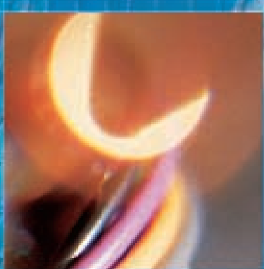

ANNUAL REPORT 2004

IIN INTERNATIONAL LIMITED

(incorporated in the Cayman Islands with limited liability)

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") were 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 including the IP Network Management and Monitoring 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 offers the communication and information network services for the enterprise customers, including the provision of integrated and responsive services for all network components.

Contents

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
Wang Qian (alternate to 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
Chen Junliang

QUALIFIED ACCOUNTANT
Yuen Kwok Hon, CPA, 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
Butterfield Bank (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
Grant Thornton
Certified Public Accountants
13th Floor
Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

LEGAL ADVISERS
Dibb Lupton Alsop
41st Floor
Bank of China Tower
1 Garden Road
Central
Hong Kong

Chairman's Statement

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.

With the continually liberalizing 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's performance was unavoidably adversely impacted in 2004.

During the past year, the Group has undergone significant restructuring process in order to streamline the workforce as well as to improve the overall operational efficiency and productivity. The total workforce of the Group was reduced to a minimal but efficient level. Apart from much efforts contributed to enlarge revenue of the Group, we also aggressively pressed our expenditure by introducing various cost-control measures.

For improving the Group's profitability, the management endeavored to explore new opportunities to expand the revenue source as well as to improve profit margin. In June 2004, we had acquired 51% equity interests of TM Technology Corporation ("TM Technology") which in turn owned 100% of Chengdu TM Network Corporation ("Chengdu TM"), a company armed with a strong research and development team, using its proprietary distributed system generator platform as core technology, specialized in telecommunications network management and other distributed application softwares. We believe that the acquisition will further strengthen the Group's ability in providing services to enterprise customers and will benefit the Group in broadening the business scope including the entry into the wireless network management system arena.

It is expected that the PRC telecommunications market in the coming year would remain competitive in a more customer-driven market. The demand from end-customers for high quality and variety of services will be increasing. Therefore, high quality and variety of services as well as competitive pricing would be the key competing strategies for the telecommunications carriers to outstrip their competitors. In addition, the grant of 3G licenses in China will be a main focus with great influence on the market development.

In view of the existing market environment, the Group will allocate more of our internal resources and greater emphasis in developing high quality services including high quality telecommunications network solutions as well as related value-added services. We will put a concerted effort to utilize our know-how gained from providing network management solutions to telecommunications carriers to migrate downstream through carriers by providing communication and information network services to enterprise customers.

Accordingly, the Group completed the research and development of a new service platform version 2 tailored to meet the needs of enterprises to centrally manage, maintain and service IP network and components.

We will also explore new value-added service segments, and have identified online payment platform as a means to enable carriers to offer convenient and reliable payment collection services to merchants and customers, therefore enabling carriers to capture incremental revenue and profit. To this end, we have signed a cooperative agreement with a leading supplier of payment solutions to jointly develop an online payment platform.

With our strong capability in research and development and market exposure, the Company will dedicate its every endeavor in enlarging its customer base, enhancing the businesses of the Company, advancing our technology and improving profit margin with a prime objective to improve the Group's performance particularly to deliver higher profit to our shareholders.

I would like to take this opportunity to express our deepest sincerity and gratitude for the continuing supports of our valued shareholders, customers, business partners and suppliers, and also for the dedication and hard-work of our directors and staff members during the fiscal year 2004.

Wu Shu Min
Chairman

FINANCIAL REVIEW

Turnover

Turnover for the fiscal year ended 30 September 2004 amounted to approximately HK$113.9 million compared with approximately HK$166.8 million last year, representing a drop of 31.7%. The decrease in turnover was mainly due to the keen market competition. Following the completion of the acquisition of Wujiang Shengxin Optoelectronics Technology Co, Ltd. ("Shengxin"), contribution from transmission solutions became a sizeable revenue source to the Group during the year under review.

Excluding provision of trade receivable and other receivable and impairment of goodwill totaling approximately HK$24.7 million (2003: approximately HK$13.4 million), the Group recorded net loss from ordinary activities attributable to shareholders of approximately HK$23.8 million during the year (2003: approximately HK$24.2 million). During the year, the Group continued its efforts in implementing cost control measures but the decrease in turnover during the year offset the effect of cost control measures taken.

Gross profit margin

Gross profit margin for the year under review was 14.2% which was in line with last year. As a result of the keen market competition, the gross profit margin for system integration solutions projects showed a downward trend. During the year under review, the group has taken cautious steps in its bidding price and did not submit tender for those projects of unacceptable margin. Therefore the Group still achieved last year's gross profit margin but unavoidably recorded a decrease in turnover.

Selling and distribution costs and administrative expenses

Selling and distribution costs for the year under review totaled approximately HK$9.3 million (2003: approximately HK$11.6 million). The decrease in selling and distribution cost was in line with the decrease in turnover of the Group during the year.

Administrative expenses decreased to approximately HK$28.2 million in 2004 (2003: approximately HK$32.4 million). The decrease in administrative expenses was due to the Group's concerted efforts to maximize operational efficiency and streamline operational expenses.

Segmental information

Turnover generated from providing network infrastructure solutions accounted for approximately HK$51.7 million, equivalent to 45.4% of turnover for the year under review (2003: approximately HK$95.5 million) and representing a decrease of 45.9%. The substantial decrease in turnover of network infrastructure solutions, customarily the Group's core revenue generator, was due to the keen market competition.

Turnover generated from providing network management solutions decreased to approximately HK$2.8 million (2003: approximately HK$23.2 million). This represented 2.5% 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$14.5 million, representing 12.7% of turnover for the year under review (2003: approximately HK$13.9 million). From the second quarter starting 1 January 2004 onwards, revenue from Shengxin was consolidated to the Group's financial results. Turnover generated from Shengxin amounted to approximately HK$44.9 million for the year under review, amounting to approximately 39.4% of the Group's turnover (2003: approximately 34.2 million).

Order book

As at the date of this report, the Group has secured approximately HK$20.0 million contracts on hand.

Financial resources and liquidity

Net current assets of the Group as at 30 September 2004 was approximately HK$8.4 million (2003: approximately HK$29.5 million). As at 30 September 2004, the Group has short-term cash and bank deposits of approximately HK$15.7 million (2003: approximately HK$68.8 million). The decrease in value of net current assets and cash and bank deposits balance was a result of the operating losses recorded during the year under review.

As at 30 September 2004, the Group's total bank and other borrowings amounted to approximately HK$36.5 million at fixed interest rates ranging from 5.04% p.a. to 8% p.a. (2003: approximately HK$58.7 million at fixed interest rates ranging from 5.04% p.a. to 6% p.a.). Among of which, approximately HK$22.5 million is repayable within one year or on demand and approximately HK$14.0 million is repayable beyond one year.

Charge on group assets

As at 30 September 2004, the Group's bank loans and other bank facilities are secured by:

(i) charges on the Group's fixed deposits of approximately HK$11.1 million (2003: approximately HK$46.0 million), legal charges on the Group's leasehold land and buildings, plant and machinery and motor vehicles with carrying values of approximately HK$27.2 million (2003: approximately HK$27.5 million), approximately HK$5.1 million (2003: approximately HK$6.0 million) and approximately HK$0.3 million (2003: approximately HK$0.3 million) 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 2004 increased to 55.1% (2003: 52.9%). The gearing ratio was based on the Group's total liabilities over its total assets.

Employees

As at 30 September 2004, the Group has 265 employees including 146 employees of Shengxin and 38 employees of Chengdu TM as compared with 287 for the same period of last year. The staff cost, including directors' emoluments, was approximately HK$13.3 million for the year under review (2003: approximately HK$17.0 million). During the year, the Group put concerted efforts to streamline operations and rationalize the costs. Improvements were reflected in the year under review as to the decreased number of employees (excluding employees of Shengxin and Chengdu TM) and the decreased amount of staff costs.

Share option schemes

The Group has adopted two share option schemes whereby certain directors and 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 25 to financial statements.

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 2004 (2003: Nil).

Capital structure

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

On 28 June 2004, 49,029,480 shares of US$0.01 each were allotted and issued to an independent third party for the acquisition of 51% interests in TM Technology and its subsidiaries.

On 28 June 2004, 57,613,640 shares of US$0.01 each were allotted and issued to two independent third parties for the assignment of two investor's loan due and payable by TM Technology to the two independent third parties.

As at 30 September 2004, 1,543,160,470 shares of the Company were issued and fully paid.

Capital commitment and significant investments

In June 2004, the Group completed the acquisition and subscription of 51% equity interest in TM Technology, the investment holding company that holds 100% equity interest in Chengdu TM (the "TM Acquisition") together with two investor's loan. The total consideration of HK$15.8 million was satisfied by the issue and allotment of 49,029,480 new shares and 57,613,640 new shares of the Company at an issue price of HK$0.13 per share and HK$0.088 per share, respectively and cash payment of HK$4.3 million.

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 TM Acquisition, the Group did not have any material acquisitions or disposals during the year under review. Details of which were disclosed in the Company's circular dated 23 June 2004.

Disclosure of trade receivables under Chapter 17 of the GEM Listing Rules

As at 30 September 2004, there was a trade receivable due from 北京國創華利科技有限公司 ("Beijing Guochuang") amounted to approximately HK$9.9 million which was arisen from the provision of system integration solutions including the sales of software and hardware systems. The balance was overdue more than one year.

Since the disclosure made in the Company's third quarterly report dated 12 August 2004, an approximate amount of HK$1.4 million due from Beijing Guochuang was offset with the same amount due from the Group's subsidiaries to a supplier. Moreover, taking into account of the Group's progress in negotiation with Beijing Guochuang and its corresponding supplier, a provision of HK$5.2 million was made as at 30 September 2004. As a result of these, the net exposure of the amount due from Beijing Guochuang reduced to approximately HK$9.9 million. The Group will take appropriate steps to collect the trade receivable in accordance with the terms of the contracts.

The balance fell within the disclosure requirement under Chapter 17 of the GEM Listing Rules. Details of which is also disclosed in the "Report of the Directors".

BUSINESS REVIEW

Network infrastructure solutions

The network infrastructure solutions business has been a significant revenue generator of the Group in the past few years and this remained the same for the year under review. However, profit margin of the projects in this business segment continued to be under pressure. We had taken cautious steps in selecting projects with acceptable profit margin. The turnover generated from this business segment dropped by 45.9% as compared to that of the previous year. During the year under review, the Group was awarded repeating orders from Provincial Telecommunications Corporation in Shanghai for construction of Metropolitan Area Networks.

Network management solutions

In fiscal year 2004, the turnover generated from network management solutions which usually has a higher profit margin dropped by 87.9% as compared to that of fiscal year 2003. The results recorded in this business segment was much lower than anticipated and it was mainly attributable to less contracts being secured from China Telecom due to the fact that the construction of local network management projects carried in the past few years was close to completion. For this business segment, we have based on our existing technology and transformed to focus in developing the software application of communication and information network services.

Other network solutions

The revenue contributed by the other network solutions recorded an increase of 4.3% as compared to that of previous year. Major projects included provision of network solutions to educational institute and construction of business intelligent platform for mobile customers.

Transmission solutions

The Group conducts the transmission business indirectly through its 51% equity interests of Shengxin. Shengxin is mainly engaged in manufacturing and sale of communication cables and optical fiber cables. This business segment attributed a sizeable portion of turnover of the Group in the year under review, representing 39.4%. However, the business of transmission solution was adversely affected by the elevation of cost of copper which is the key raw material. Some of the projects taken in the beginning of the year suffered loss as a result.

Research and development

Our research and development team has in fiscal year 2004 commenced research and development of “Enterprise IP Network Management and Maintenance Service Platform” to enable enterprises to centrally manage and maintain IP networks and elements.

Corporate development

In May 2004, the Group made strategic move to acquire 51% equity interests of TM Technology which in turn owned 100% of Chengdu TM, a company armed with a strong research and development team, engaged primarily in the businesses of research and development of software and hardware of computer, sale and provision of maintenance services to retail customers, provision of technical consultation services to automation control system and sophisticated computer network engineering and management system. Their products include (i) Calling Data Recording System, (ii) Wireless Management and Monitoring System; and (iii) IP Management System.

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 utilized 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 2004, the Group fully used the amount of HK$17.5 million 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 2004, the Group fully used the amount of HK$14.0 million 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 acquisition of Shengxin. After the above re-direction, as at 30 September 2004, the Group used HK$2.7 million, with HK$0.8 million remaining unutilized 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 acquisition of Shengxin. After the above re-direction, as at 30 September 2004, the Group used HK$9.8 million, with nil remaining unutilized for the purpose of ongoing working capital. The ongoing working capital will be funded from internal resources.

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 2004 (HK$ million)	Amount used for the Acquisition of Shengxin as at 30 September 2004 (HK$ million) Note	Proceeds remaining unutilised as at 30 September 2004 (HK$ million)
1. Repayment of convertible bonds	37.0	37.0	0	0
2. Research and development in developing new network solutions	17.5	17.5	0	0
3. Upgrade of existing network solutions	14.0	14.0	0	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	2.7	6.5	0.8
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.

Business Objectives and Actual Business Progress Comparison

The following is a comparison of actual business progress in the year ended 30 September 2004 ("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 and Product Development

	Business objectives for the Review Period as set out in the Prospectus	**Actual business progress in the Review Period**
China Telecom version 9.0 and China Mobile version 4.0 for the CPEM 8000 Power and Environmental Monitoring System	Complete the development by 30 September 2004	This system has been covered by a generalized version 7.0. The generalized version 7.0 is applicable to China Telecom, China Mobile and Unicom.
China Telecom version 4.0 for the Network Management and Safeguard System	Complete the development by 30 September 2004	This system has been integrated with the IP Network Management and Monitoring System and is collectively called as the IP Network Management and Monitoring System. The Group plans to use this IP Network Management and Monitoring System as its platform and incorporates new functionalities into it so as to develop communications and information network service for the enterprise.

Business Objectives and Actual Business Progress Comparison

Research and Product Development

	Business objectives for the Review Period as set out in the Prospectus	Actual business progress in the Review Period
China Telecom version 4.0 and China Mobile version 3.0 for the IP Network Management and Monitoring System	Complete the development by 30 September 2004	This system has been integrated with the Network Management and Safeguard System and is collectively called as the IP Network Management and Monitoring System. The Group plans to use this IP Network Management and Monitoring System as its platform and incorporates new functionalities into it so as to develop communications and information network service for the enterprise.
China Telecom version 3.0 for the Broadband Access Network Management System	Complete the development by 30 September 2004	The development and marketing of this system were delayed pending market readiness.

Sales and Marketing

	Business objectives for the Review Period as set out in the Prospectus	Actual business progress in the Review Period
China Telecom version 9.0 and China Mobile version 4.0 for the CPEM 8000 Power and Environmental Monitoring System	Formally launch the system by 30 September 2004	The generalized version 7.0 for the system will be launched in accordance with market demands.
China Telecom version 4.0 for the Network Management and Safeguard System	Formally launch the system by 30 September 2004	This system has been integrated with the IP Network Management and Monitoring System and is collectively called as the IP Network Management and Monitoring System. The system will be promoted to existing clients.
China Telecom version 4.0 and China Mobile version 3.0 for the IP Network Management and Monitoring System	Formally launch the system by 30 September 2004	This system has been integrated with the Network Management and Safeguard System and is collectively called as the Network Management and Safeguard System. The system will be promoted to existing clients.
China Telecom version 3.0 for the Broadband Access Network Management System	Formally launch the system by 30 September 2004	The development and marketing of this system were delayed pending market readiness.
Establish a new branch office by upgrading one of the existing representative office	Officially implement by 30 September 2004	The decision to establish new branch office will be made in accordance with the business need.

Strategic Alliance and Acquisition

Business objectives for the Review Period as set out in the Prospectus	Actual business progress in the Review Period
Continue business pursuit of previous years	The Group is actively seeking strategic and cooperative partners which have synergistic effects with the Group, especially those with products and technologies that are complementary to the Group and are beneficial to the Group's business growth. For this respect, we have signed a co-operative agreement with a leading supplier of payment solutions to jointly develop an online payment platform.

Directors and Senior Management Profiles

Executive Directors

Wu Shu Min (吳樹民), 41, Chairman of the Company, is responsible for the strategic direction of the Group. He has over 19 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), 56, President and Chief Executive Officer and an authorized 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 27 years' experience in the IT industry.

Jin Feng (金鋒), 40, 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), 37, 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 13 years' extensive working experience in the PRC telecommunications industry.

Dr. Lo Wai Shun (勞維信), 43, has been a Non-Executive Director of the Company since December 1999. He has been working in the IT industry for more than 14 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), 61, 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.

Mr. Wang Qian, (王謙), 39, is an Investment Manager of Transpac Capital Pte Ltd. ("Transpac"), a company principally engaged in private equity investment in Greater China and South East Asia. Funds managed by Transpac are jointly a substantial shareholder of the Company. He holds a Ph.D. in Engineering from the University of Tsukuba, Japan. Prior to joining Transpac, he was a Senior Manager with NEC (China) Co., Ltd. which is a wholly owned subsidiary of NEC Co., Ltd., a company listed on the Tokyo Stock Exchange, during 1997 to 2000. He also worked as a researcher in Electrotechnical Lab, Japan during 1995 to 1997.

Independent Non-executive Directors

Mr. Chan Wai Dune (陳維端), 52, has been an independent non-executive Director and the chairman of the audit committee of the Company since August 2000. Mr. Chan is currently principally employed as the Managing Director of CCIF CPA Limited. He has over 24 years of experience in the finance sector, especially in auditing and taxation areas. He is a certified public accountant and is a fellow member of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants and the Taxation Institute of Hong Kong. He has also served a number of committees of the Hong Kong Institute of Certified Public Accountants. Mr. Chan is currently a member of the Chinese People's Political Consultative Conference of Guangzhou Municipal Committee and a member of the Executive Council of the China Overseas Friendship Association. He was a member of the Selection Committee for the Establishment of the First Government of the Hong Kong Special Administrative Region.

Ng Ching Wo (吳正和), 54, an independent Non-Executive Director of the Company since August 2000. Mr. Ng was admitted as a solicitor in the United Kingdom in 1985 and in Hong Kong in 1987. He is a partner of the law firm, Fong & Ng, in Hong Kong. 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), 71, has been an independent Non-Executive Director of the Company since August 2000. He is a Professor at the Peking 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), 42, 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), 41, 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 19 years' experience in software development and 6 years' experience in management of IT enterprises.

Cao Jian (曹建), 46, 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.

Li Jun Chao (李俊超), 41, 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.

Li Nong, (李農), 47, is managing director of TM Technology and Chengdu TM. He holds a master's degree in System Engineering from Chengdu Branch of the Chinese Academy of Science and an Executive Master of Business Administration from the Peking University. He has been working in the high-tech and enterprise management software industry for many years, and possesses overall management experience from product design, research and development, marketing, operation, financing to acquisition. He was managing director of American DEST Corporation China Branch. He founded China TMN Corporation in 2001 and joined the Group in June 2004.

Zhu Bai, (朱柏), 42, is the Chief Technology Officer of TM Technology and Chengdu TM. He holds a doctorate degree in Applied Mathematics from the Peking University. Mr. Zhu has engaged in the development and management of softwares for years and was the Officer of the State Key Laboratory of Information (國家信息科學重點實驗室) of the Peking University, Consultant of Beijing Municipal's Technology Consulting Group, one of the ten outstanding young persons of Beijing, Cheif Engineer of Beijing Securities Centre, Deputy General Manager of Beijing Diverse Telecommunications Company Limited (北京多方位電信股份有限公司). He joined the Group in June 2004.

The directors present their report and the audited financial statements of the Company and the Group for the year ended 30 September 2004.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of its subsidiaries are set out in note 17 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

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 2004 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 88.

SUMMARY FINANCIAL INFORMATION

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

Results

	Year ended 30 September				
	2004	2003	2002	2001	2000
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**113,944**	166,849	59,522	262,978	120,862
Profit/(loss) before taxation	**(51,625)**	(39,420)	(57,228)	49,952	(17,999)
Taxation	**(920)**	(900)	–	(1,400)	(1,088)
Profit/(loss) before minority interests	**(52,545)**	(40,320)	(57,228)	48,552	(19,087)
Minority interests	**4,083**	2,717	2,806	(12)	(358)
Net profit/(loss) from ordinary activities attributable to shareholders	**(48,462)**	(37,603)	(54,422)	48,540	(19,445)

ASSETS, LIABILITIES AND MINORITY INTERESTS

	As at 30 September				
	2004	2003	2002	2001	2000
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Property, plant and equipment	**40,868**	42,910	29,748	29,451	30,128
Intangible assets	**769**	1,727	3,102	4,441	8,256
Rental deposits and golf club membership	**873**	1,128	1,819	–	–
Pledged deposits	**9,345**	–	–	–	–
Goodwill	**28,774**	39,235	2,146	–	–
Deposit paid for the proposed acquisition of an unlisted investment	–	–	24,000	–	–
Current assets	**86,658**	158,201	176,823	233,235	117,753
Current liabilities	**(78,210)**	(128,661)	(105,112)	(160,876)	(102,952)
Total assets less current liabilities	**89,077**	114,540	132,526	106,251	53,185
Non-current liabilities	**(14,019)**	(37)	–	–	–
Minority interests	**(12,458)**	(14,752)	(908)	(3,714)	(3,360)
Net assets	**62,600**	99,751	131,618	102,537	49,825

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 year ended 30 September 2000 has been extracted from the audited consolidated financial statements of the Company 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, 2002 and 2003 have been extracted from the annual reports for the years ended 30 September 2001, 2002 and 2003, respectively. The consolidated results of the Group for the year ended 30 September 2004 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 2000, 2001, 2002, 2003, 2004. The consolidated balance sheet as at 30 September 2000 have been extracted from the audited consolidated financial statements of the Company for the year ended 30 September 2000 prepared for the purpose of the listing of the Company's shares on the GEM of the Stock Exchange. The consolidated balance sheets of the Group as at 30 September 2001, 2002 and 2003 have been extracted from the annual reports for the years ended 30 September 2001, 2002 and 2003, respectively. The consolidated balance sheet of the Group as at 30 September 2004 is set out on page 36 of the annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 13 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 24 and 25 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 26 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 2004, the Company did not have any reserves available for distribution (2003: Nil).

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 50% of the total sales for the year and sales to the largest customer included therein amounted to 33%. Purchases from the Group's five largest suppliers accounted for 53% of the total purchases for the year and purchases from the largest supplier included therein amounted to 39%.

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. Wu Shu Min
Mr. Chang Ye Min, William
Mr. Jin Feng

Non-executive directors:
Mr. Lo Wai Shun
Mr. Zhu Rong
Mr. Leong Ka Cheong, Christopher
Mr. Wang Qian (appointed as alternate director to Mr. Leong Ka Cheong, Christopher on 29 December 2003)

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

Note: In accordance with articles 86, 87 and 88 of the Company's articles of association, each of Mr. Chan Wai Dune and Mr. Ng Ching Wo will retire by rotation at the forthcoming annual general meeting. Mr. Chan Wai Dune, being eligible, will offer himself for re-election and Mr. Ng Ching Wo will not offer himself for re-election. The appointments of the non-executive directors shall continue until either the Company or the non-executive director terminates his relevant appointment by a month's notice, and are subject to retirement by rotation in accordance with the Company's articles of association.

The Company had received confirmation of independence from each of the independent non-executive director pursuant to Rule 5.09 of the GEM Listing Rules and the Company still considers that the independent non-executive directors to be independent.

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 18 to 20 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.

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 31 to the financial statements, no director had a material interest, either directly of 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 OR SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY AND ITS ASSOCIATED CORPORATION

At 30 September 2004, the interests or short positions of the directors and the chief executive of the Company in the shares, underlying 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 will be required to be 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 will be 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 5.46 to 5.68 of the GEM Listing Rules, were as follows:

Long positions in ordinary shares of the Company:

	Number of issued share 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	16,840,000	1.09%
Mr. Wu Shu Min	Beneficial owner	154,823,000	10.03%
Mr. Zhu Rong	Beneficial owner	87,638,000	5.68%
Mr. Leong Ka Cheong, Christopher (note)	Nominee	371,988,350	24.11%

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 Mr. 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 25 to the financial statements.

Save as disclosed above, as at 30 September 2004, none of the directors and chief executive of the Company or their associates had 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 to 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 kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OF DEBENTURES

Save as disclosed in note 25 to the financial statements in respect of the share option schemes, 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 SCHEMES

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 25 to the financial statements.

Concerning the share options granted during the year to the directors and employees as detailed in note 25 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 2004, 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 provision 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	Interest in shares	Percentage of interests	Interests under equity derivatives	Aggregate interests
Multico Holdings Limited	1	Beneficial owner	362,948,350	23.52%	–	362,948,350
Transpac Nominees Pte Ltd	1	Nominee	371,988,350	24.11%	–	371,988,350
Transpac Capital Pte Ltd.	1	Nominee	371,988,350	24.11%	–	371,988,350
Ms. Lei Dong Ling	2	Interests of spouse	154,823,000	10.03%	28,000,000	182,823,000
Ms. Wu Yong Jun	3	Interests of spouse	87,638,000	5.68%	–	87,638,000

Notes

1. Multico Holdings Limited ("MHL") and Huyia South China Investments Limited ("Huyia") 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.

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 87,638,000 shares in which Mr. Zhu Rong is interested.

Save as disclosed above, as at 30 September 2004, 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 31 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 31 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-exempt 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

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.

DISCLOSURE OF TRADE RECEIVABLES UNDER CHAPTER 17 OF THE GEM LISTING RULES

Further to the disclosure in the third quarterly report of the Company dated 12 August 2004, here is the update on the trade receivables. As at 30 September 2004, there were two trade receivables (the "Trade Receivables") due from 北京國創華利科技有限公司 ("Beijing Guochuang") and Tongmao Co., Ltd. Shanghai Import & Export ("Shanghai Tongmao") amounted to approximately HK$9.9 million and HK$1.9 million respectively which were arisen from the provision of system integration solutions including the sales of software and hardware systems.

As at 30 September 2004, there were 1,543,160,470 shares of the Company in issue. Based on the average closing price of the Company's shares of HK$0.056 per share as stated in the Stock Exchange's daily quotation sheet for the trading days from 22 September 2004 to 28 September 2004 (both days inclusive), being the five trading days immediately preceding 30 September 2004, the total market capitalization of the Company was approximately HK$86.4 million (the "Total Market Capitalization"). As at 30 September 2004, the audited consolidated total assets value of the Group was approximately HK$167.3 million (the "Total Assets").

As at 30 September 2004, each of the Trade Receivables and its respective percentage of Total Market Capitalization and percentage of Total Assets are as follows:

Customer	Amount due to the Group as at 30 September 2004 *(HK$ million)*	Percentage of Total Market Capitalization	Percentage of Total Assets	Amount already due *(HK$ million)*
Beijing Guochuang	9.9*	11%	6%	9.9
Shanghai Tongmao	1.9	2%	1%	Nil

* After provision of approximately HK$5.2 million and offsetting of approximately HK$1.4 million with a supplier.

The Trade Receivables were arisen from sales to the customers by the Group during its ordinary course of business and on normal commercial terms. The Trade Receivables are unsecured, interest-free and shall be settled in accordance with the terms of the relevant contracts.

As at 30 September 2004, Beijing Guochuang and Shanghai Tongmao are customers of the Group and are independent of, and are not connected with the Company or its subsidiaries, the directors, chief executive, management shareholders or substantial shareholders of the Company or its subsidiaries and their respective associates (as defined in the GEM Listing Rules).

Since the disclosure made in the Company's third quarterly report dated 12 August 2004, an approximate amount of HK$1.4 million due from Beijing Guochuang was offset with the same amount due from the Group's subsidiaries to a supplier which is independent of, and is not connected with the Company or its subsidiaries, the directors, chief executive, management shareholders or substantial shareholders of the Company or its subsidiaries and their respective associates (as defined in the GEM Listing Rules). Moreover, taking into account of the Group's progress in negotiation with Beijing Guochuang and its corresponding supplier, a provision of HK$5.2 million was made as at 30 September 2004. As a result of these, the net exposure of the amount due from Beijing Guochuang reduced to approximately HK$9.9 million.

Pursuant to the relevant contracts, HK$16.7 million of the total amount of the trade receivable due from Shanghai Tongmao was covered by irrevocable letter of credit (the "LC"). As at 30 September 2004, approximately HK$19.3 million which included the amount covered by the LC, due from Shanghai Tongmao was settled.

The time for collecting the Trade Receivables is by instalments and determined by the progress of the projects with reference to the stage of completion. The Group will take appropriate steps to collect the Trade Receivables in accordance with the terms of the contracts.

Save for the above, as at 30 September 2004, so far as was known to the Directors, there was no other advance which would give rise to disclosure obligation under Rules 17.15 and 17.17 of the GEM Listing Rules.

SPONSORS' INTERESTS

As updated and notified by the Company's retained sponsor for the period from 30 November 2001 to 30 September 2004, Core Pacific-Yamaichi Capital Limited ("CPY"), as at 30 September 2004 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 received 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 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, Mr. Ng Ching Wo and Mr. Chen Junliang, independent non-executive directors 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 2004 and has provided advice and comments thereon. The Committee held four meetings during the year.

COMPLIANCE WITH RULES 5.34 TO 5.45 OF THE GEM LISTING RULES

In the opinion of the directors, the Company has complied with Board Practices and Procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules for the year under review.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has not adopted its own code of conduct regarding securities transactions by directors, but having made specific enquiry of all directors, the Company reported that during the year, the directors have complied with the required standard of dealings as set out in Rules 5.46 to 5.68 of the GEM Listing Rules.

AUDITORS

The financial statements of the Company for the year ended 30 September 2004 were audited by Messrs. Grant Thornton. A resolution to re-appoint the retiring auditors, Messrs. Grant Thornton, will be proposed at the forthcoming annual general meeting of the Company.

Messrs. Ernst & Young tendered their resignation as auditors of the Company with effect from 5 October 2004 and Messrs. Grant Thornton were appointed as auditors of the Company to fill the casual vacancy created by the resignation of Messrs. Ernst & Young, by the shareholders of the Company at the extraordinary general meeting of the Company held on 10 November 2004.

The financial statements of the Company for the years ended 30 September 2002 and 2003 were audited by Messrs. Ernst & Young and there have been no other changes of auditors of the Company in the past three years.

For and on behalf of the Board

Wu Shu Min
Chairman

Hong Kong, 28 December 2004

Report of the Auditors

Certified Public Accountants
Member of
Grant Thornton International

Grant Thornton
均富會計師行

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

We have audited the financial statements on pages 35 to 88 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 Institute of Certified Public 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 2004 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.

Grant Thornton
Certified Public Accountants

Hong Kong
28 December 2004

Consolidated Income Statement

for the year ended 30 September 2004

	Notes	2004 HK$'000	2003 HK$'000
Turnover	4	**113,944**	166,849
Cost of sales		**(97,790)**	(143,183)
Gross profit		**16,154**	23,666
Other revenue and gains	4	**1,480**	2,416
Selling and distribution costs		**(9,321)**	(11,581)
Administrative expenses		**(28,213)**	(32,360)
Other operating expenses		**(14,668)**	(14,397)
Impairment of goodwill		**(15,000)**	(3,407)
Loss from operating activities	5	**(49,568)**	(35,663)
Finance costs	6	**(2,057)**	(3,757)
Loss before taxation		**(51,625)**	(39,420)
Taxation	9	**(920)**	(900)
Loss before minority interests		**(52,545)**	(40,320)
Minority interests		**4,083**	2,717
Net loss from ordinary activities attributable to shareholders	10	**(48,462)**	(37,603)
Loss per share	12		
Basic		**HK3.31 cents**	HK2.63 cents
Diluted		**N/A**	N/A

Consolidated Balance Sheet

as at 30 September 2004

	Notes	2004 HK$'000	2003 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Fixed assets	13	**40,868**	42,910
Intangible assets	14	**769**	1,727
Rental deposits and golf club membership	15	**873**	1,128
Pledged deposits	21	**9,345**	–
Goodwill	16	**28,774**	39,235
		80,629	85,000
Current assets			
Inventories	18	**2,220**	11,091
Trade and retention receivables	19	**55,967**	61,316
Prepayments, trade deposits, other deposits and other receivables		**9,608**	14,077
Due from related companies	20	**3,150**	2,943
Pledged deposits	21	**1,719**	46,005
Cash and cash equivalents	21	**13,994**	22,769
		86,658	158,201
Current liabilities			
Trade and bills payables	22	**21,206**	48,091
Accrued liabilities, deposits received and other payables		**30,387**	18,529
Interest-bearing bank and other loans	23	**22,504**	58,653
Tax payable		**4,113**	3,388
		78,210	128,661
Net current assets		**8,448**	29,540
Total assets less current liabilities		**89,077**	114,540
Non-current liabilities			
Interest-bearing bank and other loans	23	**14,019**	37
Minority interests		**12,458**	14,752
		62,600	99,751
CAPITAL AND RESERVES			
Issued capital	24	**120,359**	112,041
Reserves	26	**(57,759)**	(12,290)
		62,600	99,751

Wu Shu Min
Director

Chang Ye Min, William
Director

Balance Sheet

as at 30 September 2004

	Notes	2004 HK$'000	2003 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Interests in subsidiaries	17	**64,042**	100,995
Current assets			
Cash and cash equivalents	21	**20**	20
Current liabilities			
Accrued liabilities and other payables		**1,462**	1,264
Net current liabilities		**(1,442)**	(1,244)
		62,600	99,751
CAPITAL AND RESERVES			
Issued capital	24	**120,359**	112,041
Reserves	26	**(57,759)**	(12,290)
		62,600	99,751

Wu Shu Min
Director

Chang Ye Min, William
Director

Consolidated Statement of Changes in Equity

for the year ended 30 September 2004

	Issued share capital HK$'000	Share premium account HK$'000	Capital reserve HK$'000	Statutory reserve HK$'000	Asset revaluation reserve HK$'000	Exchange fluctuation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 October 2002	110,272	54,102	(7,742)	4	4,463	(13)	(29,468)	131,618
Issue of shares upon acquisition of subsidiaries	1,769	862	–	–	–	–	–	2,631
Surplus arising on revaluation of leasehold land and buildings – note 13	–	–	–	–	105	–	–	105
Net gains not recognised in the income statement	–	–	–	–	105	–	–	105
Goodwill transferred to income statement on impairment	–	–	3,000	–	–	–	–	3,000
Net loss for the year	–	–	–	–	–	–	(37,603)	(37,603)
At 30 September 2003 and 1 October 2003	112,041	54,964	(4,742)	4	4,568	(13)	(67,071)	99,751
Issue of shares upon acquisition of subsidiaries – note 24	8,318	–	–	–	–	–	–	8,318
Surplus arising on revaluation of leasehold land and buildings – note 13	–	–	–	–	493	–	–	493
Net gains not recognised in the income statement	–	–	–	–	493	–	–	493
Goodwill transferred to income statement on impairment	–	–	2,500	–	–	–	–	2,500
Net loss for the year	–	–	–	–	–	–	(48,462)	(48,462)
At 30 September 2004	120,359	54,964	(2,242)	4	5,061	(13)	(115,533)	62,600

Consolidated Cash Flow Statement

for the year ended 30 September 2004

	Notes	2004 HK$'000	2003 HK$'000
Cash flows from operating activities			
Loss before taxation		**(51,625)**	(39,420)
Adjustments for:			
Finance costs	6	**2,057**	3,757
Interest income	4	**(232)**	(778)
Loss on disposal of fixed assets	5	**128**	44
Depreciation	5	**4,780**	4,959
Amortisation of intangible assets	5	**958**	1,375
Amortisation of goodwill	5	**3,872**	2,773
Impairment of goodwill	5	**15,000**	3,407
Operating loss before working capital changes		**(25,062)**	(23,883)
Decrease/(increase) in inventories		**9,033**	(3,693)
Decrease in trade and retention receivables		**12,672**	23,763
Decrease in rental deposits and golf club membership		**255**	–
Decrease in prepayments, trade deposits, other deposits and other receivables		**4,884**	22,415
Increase in amounts due from related companies		**(207)**	(539)
(Decrease)/increase in trade and bills payables		**(26,989)**	21,006
Increase in accrued liabilities, deposits received and other payables		**11,271**	1,228
Cash generated from/(used in) operations		**(14,143)**	40,297
Interest paid		**(2,057)**	(3,757)
Income tax paid in the PRC		**(195)**	–
Net cash (outflow)/inflow from operating activities		**(16,395)**	36,540

Consolidated Cash Flow Statement

for the year ended 30 September 2004

	Notes	2004 HK$'000	2003 HK$'000
Cash flows from investing activities			
Interest received		**232**	778
Purchase of fixed assets		**(522)**	(243)
Proceeds from disposal of fixed assets		**71**	15
Acquisition of subsidiaries	27	**(2,132)**	(21,242)
Decrease/(increase) in non-pledged time deposit with original maturity of more than three months when acquired		**749**	(935)
Decrease in pledged time deposits		**34,941**	10,587
Net cash inflow/(outflow) from investing activities		**33,339**	(11,040)
Cash flows from financing activities			
Drawdown of bank loans		**23,364**	14,019
Drawdown of other loans		**1,684**	3,925
Repayment of bank loans		**(50,018)**	(35,346)
Repayment of other loans		**–**	(1,869)
Net cash outflow financing activities		**(24,970)**	(19,271)
Net (decrease)/increase in cash and cash equivalents		**(8,026)**	6,229
Cash and cash equivalents at beginning of year		**21,834**	15,605
Cash and cash equivalents at end of year		**13,808**	21,834
Analysis of balances of cash and cash equivalents			
Cash and bank balances	21	**13,808**	21,834

1. GENERAL 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 changed from Suite 804, 9 Queen's Road Central, Central, Hong Kong 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

There were no significant changes in the nature of the Group's principal activities during the year.

2. PRINCIPAL ACCOUNTING POLICIES

(a) Basis of preparation

These financial statements have been prepared in accordance with and comply with all applicable Statements of Standard Accounting Practice ("SSAPs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements are prepared under the historical cost convention, as modified by the revaluation of certain fixed assets as further described in the respective accounting policy below.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(a) Basis of preparation (Continued)

Adoption of revised SSAP

In the current year, the Group has adopted SSAP 12 (Revised) "Income taxes". The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where timing differences were not expected to reverse in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions.

In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy as disclosed in note 2(o) below has been applied retrospectively. The adoption of SSAP 12 (Revised) has no material effect on the net assets and results for the current and prior years. Accordingly, no prior year adjustments is required.

(b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 30 September 2004. 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 with 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.

(c) Subsidiaries

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(d) Joint venture companies

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

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

A joint venture company is treated as:

(a) a subsidiary, if the Company has unilateral control, 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.

(e) 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.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(e) Goodwill (Continued)

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.

(f) 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 income statement 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 income statement 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.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(f) Negative goodwill (Continued)

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 income statement 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.

(g) 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.

(h) 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 income statement 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.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(h) Impairment of assets (Continued)

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 income statement 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.

(i) Fixed assets

(i) Depreciation

Depreciation is calculated on the straight-line basis to write off the cost or valuation less any residual value of each asset over its estimated useful life. The estimated useful lives of the fixed assets are as follows:

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 to 5 years
Motor vehicles	5 to 8 years

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

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(i) Fixed assets (Continued)

(ii) Measurement bases

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 income statement 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 income statement. Any subsequent revaluation surplus is credited to the income statement 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.

(j) 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.

(k) Research and development costs

All research costs are charged to the income statement 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.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(l) 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 income statement on the straight-line basis over the lease terms.

(m) 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.

(n) 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.

(o) Income tax

Income tax comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(o) Income tax (Continued)

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Deferred tax assets and liabilities are not discounted. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(p) 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;

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(p) Revenue recognition (Continued)

– 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.

(q) Employee benefits

(i) 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 income statement 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 bureau 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 income statement in the period to which they relate.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(q) Employee benefits (Continued)

(ii) 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 income statement 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.

(r) 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.

(s) 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 income statement.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars using the net investment method. The income statements 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.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(s) Foreign currencies (Continued)

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.

3. 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 product 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.

3. SEGMENT INFORMATION (Continued)

(a) Business segments

The following tables present revenue, result 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	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003
	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	**51,721**	95,522	**2,838**	23,255	**14,467**	13,915	**44,918**	34,157	**–**	–	**113,944**	166,849
Intersegment sales	**1,868**	12,794	**–**	–	**15**	–	**–**	–	**(1,883)**	(12,794)	**–**	–
Total	**53,589**	108,316	**2,838**	23,255	**14,482**	13,915	**44,918**	34,157	**(1,883)**	(12,794)	**113,944**	166,849
Segment results	**(19,944)**	(19,157)	**(6,178)**	(2,783)	**(4,753)**	(7,798)	**(5,173)**	(4,934)	**–**	–	**(36,048)**	(34,672)
Unallocated income and gains											**1,480**	2,416
Unallocated expenses											**(15,000)**	(3,407)
Loss from operating activities											**(49,568)**	(35,663)
Finance costs											**(2,057)**	(3,757)
Loss before taxation											**(51,625)**	(39,420)
Taxation											**(920)**	(900)
Loss before minority interests											**(52,545)**	(40,320)
Minority interests											**4,083**	2,717
Loss from ordinary activities attributable to shareholders											**(48,462)**	(37,603)

3. 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	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003
	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	**41,752**	73,269	**12,562**	12,062	**1,641**	3,766	**45,913**	53,963	**-**	–	**101,868**	143,060
Unallocated assets									**65,419**	100,141	**65,419**	100,141
Total asset											**167,287**	243,201
Segment liabilities	**29,824**	45,475	**8,147**	5,495	**2,034**	2,489	**22,005**	23,924	**-**	–	**62,010**	77,383
Unallocated liabilities									**30,219**	51,315	**30,219**	51,315
Total liabilities											**92,229**	128,698
Other segment information:												
Depreciation	**1,416**	1,640	**784**	767	**399**	544	**1,440**	1,130	**741**	878	**4,780**	4,959
Impairment of goodwill	**-**	–	**-**	–	**-**	–	**-**	–	**15,000**	3,407	**15,000**	3,407
Amortisation of goodwill	**-**	–	**-**	–	**-**	–	**-**	–	**3,872**	2,773	**3,872**	2,773
Surplus arising on revaluation of leasehold land and buildings – recognised directly in equity	**-**	–	**-**	–	**-**	–	**-**	–	**(493)**	(105)	**(493)**	(105)
Amortisation of deferred development cost	**-**	–	**958**	1,375	**-**	–	**-**	–	**-**	–	**958**	1,375
Provision for doubtful debts	**4,267**	–	**-**	2,493	**(259)**	3,169	**2,881**	3,103	**-**	–	**6,889**	8,765
Provision for other receivables	**2,164**	261	**-**	–	**-**	288	**467**	439	**190**	287	**2,821**	1,275
Capital expenditure	**-**	31	**-**	18	**196**	10	**310**	184	**16**	–	**522**	243

3. SEGMENT INFORMATION (Continued)

(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.

4. 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:

	2004	2003
	HK$'000	HK$'000
Turnover	**113,944**	166,849
Other revenue and gains:		
Bank interest income	**232**	778
Others	**1,248**	1,638
	1,480	2,416

5. LOSS FROM OPERATING ACTIVITIES

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

	Notes	2004 HK$'000	2003 HK$'000
Cost of inventories sold and services provided		**97,790**	143,183
Depreciation	13	**4,780**	4,959
Research and development costs:			
Deferred development costs amortised*	14	**958**	1,375
Current year expenditure		**5,820**	6,850
		6,778	8,225
Goodwill:			
Amortisation for the year*	16	**3,872**	2,773
Impairment arising during the year	16	**15,000**	3,407
		18,872	6,180
Minimum lease payments under operating leases in respect of land and buildings		**1,153**	3,308
Auditors' remuneration		**580**	780
Staff costs (including directors' emoluments (Note 7)):			
Wages and salaries		**13,186**	16,764
Pension scheme contributions		**163**	274
		13,349	17,038
Provision for bad and doubtful debts*		**6,889**	8,765
Provision for other receivables*		**2,821**	1,275
Provision for obsolete inventories*		**–**	165
Loss on disposal of fixed assets*		**128**	44

* 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 income statement.

The current year research and development costs included approximately HK$3,520,000 (2003: HK$3,642,000) relating to staff costs which is also included in the staff costs total amount disclosed above.

6. FINANCE COSTS

	Group	
	2004	2003
	HK$'000	HK$'000
Interest on bank loans wholly repayable within five years	**1,496**	3,283
Interest on other loans	**561**	474
	2,057	3,757

7. DIRECTORS' REMUNERATION

Directors' remuneration for the year disclosed pursuant to the Rules Governing The Listing of Securities on the Growth Enterprise Market ("GEM Listing Rules") and Section 161 of the Hong Kong Companies Ordinance is as follows:

	Group	
	2004	2003
	HK$'000	HK$'000
Fees		
Executive directors	**–**	–
Non-executive directors	**–**	–
Independent non-executive directors	**312**	312
	312	312
Other emoluments of executive directors		
Salaries, allowances and benefits in kind	**2,397**	3,701
Pension scheme contributions	**–**	–
	2,397	3,701
	2,709	4,013

7. DIRECTORS' REMUNERATION (Continued)

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

	2004	2003
Nil – HK$1,000,000	**9**	13
HK$1,000,001 – HK$1,500,000	**1**	–
HK$1,500,001 – HK$2,000,000	**–**	1
HK$2,000,001 – HK$2,500,000	**–**	–
	10	14

The remuneration of each of the directors is as follows:

	2004	2003
	HK$'000	HK$'000
Independent non-executive directors:		
A	**120**	120
B	**96**	96
C	**96**	96
	312	312
Executive directors:		
D	**1,383**	1,598
E	**626**	863
F*	**–**	559
G*	**–**	440
H	**388**	241
	2,397	3,701

* resigned during the year ended 30 September 2003.

During the two years ended 30 September 2004 and 2003, 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.

7. DIRECTORS' REMUNERATION (Continued)

During the year ended 30 September 2003, 12,000,000 share options were granted to certain directors in respect of their services rendered to the Group. No share options were granted during the year, further details of which are set out in note 25 to the financial statements. No value in respect of the share options granted during the year ended 30 September 2003 has been charged to the income statement, 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.

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2003: four) directors, details of whose remuneration are set out in note 7 above. Details of the remuneration of the remaining two (2003: one) non-director, highest paid employees for the year are as follows:

	Group	
	2004	2003
	HK$'000	HK$'000
Salary, allowances and benefits in kind	**1,056**	526
Pension scheme contributions	**12**	–
	1,068	526

8. FIVE HIGHEST PAID EMPLOYEES (Continued)

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	2004	2003
Nil – HK$1,000,000	**2**	1

During the year ended 30 September 2003, 3,000,000 share options were granted to the above non-director, highest paid employee in respect of the services rendered to the Group. None were granted during the year. No value in respect of the share options granted during the year ended 30 September 2003 has been charged to the income statement, or is otherwise included in the above non-directors, highest paid employees' remuneration disclosures.

The remuneration of each of the non-director, highest paid employees is as follows:

	2004 HK$'000	2003 HK$'000
I	**577**	526
II	**491**	–
	1,068	526

During the year ended 30 September 2003, 3,000,000 share options were granted to the above non-director, highest paid employee in respect of the services rendered to the Group. None were granted during the year. No value in respect of the share options granted during the year ended 30 September 2003 has been charged to the income statement, or is otherwise included in the above non-directors, highest paid employees' remuneration disclosures.

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

9. TAXATION

	Group	
	2004	2003
	HK$'000	HK$'000
Current tax – Hong Kong		
Tax for the year	**725**	900
Current tax – PRC		
Under-provision in respect of prior years	**195**	–
	920	900

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profit assessable elsewhere have been calculated at the applicable rates of tax prevailing in the jurisdictions in which the Group operate, based on existing legislation, interpretations and practices in respect thereof during both years.

	2004	2003
	HK$'000	HK$'000
Loss before taxation	**(51,625)**	(39,420)
Tax at the statutory tax rate of 17.5% (2003: 17.5%)	**(9,034)**	(6,899)
Different tax rate of other jurisdiction	**(605)**	(161)
Expenses not deductible for tax	**7,712**	3,652
Income not subject to tax	**(210)**	(238)
Tax losses not recognised	**2,901**	4,546
Adjustments in respect of current tax of previous periods	**195**	–
Tax losses utilised from previous periods	**(39)**	–
Actual tax expense	**920**	900

The Group has tax losses of approximately HK$88,483,000 (2003: HK$64,221,000) that are available for offsetting against future taxable profits of the companies which incurred the losses. Deferred tax assets have not been recognised in respect of these losses as it is not probable that future taxable profit will be available against which these unused tax losses can be utilitised.

As at 30 September 2004, the Group and the Company did not have any significant unprovided deferred tax liabilities (2003: Nil).

10. 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$45,469,000 (2003: HK$34,264,000).

11. DIVIDEND

The Company resolved not to declare any dividend in respect of the year (2003: Nil)

12. 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$48,462,000 (2003: HK$37,603,000) and the weighted average of 1,464,197,941 (2003: 1,431,608,528) ordinary shares in issue during the year.

Diluted loss per share amounts for the years ended 30 September 2004 and 2003 have not been disclosed as the potential ordinary shares outstanding had an anti-dilutive effect on the basic loss per share for these years.

13. FIXED ASSETS

Group

	Leasehold land and buildings HK$'000	Lease rights on medium term leases of properties HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Computer equipment HK$'000	Office equipment, furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost or valuation								
At beginning of year	27,500	1,355	2,421	9,051	11,739	4,635	3,696	60,397
Additions	–	–	202	297	2	21	–	522
Acquisition of subsidiaries	–	–	–	–	1,229	380	313	1,922
Disposals	–	–	–	–	(102)	–	(698)	(800)
Revaluation	(300)	–	–	–	–	–	–	(300)
At 30 September 2004	27,200	1,355	2,623	9,348	12,868	5,036	3,311	61,741
Analysis of cost or valuation								
At cost	–	1,355	2,623	9,348	12,868	5,036	3,311	34,541
At valuation	27,200	–	–	–	–	–	–	27,200
	27,200	1,355	2,623	9,348	12,868	5,036	3,311	61,741
Accumulated depreciation								
At beginning of year	–	157	1,251	898	9,208	3,871	2,102	17,487
Provided during the year	793	25	548	784	1,554	605	471	4,780
Disposals	–	–	–	–	(83)	–	(518)	(601)
Revaluation	(793)	–	–	–	–	–	–	(793)
At 30 September 2004	–	182	1,799	1,682	10,679	4,476	2,055	20,873
Net book value								
At 30 September 2004	27,200	1,173	824	7,666	2,189	560	1,256	40,868
At 30 September 2003	27,500	1,198	1,170	8,153	2,531	764	1,594	42,910

13. 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 Malcolm & Associates Appraisal Limited, independent professionally qualified valuers, at an aggregate of HK$27,200,000 (2003: HK$27,500,000). One of the leasehold land and buildings was revalued at HK$19,100,000 using the open market basis and the other one was revalued at HK$8,100,000 using depreciated replacement costs basis. A revaluation surplus of HK$493,000 (2003: HK$105,000), 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$22,010,000 (2003: HK$22,800,000).

At 30 September 2004, the Group's leasehold land and buildings, plant and machinery and motor vehicles with net book values of approximately HK$27,200,000 (2003: HK$27,500,000), HK$5,125,000 (2003: HK$6,015,000) and HK$259,000 (2003: HK$295,000), respectively, were pledged to secure general banking facilities granted to the Group (note 23).

14. INTANGIBLE ASSETS

Group

	Deferred development costs HK$'000
Cost	
At beginning of year and 30 September 2004	7,098
Accumulated amortisation	
At beginning of year	5,371
Provided during the year	958
At 30 September 2004	6,329
Net book value	
At 30 September 2004	769
At 30 September 2003	1,727

15. RENTAL DEPOSITS AND GOLF CLUB MEMBERSHIP

	Group	
	2004	2003
	HK$'000	HK$'000
Rental deposits	**114**	369
Golf club membership (note)	**759**	759
	873	1,128

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

16. 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:

	Goodwill HK$'000
Cost	
At beginning of year	42,610
Acquisition of subsidiaries (note 27(b))	5,911
At 30 September 2004	48,521
Accumulated amortisation	
At beginning of year	3,375
Amortisation provided during the year	3,872
Impairment provided during the year	12,500
At 30 September 2004	19,747
Net book value	
At 30 September 2004	28,774
At 30 September 2003	39,235

On 28 May 2004, the Group entered into a sale and purchase agreement with an independent third party (the "Vendor") to acquire 51% shareholding interests in TM Technology Corporation ("TM Technology"), a company incorporated in the British Virgin Islands (the "BVI"), together with an outstanding loan with a principal amount of approximately HK$5,070,000 owing by TM Technology to the Vendor (the "Acquisition"), for an aggregate consideration of HK$15,780,000. HK$4,337,000 of the consideration was paid in cash and HK$11,443,000 was satisfied by way of the issuance of 49,029,480 (the "Acquisition Consideration Shares") and 57,613,640 (the "Assignment Consideration Shares") ordinary shares of the Company at HK$0.13 each and at HK$0.088 each respectively. TM Technology is an investment holding company which owns a 100% equity interest in Chengdu TM Network Corporation ("Chengdu TM"). Chengdu TM is engaged in the telecom network management. Further details of the Acquisition are set out in the Company's circular to shareholders dated 3 June 2004.

Upon completion of the Acquisition on 28 June 2004, the Acquisition Consideration Shares and the Assignment Consideration Shares were issued to the independent third party at the fair value of HK$0.078 per share, which is determined with reference to the average market price of the Company's shares for the three months ended 30 June 2004 (the "Average Price"), for the purpose of calculating the goodwill arising from the Acquisition. The directors of the Company considered that the Average Price was an appropriate reference for the purpose of calculating the goodwill arising from the Acquisition. The aggregate consideration of the Acquisition based on the aforementioned fair value per share is HK$12.8 million.

16. GOODWILL AND NEGATIVE GOODWILL (Continued)

As detailed in note 2 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 2004, 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 30 September 2004	16,702	(4,960)
Accumulated impairment		
At beginning of year	7,000	–
Impairment provided during the year	2,500	–
At 30 September 2004	9,500	–
Net amount		
At 30 September 2004	7,202	(4,960)
At 30 September 2003	9,702	(4,960)

17. INTERESTS IN SUBSIDIARIES

	Company	
	2004	2003
	HK$'000	HK$'000
Unlisted shares, at cost	**43,437**	43,437
Due from subsidiaries	**143,223**	135,934
Due to subsidiaries	**(26,811)**	(26,811)
	159,849	152,560
Provision for impairment	**(95,807)**	(51,565)
	64,042	100,995

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

17. 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	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	–	94	Other network solutions related businesses
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

17. 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		Principal activities
			Direct	Indirect	
Future Frontier Limited ("FFL")####	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
TM Technology *####	BVI	US$50,000	–	51	Investment holding
Chengdu TM*#	PRC	RMB30,000,000	–	51	Telecom network management

* 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.

\#### incorporated as a limited liability company under the local jurisdiction.

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 2004 were approximately HK$104,000 (2003: HK$34,157,000) and HK$1,602,000 (2003: HK$4,767,000), respectively.

18. INVENTORIES

	Group	
	2004	2003
	HK$'000	HK$'000
Raw materials	**1,001**	2,824
Work in progress	**959**	2,095
Finished goods	**260**	6,172
	2,220	11,091

At the balance sheet date, no inventories were stated at net realisable value (2003: Nil).

19. 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	
	2004	2003
	HK$'000	HK$'000
0 – 90 days	**12,434**	23,111
91 – 180 days	**11,613**	13,139
181 – 365 days	**9,643**	17,307
Over 365 days	**22,277**	7,759
	55,967	61,316

20. 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 2004 HK$'000	Maximum amount outstanding during the year HK$'000	1 October 2003 HK$'000
IIN Medical Industrial Limited ("IIN Medical HK")	220	220	220
Hunan IIN Network Education Co., Ltd. ("IIN Education PRC")	1,777	1,777	1,716
Hunan IIN Medical Network Technology Development Co., Ltd. ("IIN Medical PRC")	963	963	873
IIN Network Education (BVI) Limited ("IIN Education BVI")	114	114	86
IIN Medical Industrial (BVI) Limited ("IIN Medical BVI")	76	76	48
	3,150		2,943

The amounts due from related companies are unsecured, interest-free and are repayable within one year.

The amounts due from related companies as at 30 September 2004 arose from the connected transactions as set out in note 31 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.

21. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

		Group		Company	
		2004	2003	**2004**	2003
	Note	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Cash and bank balances		**13,808**	21,834	**20**	20
Time deposits		**11,250**	46,940	**–**	–
		25,058	68,774	**20**	20
Less: Pledged time deposits for bank loans repayable within one year	23	**(1,719)**	(46,005)	**–**	–
Pledged time deposits for long term bank loans	23	**(9,345)**	–	**–**	–
Cash and cash equivalents		**13,994**	22,769	**20**	20

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$23,130,000 (2003: HK$27,729,000). 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.

22. 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	
	2004	2003
	HK$'000	HK$'000
0 – 90 days	**8,301**	33,296
91 – 180 days	**2,603**	4,905
181 – 365 days	**1,886**	5,227
Over 365 days	**8,416**	4,663
	21,206	48,091

23. INTEREST-BEARING BANK AND OTHER LOANS

	Group	
	2004	2003
	HK$'000	HK$'000
Bank loans, secured	**29,439**	53,290
Other loans, unsecured	**7,084**	5,400
	36,523	58,690
Bank loans repayable		
Within one year	**20,093**	53,253
In the second year	**9,346**	37
	29,439	53,290
Other loans repayable		
Within one year or on demand	**2,411**	5,400
In the second year	**4,673**	–
	7,084	5,400
	36,523	58,690
Portion classified as current liabilities	**(22,504)**	(58,653)
Long term portion	**14,019**	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$11,064,000 (2003: HK$46,005,000), legal charges on the Group's leasehold land and buildings, plant and machinery and motor vehicles with carrying values of approximately HK$27,200,000 (2003: HK$27,500,000), HK$5,125,000 (2003: HK$6,015,000) and HK$259,000 (2003: HK$295,000); and

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

23. INTEREST-BEARING BANK AND OTHER LOANS (Continued)

The other loans are unsecured and bear interest at 8% (2003: 6%) per annum. At the balance sheet date, the balances of the other loans included the borrowings of approximately HK$4.7 million from certain directors of the subsidiaries of the Company (2003: HK$2.9 million). The interest expenses incurred to these directors of the Company's subsidiaries during the year amounted to approximately HK$380,000 (2003: HK$131,000).

In addition, the Group obtained a short term loan in the amount of HK$2,500,000 from an employee during the year ended 30 September 2003. The loan was unsecured and bore interest at 12% per annum. During the year ended 30 September 2003, the loan was fully repaid and the interest incurred amounted to approximately HK$97,000.

24. SHARE CAPITAL

Shares

	2004	2003
	HK$'000	HK$'000
Authorised:		
2,000,000,000 (2003: 2,000,000,000) ordinary shares of US$0.01	**156,000**	156,000
Issued and fully paid:		
1,543,160,470 (2003: 1,436,517,350) ordinary shares of US$0.01	**120,359**	112,041

On 28 June 2004, 49,029,480 shares and 57,613,640 shares of US$0.01 each were allotted and issued to an independent third party at the fair value of HK$0.078 each, the details of which are set out in note 16 to the financial statements.

Share options

Details of the Company's share option scheme are included in note 25 to the financial statements.

25. SHARE OPTION SCHEME

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.

(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 2004, the number of shares issuable under share options granted under the Pre-IPO Share Option Plan was 39,278,000 which represented approximately 2.5% of the Company's shares in issue as at that date.

Upon listing of the Company's shares on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited ("Stock Exchange") on 30 November 2001, no further share options will be granted under the Pre-IPO Share Option Plan.

25. 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 2003	Exercised during the year	Cancelled during the year	Lapsed during the year	As at 30 September 2004	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
	35,000,000	–	–	–	35,000,000			
Other employees								
In aggregate	6,278,000	–	–	(2,000,000)	4,278,000	Note 1	Note 2	0.150
	1,650,000	–	–	(1,650,000)	–	Note 3	Note 4	0.515
	7,928,000	–	–	(3,650,000)	4,278,000			
	42,928,000	–	–	(3,650,000)	39,278,000			

* 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$.

25. SHARE OPTION SCHEME (Continued)

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

Notes:

1. Approximately 88% and 12% of the outstanding share options were granted on 7 January 2000 and 26 February 2000, respectively.

2. Approximately 88% and 12% 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.

25. 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 2004, the number of shares issuable under share options granted under the Share Option Plan was 86,500,000, which represented approximately 5.6% 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.

25. 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									
	As at 1 October 2003	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	As at 30 September 2004	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
	32,000,000	–	–	–	–	32,000,000				
Other employees										
In aggregate	31,100,000	–	–	–	(11,100,000)	20,000,000	1 March 2002	1 March 2002 to 21 December 2011	0.475	0.470
	36,000,000	–	–	–	(9,000,000)	27,000,000	5 June 2003	5 June 2003 to 21 December 2011	0.078	0.045
	67,100,000	–	–	–	(20,100,000)	47,000,000				
Others										
In aggregate	7,500,000	–	–	–	–	7,500,000	1 March 2002	1 March 2002 to 1 March 2005	0.475	0.470
	106,600,000	–	–	–	(20,100,000)	86,500,000				

25. SHARE OPTION SCHEME (Continued)

(b) Share Option Plan (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 income statement 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 39,278,000 share options outstanding under the Pre-IPO Share Option Plan.

As at the balance sheet date, the Company had 86,500,000 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 125,778,000 additional ordinary shares and cash proceeds to the Company of approximately HK$33,121,200, before related issuing expense.

26. 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) the excess of the issue price over the nominal value of the Company's 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 16 to the financial statements.

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.

26. RESERVES (Continued)

(b) Company

	Share premium account HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 October 2002	44,067	(22,955)	21,112
New issue of shares upon acquisition of subsidiaries	862	–	862
Net loss for the year	–	(34,264)	(34,264)
At 30 September 2003 and 1 October 2003	44,929	(57,219)	(12,290)
Net loss for the year	–	(45,469)	(45,469)
At 30 September 2004	44,929	(102,688)	(57,759)

The share premium account of the Company includes (i) the excess of the issue price over the nominal value of the Company's 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.

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Major non-cash transactions

As described in notes 16 and 24 to the financial statements, during the year, 49,029,480 shares and 57,613,640 shares of US$0.01 each were allotted and issued to an independent third party at the fair value of HK$0.078 each.

During the year ended 30 September 2003, 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 the date of issue, for the acquisition of FFL.

During the year ended 30 September 2003, 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.

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Acquisition of subsidiaries

	2004 HK$'000	2003 HK$'000
Net assets acquired:		
Fixed assets	**1,922**	17,832
Inventories	**162**	5,501
Trade receivables	**7,323**	20,233
Prepayments, trade deposits, other deposits and other receivables	**415**	729
Cash and bank balances	**2,393**	1,823
Trade and bills payables	**(104)**	(5,472)
Accrued liabilities, deposits received and other payables	**(587)**	(2,739)
Interest-bearing bank and other loans	**(2,803)**	(11,512)
Due to shareholders	**(5,070)**	(6,900)
Minority interests	**(1,789)**	(16,561)
	1,862	2,934
Acquisition of balances due to shareholders	**5,070**	6,900
Goodwill arising on acquisition (note 16)	**5,911**	39,862
	12,843	49,696
Satisfied by:		
Cash	**4,525**	47,065
New issue of shares (note 24)	**8,318**	2,631
	12,843	49,696

The amount of HK$4,525,000 includes the cash consideration of HK$4,337,000 and the further expenditure incurred of HK$188,000 in relation to the acquisition of subsidiaries in the current year.

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 during the year ended 30 September 2003.

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Acquisition of subsidiaries (Continued)

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

	2004 HK$'000	2003 HK$'000
Cash consideration	**(4,525)**	(47,065)
Cash and bank balances acquired	**2,393**	1,823
	(2,132)	(45,242)
Deposit paid for the acquisition	**–**	24,000
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	**(2,132)**	(21,242)

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

28. CONTINGENT LIABILITIES

The Group and the Company did not have any significant contingent liabilities at the balance sheet date (2003: Nil).

29. 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 2004, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2004	2003
	HK$'000	HK$'000
Within one year	**974**	632
In the second to fifth years, inclusive	**77**	554
	1,051	1,186

The Company did not have any significant operating lease arrangements at the balance sheet date (2003: Nil).

30. COMMITMENTS

The Group and the Company did not have any significant commitments at the balance sheet date (2003: Nil).

31. 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$180,000 (2003: HK$421,000) and HK$60,000 (2003: HK$511,000) to IIN Medical BVI and IIN Education BVI, respectively.

(b) a non-exclusive licence to conduct business using the intellectual properties, including the trademarks and logos of the Company in Hong Kong and the PRC, for a fixed royalty fee of HK$38,000 per annum. During the year, the Group charged royalty fees of approximately HK$28,500 (2003: HK$38,000) and HK$28,500 (2003: HK$38,000) to IIN Medical BVI and IIN Education BVI, respectively. Effective from 1 July 2004, the Company charged a fixed royalty fee of HK$1 per annum.

(ii) During the year ended 30 September 2003, 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 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.

32. PENDING LITIGATION

During the year ended 30 September 2002, a 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. Subsequent to the balance sheet date, on 17 December 2004 ("Consent Date"), the Group reached a written consent with the contractor for settlement of the claim outside the court. The Group agreed to make compensation together with legal cost incurred to the contractor in the aggregate amount of approximately RMB253,000 ("Compensation"), of which 50% of the Compensation has been paid on the Consent Date and the remaining 50% is payable within five months from the Consent Date.

33. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements on pages 35 to 88 were approved and authorised for issue by the board of directors on 28 December 2004.