on the consolidated net profit from ordinary activities attributable to shareholders for the year. The weighted average number of ordinary shares used in the calculation of diluted earnings per share for the year, on the consolidation basis, is 945,877,750 shares, which includes 911,197,350 shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average of 34,680,400 shares for the year assumed to have been issued at nil consideration on the deemed exercise of the options granted pursuant to the Pre-IPO Share Option Plan, adjusted to reflect the share consolidation and capitalisation issue subsequent to the balance sheet date as described more fully in note 20 to the financial statements. Diluted loss per share for the year ended 30 September 2000, on the consolidation basis, is not presented as there were no potential dilutive ordinary shares in existence during that year.

The calculation of diluted earnings per share, on the pro forma combined basis, for the year ended 30 September 2001 is based on the net profit from ordinary activities attributable to shareholders. The weighted average number of ordinary shares used in the calculation of diluted earnings per share for the year, on the pro forma combined basis, is 945,877,750 shares (2000: 884,930,646 shares), which includes 911,197,350 shares in issue during the year (2000: 860,286,363 shares), as used in the basic earnings per share calculation, and the weighted average of 34,680,400 shares for the year (2000: 24,644,283 shares) assumed to have been issued at nil consideration on the deemed exercise of the options granted pursuant to the Pre-IPO Share Option Plan, adjusted to reflect the share consolidation and capitalisation issue subsequent to the balance sheet date as described more fully in note 20 to the financial statements.

For the purpose of calculating diluted earnings per share, the fair value of the shares assumed to have been issued upon the deemed exercise of the options granted pursuant to the Pre-IPO Share Option Plan was determined as the placing price of HK$0.30 per share in respect of the placing of the Company's shares for the purpose of the Company's listing on the GEM of the Stock Exchange on 30 November 2001. The difference between the number of shares issued and the number of shares that would have been issued at fair value is treated as an issue of ordinary shares for nil consideration.

12. FIXED ASSETS

Group

	Leasehold land and buildings HK$'000	Lease rights on medium term leases of properties HK$'000	Computer equipment HK$'000	Office equipment, furniture and fixtures HK$'000	Motor vehicles HK$'000	Leasehold improvement HK$'000	Total HK$'000
Cost or valuation:							
At 1 October 2000	16,642	1,355	10,955	4,224	3,175	1,779	38,130
Additions	–	–	1,241	208	–	56	1,505
Disposals	–	–	(2)	(22)	–	–	(24)
Surplus on revaluation – note 21	2,958	–	–	–	–	–	2,958
Arising from disposal of subsidiaries	–	–	(2,764)	(264)	–	(503)	(3,531)
At 30 September 2001	19,600	1,355	9,430	4,146	3,175	1,332	39,038
Accumulated depreciation:							
At 1 October 2000	1,023	81	4,331	1,684	673	210	8,002
Provided during the year	319	27	1,972	755	467	246	3,786
Written back on revaluation – note 21	(1,342)	–	–	–	–	–	(1,342)
Arising from disposal of subsidiaries	–	–	(658)	(75)	–	(126)	(859)
At 30 September 2001	–	108	5,645	2,364	1,140	330	9,587
Net book value:							
At 30 September 2001	19,600	1,247	3,785	1,782	2,035	1,002	29,451
At 30 September 2000	15,619	1,274	6,624	2,540	2,502	1,569	30,128

12. FIXED ASSETS (continued)

An analysis of the cost and valuation of the fixed assets of the Group is as follows:

	Leasehold land and buildings HK$'000	Lease rights on medium term leases of properties HK$'000	Computer equipment HK$'000	Office equipment, furniture and fixtures HK$'000	Motor vehicles HK$'000	Leasehold improvement HK$'000	Total HK$'000
At cost	–	1,355	9,430	4,146	3,175	1,332	19,438
At valuation	19,600	–	–	–	–	–	19,600
At 30 September 2001	19,600	1,355	9,430	4,146	3,175	1,332	39,038

All the Group's leasehold land and buildings are held under medium term leases in the PRC.

The Group's leasehold land and buildings situated in the PRC were revalued at the balance sheet date by FPDSavills (Hong Kong) Limited, a firm of independent professional valuers, at an open market value of HK$19,600,000 using the open market basis. A surplus of HK$4,300,000 arising therefrom has been credited to the asset revaluation reserve (note 21).

Had all of the Group's leasehold land and buildings situated in the PRC been carried at historical cost less accumulated depreciation, their carrying amounts would have been approximately HK$15,300,000 (2000: HK$15,619,000).

Notes to Consolidated Financial Statements

13. INTANGIBLE ASSETS

Group

	Development costs HK$'000	Franchises HK$'000	Total HK$'000
Cost:			
At 1 October 2000	10,630	642	11,272
Additions	3,401	–	3,401
Arising from disposal of subsidiaries	(6,966)	(221)	(7,187)
Written off	–	(421)	(421)
At 30 September 2001	7,065	–	7,065
Accumulated amortisation:			
At 1 October 2000	2,673	343	3,016
Provided during the year	1,485	–	1,485
Arising from disposal of subsidiaries	(1,534)	(77)	(1,611)
Written off	–	(266)	(266)
At 30 September 2001	2,624	–	2,624
Net book value:			
At 30 September 2001	4,441	–	4,441
At 30 September 2000	7,957	299	8,256

14. INTERESTS IN SUBSIDIARIES

	Company	
	2001 HK$'000	2000 HK$'000
Unlisted shares, at cost	43,437	43,437
Due from subsidiaries	68,659	30,560
	112,096	73,997

The amounts due from subsidiaries were unsecured, interest-free and had no fixed terms of repayment.

14. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the subsidiaries are as follows:

Company name	Place of incorporation/ establishment	Paid-up capital/ registered capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Guo Xun International Limited	Cayman Islands	US$1	100	–	Dormant
II Networks International Limited	British Virgin Islands	US$166,667	100	–	Investment holding
IIN Network Operations Limited	Hong Kong	HK$2	–	100	Dormant
IIN Network Technology Limited	Hong Kong	HK$2,000,000	–	100	Investment holding and overseas trading
IIN Software Technology Limited	Hong Kong	HK$2	–	100	Investment holding
Hunan IIN Technologies Engineering Co., Limited	PRC	US$1,300,000	–	100	Sales and distribution of telecommunication equipment
Hunan IIN-Galaxy Software Development Co., Limited	PRC	RMB5,000,000	–	97	Network management solutions related business
Hunan IIN International Co., Ltd.	PRC	HK$38,000,000	–	97	Other network solutions related business
Hubei IIN-Galaxy Network Co., Limited	PRC	RMB3,000,000	–	80	Other network solutions related business
Hunan IIN Education Information Co., Limited	PRC	RMB1,200,000	–	67.9	Other network solutions related business
Beijing IIN Data Network Technology Co., Ltd.	PRC	RMB3,000,000	–	60	Data communications (including IP network management and monitoring system) and network infrastructure related business

14. INTERESTS IN SUBSIDIARIES (continued)

The turnover and net loss from ordinary activities attributable to shareholders by subsidiaries disposed of for the year ended 30 September 2001 were approximately HK$891,000 and HK$6,800,000, respectively.

The turnover and net loss from ordinary activities attributable to shareholders by subsidiaries acquired during the year ended 30 September 2000 were approximately HK$10,469,000 and HK$1,310,000, respectively.

15. INVENTORIES

	Group	
	2001 HK$'000	2000 HK$'000
Raw materials	786	480
Work in progress	–	4,742
	786	5,222

At the balance sheet date, no inventories were stated at net realisable values.

16. DUE FROM SHAREHOLDERS

The amounts due from shareholders were unsecured, interest-free and were settled in full during the year.

17. DUE FROM RELATED COMPANIES AND DIRECTORS

Particulars of amounts due from related companies and directors disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance, Chapter 32 of the Laws of Hong Kong were as follows:

Name of related companies	30 September 2001 HK$'000	Maximum amount outstanding during the year HK$'000	1 October 2000 HK$'000
IIN Education HK	6,644	6,644	–
IIN Medical HK	9,397	9,594	–
IIN Education PRC	12,306	12,306	–
IIN Medical PRC	9,843	9,843	–
IIN Education BVI	5,129	5,129	–
IIN Medical BVI	3,129	3,129	–
	46,448	46,645	–

17. DUE FROM RELATED COMPANIES AND DIRECTORS (continued)

The amounts due from the related companies were unsecured and interest-free. Subsequent to the balance sheet date, the amounts of approximately HK$44,566,000 due from related companies were settled through the set-off of the Special Dividend distributed out of the share premium account of the Company as instructed by those shareholders who were entitled to the Special Dividend. The remaining balance is unsecured, interest-free and repayable within one year. Further details of the declaration and distribution of the Special Dividend are disclosed in note 25(a) to the financial statements.

	30 September 2001 HK$'000	Maximum amount outstanding during the year HK$'000	1 October 2000 HK$'000
Mr. Wu Shu Min	30	30	–
Mr. Chang Ye Min, William	–	41	–
Mr. Zhu Rong	20	20	–
	50	91	–

The amounts due from directors were unsecured, interest-free and were repaid in full subsequent to the balance sheet date.

18. INTEREST-BEARING BANK LOANS, SECURED

	Group	
	2001 HK$'000	2000 HK$'000
Bank loans repayable within one year or on demand	29,065	40,057

The bank loans are secured by charges on the Group's fixed deposits of approximately HK$16,592,000 (2000: HK$26,311,000) and a legal charge on the leasehold properties of the Group situated in the PRC.

19. CONVERTIBLE BONDS

(a) On 16 January 2001, the Company entered into a subscription agreement (the "First Bond Agreement") in relation to the issue of a convertible bond (the "First Bond") to an independent third party (the "First Bondholder") for a principal amount of HK$10,000,000. The First Bond was unsecured and bore interest at (i) the rate of 4% per annum above the best lending rate as quoted by the Hong Kong and Shanghai Banking Corporation Limited plus (ii) either 3% or 5% of the principal amount of the First Bond depending on the date of and the actual issue price of the Company's shares to be listed on the GEM of the Stock Exchange or such other recognised stock exchange. The First Bondholder was not entitled to receive any interest if the First Bondholder chose to convert the First Bond into any shares of the Company.

The conversion price would have been fixed at HK$0.52 per ordinary share of US$0.01 each (after adjusting for the consolidation and capitalisation issue of the Company's shares subsequent to the balance sheet date). The First Bond was exercisable at any time until the business day before (i) the bulk-printing date of the prospectus of the Company for the purposes of obtaining a listing on the GEM of the Stock Exchange or such other recognised stock exchange; or (ii) 1 February 2002, whichever was the earlier. In the absence of the conversion, the principal and interest of the First Bond was repayable in full on the 10th business day after the date on which the Company's shares were listed or 1 February 2002, whichever was earlier.

Mr. Wu Shu Min, one of the Company's executive directors and substantial shareholders, guaranteed, unconditionally and irrevocably, the repayment obligations of the Company under the terms and conditions of the First Bond Agreement.

Subsequent to the balance sheet date, a notice not to convert the First Bond into the Company's shares was received by the Company from the First Bondholder and the First Bond was repaid in full by the Company in December 2001 accordingly.

(b) Pursuant to a subscription agreement (the "Second Bond Agreement") between the Company and another independent third party (the "Second Bondholder") in respect of a further convertible bond (the "Second Bond"), the Company issued a Second Bond with an aggregate principal amount of HK$27,000,000 in May 2001. The Second Bond was unsecured and bore interest at 13% per annum. Pursuant to the Second Bond Agreement, the Second Bondholder was not entitled to any interest if the Second Bondholder chose to convert the Second Bond into any shares of the Company.

The conversion price would have been an amount equal to 50% of the issue price per share at which the Company's shares were to be offered to the public upon the first listing of the Company's shares on the GEM of the Stock Exchange or such other recognised stock exchange, but in any event not less than HK$0.52 per share of US$0.01 each and not more than HK$0.90 per share of US$0.01 each (after adjusting for the consolidation and capitalisation issue of the Company's shares subsequent to the balance sheet date).

19. CONVERTIBLE BONDS (continued)

(b) The Second Bond was exercisable at any time until the business day before (i) the date of printing the preliminary offering circular of the Company for the purposes of obtaining a listing on the GEM of the Stock Exchange or such other recognised stock exchange; or (ii) 2 May 2002, whichever was the earlier. In the absence of the conversion, the principal and interest of the Second Bond would become repayable in full on the 10th business day after the date on which the Company's shares were listed on the GEM of the Stock Exchange or 2 May 2002, whichever was earlier.

Messrs. Wu Shu Min and Zhu Rong, the Company's directors and shareholders, jointly and severally, unconditionally and irrevocably, guaranteed the repayment obligations of the Company under the terms and conditions of the Second Bond Agreement.

Subsequent to the balance sheet date, a notice not to convert the Second Bond into the Company's shares was received by the Company from the Second Bondholder and the Second Bond was repaid in full by the Company in December 2001 accordingly.

20. SHARE CAPITAL

	2001 HK$'000	2000 HK$'000
Authorised:		
300,000,000 ordinary shares of US$0.001	2,340	2,340
Issued and fully paid:		
182,239,470 ordinary shares of US$0.001	1,414	1,414

During the year, there were no changes in the Company's authorised and issued share capital. The following changes in the Company's authorised and issued share capital took place during the period from 14 December 1999 (date of incorporation of the Company) to 30 September 2000 and 2001:

	Number of shares issued	Par value HK$'000
Share allotted and issued at par on incorporation	1	–
Subdivision of shares	9	–
Shares issued as consideration for the acquisition of the entire issued share capital of II Networks	166,666,660	1,293
Shares issued for cash consideration	15,572,800	121
Share capital as at 30 September 2000 and 2001	182,239,470	1,414

Notes to Consolidated Financial Statements

30 September 2001

20. SHARE CAPITAL (continued)

Subsequent to the balance sheet date, the following changes in the Company's authorised and issued share capital took place up to the date of approval of these financial statements:

	Notes	Number of shares issued	Nominal value of shares issued HK$'000
Issued share capital at 30 September 2001		182,239,470	1,414
Share consolidation	(i)	(164,015,523)	–
Capitalisation of the share premium account	(iii)	892,973,403	69,652
New issue and placing of shares to the public	(iv)	442,420,000	34,509
Shares issued upon the exercise of the over-allotment option	(v)	50,004,000	3,900
Issued share capital at the date of approval of these financial statements		1,403,621,350	109,475

(i) On 22 November 2001, the authorised share capital of the Company of US$300,000, divided into 300,000,000 shares of US$0.001 each, was consolidated into 30,000,000 shares of US$0.01 each and the issued share capital of US$182,239, of 182,239,470 shares of US$0.001 each, was consolidated into 18,223,947 shares of US$0.01 each.

(ii) On 22 November 2001, the authorised share capital of the Company was increased from US$300,000 to US$20,000,000 by the creation of an additional 1,970,000,000 shares of US$0.01 each.

(iii) On 22 November 2001, a total of 892,973,403 shares of US$0.01 each were allotted and issued as fully paid at par to the holders of the Company's shares whose names appeared on the register of members of the Company at that date, in proportion to their shareholdings, by way of the capitalisation of the sum of US$8,929,734 (equivalent to approximately HK$69,652,000) standing to the credit of the share premium account of the Company. Such allotment and capitalisation were conditional on the share premium account being credited as a result of the new share issue to the public on 29 November 2001.

(iv) On 29 November 2001, 442,420,000 shares of US$0.01 each were issued to the public by way of a new issue and placement of shares at HK$0.30 each, for a total cash consideration of HK$132,726,000 before related issuing expenses.

(v) On 24 December 2001, pursuant to the exercise of the over-allotment option granted by the Company to the underwriters in connection with the listing of the Company's shares, the Company further issued 50,004,000 shares at HK$0.30 per share, for a total cash consideration of HK$15,001,200, before related expenses.

20. SHARE CAPITAL (continued)

Share option schemes

(a) On 7 January 2000, the Company adopted an employee share option plan (the "Pre-IPO Share Option Plan"). The Pre-IPO Share Option Plan was to be valid and effective for a period of eight years commencing from 7 January 2000. However, upon listing of the Company's shares on the GEM of the Stock Exchange on 30 November 2001, no further options will be granted under the Pre-IPO Share Option Plan.

Under the Pre-IPO Share Option Plan, the grantees may include any (a) any full-time employee and director (including non-executive director and independent non-executive director) of the Company or of its subsidiaries; (b) any part-time employee with weekly working hours of 15 hours and above of the Company or of any of its subsidiaries; (c) any advisor or consultant (in the areas of technical, financial or corporate managerial) to the Company or to any of its subsidiaries; and (d) any other person who, at the sole determination of the board of directors, has contributed to the Group based on certain assessment criteria.

The share subscription price in respect of any particular option granted under the Pre-IPO Share Option Plan was determined by the board of directors from time to time.

The maximum number of Pre-IPO Share Options which may be granted under the Pre-IPO Share Option Plan is 10% of the issued share capital of the Company from time to time, excluding for this purpose shares issued upon the exercise of options granted under the Pre-IPO Share Option Plan or any other share option scheme. The limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Pre-IPO Share Option Plan and any other schemes must not exceed 30% of shares of the Company from time to time.

20. SHARE CAPITAL (continued)

Share option schemes (continued)

(a) The summary of details of the Pre-IPO Share Options granted, adjusted for the consolidation and capitalisation issue of the Company's shares subsequent to the balance sheet date, is as follows:

Adjusted exercise price per share* US$	Number of shares subject to Pre-IPO Share Options: As at 1 October 2000	Granted during the year	Cancelled during the year	As at 30 September 2001 (before consolidation and capitalisation of shares)	Adjusted for consolidation and capitalisation of shares subsequent to 30 September 2001	As at 30 September 2001 (after consolidation and capitalisation of shares)	Exercise period of share options
0.0192	10,400,000	–	(470,000)	9,930,000	39,720,000	49,650,000	7 January 2000 to 6 January 2008
0.0192	3,450,000	–	(220,000)	3,230,000	12,920,000	16,150,000	26 February 2000 to 25 February 2008
0.066	2,500,000	–	–	2,500,000	10,000,000	12,500,000	23 May 2000 to 22 May 2008
0.066	70,000	–	(70,000)	–	–	–	22 August 2000 to 21 August 2008
0.066	–	480,000	–	480,000	1,920,000	2,400,000	20 July 2001 to 19 July 2009
	16,420,000	480,000	(760,000)	16,140,000	64,560,000	80,700,000	

* The exercise price per share was adjusted for the consolidation and capitalisation issue of the Company's shares subsequent to the balance sheet date.

20. SHARE CAPITAL (continued)

Share option schemes (continued)

(a) Subsequent to the balance sheet date, 220,000 Pre-IPO Share Options, as set out below granted to employees were cancelled after their resignation from the Group.

	Number of shares subject to Pre-IPO Share Option			
Adjusted exercise price per share* US$	Cancelled subsequent to 30 September 2000 (before consolidation and capitalisation of shares)	Adjusted for consolidation and capitalisation of shares subsequent to 30 September 2001	Cancelled subsequent to 30 September 2001 (after consolidation and capitalisation of shares)	Exercise period of share options
0.0192	150,000	600,000	750,000	7 January 2000 to 6 January 2008
0.0192	20,000	80,000	100,000	26 February 2000 to 25 February 2008
0.066	–	–	–	23 May 2000 to 22 May 2008
0.066	50,000	200,000	250,000	20 July 2001 to 19 July 2009
0.066	–	–	–	22 August 2000 to 21 August 2008
	220,000	880,000	1,100,000	

* The exercise price per share was adjusted for the consolidation and capitalisation issue of the Company's shares subsequent to the balance sheet date.

Subsequent to the balance sheet date, the exercise period of certain outstanding Pre-IPO Share Option was revised to three years from the date these options were originally granted.

As at the date of approval of these financial statements, 79,600,000 Pre-IPO Share Options (as adjusted for the consolidation and capitalisation of the Company's shares subsequent to the balance sheet date) remained outstanding under the Pre-IPO Share Option Plan. The exercise in full of such Pre-IPO Share Options would, under the present capital structure of the Company, result in the issue of 79,600,000 additional shares.

20. SHARE CAPITAL (continued)

Share option schemes (continued)

(b) Subsequent to the balance sheet date, on 22 November 2001, the Company adopted a share option scheme (the "Scheme") conditionally upon the listing of the Company's shares on the GEM of the Stock Exchange. The Scheme will be valid and effective for a period of ten years commencing from the date of adoption.

Under the Scheme, the grantees may include (a) any full-time employee, director (including non-executive director and independent non-executive director) and part-time employee with weekly working hours of 15 hours and above of the Company and of any of its subsidiaries; (b) any advisor or consultant (in the areas of technical, financial or corporate managerial) to the Company or to any of its subsidiaries; and (c) any other person who, at the sole determination of the board of directors, has contributed to the Group based on certain assessment criteria.

The maximum number in respect of which options may be granted under the Scheme is 10% of the issued share capital of the Company from time to time, excluding for this purpose shares issued upon the exercise of options granted under the Scheme or any other share option scheme. The limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes must not exceed 30% of the shares of the Company or any of its subsidiaries from time to time.

The subscription price is determined by the directors, save that such price may not be less than the higher of (i) the closing price of the shares on the GEM of the Stock Exchange on the date of grant of the option; and (ii) the average of the closing prices of the shares on the Stock Exchange for the five trading days immediately preceding the date of grant of the option.

The Scheme became effective upon the listing of the Company's shares on the GEM of the Stock Exchange on 30 November 2001. As at the date of approval of these financial statements, no options had been granted or agreed to be granted under the Scheme.

21. RESERVES

Group

	Retained profits/ (accumulated losses) HK$'000	Share premium account HK$'000 (i)	Statutory reserve HK$'000 (ii)	Asset revaluation reserve HK$'000	Exchange fluctuation reserve HK$'000	Capital reserve HK$'000	Total HK$'000
At 1 October 1999	(4,139)	27,429	2	–	(16)	(6,007)	17,269
Premium on issue of shares upon placement	–	31,569	–	–	–	–	31,569
Arising on acquisition of II Networks	–	24,751	–	–	–	–	24,751
Arising from acquisition of subsidiaries	–	–	–	–	–	(5,735)	(5,735)
Net loss for the year	(19,445)	–	–	–	–	–	(19,445)
Transfer to statutory reserve	(2)	–	2	–	–	–	–
Exchange realignments	–	–	–	–	2	–	2
At 30 September 2000 and 1 October 2000	(23,586)	83,749	4	–	(14)	(11,742)	48,411
Surplus arising on revaluation of leasehold land and buildings – note 12	–	–	–	4,300	–	–	4,300
Minority interests' share of the surplus on revaluation	–	–	–	(129)	–	–	(129)
Exchange realignments	–	–	–	–	1	–	1
Net profit for the year	48,540	–	–	–	–	–	48,540
At 30 September 2001	24,954	83,749	4	4,171	(13)	(11,742)	101,123

21. RESERVES (continued)

Company

	Share premium account HK$'000 (i)	Accumulated losses HK$'000	Total HK$'000
Arising on acquisition of II Networks	42,145	–	42,145
Issue of shares	31,569	–	31,569
At 30 September 2000 and 1 October 2000	73,714	–	73,714
Net loss for the year	–	(32)	(32)
At 30 September 2001	73,714	(32)	73,682

Notes:

(i) The share premium account of the Company includes (i) shares issued at a premium; and (ii) the difference between the nominal value of the shares of the Company issued in exchange for the issued share capital of the subsidiaries and the value of the underlying net assets of the subsidiaries pursuant to the Reorganisation as set out in note 1 to the financial statements. Under the Companies Law (2001 Second Revision) of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business. Subsequent to the balance sheet date, the Special Dividend was distributed out of the share premium account of the Company as set out in note 25(a) to the financial statements.

The share premium account of the Group includes (i) shares issued at a premium and (ii) the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the Recognisation set out in note 1 to the financial statements over the nominal value of the share capital of the Company issued in exchange therefor.

(ii) In accordance with the relevant PRC regulations and joint venture agreements, the Sino-foreign joint ventures established in the PRC shall set aside a portion of their respective profit after tax, if any, to the statutory reserve. Such amount will be determined at the discretion of the board of directors of the respective joint ventures.

22. NOTES TO CONSOLIDATED CASH FLOW STATEMENTS

(a) Reconciliation of profit/(loss) from operating activities to net cash outflow from operating activities

	2001 HK$'000	2000 HK$'000
Profit/(loss) from operating activities	55,185	(15,898)
Gain on disposal of subsidiaries	(29,046)	–
Interest income	(1,008)	(980)
Depreciation	3,786	3,660
Amortisation of intangible assets	1,485	1,981
Write off of franchise costs	155	–
Loss on disposal of fixed assets	24	20
Decrease in balances with jointly-controlled entities	–	2,072
Decrease/(increase) in inventories	4,311	(2,304)
Increase in trade and retention receivables	(100,466)	(38,186)
Decrease/(increase) in bills receivable	14,056	(14,056)
Decrease/(increase) in prepayments, deposits paid and other receivables	1,787	(10,378)
Decrease in amounts due from shareholders	1,131	3,706
Increase in amounts due from related companies	(3,088)	–
Increase in amounts due from directors	(50)	–
Increase in trade payables	28,186	29,074
Increase in accrued liabilities, deposits received and other payables	3,755	2,848
Net cash outflow from operating activities	(19,797)	(38,441)

Notes to Consolidated Financial Statements

30 September 2001

22. NOTES TO CONSOLIDATED CASH FLOW STATEMENTS (continued)

(b) Analysis of changes in financing during the years

	Share capital (including share premium) HK$'000	Shareholder's loan HK$'000	Convertible bonds HK$'000	Interest-bearing bank loans HK$'000	Interest–bearing other loan HK$'000	Minority interests HK$'000
At 1 October 1999	28,473	25,000	–	17,103	–	1,799
Acquisition of subsidiaries	–	–	–	–	–	(66)
Converted into shares of II Networks	25,000	(25,000)	–	–	–	–
Capital contribution from minority interests	–	–	–	–	–	1,269
Minority interests' share of profit for the year	–	–	–	–	–	358
Issue of new shares	31,690	–	–	–	–	–
Cash inflow from financing, net	–	–	–	22,954	–	–
At 30 September 2000 and 1 October 2000	85,163	–	–	40,057	–	3,360
Disposal of subsidiaries	–	–	–	(1,495)	–	213
Minority interests' share of profit for the year	–	–	–	–	–	12
Minority interests' share of asset revaluation reserves	–	–	–	–	–	129
Cash inflow/(outflow) from financing, net	–	–	37,000	(9,497)	–	–
At 30 September 2001	85,163	–	37,000	29,065	–	3,714

22. NOTES TO CONSOLIDATED CASH FLOW STATEMENTS (continued)

(c) Purchases of subsidiaries

	2001 HK$'000	2000 HK$'000
Net liabilities acquired:		
Lease rights on land and buildings in the PRC	–	3,616
Fixed assets	–	1,929
Intangible assets	–	354
Cash and bank balances	–	106
Inventories	–	1,210
Trade and retention receivables	–	5,801
Prepayments, deposits paid and other receivables	–	1,363
Due to group companies	–	(8,811)
Trade payable	–	(7,650)
Accrued liabilities, deposits received and other payables	–	(2,630)
Minority interests	–	66
	–	(4,646)
Capital reserve on acquisition	–	5,735
	–	1,089
Satisfied by:		
Lease rights on land and buildings in the PRC	–	3,616
Cash	–	467
Interests in jointly-controlled entities	–	(2,994)
	–	1,089

Analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries:

	2001 HK$'000	2000 HK$'000
Cash consideration	–	(467)
Cash and bank balances acquired	–	106
	–	(361)

The subsidiaries acquired during the year ended 30 September 2000 contributed approximately HK$748,000 to the Group's net operating cash inflow, and utilised approximately HK$708,000 in respect of the investing activities.

22. NOTES TO CONSOLIDATED CASH FLOW STATEMENTS (continued)

(d) Disposal of subsidiaries

	2001 HK$'000	2000 HK$'000
Net assets disposed of:		
Fixed assets	2,672	–
Intangible assets	5,576	–
Pledged bank deposits	6,680	–
Cash and bank balances	55	–
Inventories	125	–
Trade and retention receivables	171	–
Prepayments, deposits paid and other receivables	1,742	–
Trade payables	(89)	–
Accrued liabilities, deposits received and other payables	(1,336)	–
Bank loans	(1,495)	–
Minority interests	213	–
	14,314	–
Gain on disposal of subsidiaries	29,046	–
	43,360	–
Satisfied by:		
Due from related companies	43,360	–

Analysis of the net outflow of cash and cash equivalents in respect of the disposal of subsidiaries:

	2001 HK$'000	2000 HK$'000
Cash and bank balances disposed of	(55)	–
	(55)	–

The subsidiaries disposed of during the year contributed approximately HK$48,000 to the Group's net operating cash inflow, paid approximately HK$86,000 in respect of net returns on investments and servicing of finance, utilised approximately HK$873,000 in respect of investing activities and contributed approximately HK$657,000 for financing activities.

22. NOTES TO CONSOLIDATED CASH FLOW STATEMENTS (continued)

(e) Major non-cash transactions

(i) The Reorganisation involved the acquisition of the entire issued share capital of II Networks by the issue of shares of the Company, further details of which are set out in note 1 to the financial statements.

(ii) During the year ended 30 September 2000, the conversion rights vested in the shareholder loan in the amount of HK$25,000,000 were exercised for the subscription of ordinary shares of II Networks.

(iii) A portion of the consideration for the purchases of subsidiaries during the year ended 30 September 2000 was settled by the disposal of the lease rights of a property located in the PRC. Further details of the acquisition are set out in note 22(c) above.

23. CONTINGENT LIABILITIES

	Company	
	2001 HK$'000	2000 HK$'000
Guarantees given in respect of credit facilities granted to subsidiaries	–	28,493

Last year's guarantees given in respect of facilities granted to subsidiaries were utilised to the extent of HK$2,673,000. The guarantees were released upon the expiry of the facilities granted to the subsidiaries during the year.

The Group did not have any significant contingent liabilities at the balance sheet date (2000: Nil).

24. COMMITMENTS

(a) Capital commitments:

	Group	
	2001 HK$'000	2000 HK$'000
Authorised, but not contracted for	–	5,233

(b) Commitments under operating leases:

Future minimum rental payable under non-cancellable operating leases in respect of land and buildings are as follows:

	Group	
	2001 HK$'000	2000 HK$'000
Within one year	1,546	3,541
In the second to fifth years, inclusive	32	1,712
	1,578	5,253

The Company did not have any significant commitments at the balance sheet date (2000: Nil).

25. POST BALANCE SHEET EVENTS

The following events took place subsequent to the balance sheet date:

(a) A Special Dividend of approximately HK$44,566,000 was declared and approved by the board of directors and shareholders of the Company for the benefit of the shareholders whose names appeared on the register of members of the Company on 31 October 2001 (except for Messrs. Wong Lee Ping, Lo Wai Shun and Chan Kam Ching, all being shareholders of the Company, who had waived their entitlements thereto). The distribution of the Special Dividend was made immediately following the listing of the Company's shares on the GEM of the Stock Exchange on 30 November 2001.

(b) In November 2001, notices not to convert the First Bond and Second Bond into the Company's shares were received by the Company from the First Bondholder and the Second Bondholder, respectively. In December 2001, the Company made repayments in an aggregate amount of HK$37,000,000 in respect of the First Bond and the Second Bond accordingly.

(c) On 29 November 2001, the Company issued 442,420,000 ordinary shares of US$0.01 each to the public, upon the listing of the Company's shares on the GEM of the Stock Exchange, at HK$0.30 per share for a total consideration, before related expenses, of HK$132,726,000.

(d) On 24 December, 2001, pursuant to the exercise of the over-allotment option granted by the Company to the underwriters in connection with the listing of the Company's shares, the Company further issued 50,004,000 shares at HK$0.30 per share, for a total consideration of HK$15,001,200, before related expenses.

Save as aforesaid, no other significant events took place subsequent to the balance sheet date.

26. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 24 December 2001.