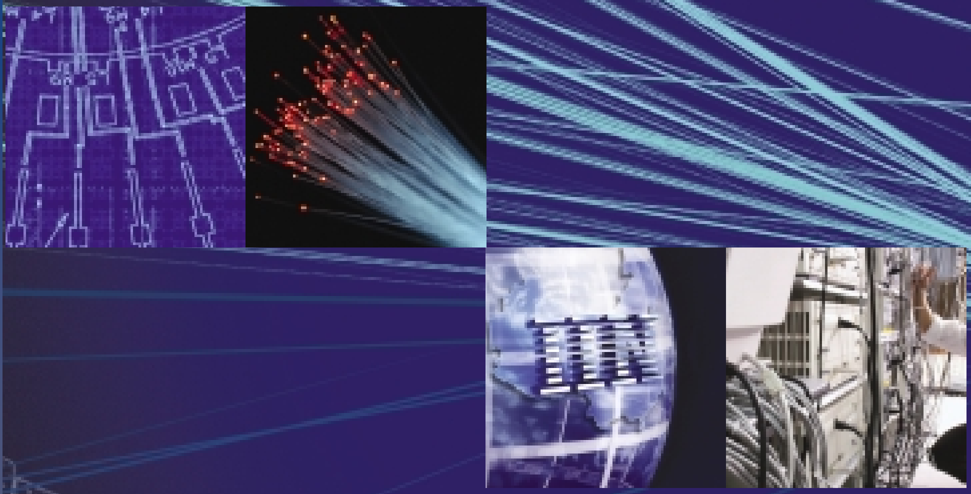
IIN INTERNATIONAL LIMITED

(incorporated in the Cayman Islands with limited liability)

www.iini.com



Annual Report 2002

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 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 headquarters based in Hong Kong and domestic headquarters in Beijing, the PRC. The Company was listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited on 30 November 2001.

The services provided by the Group to 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 PRC telecommunications service providers to monitor the effective and efficient functioning of their telecommunications networks. The solutions provided include the IIN SS7 Signalling Monitoring System, the CPEM 8000 Power and Environmental Monitoring System, the Local Exchange Network Management and Monitoring System and the IP Network Management and Safeguard System.

In servicing major PRC telecommunications service providers, the Group has established key strategic alliances with China Telecom System Integration Co., Ltd. and Changsha Galaxy Computer Company of the National University of Defense Technology of China.

For provision of other network solutions, the Group's customers are education institutions, medical institutions, state-owned enterprises and government agencies in the PRC, with an increasing focus on software and system development for e-government projects.

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Corporate Information

Registered office
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Grand Cayman
Cayman Islands

Head office and principal place of business in Hong Kong
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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 Parkview
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Hong Kong

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Tuen Mun
Hong Kong

Principal bankers
The Hongkong and Shanghai
Banking Corporation Limited
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
Computershare Hong Kong Investor
Services Limited
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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

The past year has seen a slowdown in the infrastructure investment of the telecommunications industry in the People's Republic of China (the "PRC") and this has had a major impact on players serving the market.

The main cause for the business slowdown has been China Telecom's restructuring which resulted in delays in the overall telecommunications capital expenditure market compared with 2001. As China Telecom is the biggest customer of IIN International Limited (the "Company") together with its subsidiaries (the "Group" or "IIN"), this naturally affected our performance for the past year just as it affected the performances of the other players active in the same segment.

However, the overall outlook is promising. The completed restructuring of China Telecom and the successful IPO of China Telecom Corporation Limited means the start of a new era in the PRC's telecommunications market. IIN is well positioned to benefit from the dawn of this new era because of our focused business strategies and established strategic alliances.

In summary, despite disappointing results, fiscal 2002 has been a year of consolidation that has given IIN a solid base to build a prosperous future in the PRC's burgeoning telecommunications market.

2003: Resuming growth

As part of the PRC government's strategy to introduce healthy competition in the telecommunications industry in light of the World Trade Organisation ("WTO") accession, the reorganisation of China Telecom will have enormous benefits for the country. However, the asset distribution and integration of the merged companies is taking longer time than expected. This delay has resulted in slower capital expenditure on telecommunications infrastructure compared with previous years.

This is reflected in the published statistics for the past three years. The Ministry of Information Industry ("MII") reports that investment in fixed assets in the PRC telecommunications sector for 2000 was RMB222.4 billion, increasing to RMB264.8 billion in 2001. For 2002, according to the MII reports, it is expected to drop to RMB239.7 billion. This reduction has negatively affected IIN's performance in 2002.

However, we believe this is just a temporary situation and that the outlook for the PRC telecommunications infrastructure market remains promising. The MII forecasts that the investment in fixed assets will increase to RMB268.6 billion in 2003 and further to RMB275.1 billion in 2004. This will lead to continued growth in the market in which IIN is well positioned to capitalise.

There is little doubt that this growth will be accelerated by the PRC's accession to the WTO. The PRC's membership of the WTO will further open up the telecommunications industry to foreign players, which will result in significant foreign investment flowing into the PRC, strengthening the capital base for the telecommunications industry.

The MII forecasts that the PRC telecommunications market will grow at a rate of 15% per annum over the next five years. Market income that totaled RMB357.2 billion in 2001 will increase to RMB743.3 billion by 2006.

Chairman's Statement

Expanding infrastructure product portfolio

IIN will continue to leverage our strengths to take advantage of the growth in the PRC telecommunications market in providing network solutions to the telecommunications infrastructure market.

Our current strength is integrating self-developed proprietary systems with third-party systems/sub-systems to provide network infrastructure solutions and network management systems to customers.

We have made a strategic decision to enter the transmission segment of the telecommunications market. We entered into a conditional Sale and Purchase Agreement to acquire Future Frontier Limited ("Future Frontier") in September 2002, which holds a controlling interest in Wujiang Shengxin Optoelectronics Technology Co., Ltd. ("Shengxin") as of 12 December 2002. Shengxin manufactures and markets communication cables and optical fiber cables. This will give us the opportunity for upstream vertical integration to capture margins in the infrastructure and transmission markets.

Although established only in February 2001, Shengxin has already achieved outstanding turnover of HK$79.5 million and profits after taxation of HK$6.1 million under Hong Kong Generally Accepted Accounting Principles for its first nine months of commercial operation. It has established its business foothold and maintained good customer relationships with domestic telecommunications carriers.

Based on Shengxin's solid business performance, we are optimistic that its growth momentum will continue, bringing the Group positive financial contributions. It will also complement our existing marketing resource and sales network as IIN and Shengxin offer different products to the same customer group.

In short, the acquisition represents good long-term investment opportunities that will further strengthen our position in the PRC telecommunications industry, and conforms to our expansion strategy as stated in the Prospectus of the Company dated 26 November 2001 (the "Prospectus").

Entering a new market: e-government

Having already established our presence as an important player in the PRC's telecommunications market, we are taking positive steps in providing network solutions to the anticipated high-growth e-government sector in the coming year.

Our acquisition of Telechina Group Limited ("Telechina") in September 2002 is part of our e-government strategy. Telechina is the investment holding company of Hunan Modern Time Technology Limited ("HNMTT") which was certified in 2000 as one of the top ten information technology system integrators in Hunan Province. The acquisition of HNMTT is a step forward for the Group to be engaged in the provision of network solutions to the e-government sector, especially the e-management system for provincial Industrial and Commercial Administrative Bureaus in the PRC. The Group will continue to explore business opportunities in other e-government sectors.

We are optimistic that entering the e-government sector will create additional business opportunities and have a positive financial impact on the Group.

Chairman's Statement

A promising year ahead

With the completion of the restructuring of the PRC telecommunications sector, and the successful IPO of China Telecom Corporation Limited, we are confident that the telecommunications infrastructure market will regain its growth momentum in 2003. As an active player in this sector, IIN will directly benefit from this growth. Coupled with our strategic acquisitions and consolidation, I have confidence that the coming year of 2003 will be a promising one for IIN.

Wu Shu Min
Chairman

Management Discussions and Analysis

Financial Review

Turnover

Turnover for the fiscal year ended 30 September 2002 amounted to HK$59.5 million compared with HK$263.0 million last year. The drop in turnover was mainly due to the slowdown of the overall telecommunications market expenditure in the PRC as a result of China Telecom's restructuring.

Turnover generated from providing network infrastructure solutions accounted for HK$31.1 million, equivalent to 52.3% of total turnover for the year ended 30 September 2002 (2001: HK$218.4 million). The drop in turnover of network infrastructure solutions, customarily the Group's core revenue generator, was again due to China Telecom's restructuring, which delayed the finalisation of major telecommunications projects. Turnover generated from providing network management solutions maintained the same level for 2002 at HK$18.9 million (2001: HK$20.0 million). This represented 31.7% of total turnover for the year under review. Turnover generated from providing network solutions for sectors other than telecommunications was HK$9.5 million, representing 16.0% for the year under review (2001: HK$24.6 million). The drop in turnover for provision of network solutions for other sectors was a result of the Group's disposal of IIN Network Education Limited; IIN Medical Industrial Limited; Hunan IIN Network Education Co., Ltd.; and Hunan IIN Medical Network Technology Development Co., Ltd., former subsidiaries of the Company, to certain controlling shareholders of the Group ("Disposed Operations") to focus on the telecommunications sector.

Segment information

Segment results from provision of network infrastructure solutions and network management solutions for the year ended 30 September 2002 amounted to a loss of HK$43.8 million and a loss of HK$2.2 million respectively (2001: a profit of HK$18.1 million and a profit of HK$2.6 million respectively). The losses in both segments were due to China Telecom's restructuring that resulted in reduced overall telecommunications expenditure.

Contributions from the provision of network solutions for customers in other market segments for the year under review was a loss of HK$6.7 million (2001: a profit of HK$3.2 million).

Cost of sales and gross profit margin

Reflecting the slowdown in business, cost of sales for the year under review decreased to HK$37.6 million compared with HK$190.6 million in 2001. Gross profit margin for 2002 improved to 36.8% compared with 27.5% in 2001 because the Group put greater effort in promoting its proprietary network management solutions to telecommunications carriers in the PRC which have a higher gross profit margin.

Other revenue

Other revenue for the year ended 30 September 2002 amounted to HK$3.5 million (2001: HK$31.2 million including the gain on the disposal of Disposed Operations of HK$29.0 million), which mainly included bank interest income of HK$0.9 million and licence fees charged to related parties of HK$2.0 million.

Selling and distribution costs, administrative and other operating expenses

Selling and distribution costs for 2002 totaled HK$9.9 million (2001: HK$10.2 million). Although the telecommunications carriers in the PRC reduced their capital investment in 2002, the Group still maintained a strong marketing force in order to strengthen its position in the network solutions provision sector in the PRC and capture business opportunities once the restructuring of China Telecom is completed.

Total administrative expenses rose to HK$36.4 million for 2002 (2001: HK$30.0 million) because of: (1) increase in overseas traveling to support the ongoing listing related activities; and (2) increase in traveling and entertainment to support the Group's geographical expansion in different provinces in the PRC.

Other operating expenses totaled HK$28.3 million for 2002 (2001: HK$8.2 million). The increase in other operating expenses was because of (1) the Group's provision on doubtful debts of HK$17.2 million (2001: HK$6.6 million); and (2) the incurrence of a one-off charge on discounting of certain trade receivables of HK$9.5 million.

During the year, the Group entered into two non-recourse debt discounting agreements with an independent third party. Pursuant to the agreement, the Group assigned certain debts owed by non-telecom customers with non-recourse to an independent third party at a discount to book value of the debts amounted to HK$9.5 million. Accordingly, the Group recorded a one-off discounting charge of HK$9.5 million in 2002 (2001: nil). The directors of the Group consider that cash received under the agreement will improve the liquidity of the Group for working capital purposes.

Impairment of goodwill

Due to the implementation of a new Hong Kong Statement of Standard Accounting Practice during the year the Group has adopted a policy to assess goodwill arising from acquisition of subsidiaries in prior years and remain eliminated against capital reserve for impairment. As a result of the assessment, the Group recognised an impairment charge of HK$4 million to the consolidated profit and loss account during the year.

Management Discussions and Analysis

Finance costs

Finance costs for 2002 totaled HK$4.1 million (2001: HK$5.2 million). The decrease in finance costs was due to the repayment of Convertible Bonds in December 2001 and the saving in interest expenses thereon.

Financial resources and liquidity

The Group continued to be in a strong financial position with net current assets as at 30 September 2002 at HK$71.7 million (2001: HK$72.4 million) of which HK$72.2 million (2001: HK$21.1 million) was cash and bank deposits. The improvement in cash and bank deposits was due to the fund raised from the Company's new issue and placing of shares to the public in November 2001 (the "Placing").

As at 30 September 2002, the Group's total bank borrowings amounted to HK$66.4 million at fixed interest rates ranged from 5.31% p.a. to 7.02% p.a. (2001: HK$29.1 million at fixed interest rate 7.02% p.a.) which are repayable within one year.

In December 2001, the Group repaid the aggregate amount of the Convertible Bonds together with the accrual interests thereon. The repayment is in line with the Group's intended applications of the use of proceeds as mentioned in the Prospectus.

Charges on group assets

As at 30 September 2002, the bank loans totaling HK$66.4 million were secured by charges on the Group's fixed deposits of HK$56.6 million (2001: HK$16.6 million) and a legal charge on the Group's leasehold land and buildings with a net book value of HK$19.6 million (2001: HK$19.6 million).

Exposure to fluctuations in exchange rates

The Group continued to adopt a conservative treasury policy with all bank deposits being kept in either Hong Kong Dollars, or in the local currencies of the operating subsidiaries, keeping a minimum exposure to foreign exchange risks.

Gearing ratio

The Group's gearing ratio as at 30 September 2002 improved to 44.23% (2001: 60.22%). The gearing ratio was based on the Group's total liabilities over its total assets.

Employees

To keep pace with the overall PRC telecommunications market developments, the Group maintained its prudent cost control measures and streamlined its operations through staff consolidation. The Group reduced the average number of staff during the year under review to 198 as compared with 420 for the corresponding period last year. The significant drop in the number of staff was primarily due to the disposal of the Disposed Operations and streamlining of the workforce of the Group to support its core business. Staff costs, including directors' emoluments, totaled HK$18.7 million (2001: HK$18.3 million). Despite the reduced number of staff, staff costs remained at the same level because (1) the Group had hired a number of senior management staff to manage its corporate affairs as a listed company; (2) the Group hired a number of senior and middle management staff of higher sales and operational caliber; and (3) there were annual salary increments for general staff.

The Group's remuneration and bonus policies are basically determined by the performance of individual employee.

Share option schemes

The Group has adopted two share option schemes whereby certain employees of the Group may be granted options to acquire shares of the Company. Details of the share option schemes are set out in the section under "Share Option Scheme" below.

Contingent liabilities

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

Capital structure

During the year under review, the movement of the share capital of the Company were as follows:–

(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 1,970,000,000 additional 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 issuing expenses.

(vi) On 26 June 2002 and 24 July 2002, share options to subscribe for 816,000 shares and 400,000 shares, respectively, in the Company under a Pre-IPO share option plan were exercised and accordingly, 1,216,000 shares were issued for a total consideration of approximately HK$183,000. The premium of HK$88,000 received on the exercise of 1,216,000 share options has been credited directly to share premium account.

(vii) On 4 September 2002, 9,000,000 shares of US$0.01 each were allotted and issued to an independent third party at HK$0.142 each, being the market value of the Company's shares on that date, for the acquisition of Telechina Group Limited ("Telechina") and its subsidiary.

As at 30 September 2002, 1,413,837,350 shares of the Company were issued and fully paid.

Capital commitment and significant investments

As at 30 September 2002, the Group had capital commitments contracted for to issue and allot 22,680,000 ordinary shares of the Company and to pay cash of HK$22,000,000 as part of the remaining consideration to complete the acquisition of 100% equity interests in Future Frontier Limited ("Future Frontier") and its assets of 51% equity interests in Wujiang Shengxin Optoelectronics Technology Co., Ltd. ("Shengxin") which were subsequently completed in December 2002. Apart from those disclosed above, the Group did not have any significant capital commitments or significant investments.

Future plans for material investment or capital assets

Apart from the acquisition of 100% equity interests in Future Frontier and its assets of 51% equity interests in Shengxin in September 2002 which was subsequently completed in December 2002, as at the date of this report, the Group does not have any plans for material investment or capital assets.

Material acquisitions or disposals

Apart from the disposal of 19% equity interests in Hunan IIN Education Information Co., Limited by the Group's subsidiary, Hunan IIN International Co., Ltd., the acquisition of 100% equity interests in Telechina and its wholly owned subsidiary, Hunan Modern Time Technology Limited ("HNMTT") and the acquisition of 100% equity interests in Future Frontier and its assets of 51% equity interests in Shengxin, the Group did not have any material acquisitions or disposals during the year under review.

Business Review

In June 2002, the Group completed the acquisition of the entire issued share capital of Telechina Group Limited, the investment holding company of Hunan Modern Time Technology Limited ("HNMTT"). In 2000, HNMTT was certified as one of Hunan Province's top ten information technology system integrators. It is a major player in e-government projects in Hunan governmental bureaus and broadband network solutions projects for cable TV, broadcasting and telecommunications industries in the province.

The acquisition is in line with the Group's business objectives as stated in the Prospectus. It will further strengthen the Group's position as a network solutions provider to telecommunications and enterprise customers in Hunan Province. More importantly, the acquisition is a great step forward for the Group as it will now be engaged in the provision of network solutions to the cable TV, broadcasting industry and the high-growth e-government sector, especially the e-management system for provincial Industrial and Commercial Administrative Bureaus.

Up to the date of this report, the Group's subsidiary, Hunan IIN-Galaxy Software Development Co., Limited, completed the upgrading of the Local Exchange Network Management and Monitoring System for the Provincial Telecommunications Corporation ("PTC") of China Telecom in Yunnan Province. This is one of China Telecom's key projects in upgrading local exchange networks in the western region of the PRC. Yunnan PTC of China Telecom is particularly pleased with the Group's proprietary Local Exchange Network Management and Monitoring System that helps the telecommunications carrier to collectively manage and maintain its various local exchange networks efficiently. This project establishes the Group's first presence in Yunnan Province and demonstrates the expansion of its network in the southwest part of the PRC.

Management Discussions and Analysis

On 26 September 2002, II Networks International Limited, the Company's wholly-owned subsidiary, entered into a conditional Sale and Purchase Agreement to acquire the entire issued share capital of Future Frontier at a total consideration of HK$59.6 million. Future Frontier is an investment holding company that holds 51% equity interests in Shengxin. The acquisition was completed in December 2002 subsequent to the end of the Group's financial year. The total consideration was satisfied by the issue and allotment of 22,680,000 new shares of the Company at an issue price of HK$0.6 per share and cash payment of HK$46.0 million. Part of the proceeds from the Company's Placing in November 2001 was used to effect the cash payment.

Shengxin principally engages in the manufacturing and marketing of communication cables and optical fiber cables in the PRC. The acquisition of Shengxin is in line with the Group's business objectives as stated in the Prospectus. It represents good long-term investment opportunities to diversify and enlarge the Group's product portfolio and marketing network in the PRC telecommunications infrastructure sector. The acquisition will enable the Group to vertically integrate upstream to capture margins in the infrastructure and transmission markets. The Directors are confident that Shengxin will continue its growth momentum, bringing the Group positive financial contributions.

Corporate development

On 7 December 2001, the Company repaid all outstanding Convertible Bonds of the principal amount of HK$37.0 million, together with accrued interests at an aggregate repayment amount of HK$40.6 million. This was the result of MasterLink Securities (Hong Kong) Corporation Limited and Technique Enterprises Limited, holders of the Convertible Bonds, electing not to exercise their conversion rights. The repayment is in line with the intended applications of the use of proceeds as mentioned in the Prospectus. The repayment was funded by the Company's placing proceeds of HK$37.0 million and the remaining balance was funded by the Group's internally generated fund.

The over-allotment option referred to in the Prospectus was exercised by ICEA Capital Limited on behalf of the Placing Underwriters on 20 December 2001. The over-allotment of 50,004,000 additional new Shares were issued and allotted by the Company at HK$0.3 per share and listed on the GEM of The Stock Exchange of Hong Kong Limited on 24 December 2001. The net proceeds of approximately HK$14.0 million from the issue of the over-allotment Shares were intended to be used for financing working capital requirements of the Group for hardware and software procurement for its network solutions projects.

The Group relocated its headquarters in Hong Kong to centrally located commercial premises on 24 December 2001 and upgraded its office facilities. During the year, owing to decrease in business activities, the Group reduced its sales representative offices from seven at the time of the Prospectus to four as of 30 September 2002.

Hunan IIN International Co., Ltd., a subsidiary of the Group, disposed of 19% equity interest in Hunan IIN Education Information Co. Limited, while each of the other existing shareholders, the Middle School Affiliated with the Hunan Normal University, Changsha First Middle School and Changsha Yali Middle School, agreed to dispose of 2% of their equity interests for a total aggregate amount of RMB300,000 to Hunan Education Administration and Information Center. The registration of the transfer by the respective parties was completed on 31 December 2001.

Referring to the announcement dated 7 March 2002, on 5 March 2002, Mr. Zhu Rong, one of the initial management shareholders, pledged approximately 59.9 million of his shares in the Company to an authorised institution as security for a personal overdraft facility. The pledged shares are held by a nominee of the authorised institution.

With effect from 30 May 2002, the Group appointed Mr. Tsang Wing Ming, Tony, as Alternate Director to Mr. Woo Chin Pang, Adrian, a Non-Executive director of the Company.

Use of Proceeds

Including the proceeds from the exercise of the over-allotment option, the total net cash proceeds from the Group's Placing in November 2001 (the "Placing") amounted to HK$127.8 million. In line with the Prospectus, the Group utilised HK$37.0 million of the net cash proceeds for the repayment of Convertible Bonds.

The Group will use HK$17.5 million to facilitate its expansion of research and development capabilities in developing new network solutions as stated in the Prospectus. As at 30 September 2002, the Group used HK$7.8 million, with HK$9.7 million remaining unutilised for this purpose.

As stated in the Prospectus, the Group will use HK$14.0 million to facilitate its development of upgraded versions of existing network solutions. As at 30 September 2002, the Group used HK$5.9 million, with HK$8.1 million remaining unutilised for this purpose.

According to the Prospectus, HK$10.0 million will be used for purchase of new network equipment and/or software for the existing offices of the Group and establishment of new representative offices in major PRC provinces. As at 30 September 2002, the Group used HK$1.6 million, with HK$8.4 million remaining unutilised for this purpose. As a result of the acquisition of Future Frontier, the Group re-directed HK$6.5 million from this portion of the proceeds (refer below).

HK$49.3 million from the net cash proceeds of the Placing (including an additional of approximately HK$14.0 million upon the exercise of the over-allotment options) will be used as ongoing working capital of the Group. Owing to changes in market environment and the restructuring of China Telecom, the Group's largest customer, the demand for the Group's services has decreased. Accordingly, the funding requirement for daily operations of the Group was reduced and HK$17.5 million of the unutilised proceeds in this respect was re-directed for the acquisition of Shengxin during the financial year ended 30 September 2002. In December 2002, the remaining balance of the acquisition consideration of HK$22.0 million was funded by the working capital of the Group (refer below).

Subsequent to the year ended 30 September 2002, the Group announced on 26 November 2002 that it entered into a conditional Sale and Purchase Agreement to acquire Future Frontier. As at 12 December 2002, the sole asset and liability of Future Frontier is 51% equity interests in Shengxin. Shengxin is principally engaged in the manufacturing and marketing of communication cables and optical fiber cables in the PRC. The acquisition of Shengxin is in line with the Group's business objective as stated in the Prospectus to make strategic acquisition of businesses that can provide synergies to its existing business in order to improve shareholders' value. As a result of the acquisition of Future Frontier, HK$46.0 million of the proceeds from the Placing was re-directed for this purpose as stated above (refer to announcement of the Company dated 26 November 2002).

The table below summarises the actual and intended uses of proceeds from the Placing by the Company:

Use of Proceeds from the Placing	Planned usage according to the Prospectus (HK$ million)	Actual usage as at 30 September 2002 (HK$ million)	Amount used for the Shengxin Acquisition as at 30 September 2002 (HK$ million)	Proceeds remaining unutilized as at 30 September 2002 (HK$ million)
1. Repayment of convertible bonds	37.0	37.0	0	0
2. Research and development in developing new network solutions	17.5	7.8	0	9.7
3. Upgrade of existing network solutions	14.0	5.9	0	8.1
4. Purchase of new network equipment and/or software for the existing offices of the Group and establishment of new representative offices in major PRC provinces	10.0	1.6	6.5	1.9
5. Ongoing working capital	49.3 (including proceeds from exercise of over-allotment options of approximately 14.0)	0	17.5	31.8

Business Objectives and Actual Business Progress Comparison

The following is a comparison of actual business progress in the year ended 30 September 2002 ("Review Period") with the business objectives for the same period as set out in the Prospectus. The Group reviews its business objectives and strategies on an ongoing basis and makes adjustments as necessary.

	Business objectives for the Review Period as set out in the Prospectus	**Actual business progress in the Review Period**
Internet Data Center Solution	Expects to secure the first sales contract relating to this solution by the end of 2001	Because of the reduction of capital investment by China Telecom this year, Internet Data Center projects with several PTCs of China Telecom have been delayed or canceled.
IP Network Management and Monitoring System	Expects to secure a trial site for trial implementation of the system by the end of 2001	A trial site was identified with a PTC of China Telecom. This system has been installed and is in trial and test stages.
Broadband Access Network Management System	Expects to commence the development of the system in early 2002	The Group continues in collecting market information to finalise the product specifications. The major development of the system is delayed in accordance with market requirements.
Unified Communications System	Will commence and complete the feasibility study in relation to this system by the end of the first quarter of 2002 and expect to commence development of the system in the second quarter of 2002	The Group has secured two trial agreements with PTCs of China Telecom in this financial period.

Business Objectives and Actual Business Progress Comparison

IIN

Research & Product Development

In line with the restructure of the PRC telecommunications market during the Review Period, the Group reviewed its research and development strategy. As a result, certain products under development were rationalised to expand their respective product specifications to cater to additional operator requirements including China Telecom, China Mobile, China Unicom and China Netcom etc., as applicable ("generalised version").

	Business objectives for the Review Period as set out in the Prospectus	**Actual business progress in the Review Period**
China Telecom version 7.0 for the CPEM 8000 Power and Environmental Monitoring System	Commence and complete the development of the system by 31 March 2002 and 30 September 2002 respectively	This system will be covered by a generalised version 7.0 for the CPEM 8000 Power and Environmental Monitoring System, expected to be completed by September 2003.
China Mobile version 2.0 for the CPEM 8000 Power and Environmental Monitoring System	Commence and complete the development of the system by 31 March 2002 and 30 September 2002 respectively	This system will be covered by a generalised version 7.0 for the CPEM 8000 Power and Environmental Monitoring System, expected to be completed by September 2003.

IIN

Business Objectives and Actual Business Progress Comparison

	Business objectives for the Review Period as set out in the Prospectus	Actual business progress in the Review Period
China Mobile version 1.0 for the IIN-Acterna PSTN SS7 Signalling Monitoring System	Commence and complete the development of the system by 31 March 2002 and 30 September 2002 respectively	The co-operation between the Company and Acterna Zurich AG expired in June 2002. The completion of initial acceptance test of the PSTN SS7 project is delayed due to the restructuring of Changsha Telecom and the extra technical requirements requested by the customer. The Company continues to seek new co-operative partners to further develop this system. A generalised version 2.0 of the IIN SS7 Signalling Monitoring System, applicable to China Telecom and China Netcom, is under development.
China Telecom version 2.0 for the Network Management and Safeguard System	Commence and complete the development of the system by 31 March 2002 and 30 September 2002 respectively	The development of the system was completed as planned. The system is currently being enhanced for commercialisation to suit different customer needs.
China Telecom version 2.0 for the IP Network Management and Monitoring System	Commence and complete the development of the system by 31 March 2002 and 30 September 2002 respectively	The development of this system will be delayed in accordance with market requirements.

Business Objectives and Actual Business Progress Comparison

IIN

	Business objectives for the Review Period as set out in the Prospectus	Actual business progress in the Review Period
China Mobile version 1.0 for the IP Network Management and Monitoring System	Commence and complete the development of the system by 31 March 2002 and 30 September 2002 respectively	The development of this system will be delayed in accordance with market requirements.
China Telecom version 1.0 for the Unified Communications System	Commence and complete the development of the system by 31 March 2002 and 30 September 2002 respectively	The integration with third party solutions was basically completed. The Group continues to collect market data in order to finalise market requirements.
China Telecom version 1.0 for the Broadband Access Network Management System	Commence and complete the development of the system by 31 March 2002 and 30 September 2002 respectively	The major development of this system is delayed in accordance with market requirements.
China Unicom version 1.0 for the CPEM 8000 Power and Environmental Monitoring System	Commence the development of the system by 30 September 2002	This system will be covered by a generalised version 7.0 for the CPEM 8000 Power and Environmental Monitoring System as stated above. The development is expected to be completed by September 2003.
China Telecom version 2.0 for the IIN-Acterna PSTN SS7 Signalling Monitoring System	Identify product specifications of the system by 31 March 2002 and commence the development of the system by 30 September 2002	As stated above, a generalised version 2.0 of the IIN SS7 Signalling Monitoring System, which will be applicable to China Telecom and China Netcom, is in the feasibility study stage.

Business Objectives and Actual Business Progress Comparison

	Business objectives for the Review Period as set out in the Prospectus	Actual business progress in the Review Period
China Telecom version 3.0 for the Local Exchange Network Management and Monitoring System	Commence the development of the system by 30 September 2002	Initial research, planning and feasibility studies are in progress. During the period under review, new versions 2.0B and 2.0C were developed for PTCs in Jiangsu and Yunnan respectively.
China Unicom version 1.0 for the IP Network Management and Monitoring System	Commence the development of the system by 30 September 2002	The development of this system will be delayed in accordance with market requirements.

Business Objectives and Actual Business Progress Comparison

IIN

Sales & Marketing

	Business objectives for the Review Period as set out in the Prospectus	Actual business progress in the Review Period
China Telecom version 7.0 for the CPEM 8000 Power and Environmental Monitoring System	Formally launched by 30 September 2002	The launch work of the generalised version 7.0 will commence subsequent to the completion of development, expected by September 2003 as stated above.
China Mobile version 2.0 for the CPEM 8000 Power and Environmental Monitoring System	Formally launched by 30 September 2002	The launch work of the generalised version 7.0 will commence subsequent to the completion of development, expected by September 2003 as stated above.
China Telecom version 1.0 for the IIN-Acterna PSTN SS7 Signalling Monitoring System	Complete the trial implementation and formally launch the system by 31 March 2002	No contract was signed in this period due to the restructuring of China Telecom delaying major projects and the delay of completion of the initial acceptance test with Changsha Municipal Telecommunications Corporation.
China Mobile version 1.0 for the IIN-Acterna PSTN SS7 Signalling Monitoring System	Formally launched by 30 September 2002	The launch work of the generalised version 2.0 will commence subsequent to the completion of development.
China Telecom version 2.0 for the Network Management and Safeguard System	Formally launched by 30 September 2002	This system is packaged with Local Exchange Network Management and Monitoring System Version 2.0B to Jiangsu PTC and is well received.

Business Objectives and Actual Business Progress Comparison

	Business objectives for the Review Period as set out in the Prospectus	Actual business progress in the Review Period
China Telecom version 1.0 for IP Network Management and Monitoring System	Complete trial implementation and formally launch the system by 31 March 2002	A trial site was identified with a PTC of China Telecom. This system has been installed and is in trial and test stages.
China Telecom version 2.0 for the IP Network Management and Monitoring System	Formally launched by 30 September 2002	The launch has not commenced due to the delay in the development of the system.
China Mobile version 1.0 for the IP Network Management and Monitoring System	Formally launched by 30 September 2002	The launch has not commenced due to the delay in the development of the system.
China Telecom version 1.0 for the Unified Communications System	Formally launched by 30 September 2002	The launch has not commenced due to the restructuring of China Telecom delaying major projects.
China Telecom version 1.0 for the Broadband Access Network Management System	Formally launched by 30 September 2002	The launch has not commenced due to the delay in the major development of the system in accordance with market requirements.
Establish a new representative office and upgrade one of the existing representative offices into a new branch office	Complete office establishment and upgrade by 30 September 2002	The plan to establish a new representative office and upgrade one of the existing representative offices into a new branch office will be delayed until the business volume picks up. Meanwhile, three representative offices were closed down during the Review Period due to decrease in business activities in the corresponding territories.

Business Objectives and Actual Business Progress Comparison

Strategic Alliances and Acquisitions

Business objectives for the Review Period as set out in the Prospectus	Actual business progress in the Review Period
Seek to extend partnership with Acterna for business development in the PRC mobile communication sector	The development co-operation with Acterna Zurich AG expired in June 2002. The Company continues to seek new co-operative partners to further develop its SS7 Signalling Monitoring System.
Seek to identify suitable technology partners or application vendors for research and product development in network management solutions	The Group continues to seek suitable technology partners or application vendors for research and product development in network management solutions.
Continue pursuit of business alliances with broadband value-added services providers	The Group continues to build close relationship with the broadband value-added services vendors which the Group has signed Memorandum of Understanding with.
Seek to identify and form alliances with suitable network equipment manufacturers and to pursue possible acquisitions of businesses for the production and marketing of network equipment in IIN's brand-name	In process of negotiating with vendors developing products suitable for the Group to carry its brand-name.

Directors and Senior Management Profiles

Executive Directors

Wu Shu Min (吳樹民), 39, Chairman of the Company, is responsible for the strategic direction of the Group. He has over 17 years' experience in the PRC telecommunications industry, and started his career in the Science Research Institute of Hunan Telecom in 1985. In 1994, he joined Hunan Tricom Communication Equipment Co., Ltd. as its China representative before he established Hunan Internet Information Networks Company Limited in 1997.

Chang Ye Min, William (鄭益敏), 54, President and Chief Executive Officer and an authorised representative of the Company, is responsible for the overall management of the Group. Mr. Chang holds Bachelor's and Master's Degrees in Electrical Engineering from Carleton University in Canada and is a member of the Association of Professional Engineers of Ontario, Canada. Before joining the Group in November 1998, Mr. Chang was President and Chief Operating Officer of Tricom Holdings Limited, responsible for the overall strategic planning of the company and for 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 worked with Mitel Corporation of Canada for over 18 years. He held crucial positions in Mitel's headquarters 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 25 years' experience in the IT industry.

Li Zhi Sheng (李志勝), 38, Chief Operating Officer of the Company, is responsible for the business operation and general management of the Group. Mr. Li holds a Bachelor's Degree in Engineering from Zhejiang University and a Master's Degree in Business Administration from Hunan University. He underwent specialist training in the Siemens telephone switching system in 1986 and completed the Advanced Telecommunications Management Training Program sponsored by AT&T in 1994. Before joining the Group in March 2000, Mr. Li served as Director General of the Changsha Telecom Bureau. He worked with the Changsha Telecom Bureau for 15 years and held several senior positions. He was responsible for technical management and project management. He has over 18 years' experience in the PRC telecommunications industry.

Cheng Wing Tsan (鄭榮燦), 41, Compliance Officer and General Manager of Finance and Corporate Affairs of the Company, is responsible for the financial management and corporate affairs of the Group. He is an Associate of the Hong Kong Society of Accountants and an Associate of the Australian Society of Certified Practicing Accountants. He holds a Bachelor's Degree in Financial Administration from the University of New England in Australia. Before joining the Group in August 2001, he was the Deputy General Manager of COL Group Limited. Earlier, he worked with Ping An Insurance Company of China, Ltd. for over six years and was Assistant General Manager of the planning department during his last appointment at the company's head office. Mr. Cheng has over 11 years' experience in financial management and also has experience as a company secretary.

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Non-executive Directors

Zhu Rong (朱嶸), 35, has been a Non-Executive Director of the Company 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 Hunan University in the PRC in 1987. He has over 11 years' extensive working experience in the PRC telecommunications industry.

Wong Kwong Chi (王幹芝), 51, has been a Non-Executive Director of the Company since December 1999. Mr. Wong is currently an Executive Vice President and a Director of Transpac Capital Ltd. He was Chairman of the Hong Kong Venture Capital Association, is Vice Chairman of the Hong Kong Electronic Industries Association Ltd. and a member of the Young Industrialists Council Limited. He holds a Bachelor's Degree in Science and a Master's Degree in Business Administration from the Chinese University of Hong Kong.

Dr. Lo Wai Shun (勞維信), 41, has been a Non-Executive Director of the Company since December 1999. He has been working in the IT industry for more than 12 years and 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. and was involved in business development. He holds a Bachelor's Degree in Science and a Master's Degree in Philosophy from the Chinese University of Hong Kong and a PhD in Physics from Brown University in the United States.

Woo Chin Pang, Adrian (胡展鵬), 43, a Non-Executive Director of the Company since August 2000, is a Vice President of Transpac Capital Ltd. He holds a Bachelor's Degree in Applied Science from the University of Toronto in Canada.

Tsang Wing Ming, Tony, (曾永明), 31, Alternate Director to Mr. Woo Chin Pang since 30 May 2002, is a Senior Investment Manager of Transpac Capital Ltd. He holds a Master's Degree in Engineering from Cambridge University in the United Kingdom. Before joining Transpac, he was a management and technical consultant, advising service providers, vendors, financiers and government bureaus on national and regional telecommunications and IT projects in the Asia Pacific region.

Directors and Senior Management Profiles

Independent Non-executive Directors

Chan Wai Dune (陳維端), 50, has been an independent Non-Executive Director of the Company since August 2000. Mr. Chan founded Charles W D Chan & Co. as sole proprietor and is currently the Managing Director of Charles Chan, Ip & Fung CPA Limited. He is a Fellow of the Chartered Association of Certified Accountants, the Taxation Institute of Hong Kong and the Hong Kong Society of Accountants. He is a lay member of the Insider Dealing Tribunal in Hong Kong and was a member of the Selection Committee for the First Government of the Hong Kong Special Administrative Region.

Ng Ching Wo (吳正和), 52, an independent Non-Executive Director of the Company since August 2000, 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. Mr. Ng holds an Honours Bachelor's Degree and a Master's Degree in Science and graduated as an LL.B at the University of Alberta in Canada.

Chen Junliang (陳俊亮), 69, has been an independent Non-Executive Director of the Company since August 2000. He is a Professor at the Beijing University of Posts and Telecommunications and also works with the National Laboratory of Switching Technology and Telecommunications Networks. Mr. Chen is a member 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

Chang Xiao Hui (常曉輝), 38, is President of Marketing Department of the Group. Before joining the Group in April 2002, he worked in Chang Sha Telecom Bureau as Deputy Director and Chief Engineer for nearly 18 years.

Jin Feng (金鋒), 38, is Vice President of the Marketing Department of the Group. Before joining the Group in May 2002, he held several key positions in various IT companies in the PRC including Legend Advanced Systems Ltd. Co. He holds a Bachelor's Degree and Master's Degree in Engineering from Hua Zhong University of Science and Technology.

Guan Li Jun (關立軍), 53, is General Manager of Administration, responsible for the Group's administrative services in the PRC. He holds a Master's Degree in Business Administration from China's Nankai University and has nearly 18 years' experience in administration. Before joining the Group in December 1999, Mr. Guan held management positions in two companies in the telecommunications and electronics industries.

Tu Bo (涂波), 38, is General Manager of the Group's subsidiary, Hunan IIN International. Mr. Tu holds a Bachelor's Degree in Telecommunications Engineering from the Beijing University of Posts and Telecommunications. Before 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), 32, is Deputy General Manager of the Group's subsidiary, Beijing IIN. Before joining the Group in August 1999, he held various technical and management positions in the PTB in Changsha city.

Zhong Dun Jian (鍾敦建), 43, is General Manager of the Group's subsidiary, Hunan IIN-Galaxy Software Development Co., Limited. Mr. Zhong graduated from the Inner Mongolia Professional College of Posts and Telecommunications in the PRC, specializing in wired communications. Before joining the Group in June 2000, he held various technical positions in the PTC of the Hunan province.

Report of the Directors

The directors present their report and the audited financial statements of the Company and the Group for the year ended 30 September 2002.

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 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 (the "Group Reorganisation"). Further details of the Group Reorganisation, together with details of the subsidiaries acquired pursuant thereto, are set out in the Company's prospectus dated 26 November 2001.

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 its subsidiaries are set out in note 20 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

Results and dividends

The Group's loss for the year ended 30 September 2002 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 46 to 93.

On 19 November 2001, a special dividend of approximately HK$44,566,000 (the "Special Dividend") 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.

The directors do not recommend the payment of a final dividend in respect of the year ended 30 September 2002.

Summary financial information

The following is a summary of the consolidated/combined results and 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
	2002	2001	2000	1999
	HK$'000	HK$'000	HK$'000	HK$'000
TURNOVER	59,522	262,978	120,862	20,031
PROFIT/(LOSS) BEFORE TAX	(57,228)	49,952	(17,999)	(4,263)
Tax	–	(1,400)	(1,088)	–
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	(57,228)	48,552	(19,087)	(4,263)
Minority interests	2,806	(12)	(358)	126
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	(54,422)	48,540	(19,445)	(4,137)

Report of the Directors

Summary financial information (continued)

ASSETS, LIABILITIES AND MINORITY INTERESTS

	30 September			
	2002	2001	2000	1999
	HK$'000	HK$'000	HK$'000	HK$'000
Fixed assets	29,748	29,451	30,128	26,133
Intangible assets	3,102	4,441	8,256	3,798
Rental deposits and golf club membership	1,819	–	–	–
Goodwill	2,146	–	–	–
Deposit paid for proposed acquisition of an unlisted investment	24,000	–	–	–
Interests in jointly-controlled entities	–	–	–	7,481
Current assets	176,823	233,235	117,753	44,408
Current liabilities	(105,112)	(160,876)	(102,952)	(61,708)
Total assets less current liabilities	132,526	106,251	53,185	20,112
Minority interests	(908)	(3,714)	(3,360)	(1,799)
Net assets	131,618	102,537	49,825	18,313

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 had 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. 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 audited consolidated financial statements of the Company for the period from 17 December 1998 to 30 September 1999 and for the year ended 30 September 2000 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 two years ended 30 September 2002 are set out on page 46 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, 2001 and 2002. 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 and for the year ended 30 September 2000 prepared for the purpose of the listing of the Company's shares on the GEM of the Stock Exchange. The consolidated balance sheets of the Group as at 30 September 2001 and 2002 are as set out on pages 48 to 49 of the annual report.

Fixed assets

Details of movements in the fixed assets of the Group during the year are set out in note 15 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 the reasons therefor, are set out in note 27 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 was 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.

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 28 to the financial statements.

Distributable reserves

At 30 September 2002, the Company's reserves available for distribution, calculated in accordance with the Companies Law (2001 Second Revision) of the Cayman Islands, amounted to HK$21,112,000. This includes the Company's share premium account, in the amount of HK$44,067,000 at 30 September 2002, which 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. The share premium account may also be distributed in the form of fully paid bonus shares.

Report of the Directors

Major customers and suppliers

In the year under review, sales to the Group's five largest customers accounted for 76% of the total sales for the year and sales to the largest customer included therein amounted to 33%. Purchases from the Group's five largest suppliers accounted for 52% of the total purchases for the year and purchases from the largest supplier included therein amounted to 34%.

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

Directors

The directors of the Company during the year were as follows:

Executive directors:

Mr. Chang Ye Min, William
Mr. Wu Shu Min
Mr. Li Zhi Sheng
Mr. Cheng Wing Tsan

Non-executive directors:

Mr. Wong Kwong Chi
Mr. Lo Wai Shun
Mr. Woo Chin Pang, Adrian
Mr. Zhu Rong
Mr. Tsang Wing Ming, Tony (appointed on 30 May 2002 as an alternate director to Mr. Woo Chin Pang, Adrian)

Independent non-executive directors:

Mr. Chan Wai Dune
Mr. Ng Ching Wo
Mr. Chen Junliang

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 26 to 29 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. Chang Ye Min, William and Wu Shu Min 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.

Apart from the foregoing, 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 4 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.

Report of the Directors

Directors' interests in shares

At 30 September 2002, the interests of the directors and their associates in the share capital of the Company or its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")), were as follows:

	Number of issued ordinary shares of US$0.01 each in the Company held and nature of interests				
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. Li Zhi Sheng (Note 1)	–	48,705,000	–	–	48,705,000
Mr. Lo Wai Shun	5,014,000	–	–	–	5,014,000
Mr. Zhu Rong (Note 2)	118,750,000	–	–	–	118,750,000

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: On 5 March 2002, Mr. Zhu Rong, one of the initial management shareholders, pledged approximately 59.9 million of his shares in the Company to an authorised institution as security for an overdraft facility as his personal financing arrangement. The pledged shares are held by a nominee of the authorised institution.

The interests of the directors in the share options of the Company are separately disclosed under the heading "Share option scheme" below. 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 or debentures

Apart from as disclosed under the headings "Directors' interests in shares" above and "Share option scheme" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Share option scheme

The principal purpose of the share option scheme is to recognise the significant contributions of the directors and employees of the Group to the growth of the Group, by rewarding them with opportunities to obtain an ownership interest in the Company and to further motivate and give incentive to these persons to continue to contribute to the Group's long term success and prosperity.

(a) Pre-IPO Share Option Plan

On 7 January 2000 (the "Adoption Date"), the Company adopted an employee share option plan (the "Pre-IPO Share Option Plan"). The Pre-IPO Share Option Plan was valid and effective for a period not exceeding eight years commencing from 7 January 2000.

Under the Pre-IPO Share Option Plan, the grantees may include (a) any full-time employee and director (including non-executive director and independent non-executive director) of the Company or any of its subsidiaries; (b) any part-time employee with weekly working hours of 15 hours and above of the Company or any of its subsidiaries; (c) any advisor or consultant (in the areas of technical, financial or corporate managerial) to the Company or 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 offer of a grant of share options may be accepted within 21 days from the date of the offer with no consideration being payable by the grantee.

No option shall be granted which, if exercised in full, would result in a grantee becoming entitled to subscribe for such number of shares of the Company as, when aggregated with the total number of shares of the Company already issued under all the options previously granted to him which have been exercised and those issuable under all the options previously granted to him which are for the time being subsisting and unexercised, would exceed 30% of the aggregate number of shares of the Company for the time being issued and issuable under the Pre-IPO Share Option Plan.

The exercise price of share options is determined by the board of directors.

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 shares in respect of the options granted under the Pre-IPO Share Option Plan is an amount equivalent, upon their exercise, to 10% of the shares of the Company is issue at any time, excluding for this purpose shares issued upon the exercise of options granted under the Pre-IPO Share Option Plan. At 30 September 2002, the number of shares issuable under share options granted under the Pre-IPO Share Option Plan was 74,284,000, which represented approximately 5.3% of the Company's shares in issue as at that date.

(a) Pre-IPO Share Option Plan (continued)

Upon listing of the Company's shares on the GEM of the Stock Exchange on 30 November 2001, no further share options will be granted under the Pre-IPO Share Option Plan.

The following share options were outstanding under the Pre-IPO Share Option Plan during the year:

Directors	Number of share options outstanding under Pre-IPO Share Option Plan: As at 1 October 2001	Adjusted for consolidation and capitalisation of shares on 22 November 2001	Cancelled during the year	Exercised during the year	Lapsed during the year	As at 30 September 2002	Date of grant of share options	Exercise period of share options	Adjusted exercise price per share* HK$	Company's share price at the date immediately before the exercise date of options** HK$
Mr. Chang Ye Min, William	3,000,000	12,000,000	–	–	–	15,000,000	7 January 2000	7 January 2000 to 6 January 2008	0.150	–
	1,000,000	4,000,000	–	–	–	5,000,000	23 May 2000	23 May 2000 to 22 May 2008	0.515	–
Mr. Wu Shu Min	1,000,000	4,000,000	–	–	–	5,000,000	7 January 2000	7 January 2000 to 6 January 2008	0.150	–
	2,000,000	8,000,000	–	–	–	10,000,000	26 February 2000	26 February 2000 to 25 February 2008	0.150	–
Mr. Li Zhi Sheng	1,000,000	4,000,000	–	–	–	5,000,000	23 May 2000	23 May 2000 to 22 May 2008	0.515	–
Mr. Cheng Wing Tsan	200,000	800,000	–	–	–	1,000,000	20 July 2001	20 July 2001 to 19 July 2009	0.515	–
Mr. Zhu Rong	1,000,000	4,000,000	–	–	–	5,000,000	7 January 2000	7 January 2000 to 6 January 2003	0.150	–
	9,200,000	36,800,000	–	–	–	46,000,000				
Other employees In aggregate	6,160,000	24,640,000	(850,000)	(1,216,000)	(3,350,000)	25,384,000	Note 1	Note 2	0.150	0.30
	780,000	3,120,000	(250,000)	–	(750,000)	2,900,000	Note 3	Note 4	0.515	–
	6,940,000	27,760,000	(1,100,000)	(1,216,000)	(4,100,000)	28,284,000				
	16,140,000	64,560,000	(1,100,000)	(1,216,000)	(4,100,000)	74,284,000				

* The exercise price per share was adjusted for the consolidation and capitalisation issue of the Company's shares on 22 November 2001 as further detailed in note 27 to the financial statements, as well as conversion from US$ to HK$.

** Such price represents the weighted average closing price of Company shares immediately before the date on which the options were exercised within the disclosure category.

(a) Pre-IPO Share Option Plan (continued)

Notes:

1. Approximately 79%, and 21% of the share options were granted on 7 January 2000 and 26 February 2000, respectively.

2. Approximately 47%, 32%, 2%, and 19% of the share options granted are exercisable during the periods from 7 January 2000 to 6 January 2003, 7 January 2000 to 6 January 2008, 26 February 2000 to 25 February 2003 and 26 February 2000 to 25 February 2008, respectively.

3. Approximately 86% and 14% of the share options were granted on 23 May 2000 and 20 July 2001, respectively.

4. Approximately 34%, 52% and 14% of the share options granted are exercisable during the periods from 23 May 2000 to 22 May 2003, 23 May 2000 to 22 May 2008 and 20 July 2001 to 19 July 2009, respectively.

(b) Post-IPO Share Option Plan

On 22 November 2001, the Company adopted a share option scheme (the "Post-IPO Share Option Plan") conditionally upon the listing of the Company's shares on the GEM of the Stock Exchange on 30 November 2001. The Post-IPO Share Option Plan became valid and effective on 30 November 2001 and, unless otherwise cancelled or amended, will remain in force for a period of ten years commencing from the date of adoption.

Under the Post-IPO Share Option Plan, the grantees may include (i) 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 any of its subsidiaries; (ii) any advisor or consultant (in the areas of technical, financial or corporate managerial) to the Company or any of its subsidiaries; and (iii) any other person who, at the sole determination of the board of directors, has contributed to the Group based on certain assessment criteria.

No option may be granted to any one person which if exercised in full would result in the total number of shares of the Company already issued and issuable to him under all the options previously granted to him and the said option exceeding one percentage of the number of the shares of the Company in issue in any 12-month period up to the date of grant. Any further grant of options in excess of the one percentage limit must be subject to shareholders approval, with that participant and his associates abstaining from voting.

(b) Post-IPO Share Option Plan (continued)

The maximum number of shares in respect of which options may be granted under the Post-IPO Share Option Plan and any other share option scheme of the Company is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time, excluding for this purpose shares issued upon the exercise of options granted under the Post-IPO Share Option Plan or any other share option scheme. At 30 September 2002, the number of shares issuable under share options granted under the Post-IPO Share Option Plan was 98,000,000, which represented approximately 6.9% of the Company's shares in issue as at that date. 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 Post-IPO Share Option Plan and any other schemes must not exceed 30% of the shares of the Company from time to time.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the board of directors, and commences on any date after the date of grant and ends on a date which is not later than ten years from the date of offer of the share options or the expiry date of the Post-IPO Share Option Plan, if earlier.

The exercise price of share options is determined by the board of directors, but may not be less than the higher of (i) the closing price of the Company's shares on the GEM of the Stock Exchange on the date of grant of the option; (ii) the average of the closing prices of the Company's shares on the GEM of the Stock Exchange for the five trading days immediately preceding the date of grant of the option; and (iii) the nominal value of the shares of the Company.

(b) Post-IPO Share Option Plan (continued)

The following share options were outstanding under the Post-IPO Share Option Plan during the year:

	Number of share options outstanding under Post-IPO Share Option Plan								Company's share price	
	At 1 October 2001	Granted during the year	Exercised during the year	Lapsed during the year	At 30 September 2002	Date of grant of share options	Exercise period of share options	Exercise price of share options HK$	At the date immediately before the grant date of options HK$	At the date immediately before the exercise date of options HK$
Directors										
Mr. Chang Ye Min, William	–	10,000,000	–	–	10,000,000	7 March 2002	7 March 2002 to 21 December 2011	0.465	0.455	–
Mr. Wu Shu Min	–	10,000,000	–	–	10,000,000	7 March 2002	7 March 2002 to 21 December 2011	0.465	0.455	–
Mr. Li Zhi Sheng	–	10,000,000	–	–	10,000,000	7 March 2002	7 March 2002 to 21 December 2011	0.465	0.455	–
Mr. Cheng Wing Tsan	–	10,000,000	–	–	10,000,000	7 March 2002	7 March 2002 to 21 December 2011	0.465	0.455	–
	–	40,000,000	–	–	40,000,000					
Other employees										
In aggregate	–	50,500,000	–	–	50,500,000	1 March 2002	1 March 2002 to 21 March 2011	0.475	0.470	–
Others										
In aggregate	–	7,500,000	–	–	7,500,000	1 March 2002	1 March 2002 to 1 March 2005	0.475	0.470	–
	–	98,000,000	–	–	98,000,000					

Summary details of the Company's Pre-IPO Share Option Plan and Post-IPO Share Option Plan are also set out in note 27 to the financial statements.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date are deleted from the register of outstanding options.

(b) Post-IPO Share Option Plan (continued)

The board of directors considers that it is not appropriate to state the theoretical value of the options granted during the year under the Company's share option scheme. The board of directors believes that any calculation of the value of share options may not be meaningful as the exercise price is subject to adjustment in the case of rights or bonus issues or other similar changes in the Company's issued share capital.

Substantial shareholders

At 30 September 2002, the following interests of 10% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name	Percentage of the Company's share capital	Number of shares held
Mr. Wu Shu Min	13.78	194,823,000
MHL (Note)	25.67	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, respectively.

Save as disclosed above, no person had registered an interest of 10% or more in the issued share capital of the Company that was required to be recorded 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 4 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 4 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, granted to the Company a waiver from strict compliance with the connected transaction requirements as set out in the GEM Listing Rules.

Related party and connected transactions (continued)

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 interests, with the Group.

Sponsors' interests

As at 30 September 2002, Core Pacific-Yamaichi Capital Limited ("CPY"), its 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 will receive fees for acting as the Company's retained sponsor for the period from 30 November 2001 to 30 September 2004 or until the agreement is terminated pursuant to the terms and conditions set out therein.

Post balance sheet event

Details of the significant post balance sheet event of the Group are set out in note 34 to the financial statements.

Report of the Directors

Audit committee

The Company has an audit committee (the “Committee”) established with written terms of reference in compliance with the GEM Listing Rules. The primary duties of the Committee are review and supervise the financial reporting process and internal control system of the Group. The Committee comprises Mr. Chan Wai Dune and Mr. Ng Ching Wo, independent non-executive directors, and Mr. Wu Shu Min, an executive director of the Company. The Group’s financial statements for the year ended 30 September 2002 have been reviewed by the Committee, who are of the opinion that such statements comply with the applicable accounting standards, and the Stock Exchange and legal requirements, and that adequate disclosures have been made. The Committee held four meetings during the year.

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 has not, following the listing of the Company’s shares on the GEM of the Stock Exchange on 30 November 2001, been 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
Wu Shu Min
Chairman

Hong Kong
27 December 2002

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 46 to 93 which have been prepared in accordance with 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 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 2002 and of the loss 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
27 December 2002

Consolidated Profit and Loss Account

Year ended 30 September 2002

	Notes	2002 HK$'000	2001 HK$'000
TURNOVER	6	59,522	262,978
Cost of sales		(37,610)	(190,601)
Gross profit		21,912	72,377
Other revenue	6	3,481	31,242
Selling and distribution costs		(9,868)	(10,237)
Administrative expenses		(36,377)	(29,958)
Other operating expenses		(28,274)	(8,239)
Impairment of goodwill		(4,000)	–
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	7	(53,126)	55,185
Finance costs	10	(4,102)	(5,233)
PROFIT/(LOSS) BEFORE TAX		(57,228)	49,952
Tax	11	–	(1,400)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS		(57,228)	48,552
Minority interests		2,806	(12)
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	12	(54,422)	48,540
DIVIDEND	13	44,566	–
EARNINGS/(LOSS) PER SHARE	14		
Basic		(HK4.12 cents)	HK5.33 cents
Diluted		N/A	HK5.13 cents

Consolidated Statement of Recognised Gains and Losses

30 September 2002

	Note	2002 HK$'000	2001 HK$'000
Surplus arising on revaluation of leasehold land and buildings	28	292	4,171
Net gains not recognised in the consolidated profit and loss account		292	4,171
Net profit/(loss) from ordinary activities attributable to shareholders		(54,422)	48,540
Total recognised gains and losses		(54,130)	52,711

Consolidated Balance Sheet

30 September 2002

	Notes	2002 HK$'000	2001 HK$'000
NON-CURRENT ASSETS			
Fixed assets	15	29,748	29,451
Intangible assets	16	3,102	4,441
Rental deposits and golf club membership	17	1,819	–
Goodwill	18	2,146	–
Deposit paid for proposed acquisition of an unlisted investment	19	24,000	–
		60,815	33,892
CURRENT ASSETS			
Inventories	21	1,897	786
Trade and retention receivables	22	64,846	152,498
Prepayments, trade deposits, other deposits and other receivables		35,479	12,354
Due from related companies	23	2,404	46,448
Due from directors	23	–	50
Pledged bank deposits	25	56,592	16,592
Cash and bank balances		15,605	4,507
		176,823	233,235
CURRENT LIABILITIES			
Trade payables	24	21,613	76,270
Accrued liabilities, deposits received and other payables		14,562	16,053
Interest-bearing bank borrowings, secured	25	66,449	29,065
Convertible bonds	26	–	37,000
Tax payable		2,488	2,488
		105,112	160,876
NET CURRENT ASSETS		71,711	72,359
TOTAL ASSETS LESS CURRENT LIABILITIES		132,526	106,251
MINORITY INTERESTS		908	3,714
		131,618	102,537

Consolidated Balance Sheet

30 September 2002

	Notes	2002 HK$'000	2001 HK$'000
CAPITAL AND RESERVES			
Issued capital	27	110,272	1,414
Reserves	28	21,346	101,123
		131,618	102,537

CHANG YE MIN, WILLIAM
Director

CHENG WING TSAN
Director

Consolidated Cash Flow Statement

Year ended 30 September 2002

	Notes	2002 HK$'000	2001 HK$'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	29(a)	(42,343)	(19,797)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		869	1,008
Interest paid		(4,102)	(5,233)
Net cash outflow from returns on investments and servicing of finance		(3,233)	(4,225)
TAX		–	–
INVESTING ACTIVITIES			
Development expenses		(33)	(3,401)
Purchase of golf club membership		(759)	–
Deposit paid for proposed acquisition of an unlisted investment		(24,000)	–
Acquisition of subsidiaries	29(c)	(2,091)	–
Partial disposal of a subsidiary		213	–
Disposal of subsidiaries	29(d)	–	(55)
Purchases of fixed assets		(3,454)	(1,505)
Proceeds from disposal of fixed assets		30	–
Decrease/(increase) in pledged fixed deposits		(40,000)	3,039
Net cash outflow from investing activities		(70,094)	(1,922)
NET CASH OUTFLOW BEFORE FINANCING ACTIVITIES		(115,670)	(25,944)
FINANCING ACTIVITIES	29(b)		
Drawdown of bank loans		37,384	22,710
Repayment of bank loans		–	(32,207)
Drawdown of other loan		–	5,000
Repayment of other loan		–	(5,000)
Issue of convertible bonds		–	37,000
Redemption of convertible bonds		(37,000)	–
Proceeds from issue of share capital		147,727	–
Listing and share issue expenses		(21,526)	–
Exercise of share options		183	–
Net cash inflow from financing activities		126,768	27,503
INCREASE IN CASH AND CASH EQUIVALENTS		11,098	1,559

Consolidated Cash Flow Statement

Year ended 30 September 2002

	2002 HK$'000	2001 HK$'000
INCREASE IN CASH AND CASH EQUIVALENTS	11,098	1,559
Effect of foreign exchange rate changes, net	–	1
Cash and cash equivalents at beginning of year	4,507	2,947
CASH AND CASH EQUIVALENTS AT END OF YEAR	15,605	4,507
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	15,605	4,507

Balance Sheet

30 September 2002

	Notes	2002 HK$'000	2001 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	20	132,277	112,096
CURRENT ASSETS			
Cash and bank balances		232	–
CURRENT LIABILITIES			
Accrued liabilities and other payables		1,125	–
Convertible bonds	26	–	37,000
		1,125	37,000
NET CURRENT LIABILITIES		(893)	(37,000)
		131,384	75,096
CAPITAL AND RESERVES			
Issued capital	27	110,272	1,414
Reserves	28	21,112	73,682
		131,384	75,096

CHANG YE MIN, WILLIAM
Director

CHENG WING TSAN
Director

Notes to Financial Statements

30 September 2002

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. The registered office of the Company is located at Huntlaw Building, George Town, Grand Cayman, 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 on 31 December 1999. This was accomplished by acquiring the entire issued share capital of II Networks International Limited, 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 the Company's prospectus dated 26 November 2001. The shares of the Company were listed on the GEM of the Stock Exchange on 30 November 2001.

The principal activity of the Company is investment holding. 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. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE

The following recently-issued and revised Hong Kong Statements of Standard Accounting Practice ("SSAPs") and related Interpretations are effective for the first time for the current year's financial statements:

- SSAP 9 (Revised): "Events after the balance sheet date"
- SSAP 18 (Revised): "Revenue"
- SSAP 26: "Segment reporting"
- SSAP 28: "Provisions, contingent liabilities and contingent assets"
- SSAP 29: "Intangible assets"
- SSAP 30: "Business combinations"
- SSAP 31: "Impairment of assets"
- SSAP 32: "Consolidated financial statements and accounting for investments in subsidiaries"
- Interpretation 12: "Business combinations – subsequent adjustment of fair values and goodwill initially reported"
- Interpretation 13: "Goodwill – continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves"

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (continued)

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of those SSAPs and Interpretations which have had a significant effect on the financial statements are summarised as follows:

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group's predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 5 to the financial statements.

SSAP 30 prescribes the accounting treatment for business combinations, including the determination of the date of acquisition, the method for determining the fair values of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill arising on acquisition. The SSAP requires the disclosure of goodwill and negative goodwill in the non-current assets section of the consolidated balance sheet. It requires that goodwill is amortised to the consolidated profit and loss account over its estimated useful life. Negative goodwill is recognised in the consolidated profit and loss account depending on the circumstances from which it arose, as further described in the accounting policy for negative goodwill disclosed in note 3 to the financial statements. Interpretation 13 prescribes the application of SSAP 30 to goodwill arising from acquisitions in previous years which remains eliminated against consolidated reserves. The adoption of the SSAP and Interpretation has not resulted in a prior year adjustment, for the reasons detailed in note 18 to the financial statements. The required new additional disclosures are included in note 18 to the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, 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 periodic revaluation of certain fixed assets as further described in the respective accounting policy below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 30 September 2002. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

3. 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.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation

Fixed assets are stated at cost or valuation less accumulated depreciation and any impairment losses.

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 that asset.

Changes in the values of fixed assets are dealt with as movements in the asset revaluation 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 credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

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 improvements	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.

Lease rights on medium term leases of properties

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of not longer than three years.

In prior years, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. The Group has adopted the transitional provision of SSAP 30 that permits goodwill on acquisitions which occurred prior to the Group's accounting period beginning on 1 October 2001, to remain eliminated against consolidated reserves. Goodwill on subsequent acquisitions is treated according to the new accounting policy above.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Negative goodwill (continued)

In prior years, negative goodwill arising on acquisitions was credited to the capital reserve in the year of acquisition. The Group has adopted the transitional provision of SSAP 30 that permits negative goodwill on acquisitions which occurred prior to the Group's accounting period beginning on 1 October 2001, to remain credited to the capital reserve. Negative goodwill on subsequent acquisitions is treated according to the new accounting policy above.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate. Any attributable negative goodwill previously credited to the capital reserve at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section in the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

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 available for use.

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 estimated costs to be incurred to completion and disposal.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

(a) a subsidiary, if the Company has unilateral control over the joint venture company;

(b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control over the joint venture company;

(c) an associate, if the Company does not have unilateral or joint control, but holds generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or

(d) a long term investment, if the Company holds less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

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 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.

Retirement benefits 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 those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees’ basic salaries and are charged to the 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. The Group’s employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group’s employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

The Company’s subsidiaries in the PRC are required to participate in the employee retirement scheme operated by the relevant local government bureaux in the PRC and to make contributions for their eligible employees. The contributions payable by these subsidiaries are calculated based on a certain percentage of the salaries and wages of those eligible employee and are charged to the profit and loss account in the period to which they relate.

4. RELATED PARTY AND CONNECTED TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following related party transactions.

(i) On 31 December 2000, the Group entered into an agreement with IIN Network Education (BVI) Limited ("IIN Education BVI") and IIN Medical Industrial (BVI) Limited ("IIN Medical BVI"), companies beneficially owned by certain directors and shareholders of the Company, 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 Network Education Limited ("IIN Education HK") and Hunan IIN Network Education Co., Ltd. ("IIN Education PRC"), (collectively known as the "IIN Education Group") and IIN Medical BVI, IIN Medical Industrial Limited ("IIN Medical HK") and Hunan IIN Medical Network Technology Development Co., Ltd. ("IIN Medical PRC"), (collectively known as the "IIN Medical Group"):

(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 Education Group and the Medical Group, for a monthly fee as agreed between the Company, the Education Group and the Medical Group 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$742,000 (2001: HK$686,000) and HK$1,209,000 (2001: 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$38,000 (2001: HK$28,000) and HK$38,000 (2001: HK$28,000) to IIN Medical BVI and IIN Education BVI, respectively.

(ii) During the year, the Group entered into a supply contract (the "Supply Contract") with Beijing Watch Data System Co., Ltd, ("Beijing Watch Data"), a company of which the sole shareholder of Multico Holdings Limited, a substantial shareholder of the Company, indirectly owns certain equity interests through a private company. The deposits placed by the Group to Beijing Watch Data of approximately HK$4,958,000 for the purchase of inventories, which will be delivered in 2003 in accordance with the terms of the Supply Contract has been included as 'Prepayment, trade deposits, other deposits and other receivables' under current assets as at 30 September 2002.

(iii) During the year ended 30 September 2001, 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 26(a) to the financial statements. This personal guarantee was released following the repayment of the bond during the current year.

4. RELATED PARTY AND CONNECTED TRANSACTIONS (continued)

(iv) During the year ended 30 September 2001, 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 26(b) to the financial statements. These personal guarantees were released following the repayment of the bond during the current year.

The granting of the licences by the Group to the IIN Education Group and the IIN Medical Group as set out in (i)(a) above constitutes non-exempt continuing connected transactions under the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules"). In this respect, the Company has obtained a conditional waiver from the Stock Exchange from the announcement requirements and shareholders' approval requirements under the GEM Listing Rules.

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

5. SEGMENT INFORMATION

SSAP 26 was adopted during the year, as detailed in note 2 to the financial statements. Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

(a) the telecommunications network infrastructure solutions segment consists of the sale of the broadband data network information platform developed by the Group as well as the integration of third-party software and hardware for telecommunications sectors;

(b) the network management solutions segment consists of the sale of network management software for telecommunications sectors; and

(c) the other network solutions for sectors other than telecommunications segment consists of the design, implementation and maintenance of network systems for customers in sectors other than telecommunications sectors.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

5. SEGMENT INFORMATION (continued)

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

(a) Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments.

Group	Telecommunications network infrastructure solutions		Network management solutions		Other network solutions for sectors other than telecommunications		Eliminations		Consolidated	
	2002 HK$'000	2001 HK$'000	2002 HK$'000	2001 HK$'000	2002 HK$'000	2001 HK$'000	2002 HK$'000	2001 HK$'000	2002 HK$'000	2001 HK$'000
Segment revenue:										
Sales to external customers	31,112	218,367	18,890	20,012	9,520	24,599	–	–	59,522	262,978
Intersegment sales	1,059	19,491	–	173	–	–	(1,059)	(19,664)	–	–
Total	32,171	237,858	18,890	20,185	9,520	24,599	(1,059)	(19,664)	59,522	262,978
Segment results	(43,763)	18,112	(2,192)	2,601	(6,652)	3,230	–	–	(52,607)	23,943
Unallocated income and gains									3,481	31,242
Unallocated expense									(4,000)	–
Profit/(loss) from operating activities									(53,126)	55,185
Finance costs									(4,102)	(5,233)
Profit/(loss) before tax									(57,228)	49,952
Tax									–	(1,400)
Profit/(loss) before minority interests									(57,228)	48,552
Minority interests									2,806	(12)
Net profit/(loss) from ordinary activities attributable to shareholders									(54,422)	48,540

5. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group	Telecommunications network infrastructure solutions 2002 HK$'000	Telecommunications network infrastructure solutions 2001 HK$'000	Network management solutions 2002 HK$'000	Network management solutions 2001 HK$'000	Other network solutions for sectors other than telecommunications 2002 HK$'000	Other network solutions for sectors other than telecommunications 2001 HK$'000	Corporate and other 2002 HK$'000	Corporate and other 2001 HK$'000	Consolidated 2002 HK$'000	Consolidated 2001 HK$'000
Segment assets	80,369	149,913	41,219	28,233	11,679	16,494	–	–	133,267	194,640
Unallocated assets							104,371	72,487	104,371	72,487
Total assets							104,371	72,487	237,638	267,127
Segment liabilities	23,264	68,478	6,184	8,830	4,675	10,778	–	–	34,123	88,086
Unallocated liabilities							70,989	72,790	70,989	72,790
Total liabilities							70,989	72,790	105,112	160,876
Other segment information:										
Depreciation	1,347	980	735	509	899	1,732	808	565	3,789	3,786
Impairment of goodwill	–	–	–	–	–	–	4,000	–	4,000	–
Surplus arising on revaluation of leasehold land and buildings	–	–	–	–	–	–	(292)	(4,300)	(292)	(4,300)
Amortisation of deferred development costs	–	–	1,372	1,485	–	–	–	–	1,372	1,485
Provision for doubtful debts	13,674	3,427	3,386	2,592	9	580	93	–	17,162	6,599
Capital expenditure	318	710	1,635	234	328	505	1,173	56	3,454	1,505

(b) Geographical segments

Over 90% of the Group's revenue, results, assets and liabilities are derived from customers based in the PRC and accordingly, no further detailed analysis of the Group's geographical segments is disclosed.

6. 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 other revenue is as follows:

	2002 HK$'000	2001 HK$'000
Turnover	59,522	262,978
Other revenue:		
Bank interest income	869	1,008
Gain on partial disposal of a subsidiary	213	–
Gain on disposal of subsidiaries	–	29,046
Others	2,399	1,188
	3,481	31,242
	63,003	294,220

7. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

	2002 HK$'000	2001 HK$'000
Auditors' remuneration	680	800
Cost of inventories sold and services provided	37,610	190,601
Staff costs (including directors' emoluments (note 8)):		
Wages and salaries	18,267	18,119
Pension scheme contributions	471	159
	18,738	18,278
Less: Amount capitalised as deferred development costs	–	(3,175)
	18,738	15,103
Depreciation	3,789	3,786
Research and development costs:		
Deferred development costs amortised*	1,372	1,485
Current year expenditure	7,746	–
	9,118	1,485
Goodwill:		
Amortisation for the year*	195	–
Impairment arising during the year	4,000	–
	4,195	–
Write off of franchise costs	–	155
Minimum lease payments under operating leases in respect of land and buildings	4,411	2,599
Provision of doubtful debts*	17,162	6,599
Charges on discount of trade receivables*	9,545	–
Loss on disposal of fixed assets	4	24
Bank interest income	(869)	(1,008)
Gain on disposal of subsidiaries	–	(29,046)
Gain on partial disposal of a subsidiary	(213)	–

* The amortisation of deferred development costs, the amortisation of goodwill, the provision of doubtful debts and charges on discount of trade receivables for the year are included in "Other operating expenses" on the face of the consolidated profit and loss account.

The current year expenditure of research and development costs included HK$5,475,000 (2001: Nil) relating to staff costs which is also included in the respective total amount disclosed above.

8. DIRECTORS' REMUNERATION

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

	Group	
	2002 HK$'000	2001 HK$'000
Fees		
Executive directors	–	–
Non-executive directors	–	–
Independent non-executive directors	234	182
	234	182
Other emoluments of executive directors		
Basic salaries, other allowances and benefits in kind	5,686	6,095
Pension scheme contributions	–	–
	5,686	6,095
	5,920	6,277

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

	2002 Number of directors	2001 Number of directors
Nil – HK$1,000,000	8	9
HK$1,000,001 – HK$1,500,000	3	2
HK$1,500,001 – HK$2,000,000	–	–
HK$2,000,001 – HK$2,500,000	1	1

8. DIRECTORS' REMUNERATION (continued)

	2002 HK$'000	2001 HK$'000
Independent non-executive directors:		
A	90	70
B	72	56
C	72	56
	234	182
Executive directors:		
D	2,148	2,148
E	1,256	1,297
F	1,256	1,297
G	1,026	130
H*	–	277
I*	–	946
	5,686	6,095

* resigned during the year ended 30 September 2001.

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

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

During the year, 40,000,000 share options were granted to the directors in respect of their services rendered to the Group, further details of which are set out under the heading "Share option scheme" in the Report of the Directors.

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.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid, non-director employees during the year included four (2001: five) directors, details of whose remuneration are set out in note 8 above. The details of the remuneration of the remaining one (2001: Nil) highest paid, non-director employee are as follows:

	Group	
	2002 HK$'000	2001 HK$'000
Salary, allowances and benefits in kind	400	–

10. FINANCE COSTS

	Group	
	2002 HK$'000	2001 HK$'000
Interest on:		
Bank loans wholly repayable within five years	2,891	2,392
Convertible bonds	1,211	2,417
Other loan	–	424
	4,102	5,233

11. TAX

	Group	
	2002 HK$'000	2001 HK$'000
Hong Kong	–	1,400

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong during the year (2001: 16%).

PRC corporate income tax has not been provided for Hunan IIN Technologies Engineering Co., Limited, Hubei IIN-Galaxy Network Co., Limited, Hunan IIN Education Information Co., Limited and Hunan Modern Time Technology Limited as none of these entities generated any net assessable profits attributable to their operations in the PRC during the year (2001: Nil).

PRC corporate income tax has not been provided for Beijing IIN Data Network Technology Co., Ltd., 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 none of these entities generated any assessable profits attributable to their operations in the PRC during the year (2001: Nil). All of these entities are entitled to certain tax incentives under the relevant PRC tax laws.

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 (2001: Nil).

12. 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$22,923,000 (2001: HK$32,000).

13. DIVIDEND

	2002 HK$'000	2001 HK$'000
Special dividend	44,566	–

A special dividend of approximately HK$44,566,000 (the "Special Dividend") 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 out of the share premium account of the Company immediately following the listing of the Company's shares on the GEM of the Stock Exchange on 30 November 2001.

The Company resolved not to declare a final dividend in respect of the year (2001: Nil).

14. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the net loss from ordinary activities attributable to shareholders for the year of HK$54,422,000 (2001: net profit of HK$48,540,000) and the weighted average of 1,321,557,339 (2001: 911,197,350) ordinary shares in issue during the year.

A diluted loss per share amount for the year ended 30 September 2002 has not been presented as the potential ordinary shares outstanding had an anti-dilutive effect on the basic loss per share for the year.

The calculation of diluted earnings per share for the year ended 30 September 2001 was based on the net profit from ordinary activities attributable to shareholders for that year of HK$48,540,000 as used in the basic earnings per share calculation. The weighted average number of ordinary shares used in the calculation of diluted earnings per share for that year was 945,877,750 shares, which included 911,197,350 shares in issue during that year, as used in the basic earnings per share calculation, and the weighted average of 34,680,400 shares for that 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 30 September 2001 as described more fully in note 27 to the financial statements.

15. 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$'000	Leasehold improvements HK$'000	Total HK$'000
Cost or valuation:							
At 1 October 2001	19,600	1,355	9,430	4,146	3,175	1,332	39,038
Additions	–	–	2,187	178	–	1,089	3,454
Disposals	–	–	(3)	(86)	–	–	(89)
Acquisition of subsidiaries	–	–	137	87	150	–	374
At 30 September 2002	19,600	1,355	11,751	4,325	3,325	2,421	42,777
Accumulated depreciation:							
At 1 October 2001	–	108	5,645	2,364	1,140	330	9,587
Provided during the year	292	24	1,797	817	476	383	3,789
Disposals	–	–	(2)	(53)	–	–	(55)
Written back on revaluation – note 28	(292)	–	–	–	–	–	(292)
At 30 September 2002	–	132	7,440	3,128	1,616	713	13,029
Net book value:							
At 30 September 2002	19,600	1,223	4,311	1,197	1,709	1,708	29,748
At 30 September 2001	19,600	1,247	3,785	1,782	2,035	1,002	29,451

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$'000	Leasehold improvements HK$'000	Total HK$'000
At cost	–	1,355	11,751	4,325	3,325	2,421	23,177
At valuation	19,600	–	–	–	–	–	19,600
At 30 September 2002	19,600	1,355	11,751	4,325	3,325	2,421	42,777

15. FIXED ASSETS (continued)

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

The Group's leasehold land and buildings were revalued at the balance sheet date by FPDSavills (Hong Kong) Limited, independent professionally qualified valuers, at an open market value of HK$19,600,000 (2001: HK$19,600,000) using the open market, existing use basis. A revaluation surplus of HK$292,000 (2001: HK$4,300,000) arising therefrom has been credited to the asset revaluation reserve (note 28).

Had all of the Group's leasehold land and buildings been carried at historical cost less accumulated depreciation, their carrying amounts would have been approximately HK$15,008,000 (2001: HK$15,300,000).

At 30 September 2002, the Group's leasehold land and buildings with a net book value of approximately HK$19,600,000 (2001: HK$19,600,000) were pledged to secure general banking facilities granted to the Group (note 25).

16. INTANGIBLE ASSETS

Group

	Deferred development costs HK$'000
Cost:	
At 1 October 2001	7,065
Additions	33
At 30 September 2002	7,098
Accumulated amortisation:	
At 1 October 2001	2,624
Provided during the year	1,372
At 30 September 2002	3,996
Net book value:	
At 30 September 2002	3,102
At 30 September 2001	4,441

17. RENTAL DEPOSITS AND GOLF CLUB MEMBERSHIP

	Group 2002 HK$'000	Group 2001 HK$'000
Rental deposits	1,060	–
Golf club membership (note)	759	–
	1,819	–

Note: The balance represents membership of a golf club in Beijing, the PRC, held by the Group. The membership is perpetual and freely transferable.

18. GOODWILL AND NEGATIVE GOODWILL

SSAP 30 was adopted during the year, as detailed in note 2 to the financial statements. The amount of the goodwill capitalised as an asset in the consolidated balance sheet, arising from the acquisition of subsidiaries during the year, is as follows:

	Group Goodwill HK$'000
Cost:	
Acquisition of subsidiaries during the year and at 30 September 2002	2,341
Accumulated amortisation:	
Amortisation provided during the year and at 30 September 2002	195
Net book value:	
At 30 September 2002	2,146

On 26 June 2002, the Group entered into a sale and purchase agreement with an independent third party to acquire the entire issued share capital of Telechina Group Limited ("Telechina"), a company incorporated in the British Virgin Islands (the "BVI"), for an aggregate consideration of HK$11,000,000, of which HK$2,000,000 was satisfied by cash consideration and HK$9,000,000 was satisfied by way of the issuance of 9,000,000 ordinary shares (the "Consideration Shares") of the Company at HK$1.00 each. Telechina is an investment holding company which owns a 100% equity interest in Hunan Modern Time Technology Limited ("HMTTL"). HMTTL is engaged in the broadband network systems business.

18. GOODWILL AND NEGATIVE GOODWILL (continued)

Upon completion of the above acquisition on 4 September 2002, the Consideration Shares were issued to the independent third party on the same date when the market price of the Company's shares was HK$0.142 per share. Consequently, the fair value of the Consideration Shares was adjusted to HK$0.142 for the purpose of calculating the goodwill arising from the acquisition of Telechina. Further details of the acquisition of Telechina are set out in the Group's announcement dated 26 June 2002.

As detailed in note 3 to the financial statements, the Group has adopted the transitional provision of SSAP 30 which permits goodwill and negative goodwill in respect of acquisitions which occurred prior to the Group's accounting period beginning on 1 October 2001, to remain eliminated against or credited to the capital reserve.

Due to the adoption of SSAP 31, the Group has adopted a policy to assess goodwill eliminated against the capital reserve for impairment. As a result, the Group has recognised an impairment of part of the goodwill previously eliminated against the capital reserve, of HK$4,000,000 as a charge to the consolidated profit and loss account during the year. The situation giving rise to the impairment of the goodwill did not materialise in the prior year as assessed by the directors. Accordingly, this change of accounting policy has had no impact on the figures reported in the prior year.

The amounts of the goodwill and negative goodwill remaining in consolidated reserves, arising from the acquisition of subsidiaries prior to the Group's accounting period beginning on 1 October 2001, are as follows:

	Group	
	Goodwill eliminated against capital reserve HK$'000	Negative goodwill credited to capital reserve HK$'000
Cost:		
At beginning of year and at 30 September 2002	16,702	(4,960)
Accumulated impairment:		
At beginning of year	–	–
Impairment provided during the year	4,000	–
At 30 September 2002	4,000	–
Net amount:		
At 30 September 2002	12,702	(4,960)
At 30 September 2001	16,702	(4,960)

19. DEPOSIT PAID FOR PROPOSED ACQUISITION OF AN UNLISTED INVESTMENT

On 26 September 2002, the Group entered into a conditional sale and purchase agreement (the “S&P Agreement”) with Mr. Jian Wei Shun (the “Vendor”), an independent third party, in relation to the acquisition of the entire issued share capital of Future Frontier Limited (“FFL”) and an outstanding loan of a principal amount of approximately HK$6,900,000 owing by FFL to the Vendor (the “Acquisition”) at a consideration of HK$59,608,000 (the “Consideration”).

FFL is a company incorporated in the BVI with limited liability. The principal activity of FFL is investment holding. FFL owns a 51% equity interest in Wujiang Shengxin Optoelectronics Technology Co., Ltd. (“Wujiang Optoelectronics”), a Sino-Foreign equity joint venture in the PRC. The principal activity of Wujiang Optoelectronics is the provision of network solutions to telecommunication service providers in the PRC.

The Consideration was satisfied by way of issuance and allotment of 22,680,000 ordinary shares of the Company at HK$0.60 each and a cash payment of HK$46,000,000.

As at 30 September 2002, a refundable deposit of HK$24,000,000 (the “Deposit”) had been paid to the Vendor. The Deposit was refundable to the Group in the event that the S&P Agreement did not become unconditional or the Acquisition was terminated as a result of the Vendor’s default. Further details of the Acquisition are set out in the Group’s circular to shareholders dated 16 December 2002.

The issuance and allotment of 22,680,000 ordinary shares of the Company and the remaining cash portion of the consideration in respect of the Acquisition amounting to HK$22,000,000 as at the balance sheet date are disclosed as commitments in note 32 to the financial statements. Subsequent to the balance sheet date, on 17 December 2002, the conditions as laid down in the S&P Agreement were fulfilled and the Acquisition was completed. Consequently, the remaining cash consideration of HK$22,000,000 was paid and the Company issued 22,680,000 ordinary shares to the Vendor as set out in note 34 to the financial statements.

20. INTERESTS IN SUBSIDIARIES

	Company	
	2002 HK$’000	2001 HK$’000
Unlisted shares, at cost	43,437	43,437
Due from subsidiaries	135,651	68,659
Due to subsidiaries	(26,811)	–
	152,277	112,096
Provision for impairment	(20,000)	–
	132,277	112,096

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

20. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the subsidiaries are as follows:

Company name	Place of incorporation/ establishment and operations	Nominal value of issued and paid-up capital/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Guo Xun International Limited	Cayman Islands	US$1	100	–	Dormant
II Networks International Limited	BVI	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	Sale 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 businesses
Hubei IIN-Galaxy Network Co., Limited	PRC	RMB3,000,000	–	80	Other network solutions related businesses

20. INTERESTS IN SUBSIDIARIES (continued)

Company name	Place of incorporation/ establishment and operations	Nominal value of issued and paid-up capital/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
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
Hunan IIN Education Information Co., Limited	PRC	RMB1,200,000	–	49.5	Other network solutions related businesses
Telechina Group Limited*	BVI	US$1	–	100	Investment holding
Hunan Modern Time Technology Limited*	PRC	RMB1,000,000	–	100	Communication network system related business

* acquired during the year.

The turnover and net loss from ordinary activities attributable to shareholders from subsidiaries acquired during the year ended 30 September 2002 were approximately Nil and HK$415,000, respectively.

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

21. INVENTORIES

	Group 2002 HK$'000	2001 HK$'000
Raw materials	641	786
Work in progress	1,256	–
	1,897	786

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

22. TRADE AND RETENTION RECEIVABLES

Trade and retention receivables, which generally have credit terms pursuant to the provisions of the relevant contracts, are recognised and carried at original invoice amount, and estimates of doubtful debts are made and deducted when collection of the full amount is no longer probable. Bad debts are written off as incurred.

An aged analysis of the Group's trade receivables as at the balance sheet date, based on invoice date, and net of provisions, is as follows:

	Group	
	2002 HK$'000	2001 HK$'000
0 – 90 days	2,016	98,330
91 – 180 days	5,847	41,300
181 – 365 days	15,872	5,999
Over 365 days	37,387	1,681
	61,122	147,310
Retention receivables	3,724	5,188
	64,846	152,498

23. DUE FROM RELATED COMPANIES AND DIRECTORS

Particulars of the 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 are as follows:

Name of related companies	30 September 2002 HK$'000	Maximum amount outstanding during the year HK$'000	1 October 2001 HK$'000
IIN Education HK	–	6,644	6,644
IIN Medical HK	220	9,397	9,397
IIN Education PRC	1,405	12,306	12,306
IIN Medical PRC	721	9,843	9,843
IIN Education BVI	10	5,129	5,129
IIN Medical BVI	48	3,129	3,129
	2,404	46,448	46,448

23. DUE FROM RELATED COMPANIES AND DIRECTORS (continued)

The amounts due from related companies are unsecured, interest-free and are repayable within one year. During the year, 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 (notes 13 and 28).

The amounts due from related companies as at 30 September 2002 arose from the connected transactions as set out in note 4 to the financial statements and certain expenses incurred by the Group on behalf of these related companies. These expense are reimbursed to the Group on an actual cost basis.

	30 September 2002 HK$'000	Maximum amount outstanding during the year HK$'000	1 October 2001 HK$'000
Mr. Wu Shu Min	–	30	30
Mr. Zhu Rong	–	20	20
	–	50	50

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

24. TRADE PAYABLES

An aged analysis of the Group's trade payables as at the balance sheet date, based on invoice date, is as follows:

	Group	
	2002 HK$'000	2001 HK$'000
0 – 90 days	798	45,440
91 – 180 days	1,076	18,041
181 – 365 days	1,873	4,514
Over 365 days	17,866	8,275
	21,613	76,270

25. INTEREST-BEARING BANK BORROWINGS, SECURED

	Group	
	2002 HK$'000	2001 HK$'000
Bank loans repayable within one year or on demand	66,449	29,065

The bank loans are secured by charges on the Group's fixed deposits of approximately HK$56,592,000 (2001: HK$16,592,000) and a legal charge on the Group's leasehold land and buildings with a net book value of approximately HK$19,600,000 (2001: HK$19,600,000).

26. 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) 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.

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.

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 the issue 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.

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.

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.

27. SHARE CAPITAL

Shares

	2002 HK$'000	2001 HK$'000
Authorised:		
2,000,000,000 (2001: 300,000,000) ordinary shares of US$0.01 (2001: US$0.001)	156,000	2,340
Issued and fully paid:		
1,413,837,350 (2001: 182,239,470) ordinary shares of US$0.01 (2001: US$0.001)	110,272	1,414

The following changes in the Company's authorised and issued share capital took place during the year:

	Notes	Number of shares issued	Nominal value of shares issued HK$'000
Issued share capital at 30 September 2000 and 1 October 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
Shares issued upon the exercise of share options	(vi)	1,216,000	95
Shares issued upon the acquisition of subsidiaries	(vii)	9,000,000	702
Issued share capital at 30 September 2002		1,413,837,350	110,272

(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 1,970,000,000 additional shares of US$0.01 each.

27. SHARE CAPITAL (continued)

(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 issuing expenses.

(vi) On 26 June 2002 and 24 July 2002, share options to subscribe for 816,000 shares and 400,000 shares, respectively, in the Company under a Pre-IPO share option plan were exercised and accordingly, 1,216,000 shares were issued for a total consideration of HK$183,000. The premium of HK$88,000 received on the exercise of 1,216,000 share options has been credited directly to share premium account.

(vii) On 4 September 2002, 9,000,000 shares of US$0.01 each were allotted and issued to an independent third party at HK$0.142 each, being the market value of the Company's shares on that date, for the acquisition of Telechina and its subsidiary, the details of which are set out in note 18 to the financial statements.

Share options

The Company has a pre-IPO share option plan (the "Pre-IPO Share Option Plan") and post-IPO share option plan (the "Post-IPO Share Option Plan"), further details of which are set out under the heading "Share option scheme" in the Report of the Directors.

27. SHARE CAPITAL (continued)

The movements in the number of share options under the Pre-IPO Share Option Plan to subscribe for ordinary shares in the Company during the year were as follows:

	Number of share options to subscribe for ordinary shares at an exercise price per share* of		
	HK$0.150 '000	HK$0.515 '000	Total '000
At beginning of year	13,160	2,980	16,140
Adjusted for consolidation and capitalisation of shares	52,640	11,920	64,560
Exercised during the year	(1,216)	–	(1,216)
Cancelled/lapsed during the year	(4,200)	(1,000)	(5,200)
At 30 September 2002	60,384	13,900	74,284

* The exercise price per share was adjusted for the consolidation and capitalisation issue of the Company's shares on 22 November 2001 as set out in (i) and (iii) above, as well as conversion from US$ to HK$.

The movements in the number of share options under the Post-IPO Share Option Plan to subscribe for ordinary shares in the Company during the year were as follows:

	Number of share options to subscribe for ordinary shares at an exercise price per share of		
	HK$0.465 '000	HK$0.475 '000	Total '000
At beginning of year	–	–	–
Granted during the year	40,000	58,000	98,000
At 30 September 2002	40,000	58,000	98,000

27. SHARE CAPITAL (continued)

As at the balance sheet date, the Company had 74,284,000 share options outstanding under the Pre-IPO Share Option Plan, with exercise periods as follows:

Exercise period	Number of share options outstanding as at 30 September 2002 '000
7 January 2000 to 6 January 2003	16,856
7 January 2000 to 6 January 2008	28,200
26 February 2000 to 25 February 2003	500
26 February 2000 to 25 February 2008	14,828
23 May 2000 to 22 May 2003	1,000
23 May 2000 to 22 May 2008	11,500
20 July 2001 to 19 July 2009	1,400
	74,284

As at the balance sheet date, the Company had 98,000,000 share options outstanding under the Post-IPO Share Option Plan, with exercise periods as follows:

Exercise period	Number of share options outstanding as at 30 September 2002 '000
1 March 2002 to 1 March 2005	7,500
1 March 2002 to 21 December 2011	50,500
7 March 2002 to 21 December 2011	40,000
	98,000

The exercise in full of the outstanding share options under the Pre-IPO and Post-IPO Share Option Plans would, under the present capital structure of the Company, result in the issue of 172,284,000 additional ordinary shares and cash proceeds to the Company of approximately HK$62,366,100, before related issuing expenses.

28. 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 2000	(23,586)	83,749	4	–	(14)	(11,742)	48,411
Surplus arising on revaluation of leasehold land and buildings	–	–	–	4,300	–	–	4,300
Minority interests' share of the surplus on revaluation	–	–	–	(129)	–	–	(129)
Exchange realignment	–	–	–	–	1	–	1
Net profit for the year	48,540	–	–	–	–	–	48,540
At 30 September 2001 and 1 October 2001	24,954	83,749	4	4,171	(13)	(11,742)	101,123
Capitalisation of shares – note 27 (iii)	–	(69,652)	–	–	–	–	(69,652)
New issue and placing of shares to the public – note 27 (iv) and (v)	–	109,318	–	–	–	–	109,318
Exercise of share options – note 27 (vi)	–	88	–	–	–	–	88
New issue of shares upon acquisition of subsidiaries – note 27 (vii)	–	576	–	–	–	–	576
Listing and share issue expenses	–	(25,411)	–	–	–	–	(25,411)
Surplus arising on revaluation of leasehold land and buildings	–	–	–	292	–	–	292
Goodwill transferred to profit and loss account on impairment	–	–	–	–	–	4,000	4,000
Net loss for the year	(54,422)	–	–	–	–	–	(54,422)
Special Dividend – note 13	–	(44,566)	–	–	–	–	(44,566)
At 30 September 2002	(29,468)	54,102	4	4,463	(13)	(7,742)	21,346

28. RESERVES

Company

	Share premium account HK$'000 (i)	Accumulated losses HK$'000	Total HK$'000
At 1 October 2000	73,714	–	73,714
Net loss for the year	–	(32)	(32)
At 30 September 2001 and 1 October 2001	73,714	(32)	73,682
Capitalisation of shares – note 27 (iii)	(69,652)	–	(69,652)
New issue and placing of shares to the public – note 27 (iv) and (v)	109,318	–	109,318
Exercise of share options – note 27 (vi)	88	–	88
New issue of shares upon acquisition of subsidiaries – note 27 (vii)	576	–	576
Listing and share issue expenses	(25,411)	–	(25,411)
Net loss for the year	–	(22,923)	(22,923)
Special Dividend – note 13	(44,566)	–	(44,566)
At 30 September 2002	44,067	(22,955)	21,112

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. 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.

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 Reorganisation 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.

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2002 HK$'000	2001 HK$'000
Profit/(loss) from operating activities	(53,126)	55,185
Gain on partial disposal of a subsidiary	(213)	–
Gain on disposal of subsidiaries	–	(29,046)
Interest income	(869)	(1,008)
Depreciation	3,789	3,786
Amortisation of intangible assets	1,372	1,485
Impairment of goodwill	4,000	–
Amortisation of goodwill	195	–
Write off of franchise costs	–	155
Loss on disposal of fixed assets	4	24
Decrease/(increase) in inventories	(1,111)	4,311
Decrease/(increase) in trade and retention receivables	88,306	(100,466)
Decrease in bills receivable	–	14,056
Decrease/(increase) in prepayments, trade deposits, other deposits and other receivables	(28,070)	1,787
Decrease in amounts due from shareholders	–	1,131
Increase in amounts due from related companies	(522)	(3,088)
Decrease/(increase) in amounts due from directors	50	(50)
Increase/(decrease) in trade payables	(54,657)	28,186
Increase/(decrease) in accrued liabilities, deposits received and other payables	(1,491)	3,755
Net cash outflow from operating activities	(42,343)	(19,797)

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Analysis of changes in financing during the years

	Issued capital (including share premium account) HK$'000	Convertible bonds HK$'000	Interest–bearing bank loans HK$'000	Minority interests HK$'000
At 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 reserve	–	–	–	129
Cash inflow/(outflow) from financing, net	–	37,000	(9,497)	–
At 30 September 2001 and 1 October 2001	85,163	37,000	29,065	3,714
Special Dividend – note 13	(44,566)	–	–	–
Shares issued for acquisition of subsidiaries	1,278	–	–	–
Minority interests' share of loss for the year	–	–	–	(2,806)
Cash inflow/(outflow) from financing, net	122,499	(37,000)	37,384	–
At 30 September 2002	164,374	–	66,449	908

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(c) Acquisition of subsidiaries

	2002 HK$'000	2001 HK$'000
Net assets acquired:		
Fixed assets	374	–
Trade and retention receivables	654	–
	1,028	–
Goodwill arising on acquisition	2,341	–
	3,369	–
Satisfied by:		
Cash	2,091	–
New issue of shares	1,278	–
	3,369	–

The amount of HK$2,091,000 includes the cash consideration of HK$2,000,000 and the further expenditure incurred of HK$91,000 in relation to the acquisition of subsidiaries.

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	2002 HK$'000	2001 HK$'000
Cash consideration	(2,091)	–

The subsidiaries acquired during the year ended 30 September 2002 contributed approximately HK$588,000 to the Group's net operating cash outflow, but had no significant impact in respect of the Group's cash flows for returns on investments and servicing of finance, the payment of tax, investing activities and financing activities.

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(d) Disposal of subsidiaries

	2002 HK$'000	2001 HK$'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, trade deposits, other deposits 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

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(d) Disposal of subsidiaries (continued)

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2002 HK$'000	2001 HK$'000
Cash and bank balances disposed of	–	(55)

The subsidiary disposed of during the year ended 30 September 2001 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.

(e) Major non-cash transactions

(i) As described in note 23 to the financial statements, the amounts of approximately HK$44,566,000 due from related companies were settled during the year through the set-off of the Special Dividend distributed out of the share premium account of the Company.

(ii) As described in note 27 (vii) to the financial statements, on 4 September 2002, 9,000,000 shares of US$0.01 each were allotted and issued to an independent third party at HK$0.142 each, being the market value of the Company's shares on that date, for the acquisition of Telechina.

(iii) During the year, the Group entered into a set-off arrangement with a customer and a supplier. Under the arrangement, the Group set-off the trade receivables from the customer of HK$12,910,000 with the equivalent amount of trade payables to the supplier.

30. CONTINGENT LIABILITIES

The Group and the Company did not have any significant contingent liabilities at the balance sheet date (2001: Nil).

31. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years.

At 30 September 2002, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2002 HK$'000	2001 HK$'000
Within one year	3,785	1,546
In the second to fifth years, inclusive	1,665	32
	5,450	1,578

The Company did not have any significant operating lease arrangements at the balance sheet date (2001: Nil).

32. COMMITMENTS

In addition to the operating lease arrangements detailed in note 31 above at the balance sheet date, the Group had capital commitments contracted for, in respect of the proposed acquisition of FFL as set out in note 19 to the financial statements, to issue and allot 22,680,000 ordinary shares of the Company and to pay cash of HK$22,000,000 at the balance sheet date (2001: Nil). These capital commitments were settled subsequent to the balance sheet date, as detailed in note 34 to the financial statements.

The Company did not have any significant commitments at the balance sheet date (2001: Nil).

33. PENDING LITIGATION

During the year, a claim (the "Claim") of RMB2,191,000 (equivalent to approximately HK$2,048,000) for the alleged breach of contractual duties was lodged against the Group by a contractor. Having considered legal counsel's advice, the directors are of the opinion that the Group has a meritorious defence against the Claim. Accordingly, no provision has been made in these financial statements.

34. POST BALANCE SHEET EVENT

On 17 December 2002, the Group paid HK$22,000,000, representing the final payment in respect of the acquisition of FFL. On 19 December 2002, the Company issued 22,680,000 ordinary shares to the Vendor as part of the Consideration. Further details of the acquisition of FFL are set out in note 19 to the financial statements. The directors are of the opinion that it is not practical to disclose the goodwill arising from the acquisition of FFL in these financial statements. This was because the acquisition was just completed and the directors require sufficient time to prepare the financial information of FFL, including that of Wujiang Optoelectronics with operations in the PRC, under accounting principles generally accepted in Hong Kong for the purpose of calculating the goodwill so arising with reasonable certainty.

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

35. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 December 2002.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the annual general meeting (the "Annual General Meeting") of IIN International Limited (the "Company") will be held on Friday, 24 January 2003 at 10:30 a.m. at Pheasant Room, 1st Floor, Mandarin Oriental, 5 Connaught Road, Central, Hong Kong for the following purposes:

1. To receive and consider the audited financial statements of the Company for the year ended 30 September 2002 together with the reports of the directors of the Company (the "Directors") and auditors thereon.

2. To re-elect the retiring directors, Mr. Li Zhi Sheng as executive director, Messrs. Chan Wai Dune and Ng Ching Wo as independent non-executive directors, and to authorise the board of Directors to fix their remunerations;

3. To re-appoint Ernst & Young as the auditors of the Company and to authorise the Directors to fix their remuneration; and

4. To consider and, if thought fit, to pass the following resolutions as Ordinary Resolutions:

   A. "**THAT**:

   (a) subject to paragraph (c) of this resolution, and pursuant to the Rules Governing the Listing of Securities on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the exercise by the Directors during the Relevant Period (as defined below) of all the powers of the Company to allot, issue and deal with additional shares in the share capital of the Company and to make or grant offers, agreements and options which might require the exercise of such powers be and is hereby generally and unconditionally approved;

   (b) the approval in paragraph (a) of this resolution shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;

   (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors pursuant to the approval in paragraph (a) of this resolution, otherwise than pursuant to (i) a Rights Issue (as defined below); or (ii) any issue of shares of the Company upon the exercise of existing warrants to subscribe for shares of the Company or the exercise of options granted under any share option scheme adopted by the Company; or (iii) any scrip dividend or similar arrangement providing for allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the articles of association of the Company in force from time to time, shall not exceed 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this resolution, and the authority pursuant to paragraph (a) of this resolution shall be limited accordingly; and

   (d) for the purposes of this resolution, "Relevant Period" means the period from the date of the passing of this resolution until whichever is the earliest of:

   (i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company, or any applicable law of the Cayman Islands to be held; and

(iii) the date on which the authority given to the Directors by this resolution is revoked or varied by an ordinary resolution by shareholders of the Company in general meeting

"Rights Issue" means an offer of shares in the Company ("Shares"), or offer or issue of warrants, options or other securities giving rights to subscribe for Shares open for a period fixed by the Directors to holders of Shares on the register on a fixed record date in proportion to their then holdings of Shares (subject to such exclusion or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements, or having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction applicable to the Company, or any recognised regulatory body or any stock exchange applicable to the Company)."

B. **THAT**:

(a) subject to paragraph (c) of this resolution, the exercise by the Directors during the Relevant Period (as defined below) of all the powers of the Company to repurchase its shares on the GEM or any other stock exchange on which the shares of the Company have been or may be listed and recognised by the Securities and Futures Commission of Hong Kong and the Stock Exchange under the Hong Kong Code on Share Repurchases for such purposes, and otherwise in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the GEM as amended from time to time or that of any other stock exchange, be and is hereby generally and unconditionally approved;

(b) the approval in paragraph (a) of this resolution shall authorize the Directors to procure the Company to repurchase its shares at such price as the Directors may at their discretion determine in accordance with all applicable laws and regulations;

(c) the shares of the Company to be repurchased by the Company pursuant to the approval in paragraph (a) of this resolution during the Relevant Period shall not exceed 10 per cent. of the aggregate nominal amount of the issued share capital of the Company as at the date of passing this resolution, and the authority pursuant to paragraph (a) of this resolution shall be limited accordingly; and

(d) for the purpose of this Resolution, "Relevant Period" shall have the same meanings as ascribed to it under paragraph (d) of resolution 4A of the notice convening this Annual General Meeting.

By order of the Board
Chang Ye Min, William
President & Chief Executive Officer

Hong Kong, 27 December 2002

Notice of Annual General Meeting

Notes:

1 A member entitled to attend and vote at the Annual General Meeting is entitled to appoint one or more proxies to attend and, in the event of a poll, vote instead of him. A proxy need not be a member of the Company.

2 To be valid, a form of proxy, together with the power of attorney or other authority (if any) under which it is signed (or a notarially certified copy thereof) must be deposited at the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Rooms 1901-1905, 19th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time fixed for the holding of the Annual General Meeting or any adjournment thereof.

3 Completion and return of the form of proxy will not preclude a member from attending and voting in person at the Annual General Meeting and in such event, the form of proxy shall be deemed to be revoked.

4 The register of members of the Company will be closed from Thursday, 23 January 2003 to Friday, 24 January 2003, both days inclusive, during which period no transfer of shares can be registered. All transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 5:00 p.m. on 22 January 2003.

5 An explanatory statement containing further information with respect to resolutions 4A and 4B will be sent to the shareholders of the Company together with the annual report.