■ annual report 2003

IIN

IIN INTERNATIONAL LIMITED

(incorporated in the Cayman Islands with limited liability)


IIN

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 one of the leading network solution providers in the People's Republic of China (the "PRC"), engaging principally in providing network solutions to the PRC telecommunications service providers (primarily fixed line, mobile and data communications operators). The Company and its subsidiaries (the "Group") was founded in 1997 with overseas 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 (the "Stock Exchange") on 30 November 2001.

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

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

The network management solutions offered by the Group are used by the PRC telecommunications service providers to monitor the effective and efficient functioning of their telecommunications networks. The solutions provided include the IIN 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.

The transmission solutions offered by the Group was through its subsidiary, Wujiang Shengxin Optoelectronics Technology Co, Ltd. which principally manufactures and markets communications cables and optical cables to serve network operators and enterprises in the PRC.

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

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.

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive directors
Wu Shu Min
Chang Ye Min, William
Jin Feng

Non-executive directors
Zhu Rong
Lo Wai Shun
Leong Ka Cheong, Christopher

Independent non-executive directors
Chan Wai Dune
Ng Ching Wo
Chen Junliang

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 15C, Entertainment Building
30 Queen's Road Central
Central
Hong Kong

COMPANY SECRETARY

Wong Lai Yuk, ACIS, ACS

COMPLIANCE OFFICER

Wu Shu Min

AUDIT COMMITTEE

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

QUALIFIED ACCOUNTANT

Yuen Kwok Hon, AHKSA, ACCA

AUTHORISED REPRESENTATIVES

Chang Ye Min, William
Wong Lai Yuk

PRINCIPAL BANKER

The Hongkong and Shanghai Banking Corporation Limited
1 Queen's Road Central
Central
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
Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

AUDITORS

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

AN ENLARGED AND CHANGING MARKET SCENE

For the past few years, from the World Trade Organisation ("WTO") accession to the public listing of China Telecom Corporation Limited, from the spin-off of China Netcom to the emergence of six national telecommunications carriers, and from the continual acquisition of provincial operators by listed operators, the telecommunications carrier market in the People's Republic of China (the "PRC") has been undergoing a progressive liberalisation, resulting in an enlarged overall telecommunications market and revenue base. For the year 2003, the PRC telecommunications services market is likely to have recovered from the slight dip from that of 2002.

In line with the emergence of additional players in the market, the PRC telecommunications carriers are actively looking for new revenue generators that bring improvement in market share from both new subscribers and churn reduction; and for those that are listed, sustainable profit growth has been increasingly emphasised. Up to the turn of the century, PRC telecommunications carriers put much emphasis on establishing telecommunications infrastructure, and procurement was predominantly hardware and system software driven. Since the turn of the century and continuing throughout 2003, the PRC telecommunications carriers have been looking at application, software products and services with increasing attention, as they become more focused on revenue and profit growth.

With an increasingly liberalised telecommunications service market, end-customers stand to benefit. For the past few years, the PRC telecommunications operators have been facing increasing demand from end-customers for improvement in quality and variety of service provision. The PRC telecommunications operators therefore are placing additional emphasis on network management software and services to satisfy this increasingly important customer demand.

IIN International Limited ("the Company") together with its subsidiaries (the "Group" or "IIN") has since its establishment been focused on delivering high quality telecommunications network solutions to the PRC telecommunications carriers, both in telecommunications network infrastructure and comprehensive network management and services. In 2003, in line with positive development of the PRC telecommunications market, the Group recorded substantial growth in its revenue base.

CHALLENGES AHEAD, SOLID PLANS

However, with the continually liberalising telecommunications industry in the PRC, competition in the network solutions industry became increasingly intense, both from domestic vendors and international vendors entering the PRC market. Telecommunications network hardware and system software have become increasingly commoditized, squeezing margin of traditional network infrastructure solution providers. As an active participant, the Group recorded lower gross margin in this business area in 2003 as compared to previous financial years.

The Group has long anticipated this industry trend, and has been developing and making positive sales progress in the provision of telecommunications network management applications, software and services. The Group therefore recorded healthy gross profit margin in this business area in 2003. The Group completed the implementation of its proprietary Local Exchange Network Management and Monitoring System ("LEN M&M") to the Provincial Telecommunications Corporation ("PTC") of China Telecom Group ("China Telecom") in Jiangsu Province. Together with the Yunnan PTC LEN M&M project implemented two years ago, under which two pilot sites were selected by China Telecom for consolidation and streamlining of operational efficiency, demonstrating the Group's strong capabilities in providing network management solutions to the PRC network operators. These projects pave a solid base for the Group to tap into the PRC telecommunications network management solution market, including the wireless sector of China Telecom. Note that this business area has yet to realize its full potential, as it may still take some time to recognize the full values of applications, software and services in the PRC. As a result, the Group has been adopting a careful yet proactive approach to balance profit growth and control in investment in research and development expenses.

In order to further expand its revenue and profit base, the Group has been considering to diversify into other business areas with profit potential, most notably telecommunications transmission segment, e-government projects and multinational enterprises.

In December 2002, the Group successfully completed the acquisition of Future Frontier Limited ("Future Frontier"), which holds a controlling interest in Wujiang Shengxin Optoelectronics Technology Co., Ltd. ("Shengxin"). Shengxin's provision of transmission solutions provides a complementary product portfolio to the PRC telecommunications operators. The acquisition presents the Group with the opportunity to harness the synergies across the network solutions and transmission markets. Backed by the existing clients in network infrastructure solutions market, the Group can cross-sell the products and solutions in both markets and diversify its revenue base.

Last year, the Group entered the high-growth e-government sector through the acquisition of Telechina Group Limited ("Telechina"). The PRC government has devoted numerous efforts in advocating e-government solutions. According to the Ministry of Information Industries ("MII"), it is expected that the PRC government will be making over RMB 1 billion investment in establishing the e-government infrastructure among all governmental departments. The Group commercialised Telechina's existing provincial tax trial system to quickly replicate this e-government solution throughout Hunan province. The Group will also actively pursue various e-government initiatives to tender key provincial projects by the China Planning Committee. The Group will also continue to seek other niche profitable segments in the e-government solutions market in the PRC.

In 2004, the Company will fortify its cooperation with the multinational system integrators and their associated joint venture companies in the PRC, taking advantage of its own strength in technology development accumulated throughout the years and its solid background in the telecommunications industry. The aim is to capture this market by providing communication and information network services for these enterprises, including the provision of integrated and responsive services for the hardware, data storage and applications, in order to lower operating costs of these enterprises. This initiative will become a profit growing focus of the Company in the new year.

UNCOMPROMISING DEDICATION TO FUTURE GROWTH

Backed by its strong R&D capabilities with solid client base in network infrastructure and network management solutions, the Group is determined to consolidate its existing market base and continue to expand and replicate sales of existing solutions to new territories. The Group will continue to actively participate in the provision of comprehensive network solutions to the PRC telecommunications operators and diversify into the niche e-government sector with increasing emphasis on application and services to further improve its profit margin. In 2004, the Group will continue to leverage on its existing capabilities to create sustainable long-term growth in revenue and profits.

Wu Shu Min
Chairman

FINANCIAL REVIEW

Turnover

Turnover for the fiscal year ended 30 September 2003 amounted to approximately HK$166.8 million compared with approximately HK$59.5 million last year. The 180.3% increase in turnover was mainly due to the resumption of capital investment by China Telecom Group ("China Telecom") after the completion of its corporate restructuring. Projects delayed last year were finalised and progressed smoothly. Following the completion of Shengxin acquisition, contribution from transmission solutions became another key revenue source to the Group during the year under review.

Despite the increase in turnover, the Group recorded a loss of approximately HK$37.6 million, compared with approximately HK$54.4 million last year. The decrease in losses was attributable to the Group's concerted efforts in cost-control measures which were reflected during the year under review. In view of the increased market competition and lower profit margin, the Group kept on reviewing the market situation and looked for new revenue and profit sources in software and services while continuing its efforts in controlling the operating expenses.

Gross profit margin

Gross profit margin for 2003 decreased to 14.2% compared with 36.8% last year. The drop in gross profit margin was due to the increased market competition and the Group's turnover for the year under review was mainly contributed from network infrastructure solutions which have a lower profit margin as compared with the Group's proprietary software products used in network management solutions. The contribution from Shengxin, which is engaged in manufacturing and sale of communication cables and optical cables with a lower gross profit margin as compared with the Group's proprietary software products, also lowered the Group's overall gross profit margin.

Selling and distribution costs and administrative expenses

Selling and distribution costs for 2003 totaled approximately HK$11.6 million (2002: approximately HK$9.9 million). The increase in selling and distribution cost, in line with the growth in turnover of the Group, was due to the increased marketing activities for broader geographical marketing and sales opportunities.

Despite the increase in turnover, administrative expenses decreased to approximately HK$32.4 million in 2003 (2002: approximately HK$36.4 million). This was due to the Group's concerted efforts to maximize operational efficiency and streamline operational expenses. The Group had taken actions to reduce the basic salary of its management and marketing staff, including the executive directors, since 1 January 2003. Coupled with the relocation of Beijing office with lower rental in the first quarter of the fiscal year, these cost-control measures proved to be effective in lowering the Group's overall administrative expenses.

Segmental information

Turnover generated from providing network infrastructure solutions accounted for approximately HK$95.5 million, equivalent to 57.3% of turnover for the year under review (2002: approximately HK$31.1 million) and representing an increase of 207%. The substantial increase in turnover of network infrastructure solutions, customarily the Group's core revenue generator, was due to re-initiation of projects which were previously delayed due to China Telecom's corporate restructuring and the Group's entry into the broadcasting market. Turnover generated from providing network management solutions increased to approximately HK$23.2 million (2002: approximately HK$18.9 million). This represented 13.9% of turnover for the year under review. Turnover generated from providing other network solutions for customers in other market sectors in the PRC, focusing on governmental and enterprise projects, was approximately HK$13.9 million, representing 8.3% of turnover for the year under review (2002: HK$9.5 million). From the second quarter starting 1 January 2003 onwards, revenue from Shengxin was consolidated to the Group's financial results. Turnover generated from Shengxin amounted to approximately HK$34.2 million for the year under review, amounting to approximately 20.5% of the Group's turnover (2002: nil).

Segment results from provision of network infrastructure solutions and network management solutions for the year ended 30 September 2003 continued to suffer losses of approximately HK$19.2 million and HK$2.8 million respectively (2002: approximately HK$43.8 million and HK$2.2 million respectively). The losses were due to lowered profit margin as a result of increased market competition. Contributions from the provision of other network solutions for customers in other market sectors in the PRC for the year under review was a loss of approximately HK$7.8 million (2002: approximately HK$6.7 million).

Segment results from the acquired Shengxin contributed to a loss of approximately HK$4.9 million for the year under review.

Order book

As at the date of this report, the Group has secured approximately HK$30.9 million contracts on hand.

Financial resources and liquidity

The Group continued to be in a strong financial position with net current assets as at 30 September 2003 of approximately HK$29.5 million (2002: approximately HK$71.7 million). As at 30 September 2003, the Group has cash and bank deposits of approximately HK$68.8 million (2002: approximately HK$72.2 million).

As at 30 September 2003, the Group's total bank and other borrowings amounted to approximately HK$58.7 million at fixed interest rates ranging from 5.04% p.a. to 6% p.a. (2002: approximately HK$66.4 million at fixed interest rates ranging from 5.31% p.a. to 7.02% p.a.) which are repayable within two years or on demand.

Charge on group assets

As at 30 September 2003, the Group's bank loans and other bank facilities are secured by:

(i) charges on the Group's fixed deposits of approximately HK$46.0 million (2002: approximately HK$56.6 million), legal charges on the Group's leasehold land and buildings, plant and machinery and motor vehicles with net book values of approximately HK$27.5 million (2002: approximately HK$19.6 million), HK$6.0 million (2002: Nil) and HK$0.3 million (2002: Nil) respectively; and

(ii) corporate guarantee executed by an independent third party.

Exposure to fluctuations in exchange rates

The Group continues 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 2003 increased to 52.9% (2002: 44.2%). The gearing ratio was based on the Group's total liabilities over its total assets.

Employees

As at 30 September 2003, the Group has 287 employees including 153 employees from Shengxin as compared with 198 for the same period of last year. The increase in the number of employees was due to the inclusion of the employees from Shengxin. The staff cost, including directors' emoluments, was approximately HK$17.0 million for the year under review (2002: approximately HK$18.7 million). During the year, the Group put concerted efforts to streamline operations and rationalise the costs. Significant improvements were reflected in the year under review as to the decreased number of employees (excluding Shengxin's employees) and the decreased amount of staff costs.

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 fully set out in the section under "Share Option Scheme" in the note 27 to financial statements below.

Contingent liabilities

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

Dividend

The directors do not recommend the payment of a final dividend for the year ended 30 September 2003 (2002: Nil).

Capital structure

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

On 19 December 2002, 22,680,000 shares of US$0.01 each were allotted and issued to an independent third party at HK$0.116, being the market value of the Company's shares on that date, for the acquisition of Future Frontier and its subsidiaries.

As at 30 September 2003, 1,436,517,350 shares of the Company were issued and fully paid.

Capital commitment and significant investments

In December 2002, the Group completed the acquisition of 100% equity interest in Future Frontier, the investment holding company that holds 51% equity interest in Shengxin (the "Shengxin Acquisition"). The total consideration of HK$59.6 million 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. The cash payment was funded by the proceeds from the Placing.

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

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 Shengxin Acquisition, the Group did not have any material acquisitions or disposals during the year under review.

BUSINESS REVIEW

During the first quarter of the fiscal year, the Group's subsidiary, Hunan IIN-Galaxy Software Development Co., Limited, signed a contract to provide LEN M&M to the PTC of China Telecom in Jiangsu Province. The contract, amounting to approximately RMB 25.2 million, covered the management and monitoring systems for Jiangsu PTC's 12 local exchange networks and its provincial network. It also included the provision of the Group's proprietary application software, third party hardware, infrastructure construction and integration of related monitoring systems and technical services. The winning of the Jiangsu PTC contract, together with the Group's previous contract with Yunnan PTC under which two pilot sites were selected by China Telecom for operational efficiency consolidation and streamlining, demonstrates the Group's capabilities in network management solutions as well as its reception by China Telecom as a network management solutions vendor.

In December 2002, the Group made a strategic decision to enter the transmission segment of the telecommunications market. The Group completed the acquisition of Future Frontier which holds a controlling interest in Shengxin. Despite the Severe Acute Respiratory Syndrome ("SARS") outbreak, Shengxin contributed HK$34.2 million to the Group's turnover during the year under review. Shengxin is principally engaged in the manufacturing and marketing of communications cables and optical cables. The acquisition of Future Frontier complemented the Group's provision of network solutions with transmission solutions to the PRC telecommunications operators. It provides the Group with the opportunity for upstream vertical integration in the infrastructure and transmission markets.

In anticipation of the growth of digitalisation and networking of television industry in the PRC, the Group signed a RMB 18.0 million contract with Harbin Broadcast & Television Bureau in the provision of network infrastructure solutions. The contract signified a quantum leap for the Group to expand its clientele in broadcasting sector and extend its geographical reach in the Northeastern part of the PRC.

The Group continues its previous success in providing network infrastructure solutions to the Shanghai market. The Group successfully awarded several multi-million projects including provision of hardware and services to Shanghai PTC for construction of Metropolitan Area Networks with contract size amounting to approximately HK$16.5 million and procurement of hardware of approximately HK$35.3 million to Shanghai PTC.

Corporate development

In December 2002, the Group completed the acquisition of Future Frontier, the investment holding company that holds 51% equity interest in Shengxin. The total consideration of HK$59.6 million 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 Placing was used to effect the cash payment.

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 of the Company dated 26 November 2001 (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 2003, the Group used HK$14.6 million, with HK$2.9 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 2003, the Group used HK$13.0 million, with HK$1.0 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 provinces in the PRC. The Group re-directed HK$6.5 million from this portion of the proceeds for the Shengxin Acquisition. After the above re-direction, as at 30 September 2003, the Group used HK$2.0 million, with HK$1.5 million remaining unutilised for this purpose.

HK$49.3 million from the net cash proceeds of the Placing will be used as ongoing working capital of the Group. During the financial year ended 30 September 2002, owing to changes in market environment and the restructuring of China Telecom, the Group's largest customer, the demand for the Group's services decreased. Accordingly, the funding requirement for daily operations of the Group was reduced and HK$39.5 million were re-directed for the Shengxin Acquisition. After the above re-direction, as at 30 September 2003, the Group used HK$9.8 million, with nil remaining unutilised for the purpose of ongoing working capital. The ongoing working capital will be funded from internal resources.

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 interest in Shengxin. Shengxin is principally engaged in the manufacturing and sale of communications cables and optical 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. Details of which are stated in the Company's circular dated 16 December 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 2003 (HK$ million)	Amount used for the Shengxin Acquisition as at 30 September 2003 (HK$ million) *Note*	Proceeds remaining unutilised as at 30 September 2003 (HK$ million)
1. Repayment of convertible bonds	37.0	37.0	0	0
2. Research and development in developing new network solutions	17.5	14.6	0	2.9
3. Upgrade of existing network solutions	14.0	13.0	0	1.0
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	2.0	6.5	1.5
5. Ongoing working capital	49.3 (including proceeds from exercise of over-allotment options of approximately 14.0)	9.8	39.5	0

Note: Details of which are stated in the Company's circular dated 16 December 2002.

The following is a comparison of actual business progress in the year ended 30 September 2003 ("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.

Research & Product Development

	Business objectives for the Review Period as set out in the Prospectus	**Actual business progress in the Review Period**
China Telecom version 8.0 and China Mobile version 3.0 for the CPEM 8000 Power and Environmental Monitoring System	Complete the development of the system by 30 September 2003	Development of the generalised version 7.0 was completed by 30 September 2003. This version is applicable to China Telecom, China Mobile and Unicom.
China Mobile version 2.0 for the IIN-Acterna PSTN SS7 Signalling Monitoring System	Complete the development of the system by 30 September 2003	Development and marketing of this system is pending in accordance with the market demand.
China Telecom version 3.0 for the Network Management and Safeguard System	Complete the development of the system by 30 September 2003	This system is integrated with the IP Network Management and Monitoring System and is collectively called as the IP Network Management and Monitoring System.
China Telecom version 3.0 and China Mobile version 2.0 for the IP Network Management and Monitoring System	Complete the development of the system by 30 September 2003	Development of this system was completed by 30 September 2003 and the new version is applicable to all telecommunications operators and corporate customers. The system is integrated with the Network Management and Safeguard System and is collectively called the IP Network Management and Monitoring System.

	Business objectives for the Review Period as set out in the Prospectus	Actual business progress in the Review Period
China Telecom version 2.0 for the Unified Communications System	Complete the development of the system by 30 September 2003	The development and launch of this system were delayed pending market readiness.
China Telecom version 2.0 for the Broadband Access Network Management System	Complete the development of the system by 30 September 2003	The development and launch of this system were delayed pending market readiness.
China Unicom version 2.0 for the CPEM 8000 Power and Environmental Monitoring System	Complete the development of the system by 30 September 2003	Development of the generalised version 7.0 was completed by 30 September 2003, and the version is applicable to China Telecom, China Mobile and Unicom.
China Telecom version 3.0 for the IIN-Acterna PSTN SS7 Signalling Monitoring System	Complete the development of the system by 30 September 2003	The development and launch of this system were delayed pending market readiness.

	Business objectives for the Review Period as set out in the Prospectus	Actual business progress in the Review Period
China Telecom version 4.0 for the Local Exchange Network Management and Monitoring System	Complete the development of the system by 30 September 2003	China Telecom version 4.0 for the Local Exchange Network Management and Monitoring System will be empowered with functionalities of alerting and centralised monitoring, relational analysis and unified flow processing of various network elements (Exchange Network, Access Network, SmallSmart Network, Transmission Network, Power and Environmental System) of the Local Exchange Network of China Telecom. The System is now called the Local Exchange Network Comprehensive Management System version 1.0, and is in the stage of requirement analysis and system design. The version 1.0 is expected to be released in September 2004.
China Unicom version 2.0 for the IP Network Management and Monitoring System	Complete the development of the system by 30 September 2003	This system is integrated with the Network Management and Safeguard System and is collectively called as the IP Network Management and Monitoring System.

Sales & Marketing

	Business objectives for the Review Period as set out in the Prospectus	Actual business progress in the Review Period
China Telecom version 8.0 and China Mobile version 3.0 for the CPEM 8000 Power and Environmental Monitoring System	To be launched formally by 30 September 2003	The marketing work will progress in accordance with customers' demand.
China Mobile version 2.0 for the IIN-Acterna PSTN SS7 Signalling Monitoring System	To be launched formally by 30 September 2003	The development and launch of this system were delayed pending market readiness.
China Telecom version 3.0 for the Network Management and Safeguard System	To be launched formally by 30 September 2003	This system is packaged with the Local Exchange Network Management and Monitoring System in the Jiangsu PTC project and 13 copies are sold. Promotion to Yunnan Telecommunications, Jiangsu Netcom and Hunan Construction Bank is in progress.
China Telecom version 3.0 and China Mobile version 2.0 for IP Network Management and Monitoring System	To be launched formally by 30 September 2003	This system will be promoted to the installed customer base.
China Telecom version 2.0 for the Unified Communications System and China Telecom version 2.0 for the Broadband Access Network Management System	To be launched formally by 30 September 2003	The development and launch of this system were delayed pending market readiness.
Upgrade one of the existing representative offices into a new branch office	Complete office upgrade by 30 September 2003	The upgrade will only be done in accordance with the business needs.

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 identify target companies and to pursue possible acquisitions. Strive for market expansion and product expansion for broadband value-added services and network management solutions	The Group constantly interacts with reputable companies in the relevant industries and identifies suitable candidates for developing close business partnership. During the year, the Group has acquired Future Frontier which holds 51% equity interest in Shengxin.
Continue to pursue the business objective of the previous year	The Group has signed cooperative and distribution agreements with several international vendors in the areas of networks products and application software.

Executive Directors

Wu Shu Min (吳樹民), 40, Chairman of the Company, is responsible for the strategic direction of the Group. He has over 18 years' experience in the PRC telecommunications industry, and started his career in the Science Research Institute of Hunan Telecommunications in 1985. In 1994, he joined Hunan Tricom Communication Equipment Co., Ltd. as its China representative before he established Hunan Internet Information Networks Company Ltd. in 1997.

Chang Ye Min, William (鄭益敏), 55, 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 Ltd., 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) Ltd. 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 26 years' experience in the IT industry.

Jin Feng (金鋒), 39, is Chief Operating Officer of the Company. Before joining the Group in May 2002, he held several key positions in various IT companies in the PRC including Legend Advanced Systems Co. Ltd. He holds Bachelor's and Master's Degree in Engineering from Hua Zhong University of Science and Technology.

Non-executive Directors

Zhu Rong (朱嶸), 36, 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 12 years' extensive working experience in the PRC telecommunications industry.

Dr. Lo Wai Shun (勞維信), 42, has been a Non-Executive Director of the Company since December 1999. He has been working in the IT industry for more than 13 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 Ph.D. in Physics from Brown University in the United States.

Dr. Leong Ka Cheong, Christopher (梁家鏘), 60, has been a Non-Executive Director of the Company since September 2003. Dr. Christopher Leong is the co-founder and President of Transpac Capital Pte Ltd., one of the largest private equity groups in Asia, with offices in Singapore, Hong Kong, Taipei, Shanghai and Beijing managing funds of about US$850 million for investments primarily in East Asia. Transpac in 1990 combined the operations of Techno-Ventures Hong Kong, a company co-founded by Dr. Leong in 1985, with Transtech Venture Management of Singapore. Dr. Leong was also a past Chairman of the Hong Kong Venture Capital Association.

In 1985, Dr. Leong raised the Hong Kong Venture Investment Trust, one of the first venture capital funds in Hong Kong. From 1980 to 1986 he was Managing Director of Amoy Canning Corporation, a publicly listed company in Hong Kong in the food, paper packaging and property development businesses. In 1973, Dr. Leong founded Convenience Foods, a Hong Kong company, which he sold to RJR Nabisco in 1977. Dr. Leong has also served as Senior Scientist at American Science and Engineering in Cambridge, Massachusetts.

Dr. Leong received his S.B. and Ph.D. degrees from Massachusetts Institute of Technology.

Independent Non-executive Directors

Chan Wai Dune (陳維端), 51, 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 Ltd. 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), 53, 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), 70, 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), 41, is President of Marketing Department of the Group. Before joining the Group in April 2002, he worked in Changsha Telecommunications Bureau as Deputy Director and Chief Engineer for nearly 18 years.

Cao Xue Yu (曹學宇), 40, Deputy General Manager of IIN-Galaxy Software Development Co. Ltd. and is responsible for the management of software development, software project implementation and after-sale services of IIN. Mr. Cao holds a Master's degree in Computer Science majoring in application software from the National University of Defense Technology, and became a Professor of the University in 1995. He joined the Group in 1997 and has held positions of Project Manager, Department Manager and Deputy General Manager. Mr. Cao has 18 years' experience in software development and 5 years' experience in management of IT enterprises.

Cao Jian (曹建), 45, a postgraduate of the Beijing University of Science and Technology. Being a qualified senior engineer, Mr. Cao works as the Deputy General Manager of the Marketing Department of the Company, as well as the General Manager of the Hubei IIN-Galaxy Network Co., Ltd. Prior to joining the Group, Mr. Cao held management positions in Hunan Liangang Computer Centre (湖南漣鋼計算中心), Legend Advanced Systems and Chang Tian Group (長天集團), gaining substantial experience in the IT industry.

Bin Tong Wen (賓通文), 33, joined the Group as Technical Support Manager in November 2002 and is responsible for presale and after-sale services of the System Integration Department of the Company. Mr. Bin is a graduate from the Industrial Automation Department of the Wuhan Water Transport Engineering Institute (武漢水運工程學院). He was an Engineer and Department Manager of the Nanjing Lian Chuang Networks (南京聯創網路) since 1995 with a focus on presale and after-sale services of networks as well as provision of presales technical support. He has 12 years' experience in the IT industry.

Li Jun Chao (李俊超), 40, joined the Group in June 2003. Prior of that, he worked in the Changsha Telecommunications Bureau, Hunan Posts and Telecommunications Administration (湖南省郵電管理局) as well as the Hunan Telecommunications Corporation (湖南電信公司) from December 1980. He has been working in the financial field since September 1985.

Lu Yong Jun (盧擁軍), 40, General Manager of Shanghai Branch Office of the Group. Prior to joining the Group in January 2000, he worked in Hunan Post & Telecom Administration Bureau as Deputy Director of Planning Department for nearly 14 years. He graduated from College of Hunan Telecom, specialising in data communications.

The directors present their report and the audited financial statements of the Company and the Group for the year ended 30 September 2003.

Principal activities

The principal activity of the Company is investment holding. Details of the principal activities of its subsidiaries are set out in note 19 to the financial statements.

During the year, the Group was involved in the following principal activities:

- Sale and distribution of telecommunication equipment
- Sale of network management software
- Manufacturing and sale of communication cables and optical cables

Other than the commencement of the business of manufacturing and sale of communication cables and optical cables, there were no significant changes in the nature of the Group's principal activities during the year.

Results

The Group's loss for the year ended 30 September 2003 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 35 to 86.

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
	2003	2002	2001	2000	1999
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**166,849**	59,522	262,978	120,862	20,031
Profit/(loss) before tax	**(39,420)**	(57,228)	49,952	(17,999)	(4,263)
Tax	**(900)**	–	(1,400)	(1,088)	–
Profit/(loss) before minority interests	**(40,320)**	(57,228)	48,552	(19,087)	(4,263)
Minority interests	**2,717**	2,806	(12)	(358)	126
Net profit/(loss) from ordinary activities attributable to shareholders	**(37,603)**	(54,422)	48,540	(19,445)	(4,137)

ASSETS, LIABILITIES AND MINORITY INTERESTS

	As at 30 September				
	2003	2002	2001	2000	1999
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Fixed assets	**42,910**	29,748	29,451	30,128	26,133
Intangible assets	**1,727**	3,102	4,441	8,256	3,798
Rental deposits and golf club membership	**1,128**	1,819	–	–	–
Goodwill	**39,235**	2,146	–	–	–
Deposit paid for the proposed acquisition of an unlisted investment	**-**	24,000	–	–	–
Interests in jointly-controlled entities	**-**	–	–	–	7,481
Current assets	**158,201**	176,823	233,235	117,753	44,408
Current liabilities	**(128,661)**	(105,112)	(160,876)	(102,952)	(61,708)
Total assets less current liabilities	**114,540**	132,526	106,251	53,185	20,112
Non-current liabilities	**(37)**	–	–	–	–
Minority interests	**(14,752)**	(908)	(3,714)	(3,360)	(1,799)
Net assets	**99,751**	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 years ended 30 September 2001 and 2002 have been extracted from the annual reports for the years ended 30 September 2001 and 2002, respectively. The consolidated results of the Group for the year ended 30 September 2003 are set out on page 35 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, 2002 and 2003. 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 sheet of the Group as at 30 September 2001 and 2002 has been extracted from the annual reports for the years ended 30 September 2001 and 2002, respectively. The consolidated balance sheet of the Group as at 30 September 2003 is as set out on pages 36 to 37 of the annual report.

Fixed assets

Details of movements in the fixed assets of the Group during the year are set out in note 14 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 notes 26 and 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

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 and in the consolidated statement of changes in equity, respectively.

Distributable reserves

The Company's 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 may also be distributed in the form of fully paid bonus shares. Since the accumulated losses of the Company exceeded the amount standing to the credit of its share premium account as at 30 September 2003, the Company did not have any reserves for distribution.

Major customers and suppliers

In the year under review, sales to the Group's five largest customers accounted for 57% of the total sales for the year and sales to the largest customer included therein amounted to 20%. Purchases from the Group's five largest suppliers accounted for 38% of the total purchases for the year and purchases from the largest supplier included therein amounted to 20%.

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:

Executive directors:

Mr. Chang Ye Min, William	
Mr. Wu Shu Min	
Mr. Li Zhi Sheng	(resigned on 31 May 2003)
Mr. Cheng Wing Tsan	(resigned on 31 March 2003)
Mr. Jin Feng	(appointed on 31 May 2003)

Non-executive directors:

Mr. Wong Kwong Chi	(resigned on 24 January 2003) *(Note)*
Mr. Lo Wai Shun	
Mr. Woo Chin Pang, Adrian	(resigned on 24 January 2003) *(Note)*
Mr. Zhu Rong	
Mr. Tsang Wing Ming, Tony	(resigned as alternate director to Mr. Woo Chin Pang, Adrian on 24 January 2003)
Mr. Leong Ka Cheong, Christopher	(appointed on 26 September 2003)

Independent non-executive directors:

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

Note: With reference to the Company's announcement dated 26 February 2003 (the "Announcement"), the Company announced that Mr. Wong Kwong Chi ("Mr. Wong") and Mr. Woo Chin Pang, Adrian ("Mr. Woo") had resigned as non-executive directors of the Company with effect from 24 January 2003, while Messrs. Wong and Woo indicated to the Company that they had not resigned, details of which was stated in the Announcement, Messrs. Wong and Woo maintained that they did not resign until 11 June 2003. Although the Company and the Messrs. Wong and Woo disagree about the date of the resignations, Messrs. Wong and Woo have confirmed their resignations as non-executive directors of the Company for personal reasons and have confirmed that there is nothing further that should be drawn to the attention of the Stock Exchange, the shareholders and the public. This matter has been resolved in a satisfactory manner and no legal action will be taken by the parties concerned. In any event, please be noted that the Company's position is that the resignations of Messrs. Wong and Woo had taken effect from 24 January 2003.

In accordance with articles 86, 87 and 88 of the Company's articles of association, Messrs. Jin Feng, Leong Ka Cheong, Christopher, Lo Wai Shun, Zhu Rong and Chen Junliang 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's biographies

Biographical details of the directors of the Company and of the senior management of the Group are set out on pages 20 to 22 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.

Messrs. Chang Ye Min, William and Wu Shu Min had service contracts for an initial term of two years commenced from 18 July 1999, which thereafter continued for a period of 18 months and expired on 17 January 2003. Pursuant to the supplement agreement entered into by each of these two directors and the Company, each of their service contracts was renewed for a term of three years commencing 17 January 2003. Mr. Jin Feng has entered into a director's service contract for a term of two years commencing from 31 May 2003. Each of these three service contracts is subject to termination by either party giving not less than three months' written notice or by making payment in lieu of such notice.

Messrs. Zhu Rong and Lo Wai Shun, non-executive directors, had entered into service contracts for a term of two years commencing from 1 January 2003 and their service contracts are subject to termination by either party by giving one month's notice.

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

Directors' interests in contracts

Save as disclosed in note 33 to the financial statements, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

Directors' and chief executive's interests and short positions in shares and underlying shares

At 30 September 2003, the interests or short positions of the directors and the chief executive of the Company in shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short position which they are taken or deemed to have taken under such provisions of SFO), or which were required to be entered into the register kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules, were as follows:

Long positions in ordinary shares of the Company:

	Number of issued shares of US$0.01 each in the Company held and the capacity		
Name of director	**Capacity**	**Total**	**Percentage of the Company's issued share capital**
Mr. Chang Ye Min, William	Beneficial owner	26,840,000	1.87
Mr. Wu Shu Min	Beneficial owner	154,823,000	10.78
Mr. Zhu Rong	Beneficial owner	108,750,000	7.57
Mr. Leong Ka Cheong, Christopher (note)	Nominee	371,988,350	25.90

Note: The sole shareholder of Multico Holdings Limited ("MHL") and Huiya South China Investments Limited ("Huiya") is Transpac Nominees Pte Ltd. ("TNPL") which is a wholly-owned subsidiary of Transpac Capital Pte Ltd. ("TCPL"). TNPL, through MHL and Huiya, holds the 371,988,350 shares 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 96.0 per cent, 3.0 per cent and 1.0 per cent of the 371,988,350 shares. TCPL is the manager of a number of venture capital funds including those specified herein and Dr. Leong is a director of TCPL. Transpac Managers III Ltd is a venture capital fund contributed by the staff of TCPL to invest in parallel to funds managed by TCPL.

The interests of the directors and the chief executive of the Company in the share options of the Company are separately disclosed in note 27 to the financial statements.

Save as disclosed above, none of the directors, chief executive of the Company or their associates had registered any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified of the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests and short position which they were taken or deemed to have taken under such provisions of the SFO), or which were required to be entered into the register Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors of the Company as referred to in Rules 5.40 to 5.58 of the GEM Listing Rules.

Directors' rights to acquire shares or debentures

Save as disclosed in the share option scheme disclosures in note 27 to the financial statements, at no time during the year there 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 minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Share option scheme

The Company has adopted Hong Kong Statement of Standard Accounting Practice No. 34 "Employee benefits" during the year, and the detailed disclosures relating to the Company's share option schemes can be referred to in note 27 to the financial statements.

Concerning the share options granted during the year to the directors and employees as detailed in note 27 to the financial statements, the directors do not consider it appropriate to disclose a theoretical value of the options granted because in the absence of a readily available market value for share options on the ordinary shares of the Company, the directors were unable to arrive at an accurate assessment of the value of the share options.

Interests of substantial shareholders discloseable under SFO

So far as is notified to the directors of the Company, as at 30 September 2003, shareholders (other than directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required pursuant to Section 336 of the SFO, to be entered into the register referred to therein, were as follows:

Long positions:

Name	Notes	Capacity	Interests in shares	Percentage of interests	Interests under equity derivatives	Aggregate interests
Multico Holdings Limited	1	Beneficial owner	362,948,350	25.27%	–	362,948,350
Transpac Nominees Pte Ltd.	1	Nominee	371,988,350	25.90%	–	371,988,350
Transpac Capital Pte Ltd.	1	Nominee	371,988,350	25.90%	–	371,988,350
Ms. Lei Dong Ling	2	Interests of spouse	154,823,000	10.78%	28,000,000	182,823,000
Ms. Wu Yong Jun	3	Interests of spouse	108,750,000	7.57%	–	108,750,000

Notes

1. Multico Holdings Limited ("MHL") and Huiya South China Investments Limited ("Huiya") held 362,948,350 shares and 9,040,000 shares respectively and the sole shareholder of MHL and Huiya is Transpac Nominees Pte Ltd. ("TNPL") which in turn is a wholly-owned subsidiary of Transpac Capital Pte Ltd. ("TCPL"). Both TNPL and TCPL therefore are deemed to be interested in 371,988,350 shares in which MHL and Huiya are interested. TNPL through MHL and Huiya, holds the 371,988,350 shares 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 96.0 per cent, 3.0 per cent and 1.0 per cent of the 371,988,350 shares. TCPL is the manager of a number of venture capital funds including those specified herein and Dr. Leong is a director of TCPL. Transpac Managers III Ltd is a venture capital fund contributed by the staff of TCPL to invest in parallel to funds managed by TNPL.

2. Ms. Lei Dong Ling is the spouse of Mr. Wu Shu Min. Under section 316 of the SFO, Ms. Lei Dong Ling is therefore deemed to be interested in all 154,823,000 shares and 28,000,000 share options in which Mr. Wu Shu Min is interested.

3. Ms. Wu Yong Jun is the spouse of Mr. Zhu Rong. Under section 316 of the SFO, Ms. Wu Yong Jun is therefore deemed to be interested in all 108,750,000 shares in which Mr. Zhu Rong is interested.

Save as disclosed above, as at 30 September 2003, the directors of the Company were not aware of any other person (other than directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required pursuant to Section 336 of the SFO, to be entered into the register referred to therein.

Related party and connected transactions

Details of the significant related party transactions of the Group are set out in note 33 to the financial statements.

With respect to those related party transactions which also constitute non-exempted 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 33 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 reporting, announcement and shareholders' approval requirements in respect of connected transactions as set out in the GEM Listing Rules.

The directors of the Company are of the opinion that those non-exempted continuing connected transactions were 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;

and these have been confirmed by the independent non-executive directors.

Competition and conflict of interests

Mr. Leong Ka Cheong, Christopher, non-executive director of the Company, is a non-executive director of YesMobile Holdings Company Limited ("YesMobile") which provides services to the telecommunication industry in Asia. At the present time, the nature of the business of YesMobile is different from the Group but YesMobile does operate in the same business domain.

Save as disclosed above, 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 updated and notified by the Company's sponsor, Core Pacific-Yamaichi Capital Limited ("CPY"), as at 30 September 2003 neither CPY nor its directors, employees or associates had any interests in the share capital of the Company or any of its subsidiaries, or had 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 receives fees for acting as the Company's retained sponsor for the period from 30 November 2001 to 30 September 2004.

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 to review and supervise the financial reporting process and internal controls of the Group and to provide advice to the directors of the Company. 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. Mr. Chan Wai Dune is the chairman of the Committee. The Committee has reviewed the Group's financial statements for the year ended 30 September 2003 and has provided advice and comment thereon. The Committee held four meetings during the year.

Compliance with Rules 5.28 to 5.39 of the GEM Listing Rules

In the opinion of directors, the Company has complied with Board Practices and Procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules for the year under review.

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 2003

REPORT OF THE AUDITORS

ERNST & YOUNG
安永會計師事務所

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

We have audited the financial statements on pages 35 to 86 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 financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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 2003 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 2003

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 30 September 2003

	Notes	2003 HK$'000	2002 HK$'000
TURNOVER	5	**166,849**	59,522
Cost of sales	6	**(143,183)**	(37,610)
Gross profit		**23,666**	21,912
Other revenue and gains	5	**2,416**	3,481
Selling and distribution costs		**(11,581)**	(9,868)
Administrative expenses		**(32,360)**	(36,377)
Other operating expenses		**(14,397)**	(28,274)
Impairment of goodwill		**(3,407)**	(4,000)
LOSS FROM OPERATING ACTIVITIES	6	**(35,663)**	(53,126)
Finance costs	7	**(3,757)**	(4,102)
LOSS BEFORE TAX		**(39,420)**	(57,228)
Tax	10	**(900)**	–
LOSS BEFORE MINORITY INTERESTS		**(40,320)**	(57,228)
Minority interests		**2,717**	2,806
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	11	**(37,603)**	(54,422)
DIVIDEND	12	**–**	44,566
LOSS PER SHARE	13		
Basic		**HK2.63 cents**	HK4.12 cents
Diluted		**N/A**	N/A

30 September 2003

	Notes	2003 HK$'000	2002 HK$'000
NON-CURRENT ASSETS			
Fixed assets	14	**42,910**	29,748
Intangible assets	15	**1,727**	3,102
Rental deposits and golf club membership	16	**1,128**	1,819
Goodwill	17	**39,235**	2,146
Deposit paid for proposed acquisition of an unlisted investment	18	**–**	24,000
		85,000	60,815
CURRENT ASSETS			
Inventories	20	**11,091**	1,897
Trade and retention receivables	21	**61,316**	64,846
Prepayments, trade deposits, other deposits and other receivables		**14,077**	35,479
Due from related companies	22	**2,943**	2,404
Pledged deposits	23	**46,005**	56,592
Cash and cash equivalents	23	**22,769**	15,605
		158,201	176,823
CURRENT LIABILITIES			
Trade and bills payables	24	**48,091**	21,613
Accrued liabilities, deposits received and other payables		**18,529**	14,562
Interest-bearing bank and other loans	25	**58,653**	66,449
Tax payable		**3,388**	2,488
		128,661	105,112
NET CURRENT ASSETS		**29,540**	71,711
TOTAL ASSETS LESS CURRENT LIABILITIES		**114,540**	132,526
NON-CURRENT LIABILITIES			
Interest-bearing bank loans	25	**37**	–
MINORITY INTERESTS		**14,752**	908
		99,751	131,618

30 September 2003

	Notes	2003 HK$'000	2002 HK$'000
CAPITAL AND RESERVES			
Issued capital	26	**112,041**	110,272
Reserves	28	**(12,290)**	21,346
		99,751	131,618

WU SHU MIN
Director

CHANG YE MIN, WILLIAM
Director

Year ended 30 September 2003

	Issued share capital HK$'000	Share premium account HK$'000 note 28(a)	Capital reserve HK$'000 note 28(a)	Statutory reserve HK$'000 note 28(a)	Asset revaluation reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
At 1 October 2001	1,414	83,749	(11,742)	4	4,171	(13)	24,954	102,537
Capitalisation of shares	69,652	(69,652)	–	–	–	–	–	–
New issue and placing of shares to the public	38,409	109,318	–	–	–	–	–	147,727
Exercise of share options	95	88	–	–	–	–	–	183
Issue of shares upon acquisition of subsidiaries	702	576	–	–	–	–	–	1,278
Listing and share issue expenses	–	(25,411)	–	–	–	–	–	(25,411)
Surplus arising on revaluation of leasehold land and buildings	–	–	–	–	292	–	–	292
Net gains not recognised in the profit and loss account	–	–	–	–	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	–	(44,566)	–	–	–	–	–	(44,566)
At 30 September 2002 and 1 October 2002	110,272	54,102	(7,742)	4	4,463	(13)	(29,468)	131,618
Issue of shares upon acquisition of subsidiaries – note 26	1,769	862	–	–	–	–	–	2,631
Surplus arising on revaluation of leasehold land and buildings – note 14	–	–	–	–	105	–	–	105
Net gains not recognised in the profit and loss account	–	–	–	–	105	–	–	105
Goodwill transferred to profit and loss account on impairment	–	–	3,000	–	–	–	–	3,000
Net loss for the year	–	–	–	–	–	–	(37,603)	(37,603)
At 30 September 2003	112,041	54,964	(4,742)	4	4,568	(13)	(67,071)	99,751

CONSOLIDATED CASH FLOW STATEMENT

Year ended 30 September 2003

	Notes	2003 HK$'000	2002 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(39,420)**	(57,228)
Adjustments for:			
Finance costs	7	**3,757**	4,102
Interest income	5	**(778)**	(869)
Loss on disposal of fixed assets	6	**44**	4
Gain on partial disposal of a subsidiary	5	**–**	(213)
Depreciation	6	**4,959**	3,789
Amortisation of intangible assets	6	**1,375**	1,372
Amortisation of goodwill	6	**2,773**	195
Impairment of goodwill	6	**3,407**	4,000
Operating loss before working capital changes		**(23,883)**	(44,848)
Increase in inventories		**(3,693)**	(1,111)
Decrease in trade and retention receivables		**23,763**	88,306
Decrease/(increase) in prepayments, trade deposits, other deposits and other receivables		**22,415**	(28,070)
Increase in amounts due from related companies		**(539)**	(522)
Decrease in amounts due from directors		**–**	50
Increase/(decrease) in trade and bills payables		**21,006**	(54,657)
Increase/(decrease) in accrued liabilities, deposits received and other payables		**1,228**	(1,491)
Cash generated from/(used in) operations		**40,297**	(42,343)
Interest paid		**(3,757)**	(4,102)
Net cash inflow/(outflow) from operating activities		**36,540**	(46,445)

CONSOLIDATED CASH FLOW STATEMENT

Year ended 30 September 2003

	Notes	2003 HK$'000	2002 HK$'000
Net cash inflow/(outflow) from operating activities		**36,540**	(46,445)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**778**	869
Purchases of fixed assets	14	**(243)**	(3,454)
Proceeds from disposal of fixed assets		**15**	30
Development expenses		**–**	(33)
Purchase of golf club membership		**–**	(759)
Deposit paid for proposed acquisition of an unlisted investment		**–**	(24,000)
Acquisition of subsidiaries	29(b)	**(21,242)**	(2,091)
Partial disposal of a subsidiary		**–**	213
Increase in non-pledged time deposit with original maturity of more than three months when acquired		**(935)**	–
Decrease/(increase) in pledged time deposits		**10,587**	(40,000)
Net cash outflow from investing activities		**(11,040)**	(69,225)
CASH FLOWS FROM FINANCING ACTIVITIES			
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
Drawdown of bank loans		**14,019**	37,384
Drawdown of other loans		**3,925**	–
Repayment of bank loans		**(35,346)**	–
Repayment of other loans		**(1,869)**	–
Net cash inflow/(outflow) from financing activities		**(19,271)**	126,768
NET INCREASE IN CASH AND CASH EQUIVALENTS		**6,229**	11,098
Cash and cash equivalents at beginning of year		**15,605**	4,507
CASH AND CASH EQUIVALENTS AT END OF YEAR		**21,834**	15,605
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	23	**21,834**	15,605

BALANCE SHEET

30 September 2003

	Notes	2003 HK$'000	2002 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	19	**100,995**	132,277
CURRENT ASSETS			
Cash and cash equivalents	23	**20**	232
CURRENT LIABILITIES			
Accrued liabilities and other payables		**1,264**	1,125
NET CURRENT LIABILITIES		**(1,244)**	(893)
		99,751	131,384
CAPITAL AND RESERVES			
Issued capital	26	**112,041**	110,272
Reserves	28	**(12,290)**	21,112
		99,751	131,384

WU SHU MIN
Director

CHANG YE MIN, WILLIAM
Director

1. 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.

During the year, the principal place of business of the Company was located at Suite 804, 9 Queen's Road Central, Central, Hong Kong. Subsequent to the balance sheet date, the principal place of business of the Company is changed to Suite 15C, Entertainment Building, 30 Queen's Road Central, Central, Hong Kong with effect from 8 December 2003.

During the year, the Group was involved in the following principal activities:

- Sale and distribution of telecommunication equipment
- Sale of network management software
- Manufacturing and sale of communication cables and optical cables

Other than the commencement of the business of manufacturing and sale of communication cables and optical cables, there were no significant changes in the nature of the Group's principal activities during the year.

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

The following new and revised SSAPs are effective for the first time for the current year's financial statements:

- SSAP 1 (Revised): "Presentation of financial statements"
- SSAP 11 (Revised): "Foreign currency translation"
- SSAP 15 (Revised): "Cash flow statements"
- SSAP 34: "Employee benefits"

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 which have had a significant effect on the financial statements are summarised as follows:

SSAP 1 prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision of this SSAP is that a consolidated statement of changes in equity is now presented on page 38 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required and in place of the Group's reserves note.

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

SSAP 11 prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the profit and loss accounts of overseas subsidiaries, jointly-controlled entities and associates are now translated into Hong Kong dollars at the weighted average exchange rates for the year, whereas previously they were translated at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements. Further details of this change are included in the accounting policy for "Foreign currencies" in note 3 to the financial statements.

SSAP 15 prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. In addition, cash flows from overseas subsidiaries arising during the year are now translated into Hong Kong dollars at the exchange rates at the dates of the transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates at the balance sheet date, and the definition of cash equivalents for the purpose of the consolidated cash flow statement has been revised. Further details of these changes are included in the accounting policies for "Cash and cash equivalents" and "Foreign currencies" in note 3 to the financial statements.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no material change to the previously adopted accounting treatments for employee benefits as at the balance sheet dates. In addition, disclosures are now required in respect of the Company's share option schemes, as detailed in note 27 to the financial statements. These share option scheme disclosures are similar to the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") disclosures previously included in the Report of the Directors, which are now included in the notes to the financial statements as a consequence of the SSAP.

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 2003. 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.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

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 results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint venture companies (continued)

A joint venture company is treated as:

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

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

(c) an associate, if the Company does not have unilateral or joint control, but holds, directly or indirectly, 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, directly or indirectly, 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.

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 3 to 15 years.

SSAP 30 "Business combinations" was adopted as at 1 October 2001. Prior to that date, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to 1 October 2001 is treated according to the SSAP 30 goodwill 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

SSAP 30 "Business combinations" was adopted as at 1 October 2001. Prior to that date, negative goodwill arising on acquisitions was credited to the capital reserve in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted such negative goodwill to remain credited to the capital reserve. Negative goodwill on acquisitions subsequent to 1 October 2001 is treated according to the SSAP 30 negative goodwill 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.

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)

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.

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 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation (continued)

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

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

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.

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 stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five years, commencing from the date when the products are put into commercial production.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits which are not restricted as to use.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences 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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

Pension scheme and other retirement benefits

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 People's Republic of China except Hong Kong ("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 employees and are charged to the profit and loss account in the period to which they relate.

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme 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 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, or which lapse, are deleted from the register of outstanding options.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates 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 using the net investment method. The profit and loss accounts of overseas subsidiaries are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Prior to the adoption of the revised SSAPs 11 and 15 during the year, as explained in note 2 to the financial statements, the profit and loss accounts of overseas subsidiaries and the cash flows of overseas subsidiaries were translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements. The adoption of the revised SSAP 15 has had no material effect on the amounts of the previously-reported cash flows of the prior year.

4. SEGMENT INFORMATION

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 the 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;

(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;

(d) the transmission segment consists of the manufacturing and sale of communication cables and optical cables, primarily for communications sectors; and

(e) the corporate and other segment consists of the Group's investing holding, corporate assets and liabilities items.

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.

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.

4. SEGMENT INFORMATION (continued)

(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		Transmission		Eliminations		Consolidated	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:												
Sales to external customers	**95,522**	31,112	**23,255**	18,890	**13,915**	9,520	**34,157**	-	**-**	-	**166,849**	59,522
Intersegment sales	**12,794**	1,059	**-**	-	**-**	-	**-**	-	**(12,794)**	(1,059)	**-**	-
Total	**108,316**	32,171	**23,255**	18,890	**13,915**	9,520	**34,157**	-	**(12,794)**	(1,059)	**166,849**	59,522
Segment results	**(19,157)**	(43,763)	**(2,783)**	(2,192)	**(7,798)**	(6,652)	**(4,934)**	-	**-**	-	**(34,672)**	(52,607)
Unallocated income and gains											**2,416**	3,481
Unallocated expenses											**(3,407)**	(4,000)
Loss from operating activities											**(35,663)**	(53,126)
Finance costs											**(3,757)**	(4,102)
Loss before tax											**(39,420)**	(57,228)
Tax											**(900)**	-
Loss before minority interests											**(40,320)**	(57,228)
Minority interests											**2,717**	2,806
Loss from ordinary activities attributable to shareholders											**(37,603)**	(54,422)

4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group	Telecommunications network infrastructure solutions		Network management solutions		Other network solutions for sectors other than telecommunications		Transmission		Corporate and other		Consolidated	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment assets	**73,269**	80,369	**12,062**	41,219	**3,766**	11,679	**53,963**	-	**-**	-	**143,060**	133,267
Unallocated assets									**100,141**	104,371	**100,141**	104,371
Total asset									**100,141**	104,371	**243,201**	237,638
Segment liabilities	**45,475**	23,264	**5,495**	6,184	**2,489**	4,675	**23,924**	-	**-**	-	**77,383**	34,123
Unallocated liabilities									**51,315**	70,989	**51,315**	70,989
Total liabilities									**51,315**	70,989	**128,698**	105,112
Other segment information:												
Depreciation	**1,640**	1,347	**767**	735	**544**	899	**1,130**	-	**878**	808	**4,959**	3,789
Impairment of goodwill	**-**	-	**-**	-	**-**	-	**-**	-	**3,407**	4,000	**3,407**	4,000
Amortisation of goodwill	**-**	-	**-**	-	**-**	-	**-**	-	**2,773**	195	**2,773**	195
Surplus arising on revaluation of leasehold land and buildings - recognised directly in equity	**-**	-	**-**	-	**-**	-	**-**	-	**(105)**	(292)	**(105)**	(292)
Amortisation of deferred development costs	**-**	-	**1,375**	1,372	**-**	-	**-**	-	**-**	-	**1,375**	1,372
Provision for doubtful debts	**-**	13,674	**2,493**	3,386	**3,169**	9	**3,103**	-	**-**	93	**8,765**	17,162
Provision for other receivables	**261**	-	**-**	-	**288**	-	**439**	-	**287**	-	**1,275**	-
Capital expenditure	**31**	318	**18**	1,635	**10**	328	**184**	-	**-**	1,173	**243**	3,454

(b) Geographical segments

Over 90% of the Group's revenue, 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.

5. TURNOVER, OTHER REVENUE AND GAINS

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, other revenue and gains is as follows:

	2003	2002
	HK$'000	HK$'000
Turnover	**166,849**	59,522
Other revenue and gains:		
Bank interest income	**778**	869
Gain on partial disposal of a subsidiary	**–**	213
Others	**1,638**	2,399
	2,416	3,481

6. LOSS FROM OPERATING ACTIVITIES

The Group's loss from operating activities is arrived at after charging:

	Notes	**2003 HK$'000**	2002 HK$'000
Cost of inventories sold and services provided		**143,183**	37,610
Depreciation	14	**4,959**	3,789
Research and development costs:			
Deferred development costs amortised*	15	**1,375**	1,372
Current year expenditure		**6,850**	7,746
		8,225	9,118
Goodwill:			
Amortisation for the year*	17	**2,773**	195
Impairment arising during the year	17	**3,407**	4,000
		6,180	4,195
Minimum lease payments under operating leases in respect of land and buildings		**3,308**	4,411
Auditors' remuneration		**780**	680
Staff costs (including directors' emoluments (note 8)):			
Wages and salaries		**16,764**	18,267
Pension scheme contributions		**274**	471
		17,038	18,738
Provision for bad and doubtful debts*		**8,765**	17,162
Charges on discount of trade receivables*		**–**	9,545
Provision for other receivables*		**1,275**	–
Provision for obsolete inventories*		**165**	–
Loss on disposal of fixed assets*		**44**	4

* Amortisation of deferred development costs, amortisation of goodwill, provision for bad and doubtful debts, provision for other receivables, provision for obsolete inventories and loss on disposal of fixed assets for the year are included in "Other operating expenses" on the face of the consolidated profit and loss account.

The current year research and development costs included HK$3,642,000 (2002: HK$5,475,000) relating to staff costs which is also included in the staff costs total amount disclosed above.

7. FINANCE COSTS

	Group	
	2003	2002
	HK$'000	HK$'000
Interest on bank loans wholly repayable within five years	**3,283**	2,891
Interest on convertible bonds	**–**	1,211
Interest on other loans	**474**	–
	3,757	4,102

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year disclosed pursuant to the GEM Listing Rules and Section 161 of the Hong Kong Companies Ordinance is as follows:

	Group	
	2003	2002
	HK$'000	HK$'000
Fees:		
Executive directors	**–**	–
Non-executive directors	**–**	–
Independent non-executive directors	**312**	234
	312	234
Other emoluments of executive directors:		
Salaries, allowances and benefits in kind	**3,701**	5,686
Pension scheme contributions	**–**	–
	3,701	5,686
	4,013	5,920

8. DIRECTORS' REMUNERATION (continued)

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

	2003 Number of directors	2002 Number of directors
Nil – HK$1,000,000	**13**	8
HK$1,000,001 – HK$1,500,000	**–**	3
HK$1,500,001 – HK$2,000,000	**1**	–
HK$2,000,001 – HK$2,500,000	**–**	1
	14	12

The remuneration of each of the directors is as follows:

	2003 HK$'000	2002 HK$'000
Independent non-executive directors:		
A	**120**	90
B	**96**	72
C	**96**	72
	312	234
Executive directors:		
D	**1,598**	2,148
E	**863**	1,256
F*	**559**	1,256
G*	**496**	1,026
H	**167**	–
	3,683	5,686

* resigned during the year ended 30 September 2003.

During the two years ended 30 September 2003 and 2002, 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.

8. DIRECTORS' REMUNERATION (continued)

During the year, 12,000,000 share options were granted to certain directors in respect of their services rendered to the Group, further details of which are set out in note 27 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above directors' remuneration disclosures.

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 employees during the year included four (2002: four) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining one (2002: one) non-director, highest paid employee for the year are as follows:

	Group	
	2003	2002
	HK$'000	HK$'000
Salary, allowances and benefits in kind	**526**	400
Pension scheme contributions	**–**	–
	526	400

During the year, 3,000,000 share options were granted to the above non-director, highest paid employee in respect of the services rendered to the Group. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above non-director, highest paid employee's remuneration disclosures.

10. TAX

	Group	
	2003	2002
	HK$'000	HK$'000
Hong Kong	**900**	–

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profits arising in Hong Kong during the year. Hong Kong profits tax has not been provided for the year ended 30 September 2002 as the Group did not generate any assessable profits arising in Hong Kong during that year.

10. TAX (continued)

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, Hunan Modern Time Technology Limited and Wujiang Shengxin Optoelectronics Technology Co., Ltd. ("Wujiang Optoelectronics") as none of these entities generated any assessable profits attributable to their operations in the PRC during the year (2002: Nil).

PRC corporate income tax has not been provided for Beijing IIN Data Network Technology Co., Ltd. and Hunan IIN International Co., Ltd., 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. PRC corporate income tax has not been provided for Hunan IIN-Galaxy Software Development Co., Limited, which is a Sino-foreign joint venture registered in the PRC, as this entity is exempted from tax in the first three profitable financial years. 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 (2002: Nil).

11. 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$34,264,000 (2002: HK$22,923,000).

12. DIVIDEND

	2003	2002
	HK$'000	HK$'000
Special dividend	**-**	44,566

During the year ended 30 September 2002, 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 (2002: Nil).

13. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the year of HK$37,603,000 (2002: HK$54,422,000) and the weighted average of 1,431,608,528 (2002: 1,321,557,339) ordinary shares in issue during the year.

Diluted loss per share amounts for the years ended 30 September 2003 and 2002 have not been disclosed as the potential ordinary shares outstanding had an anti-dilutive effect on the basic loss per share for these years.

14. FIXED ASSETS

Group

	Leasehold land and buildings	Lease rights on medium term leases of properties	Leasehold improvements	Plant and machinery	Computer equipment	Office equipment, furniture and fixtures	Motor vehicles	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cost or valuation:								
At beginning of year	19,600	1,355	2,421	–	11,751	4,325	3,325	42,777
Additions	–	–	–	118	55	70	–	243
Acquisition of subsidiaries	8,248	–	–	8,933	29	251	371	17,832
Disposals	–	–	–	–	(96)	(11)	–	(107)
Revaluation	(348)	–	–	–	–	–	–	(348)
At 30 September 2003	27,500	1,355	2,421	9,051	11,739	4,635	3,696	60,397
Analysis of cost or valuation:								
At cost	–	1,355	2,421	9,051	11,739	4,635	3,696	32,897
At valuation	27,500	–	–	–	–	–	–	27,500
	27,500	1,355	2,421	9,051	11,739	4,635	3,696	60,397
Accumulated depreciation:								
At beginning of year	–	132	713	–	7,440	3,128	1,616	13,029
Provided during the year	453	25	538	898	1,808	751	486	4,959
Disposals	–	–	–	–	(40)	(8)	–	(48)
Revaluation	(453)	–	–	–	–	–	–	(453)
At 30 September 2003	–	157	1,251	898	9,208	3,871	2,102	17,487
Net book value:								
At 30 September 2003	27,500	1,198	1,170	8,153	2,531	764	1,594	42,910
At 30 September 2002	19,600	1,223	1,708	–	4,311	1,197	1,709	29,748

14. 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 individually at the balance sheet date by FPDSavills (Hong Kong) Limited, independent professionally qualified valuers, at an aggregate of HK$27,500,000 (2002: HK$19,600,000). One of the leasehold land and buildings was revalued at HK$19,300,000 using the open market basis and the other one was revalued at HK$8,200,000 using depreciated replacement costs basis. A revaluation surplus of HK$105,000 (2002: HK$292,000), resulting from the above valuations, has been credited to the relevant asset revaluation reserve.

Had these leasehold land and buildings been carried at historical cost less accumulated depreciation, their carrying amounts would have been approximately HK$22,800,000 (2002: HK$15,008,000).

At 30 September 2003, the Group's leasehold land and buildings, plant and machinery and motor vehicles with net book values of approximately HK$27,500,000 (2002: HK$19,600,000), HK$6,015,000 (2002: Nil) and HK$295,000 (2002: Nil), respectively, were pledged to secure general banking facilities granted to the Group (note 25).

15. INTANGIBLE ASSETS

Group

	Deferred development costs HK$'000
Cost:	
At beginning of year and 30 September 2003	7,098
Accumulated amortisation:	
At beginning of year	3,996
Provided during the year	1,375
At 30 September 2003	5,371
Net book value:	
At 30 September 2003	1,727
At 30 September 2002	3,102

16. RENTAL DEPOSITS AND GOLF CLUB MEMBERSHIP

	Group	
	2003	2002
	HK$'000	HK$'000
Rental deposits	**369**	1,060
Golf club membership (note)	**759**	759
	1,128	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.

17. GOODWILL AND NEGATIVE GOODWILL

The amounts of the goodwill capitalised as an asset in the consolidated balance sheet, arising from the acquisition of subsidiaries, are as follows:

Group

	Goodwill
	HK$'000
Cost:	
At beginning of year	2,341
Acquisition of subsidiaries (note 29(b))	39,862
Acquisition of minority interests in a subsidiary	407
At 30 September 2003	42,610
Accumulated amortisation:	
At beginning of year	195
Amortisation provided during the year	2,773
Impairment provided during the year	407
At 30 September 2003	3,375
Net book value:	
At 30 September 2003	39,235
At 30 September 2002	2,146

17. GOODWILL AND NEGATIVE GOODWILL (continued)

On 26 September 2002, the Group entered into a conditional sale and purchase agreement (the "S&P" Agreement) with Mr. Jian Wei Shun, an independent third party (the "Vendor") to acquire the entire issued share capital of Future Frontier Limited ("FFL"), a company incorporated in the British Virgin Islands (the "BVI"), together with an outstanding loan of a principal amount of approximately HK$6,900,000 owing by FFL to the Vendor (the "Acquisition"), for an aggregate consideration of HK$59,608,000. HK$46,000,000 of the consideration was paid in cash (partly by utilising the HK$24,000,000 deposit previously made - note 18) and HK$13,608,000 was satisfied by way of the issuance of 22,680,000 ordinary shares (the "Consideration Shares") of the Company at HK$0.60 each. FFL is an investment holding company which owns a 51% equity interest in Wujiang Optoelectronics. Wujiang Optoelectronics is engaged in the manufacturing and sale of communication cables and optical cables.

Upon completion of the above acquisition on 17 December 2002, the Consideration Shares were issued to the independent third party on 19 December 2002 when the market price of the Company's shares was HK$0.116 per share. Consequently, the fair value of the Consideration Shares was adjusted to HK$0.116 for the purpose of calculating the goodwill arising from the acquisition of FFL. Further details of the acquisition of FFL are set out in the Group's circular to shareholders dated 16 December 2002.

As detailed in note 3 to the financial statements, on the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted goodwill and negative goodwill in respect of acquisitions which occurred prior to 1 October 2001, to remain eliminated against or credited to the capital reserve, respectively.

The amounts of the goodwill and negative goodwill remaining in consolidated reserves as at 30 September 2003, arising from the acquisition of subsidiaries prior to 1 October 2001, are as follows:

	Group	
	Goodwill eliminated against capital reserve	**Negative goodwill credited to capital reserve**
	HK$'000	HK$'000
Cost:		
At beginning of year and at end of year	16,702	(4,960)
Accumulated impairment:		
At beginning of year	4,000	–
Impairment provided during the year	3,000	–
At 30 September 2003	7,000	–
Net amount:		
At 30 September 2003	9,702	(4,960)
At 30 September 2002	12,702	(4,960)

18. DEPOSIT PAID FOR PROPOSED ACQUISITION OF AN UNLISTED INVESTMENT

As at 30 September 2002, a refundable deposit of HK$24,000,000 (the "Deposit") had been paid to the Vendor in relation to the Acquisition, details of which are set out in note 17. 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.

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 notes 17 and 26 to the financial statements.

19. INTERESTS IN SUBSIDIARIES

	Company	
	2003	2002
	HK$'000	HK$'000
Unlisted shares, at cost	**43,437**	43,437
Due from subsidiaries	**135,934**	135,651
Due to subsidiaries	**(26,811)**	(26,811)
	152,560	152,277
Provision for impairment	**(51,565)**	(20,000)
	100,995	132,277

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

19. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
II Networks International Limited	BVI	US$166,667	100	–	Investment holding
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

19. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share 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
Telechina Group Limited	BVI	US$1	–	100	Investment holding
Hunan Modern Time Technology Limited#	PRC	RMB1,000,000	–	100	Communication network system related business
Future Frontier Limited*	BVI	US$1	–	100	Investment holding
Wujiang Shengxin Optoelectronics Technology Co. Ltd.*##	PRC	RMB14,350,000	–	51	Manufacturing and sale of communication cables and optical cables

* acquired during the year.

\# registered as wholly-foreign owned enterprises under the PRC law.

\## registered as Sino-foreign joint ventures under the PRC law.

\### registered as a limited liability company under the PRC law.

19. INTERESTS IN SUBSIDIARIES (continued)

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

The turnover and net loss from ordinary activities attributable to shareholders from subsidiaries acquired during the year ended 30 September 2003 were approximately HK$34,157,000 and HK$4,767,000, respectively.

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

20. INVENTORIES

	Group	
	2003	2002
	HK$'000	HK$'000
Raw materials	**2,824**	641
Work in progress	**2,095**	1,256
Finished goods	**6,172**	–
	11,091	1,897

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

21. 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	
	2003	2002
	HK$'000	HK$'000
0 – 90 days	**23,111**	2,016
91 – 180 days	**13,139**	5,847
181 – 365 days	**17,307**	15,872
Over 365 days	**7,759**	37,387
	61,316	61,122
Retention receivables	**–**	3,724
	61,316	64,846

22. DUE FROM RELATED COMPANIES

Particulars of the amounts due from related companies 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 2003 HK$'000	Maximum amount outstanding during the year HK$'000	1 October 2002 HK$'000
IIN Medical Industrial Limited ("IIN Medical HK")	220	220	220
Hunan IIN Network Education Co., Ltd. ("IIN Education PRC")	1,716	1,716	1,405
Hunan IIN Medical Network Technology Development Co., Ltd. ("IIN Medical PRC")	873	873	721
IIN Network Education (BVI) Limited ("IIN Education BVI")	86	86	10
IIN Medical Industrial (BVI) Limited ("IIN Medical BVI")	48	48	48
	2,943		2,404

The amounts due from related companies are unsecured, interest-free and are repayable within one year. During the year ended 30 September 2002, 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 (note 12).

The amounts due from related companies as at 30 September 2003 arose from the connected transactions as set out in note 33 to the financial statements and certain expenses incurred by the Group on behalf of these related companies. These expenses are reimbursed to the Group on an actual cost basis.

23. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

		Group		Company	
		2003	2002	**2003**	2002
	Note	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Cash and bank balances		**21,834**	15,605	**20**	232
Time deposits		**46,940**	56,592	**–**	–
		68,774	72,197	**20**	232
Less: Pledged time deposits for bank loans repayable within one year and other bank facilities	25	**(46,005)**	(56,592)	**–**	–
Cash and cash equivalents		**22,769**	15,605	**20**	232

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$27,729,000 (2002: HK$2,973,000). The RMB is not freely convertible into other currencies, however, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

24. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at the balance sheet date, based on invoice date, is as follows:

	Group	
	2003	2002
	HK$'000	HK$'000
0 – 90 days	**33,296**	798
91 – 180 days	**4,905**	1,076
181 – 365 days	**5,227**	1,873
Over 365 days	**4,663**	17,866
	48,091	21,613

25. INTEREST-BEARING BANK AND OTHER LOANS

	Group	
	2003	2002
	HK$'000	HK$'000
Bank loans, secured	**53,290**	66,449
Other loans, unsecured	**5,400**	–
	58,690	66,449
Bank loans repayable:		
Within one year	**53,253**	66,449
In the second year	**37**	–
	53,290	66,449
Other loans repayable:		
Within one year or on demand	**5,400**	–
	58,690	66,449
Portion classified as current liabilities	**(58,653)**	(66,449)
Long term portion	**37**	–

At the balance sheet date, the Group's bank loans and other bank facilities are secured by:

(i) charges on the Group's fixed deposits of approximately HK$46,005,000 (2002: HK$56,592,000), legal charges on the Group's leasehold land and buildings, plant and machinery and motor vehicles with net book values of approximately HK$27,500,000 (2002: HK$19,600,000), HK$6,015,000 (2002: Nil) and HK$295,000 (2002: Nil); and

(ii) corporate guarantee executed by an independent third party.

At the balance sheet date, the balances of the other loans included the borrowings of approximately HK$2.9 million from certain directors of subsidiaries (2002: Nil). These loans are unsecured, bear interest at 6% per annum and have no fixed terms of repayment. The interest expenses paid during the year amounted to approximately HK$377,000.

In addition, the Group obtained a short term loan in the amount of HK$2,500,000 from an employee during the year. The loan was unsecured and bore interest at 12% per annum. During the year, the loan was fully repaid and the interest incurred amounted to approximately HK$97,000.

26. SHARE CAPITAL

Shares

	2003 HK$'000	2002 HK$'000
Authorised:		
2,000,000,000 (2002: 2,000,000,000) ordinary shares of US$0.01	**156,000**	156,000
Issued and fully paid:		
1,436,517,350 (2002: 1,413,837,350) ordinary shares of US$0.01	**112,041**	110,272

On 19 December 2002, 22,680,000 shares of US$0.01 each were allotted and issued to an independent third party at HK$0.116 each, being the market value of the Company's shares on that date, for the Acquisition, the details of which are set out in note 17 to the financial statements. The premium on the issue of the shares, amounting to approximately HK$862,000, was credited to the Company's share premium account (note 28).

Share options

Details of the Company's share option scheme are included in note 27 to the financial statements.

27. SHARE OPTION SCHEME

SSAP 34 was adopted during the year, as explained in note 2 and under the heading "Employee benefits" in note 3 to the financial statements. As a result, the following detailed disclosures relating to the Company's share option schemes are now included in the notes to the financial statements. In the prior year, these disclosures were included in the Report of the Directors, as their disclosure is also a requirement of the GEM Listing Rules.

The principal purpose of the share option schemes of the Company 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. The Company has a share option plan adopted on 7 January 2000 and a share option plan adopted on 22 November 2001.

27. SHARE OPTION SCHEME (continued)

(a) Pre-IPO Share Option Plan

On 7 January 2000, the Company adopted an employee share option plan (the "Pre-IPO Share Option Plan"). The Pre-IPO Share Option Plan was 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.

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 in 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 Pre-IPO Share Option Plan. At 30 September 2003, the number of shares issuable under share options granted under the Pre-IPO Share Option Plan was 42,928,000, which represented approximately 3% of the Company's shares in issue as at that date.

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.

27. SHARE OPTION SCHEME (continued)

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

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

	Number of share options outstanding under Pre-IPO Share Option Plan							
	As at 1 October 2002	Exercised during the year	Cancelled during the year	Lapsed during the year	As at 30 September 2003	Date of grant of share options	Exercise period of share options	Adjusted exercise price per share* HK$
Directors								
Mr. Chang Ye Min, William	15,000,000	–	–	–	15,000,000	7 January 2000	7 January 2000 to 6 January 2008	0.150
	5,000,000	–	–	–	5,000,000	23 May 2000	23 May 2000 to 22 May 2008	0.515
Mr. Wu Shu Min	5,000,000	–	–	–	5,000,000	7 January 2000	7 January 2000 to 6 January 2008	0.150
	10,000,000	–	–	–	10,000,000	26 February 2000	26 February 2000 to 25 February 2008	0.150
Mr. Li Zhi Sheng**	5,000,000	–	–	(5,000,000)	–	23 May 2000	23 May 2000 to 22 May 2008	0.515
Mr. Cheng Wing Tsan**	1,000,000	–	–	(1,000,000)	–	20 July 2001	20 July 2001 to 19 July 2009	0.515
Mr. Zhu Rong	5,000,000	–	–	(5,000,000)	–	7 January 2000	7 January 2000 to 6 January 2003	0.150
	46,000,000	–	–	(11,000,000)	35,000,000			
Other employees								
In aggregate	25,384,000	–	–	(19,106,000)	6,278,000	Note 1	Note 2	0.150
	2,900,000	–	–	(1,250,000)	1,650,000	Note 3	Note 4	0.515
	28,284,000	–	–	(20,356,000)	7,928,000			
	74,284,000	–	–	(31,356,000)	42,928,000			

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

** Mr. Li Zhi Sheng and Mr. Cheng Wing Tsan resigned as directors of the Company during the year.

27. SHARE OPTION SCHEME (continued)

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

Notes:

1. Approximately 90% and 10% of the outstanding share options were granted on 7 January 2000 and 26 February 2000, respectively.

2. Approximately 90% and 10% of the outstanding share options granted are exercisable during the periods from 7 January 2000 to 6 January 2008 and 26 February 2000 to 25 February 2008, respectively.

3. Approximately 91% and 9% of the outstanding share options were granted on 23 May 2000 and 20 July 2001, respectively.

4. Approximately 91% and 9% of the outstanding share options granted are exercisable during the periods from 23 May 2000 to 22 May 2008 and 20 July 2001 to 19 July 2009, respectively.

(b) Share Option Plan

On 22 November 2001, the Company adopted a share option scheme (the "Share Option Plan") conditionally upon the listing of the Company's shares on the GEM of the Stock Exchange on 30 November 2001. The 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 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.

27. SHARE OPTION SCHEME (continued)

(b) Share Option Plan (continued)

The maximum number of shares in respect of which options may be granted under the 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 Share Option Plan or any other share option scheme. At 30 September 2003, the number of shares issuable under share options granted under the Share Option Plan was 106,600,000, which represented approximately 7% 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 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 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.

27. SHARE OPTION SCHEME (continued)

(b) Share Option Plan (continued)

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

Number of share options outstanding under Share Option Plan

	At 1 October 2002	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	At 30 September 2003	Date of grant of share options	Exercise period of share options	Exercise price of share options HK$	Company's share price at the date immediately before the grant 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
	–	3,000,000	–	–	–	3,000,000	5 June 2003	5 June 2003 to 21 December 2011	0.078	0.045
Mr. Wu Shu Min	10,000,000	–	–	–	–	10,000,000	7 March 2002	7 March 2002 to 21 December 2011	0.465	0.455
	–	3,000,000	–	–	–	3,000,000	5 June 2003	5 June 2003 to 21 December 2011	0.078	0.045
Mr. Jin Feng	–	3,000,000	–	–	–	3,000,000	5 June 2003	5 June 2003 to 21 December 2011	0.078	0.045
Mr. Ng Ching Wo	–	1,000,000	–	–	–	1,000,000	5 June 2003	5 June 2003 to 21 December 2011	0.078	0.045
Mr. Chan Wai Dune	–	1,000,000	–	–	–	1,000,000	5 June 2003	5 June 2003 to 21 December 2011	0.078	0.045
Mr. Chen Junliang	–	1,000,000	–	–	–	1,000,000	5 June 2003	5 June 2003 to 21 December 2011	0.078	0.045
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	12,000,000	–	–	(20,000,000)	32,000,000				
Other employees										
In aggregate	50,500,000	–	–	–	(19,400,000)	31,100,000	1 March 2002	1 March 2002 to 21 December 2011	0.475	0.470
	–	36,000,000	–	–	–	36,000,000	5 June 2003	5 June 2003 to 21 December 2011	0.078	0.045
	50,500,000	36,000,000	–	–	(19,400,000)	67,100,000				
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	48,000,000	–	–	(39,400,000)	106,600,000				

* Mr. Li Zhi Sheng and Mr. Cheng Wing Tsan resigned as directors of the Company during the year.

27. SHARE OPTION SCHEME (continued)

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.

As at the balance sheet date, the Company had 42,928,000 share options outstanding under the Pre-IPO Share Option Plan.

As at the balance sheet date, the Company had 106,600,000 share options outstanding under the Share Option Plan.

The exercise in full of the outstanding share options under the Pre-IPO Share Option Plan and the Share Option Plan would, under the present capital structure of the Company, result in the issue of 149,528,000 additional ordinary shares and cash proceeds to the Company of approximately HK$40,245,000, before related issuing expenses.

28. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior year are presented in the consolidated statement of changes in equity on page 38 of the financial statements.

The share premium account of the Group includes (i) shares issued at a premium and (ii) the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the Group's reorganisation scheme in preparation for the public listing of the Company's shares on the GEM of the Stock Exchange (the "Reorganisation") in 2001 over the nominal value of the share capital of the Company issued in exchange therefor.

Certain amounts of goodwill and negative goodwill arising on the acquisition of subsidiaries in prior years remain eliminated against and credited to the capital reserve, respectively, as explained in note 17 to the financial statements.

28. RESERVES (continued)

(a) Group (continued)

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.

(b) Company

	Share premium account	Accumulated losses	Total
	HK$'000	HK$'000	HK$'000
At 1 October 2001	73,714	(32)	73,682
Capitalisation of shares	(69,652)	–	(69,652)
New issue and placing of shares to the public	109,318	–	109,318
Exercise of share options	88	–	88
New issue of shares upon acquisition of subsidiaries	576	–	576
Listing and share issue expenses	(25,411)	–	(25,411)
Net loss for the year	–	(22,923)	(22,923)
Special Dividend	(44,566)	–	(44,566)
At 30 September 2002 and 1 October 2002	44,067	(22,955)	21,112
New issue of shares upon acquisition of subsidiaries – note 26	862	–	862
Net loss for the year	–	(34,264)	(34,264)
At 30 September 2003	44,929	(57,219)	(12,290)

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, Cap 22 (Law 3 of 1961, as consolidated and revised) 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.

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Major non-cash transactions

As described in note 26 to the financial statements, on 19 December 2002, 22,680,000 shares of US$0.01 each were allotted and issued to an independent third party at HK$0.116 each, being the market value of the Company's shares on that date, for the acquisition of FFL.

During the year, the Group acquired equity interests from minority shareholders of a subsidiary at a consideration of HK$407,000. The consideration was set off against the amounts due from these minority shareholders, which was included in prepayments, trade deposits, other deposits and other receivables.

During the year ended 30 September 2002, as described in note 22 to the financial statements, 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.

During the year ended 30 September 2002, 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.

During the year ended 30 September 2002, 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.

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

(b) Acquisition of subsidiaries

	2003 HK$'000	2002 HK$'000
Net assets acquired:		
Fixed assets	17,832	374
Inventories	5,501	–
Trade and retention receivables	20,233	654
Prepayments, trade deposits, other deposits and other receivables	729	–
Cash and bank balances	1,823	–
Trade and bills payables	(5,472)	–
Accrued liabilities, deposits received and other payables	(2,739)	–
Interest-bearing bank and other loans	(11,512)	–
Due to a shareholder	(6,900)	–
Minority interests	(16,561)	–
	2,934	1,028
Acquisition of balance due to a shareholder	6,900	–
Goodwill arising on acquisition (note 17)	39,862	2,341
	49,696	3,369
Satisfied by:		
Cash	47,065	2,091
New issue of shares (note 26)	2,631	1,278
	49,696	3,369

The amount of HK$47,065,000 includes the cash consideration of HK$46,000,000 and the further expenditure incurred of HK$1,065,000 in relation to the acquisition of subsidiaries in the current year.

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 during the year ended 30 September 2002.

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

(b) Acquisition of subsidiaries (continued)

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

	2003 HK$'000	2002 HK$'000
Cash consideration	**(47,065)**	(2,091)
Cash and bank balances acquired	**1,823**	–
	(45,242)	(2,091)
Deposit paid for the Acquisition in prior year (note 18)	**24,000**	–
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	**(21,242)**	(2,091)

Further details of the subsidiaries acquired during the current year are included in notes 17 and 19 to the financial statements.

30. CONTINGENT LIABILITIES

The Group and the Company did not have any significant contingent liabilities at the balance sheet date (2002: 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 two years.

At 30 September 2003, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2003	2002
	HK$'000	HK$'000
Within one year	**632**	3,785
In the second to fifth years, inclusive	**554**	1,665
	1,186	5,450

The Company did not have any significant operating lease arrangements at the balance sheet date (2002: Nil).

32. COMMITMENTS

The Group did not have any significant commitments at the balance sheet date.

As at 30 September 2002, the Group had capital commitments contracted for, in respect of the proposed acquisition of FFL as set out in note 18 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.

The Company did not have any significant commitments at the balance sheet date (2002: Nil).

33. 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 Education BVI and 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, which will thereafter continue unless otherwise terminated by either party to the agreement, to IIN Education BVI, IIN Network Education Limited and IIN Education PRC, (collectively known as the "IIN Education Group") and IIN Medical BVI, IIN Medical HK and 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 IIN Education Group and the IIN Medical Group, for a monthly fee as agreed between the Company, the IIN Education Group and the IIN 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$421,000 (2002: HK$742,000) and HK$511,000 (2002: HK$1,209,000) 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 (2002: HK$38,000) and HK$38,000 (2002: HK$38,000) to IIN Medical BVI and IIN Education BVI, respectively.

(ii) During the year, the Group purchased raw materials of approximately HK$4,958,000 from Beijing Watch Data System Co., Ltd, ("Beijing Watch Data"), a company of which Multico Holdings Limited, a substantial shareholder of the Company, owns certain equity interests. The purchase of raw materials were made in accordance with the supply contracts entered into between the Group and Beijing Watch Data. The deposits placed by the Group to Beijing Watch Data of approximately HK$4,958,000 for the purchase of raw materials, which was delivered in the current year was included as 'Prepayment, trade deposits, other deposits and other receivables' under current assets as at 30 September 2002.

33. RELATED PARTY AND CONNECTED TRANSACTIONS (continued)

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 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.

34. PENDING LITIGATION

During the year ended 30 September 2002, 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 for the years ended 30 September 2003 and 2002.

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 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 2003.