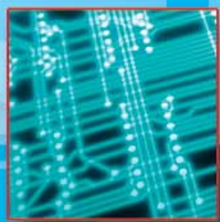
IIN International Limited

(incorporated in the Cayman Islands with limited liability)

Annual Report 2005

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 ("the Stock Exchange"). 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.

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims and liability whatsoever for and loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors of IIN International Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to IIN International Limited. The directors of IIN International Limited, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

CORPORATE PROFILE

IIN International Limited (the "Company") (Stock Code: 8128) is a network solution provider in the People's Republic of China (the "PRC"), engaging principally in providing network solutions to the PRC telecommunications service providers (primarily fixed line, mobile and data communications operators). The Company and its subsidiaries (the "Group") were founded in 1997 with overseas headquarters based in Hong Kong and domestic headquarters in Changsha, 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.

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive directors

Wu Shu Min
Chang Xiao Hui
Jin Feng
Li Jun Chao

Non-executive directors

Chang Ye Min, William
Leong Ka Cheong, Christopher
Wang Qian (alternate to Leong Ka Cheong, Christopher)

Independent non-executive directors

Liu Yang
Li Junlin
Jin Dunshen

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 2201A, 22/F., Bank of America Tower
12 Harcourt Road
Central
Hong Kong

COMPANY SECRETARY

Wong Lai Yuk, *ACIS, ACS*

COMPLIANCE OFFICER

Wu Shu Min

AUDIT COMMITTEE

Liu Yang
Li Junlin
Jin Dunshen

AUTHORISED REPRESENTATIVES

Wu Shu Min
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 Fund Services (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 PRC telecommunications carriers, both for telecommunications network infrastructure and comprehensive network management and services, and furthermore, the Group has been receiving tremendous support and assistance from the telecommunications industry and various sectors. I would like to take this opportunity to extend my heart-felt gratitude to you on behalf of the directors and staff of the Company.

With the continuous deregulation of the telecommunications industry in the PRC, competition in the network solutions industry has intensified increasingly, as witnessed by the race of domestic and international vendors for the PRC market. Telecommunications network hardware and system software have become more merchandized, resulting in decreasing profit made by conventional network infrastructure solution providers. By virtue of being one of the leading network solution providers in the market, the Group's performance was inevitably affected in 2005.

Over the past several years, the Group has been undergoing a significant review process aimed at streamlining the workforce as well as improving the overall operational efficiency and productivity. The total workforce of the Group has been reduced to a minimal but efficient level. Apart from the efforts made to increase revenue of the Group, we have also strived to cut our expenditure by introducing various cost-control measures.

To increase the profit of the Group, the management is proactively seeking to identify new business opportunities and products, and has well prepared for opening up of new markets. In 2005, the Group made an accomplishment in the development of a new service platform tailor-made for corporate needs, with focus being placed on the management, maintenance and servicing of the IP network. In terms of IP service, the pilot implementation and operation of the service for a number of enterprises were completed.

By leveraging on our strong capabilities in research and development as well as market exposure, we expect to stage a major publicity drive and run new projects next year. The Group believes that substantial economic benefits will, in no doubt, be achieved in the near future.

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 2005.

Wu Shu Min
Chairman

FINANCIAL REVIEW

Turnover

Turnover for the fiscal year ended 30 September 2005 amounted to approximately HK$60.1 million compared with approximately HK$113.9 million last year, representing a drop of 47.2%. The decrease in turnover was attributable to the intense market competition and the conservative attitude adopted by the Group in selecting projects, while the businesses of the electronic payment platform (the "e-Pay") and "Enterprise IP Network Management and Maintenance Service Platform" (the "IP Service"), which are the Company's focus of development, failed to generate operating revenue due to the lack of funds, and the revenue from the transmission solutions by Wujiang Shengxin Optoelectronics Technology Co, Ltd. ("Shengxin") also declined substantially due to rising prices of copper.

Excluding the provisions of trade receivables and other receivables and inventories as well as impairment of goodwill totaling approximately HK$60.8 million (2004: approximately HK$24.7 million), the Group recorded a net loss from ordinary activities attributable to shareholders of approximately HK$21.3 million during the year (2004: approximately HK$23.8 million). During the year, the Group remained committed to 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 the same as that of last year. During the year under review, the Group has taken cautious steps in setting its bidding prices and did not submit tenders for those projects with an unacceptable margin. Therefore, the Group was still able to achieve last year's gross profit margin but unavoidably recorded a decrease in turnover.

Sales and distribution costs and administrative expenses

Sales and distribution costs for the year under review totaled approximately HK$5.6 million (2004: approximately HK$9.3 million). Sales and distribution costs, as well as turnover of the Group decreased during the year.

Administrative expenses decreased to approximately HK$22.0 million in 2005 (2004: approximately HK$28.2 million). The decrease in administrative expenses was a result of the Group's concerted efforts to maximize operational efficiency and streamline operational expenses.

Segmental information

Turnover generated from providing network infrastructure solutions amounted to approximately HK$27.8 million, accounting for 46.3% of the turnover for the year under review (2004: approximately HK$51.7 million) and representing a decrease of 46.2%. The substantial decrease in the turnover of network infrastructure solutions, customarily the Group's principal source of revenue, was due to intense market competition.

Turnover generated from providing network management solutions decreased to approximately HK$0.86 million (2004: approximately HK$2.8 million), accounting for 1.4% of the turnover for the year under review. Turnover generated from providing other network solutions for customers in other market sectors in the PRC, primarily for governmental and corporate projects, was approximately HK$2.2 million, accounting for 3.6% of the turnover for the year under review (2004: approximately HK$14.5 million).

Turnover generated from the transmission solutions by Shengxin amounted to approximately HK$29.2 million, accounting for 48.7% of the turnover for the year under review (2004: approximately HK$44.9 million).

Order book

As at the date of this report, the Group has secured approximately HK$10.0 million worth of contracts on hand.

Financial resources and liquidity

Net current liabilities of the Group as at 30 September 2005 were approximately HK$42.2 million (2004: net current assets of approximately HK$8.4 million). As at 30 September 2005, the Group had short-term cash and bank deposits (including pledged deposits of HK$5.1 million) of approximately HK$6.3 million (2004: approximately HK$15.7 million). The decrease in the value of net current assets and cash and bank deposit balance was a result of the operating losses recorded during the year under review.

As at 30 September 2005, the Group's total bank and other borrowings repayable within one year or on demand amounted to approximately HK$24.0 million at fixed interest rates ranging from 5.04% p.a. to 8% p.a. (2004: approximately HK$36.5 million at fixed interest rates ranging from 5.04% p.a. to 8% p.a.).

Charge on Group assets

As at 30 September 2005, the Group's bank loans and other bank facilities were secured by charges on the Group's bank deposits of approximately HK$5,093,000 million (2004: fixed deposits of approximately HK$11.1 million), and legal charges on the Group's leasehold land and buildings, plants and machinery and motor vehicles with carrying values of approximately HK$26.2 million (2004: approximately HK$27.2 million), approximately HK$4.3 million (2004: approximately HK$5.1 million) and HK$Nil million (2004: approximately HK$0.3 million) respectively.

Exposure to fluctuations in exchange rates

The Group continues to adopt a conservative treasury policy by keeping all bank deposits in either Hong Kong Dollars or in the local currencies of the places where the Group's subsidiaries are operating, to minimize its exposure to foreign exchange risks.

Gearing ratio

The Group's gearing ratio as at 30 September 2005 increased to 106.2% (2004: 55.1%). The gearing ratio was based on the Group's total liabilities over its total assets.

Employees

As at 30 September 2005, the Group has had 175 employees including 138 employees of Shengxin and 8 employees of Chengdu TM Network Corporation ("Chengdu TM") as compared with 265 employees for the same period last year. The staff costs, including directors' emoluments, totaled approximately HK$10.3 million for the year under review (2004: approximately HK$13.3 million). During the year under review, the Group strived to streamline operations and keep the costs under control so that the number of employees (excluding the employees of Shengxin and Chengdu TM) and the amount of staff costs could be reduced.

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

Share option schemes

The Group has adopted two share option schemes whereby some directors and employees of the Group may be granted an option to subscribe for the shares of the Company. Details of the share option schemes are set out in the section under "Share Option Scheme" in the note 27 to the financial statements.

Contingent liabilities

As at the date of this annual report, the Directors have had no knowledge of any material contingent liabilities (2004: Nil).

Dividend

The directors do not recommend the payment of a final dividend for the year ended 30 September 2005 (2004: Nil).

Capital structure

During the year under review, there was no movement of the share capital of the Company.

As at 30 September 2005, 1,543,160,470 shares of the Company were issued and fully paid.

Capital commitment and substantial investments

The Group did not have any capital commitment and substantial investments during the year under review.

Future plans for substantial investments or capital assets

As at the date of this annual report, the Group did not have any plans for substantial investments or capital assets.

Major acquisitions or disposals

The Group did not have any major acquisitions or disposals during the year under review.

Trade receivables discloseable under Chapter 17 of the GEM Listing Rules

As disclosed in the Company third quarterly report dated 12 August 2005, there are three trade receivables due by 北京國創華利科技有限公司, 上海華立通信信息有限公司and 上海吾凌通信工程有限公司amounted to HK$7,660,000, HK$3,100,000 and HK$4,700,000 respectively. Taking into account of no progress being made and the aging of these trade receivables as at 30 September 2005, a full provision to these three trade receivables were made.

Further disclosure of trade receivable under Chapter 17 of the GEM Listing Rules is disclosed in the "Report of the Directors".

BUSINESS REVIEW

The principal business of the Group is to provide network solutions. However, the Group made a strategic review in the past one year in the network infrastructure solutions and system integration projects which recorded falling profit margin, resulting in a considerable decrease in the turnover of the Group.

Network infrastructure solutions

The network infrastructure solutions business has always been a principal source of revenue of the Group in the past few years. The Company generated a turnover from this segment of approximately HK$27.8 million, accounting for 46.3% of the turnover during the year under review. However, the profit margin of the projects in this business segment continued to be under pressure, with a sales profit margin amounting to 10% approximately. We have taken cautious steps in screening projects with an acceptable profit margin.

Network management solutions and other network solutions

This business segment has declined to a less important level during the period under review. Construction of local network management projects, which has been carried out over the past several years, is close to completion. In this business segment, we have switched to the development of "Enterprise IP Network Management and Maintenance Service Platform" (the "IP Service"), using our existing technology as the base.

Electronic payment platform and enterprise IP network management and maintenance service platform

The Group has made an adjustment to its business by focusing on the development of the electronic payment platform ("e-Pay") and Enterprise IP Network Management and Maintenance Service Platform ("IP service"). As the e-Pay is still at a preliminary stage in the PRC market with a wide range of applications, the Group believes that it holds a huge market potential. The Group has worked together with manufacturers which possess the core technology on improving the technology and carrying out marketing. The Group has acquired the patented technology of the IP service and teamed up with telecommunications operators in launching the service to the market, which was well-received by the market. However, these two businesses failed to generate any benefits during the period under review and currently come to a halt owing to the Group's acute shortage of operating funds at the present stage.

Transmission solutions

The Group provides transmission solutions through Shengxin in which it indirectly owns a 51% equity interest. Shengxin is mainly engaged in the manufacturing and sale of communication cables and optical fiber cables. This business segment accounted for 48.7% of the turnover of the Group in the year under review, which is a major percentage. However, the rising prices of copper, a major raw material for Shengxin, have created an adverse effect on the business of transmission solutions, which was still at a loss during the period under review.

Research and development

In year 2004, our research and development team embarked on the research and development of the "Enterprise IP Network Management and Maintenance Service Platform" to enable corporate clients to centrally manage and maintain IP networks and elements. We have already been awarded a patent certificate accordingly from China's Bureau of Information Industry.

The Group has been striving to seek potential investors for new financing in order to support the continuous development of business and select strategic partners. It is intended to stimulate the further expansion of business of the Company as well as to enhance profitability and improve the contribution to profit of the Company.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

EXECUTIVE DIRECTORS

Mr. Wu Shu Min (吳樹民), 42, 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.

Mr. Chang Xiao Hui (常曉輝), 43, Chief Executive Officer of the Company, the President of the Marketing Department and the Vice President of the Group. Mr. Chang holds a Master's degree in Management Engineering from Central South University (中南大學). Prior to joining the Group in April 2002, he had worked for Changsha Telecommunications Bureau for nearly 18 years during which he held positions of Deputy Director and Chief Engineer.

Mr. Jin Feng (金鋒), 41, 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.

Mr. Li Jun Chao (李俊超), 42, is the PRC Finance Manager of the Group. Mr. Li graduated from Hunan College of Finance and Economic (湖南財經學院) majoring in financial management in 1988. Prior to joining the Group in June 2003, he had worked for 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) since December 1980. He has been working in the financial field since September 1985.

NON-EXECUTIVE DIRECTORS

Dr. Leong Ka Cheong, Christopher (梁家鏘), 62, 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. Chang Ye Min, William (鄭益敏), 57, has served as a director of the Company since 14 December 1999. He was the President, the Chief Executive Officer and an authorized representative of the Company in the past few years. He 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, he 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, he 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. William Chang has over 27 years' experience in the IT industry.

Mr. Wang Qian, (王謙), 40, 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. Liu Yang (劉陽), 33, is a senior counsel of Beijing Seafront Law Office. Mr. Liu graduated from the University of International Business and Economics with a bachelor's degree in law in 1995, completed the post-graduate course of international trade law in the University Institute of European Studies, Turin Italy in 2001, and graduated from the University of California, Berkeley School of Law with a master's degree in law in 2003. Mr. Liu has obtained profound experiences in handling the international business projects, especially on foreign investment, international mergers and acquisitions, financing by overseas listing of domestic enterprises. He also had years of working experiences in Chinese central governmental authority in charge of foreign investment. Mr. Liu has participated in drafting the majority of China's laws and regulations with respect to foreign investment since 1995 and participated in the approval process for over 800 foreign investment projects in China.

Mr. Li Junlin (李軍林), 41, graduated from the former Hunan Province Post and Telecommunication Institute (湖南省郵電學校) in 1983 and acquired the professional qualification for an engineer in 1988. Mr. Li has over 22 years of working experience in post and telecommunications field.

Mr. Jin Dunshen (金敦申), 51, is one of the founders and was once a deputy director of Shanghai Chang Xin Certified Public Accountants Co. Ltd. Mr. Jin has been a certified public accountant in the PRC since 1994 and later a certified assets valuer in the PRC.

SENIOR MANAGEMENT

Mr. Cao Xue Yu (曹學宇), 42, 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.

Mr. Li Nong, (李農), 48, is managing director of TM Technology Corporation ("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.

Mr. Zhu Bai, (朱柏), 43, 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.

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company and the Group for the year ended 30 September 2005.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of its subsidiaries are set out in note 18 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 2005 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 25 to 70.

SUMMARY FINANCIAL INFORMATION

The following is a summary of the consolidated results and assets and liabilities of the Group for the last five financial years.

Results

	Year ended 30 September				
	2005	2004	2003	2002	2001
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	**60,069**	113,944	166,849	59,522	262,978
Profit/(loss) before taxation	**(86,334)**	(51,625)	(39,420)	(57,228)	49,952
Taxation	**(240)**	(920)	(900)	–	(1,400)
Profit/(loss) before minority interests	**(86,574)**	(52,545)	(40,320)	(57,228)	48,552
Minority interests	**4,477**	4,083	2,717	2,806	(12)
Net profit/(loss) from ordinary activities attributable to shareholders	**(82,097)**	(48,462)	(37,603)	(54,422)	48,540

Assets, Liabilities and Minority Interests

	As at 30 September				
	2005	2004	2003	2002	2001
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Fixed assets	**36,416**	40,868	42,910	29,748	29,451
Intangible assets	**184**	769	1,727	3,102	4,441
Rental deposits and golf club membership	**873**	873	1,128	1,819	-
Pledged deposits	**–**	9,345	–	–	–
Goodwill	**–**	28,774	39,235	2,146	–
Deposit paid of the proposed acquisition of an unlisted investment	**–**	–	–	24,000	–
Current assets	**38,029**	86,658	158,201	176,823	233,235
Current liabilities	**(80,179)**	(78,210)	(128,661)	(105,112)	(160,876)
Total assets less current liabilities	**(4,677)**	89,077	114,540	132,526	106,251
Non-current liabilities	**–**	(14,019)	(37)	–	–
Minority interests	**(7,981)**	(12,458)	(14,752)	(908)	(3,714)
Net assets/(liabilities)	**(12,658)**	62,600	99,751	131,618	102,537

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 14 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in notes 26 and 27 to the financial statements respectively.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 28 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

The Company's share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares. Since the accumulated losses of the Company exceeded the amount standing to the credit of its share premium account as at 30 September 2005, the Company did not have any reserves available for distribution (2004: Nil).

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 73% of the total sales for the year and sales to the largest customer included therein amounted to 18%. Purchases from the Group's five largest suppliers accounted for 64% of the total purchases for the year and purchases from the largest supplier included therein amounted to 16%.

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. Jin Feng	
Mr. Chang Xiao Hui	(appointed on 28 January 2005)
Mr. Li Jun Chao	(appointed on 28 January 2005)

Non-executive directors:

Mr. Leong Ka Cheong, Christopher	
Mr. Chang Ye Min, William	(being an executive director and re-designated as a non-executive director on 28 January 2005)
Mr. Lo Wai Shun	(resigned on 28 January 2005)
Mr. Zhu Rong	(resigned on 28 January 2005)
Mr. Wang Qian	(alternate director to Mr. Leong Ka Cheong, Christopher)

Independent non-executive directors:

Mr. Liu Yang	(appointed on 28 January 2005)
Mr. Li Junlin	(appointed on 1 December 2005)
Mr. Jin Dunshen	(appointed on 30 December 2005)
Mr. Ng Ching Wo	(resigned on 28 January 2005)
Mr. Chen Junliang	(resigned on 1 July 2005)
Mr. Chan Wai Dune	(resigned on 13 August 2005)

Note: In accordance with articles 86, 87 and 88 of the Company's articles of association, each of Messrs. Chang Xiao Hui, Li Jun Chao, Liu Yang, Li Junlin, Jin Dunshen and Chang Ye Min, William will retire, and being eligible, offer themselves for re-election at the forthcoming annual general meeting. 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 11 to 12 of the annual report.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS OR SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY AND ITS ASSOCIATED CORPORATION

As at 30 September 2005, 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 the 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. Wu Shu Min	Beneficial owner	154,823,000	10.03%
Mr. Chang Ye Min, William	Beneficial owner	6,840,000	0.44%
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 27 to the financial statements.

Save as disclosed above, as at 30 September 2005, 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 27 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 detailed disclosures relating to the Company's share option schemes are set out in note 27 to the financial statements.

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

INTERESTS OF SUBSTANTIAL SHAREHOLDERS DISCLOSEABLE UNDER SFO

So far as is notified to the directors of the Company, as at 30 September 2005, 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	Capacity	Interest in shares	Percentage of interests	Interests under equity derivatives	Aggregate interests
MHL *(Note 1)*	Beneficial owner	362,948,350	23.52%	–	362,948,350
TNPL *(Note 1)*	Nominee	371,988,350	24.11%	–	371,988,350
TCPL *(Note 1)*	Nominee	371,988,350	24.11%	–	371,988,350
Ms. Lei Dong Ling *(Note 2)*	Interests of spouse	154,823,000	10.03%	28,000,000	182,823,000
Mr. Zhu Rong *(Note 3)*	Beneficial Owner	86,894,000	5.63%	–	86,894,000
Ms. Wu Yong Jun *(Note 3)*	Interests of spouse	86,894,000	5.63%	–	86,894,000

Notes

1. MHL and Huyia held 362,948,350 shares and 9,040,000 shares respectively and the sole shareholder of MHL and Huyia is TNPL which in turn is a wholly-owned subsidiary of TCPL. Both TNPL and TCPL therefore are deemed to be interested in 371,988,350 shares in which MHL and Huyia 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 86,894,000 shares in which Mr. Zhu Rong is interested.

Save as disclosed above, as at 30 September 2005, the directors of the Company were not aware of any other person (other than directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required pursuant to Section 336 of the SFO, to be entered into the register referred to therein.

RELATED PARTY AND CONNECTED TRANSACTIONS

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

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

As at 30 September 2005, 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$0.0334 per share as stated in the Stock Exchange's daily quotation sheet for the trading days from 23 September 2005 to 29 September 2005 (both days inclusive), being the five trading days immediately preceding 30 September 2005, the total market capitalization of the Company was approximately HK$51.5 million (the "Total Market Capitalization").

As at 30 September 2005, the following Trade Receivable exceeded 8% of the Total Market Capitalization.

Customer	**Amount due to the Group as at 30 September 2005** *HK$ million*	**Percentage ratio to Total Market Capitalization**
中國網通(集團)有限公司河南省分公司	7.8	15%

The Trade Receivables was arisen from sales to the customers by the Group during its ordinary course of business and on normal commercial terms. The Trade Receivable is unsecured, interest-free. The payment terms of the Trade Receivable is set out under the relevant contracts.

The above customers 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).

As disclosed in the Company third quarterly report dated 12 August 2005, there are three trade receivables due by 北京國創華利科技有限公司, 上海華立通信信息有限公司 and 上海吾凌通信工程有限公司amounted to HK$7,660,000, HK$3,100,000 and HK$4,700,000 respectively. Taking into account of no progress being made and the aging of these trade receivables as at 30 September 2005, a full provision to these three trade receivables were made.

Save for the above, as at 30 September 2005, 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.

AUDIT COMMITTEE

The Company has an audit committee (the "Audit Committee") established with written terms of reference in compliance with GEM Listing Rules. The primary duties of the Audit 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 Audit Committee presently comprises Mr. Liu Yang, Mr. Li Junlin and Mr. Jin Dunshen, independent non-executive directors of the Company. During certain periods of the year, the Audit Committee comprised one or two members. Therefore, the Company failed to strictly comply with Rule 5.28 of the GEM Listing Rules which requires that a listed issuer shall establish an audit committee comprising a minimum of three members, at least one of whom is an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise as required under Rule 5.05(2). The Audit Committee has reviewed the Group's financial statements for the year ended 30 September 2005 and has provided advice and comments thereon. The Audit 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 (before amendments effective 1 January 2005) for the year under review except that during certain periods of the year, the Company had only one or two independent non-executive directors and had not employed a qualified accountant, and the Audit Committee comprised one or two members.

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

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 year ended 30 September 2004 and 2005 were audited by Messrs. Grant Thornton. The financial statements of the Company for the year ended 30 September 2003 were audited by Messrs. Ernst & Young and save as mentioned in the above, 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, 30 December 2005

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 25 to 70 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.

FUNDAMENTAL UNCERTAINTY RELATING TO THE GOING CONCERN BASIS OF THE FINANCIAL STATEMENTS

In forming our opinion, we have considered the adequacy of the disclosures made in the financial statements concerning the adoption of the going concern basis for the preparation of the financial statements. As set out in note 2 to the financial statements, the financial statements have been prepared on a going concern basis, the validity of which depends upon the successful outcome of the raising of funds for the Group and the assumption that the Group will generate positive cash flows from its businesses. The financial statements do not include any adjustments that would result from a failure of the Group to operate as a going concern. Had the going concern basis not been used, adjustments would have to be made to reduce the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effect of these potential adjustments has not been reflected in the financial statements. We consider that appropriate disclosures have been made, but the inherent uncertainties surrounding the circumstances under which the Group might successfully continue to operate as a going concern are so extreme that we have disclaimed our opinion.

DISCLAIMER OF OPINION

Because of the significance of the fundamental uncertainty relating to the going concern basis, we are unable to form an opinion as to whether 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 2005 or of the loss and cash flows of the Group for the year then ended and as to whether the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Grant Thornton
Certified Public Accountants

Hong Kong
30 December 2005

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 30 SEPTEMBER 2005

	Notes	2005 HK$'000	2004 HK$'000
Turnover	5	**60,069**	113,944
Cost of sales		**(51,527)**	(97,790)
Gross profit		**8,542**	16,154
Other revenue and gains	5	**1,381**	1,480
Selling and distribution costs		**(5,608)**	(9,321)
Administrative expenses		**(21,995)**	(28,213)
Other operating expenses		**(36,028)**	(14,668)
Impairment of goodwill		**(30,763)**	(15,000)
Loss from operating activities	6	**(84,471)**	(49,568)
Finance costs	7	**(1,863)**	(2,057)
Loss before taxation		**(86,334)**	(51,625)
Taxation	10	**(240)**	(920)
Loss before minority interests		**(86,574)**	(52,545)
Minority interests		**4,477**	4,083
Net loss from ordinary activities attributable to shareholders	11	**(82,097)**	(48,462)
Loss per share	13		
Basic		**HK5.32 cents**	HK3.31 cents
Diluted		**N/A**	N/A

CONSOLIDATED BALANCE SHEET

AS AT 30 SEPTEMBER 2005

	Notes	2005 HK$'000	2004 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Fixed assets	14	**36,416**	40,868
Intangible assets	15	**184**	769
Rental deposits and golf club membership	16	**873**	873
Pledged deposits	22	**–**	9,345
Goodwill	17	**–**	28,774
		37,473	80,629
Current assets			
Inventories	19	**4,443**	2,220
Trade and retention receivables	20	**18,995**	55,967
Prepayments, trade deposits, other deposits and other receivables		**5,640**	9,608
Due from related companies	21	**2,628**	3,150
Pledged deposits	22	**5,093**	1,719
Cash and cash equivalents	22	**1,230**	13,994
		38,029	86,658
Current liabilities			
Trade and bills payables	23	**30,865**	21,206
Accrued liabilities, deposits received and other payables		**19,727**	30,387
Interest-bearing bank and other loans	24	**23,998**	22,504
Due to directors	25	**1,476**	–
Tax payable		**4,113**	4,113
		80,179	78,210
Net current (liabilities)/assets		**(42,150)**	8,448
Total assets less current liabilities		**(4,677)**	89,077
Non-current liabilities			
Interest-bearing bank and other loans	24	**–**	14,019
Minority interests		**7,981**	12,458
		(12,658)	62,600
CAPITAL AND RESERVES			
Issued capital	26	**120,359**	120,359
Reserves	28	**(133,017)**	(57,759)
		(12,658)	62,600

Wu Shu Min
Director

Jin Feng
Director

BALANCE **SHEET**

AS AT 30 SEPTEMBER 2005

	Notes	2005 HK$'000	2004 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Interests in subsidiaries	*18*	**–**	64,042
Current assets			
Cash and cash equivalents	*22*	**3**	20
Current liabilities			
Accrued liabilities and other payables		**928**	1,462
Net current liabilities		**(925)**	(1,442)
		(925)	62,600
CAPITAL AND RESERVES			
Issued capital	*26*	**120,359**	120,359
Reserves	*28*	**(121,284)**	(57,759)
		(925)	62,600

Wu Shu Min
Director

Jin Feng
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 SEPTEMBER 2005

	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 2003	112,041	54,964	(4,742)	4	4,568	(13)	(67,071)	99,751
Issue of shares upon acquisition of subsidiaries	8,318	–	–	–	–	–	–	8,318
Surplus arising on revaluation of leasehold land and buildings – *note 14*	–	–	–	–	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 and 1 October 2004	120,359	54,964	(2,242)	4	5,061	(13)	(115,533)	62,600
Deficit arising on revaluation of leasehold land and buildings – *note 14*	–	–	–	–	(363)	–	–	(363)
Net losses not recognised in the income statement	–	–	–	–	(363)	–	–	(363)
Goodwill transferred to income statement on impairment	–	–	7,202	–	–	–	–	7,202
Net loss for the year	–	–	–	–	–	–	(82,097)	(82,097)
At 30 September 2005	120,359	54,964	4,960	4	4,698	(13)	(197,630)	(12,658)

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 SEPTEMBER 2005

	Notes	2005 HK$'000	2004 HK$'000
Cash flows from operating activities			
Loss before taxation		**(86,334)**	(51,625)
Adjustments for:			
Finance costs	7	**1,863**	2,057
Interest income	5	**(42)**	(232)
Loss on disposal of fixed assets	6	**214**	128
Depreciation of fixed assets	6	**4,457**	4,780
Loss on write-off of intangible assets	6	**49**	–
Amortisation of intangible assets	6	**536**	958
Amortisation of goodwill	6	**5,213**	3,872
Impairment of goodwill	6	**30,763**	15,000
Operating loss before working capital changes		**(43,281)**	(25,062)
(Increase)/decrease in inventories		**(2,223)**	9,033
Decrease in trade and retention receivables		**36,972**	12,672
Decrease in rental deposits and golf club membership		**–**	255
Decrease in prepayments, trade deposits, other deposits and other receivables		**3,968**	4,884
Decrease/(increase) in amounts due from related companies		**522**	(207)
Increase in amounts due to directors		**1,476**	–
Increase/(decrease) in trade and bills payables		**9,659**	(26,989)
(Decrease)/increase in accrued liabilities, deposits received and other payables		**(10,660)**	11,271
Cash used in operations		**(3,567)**	(14,143)
Interest paid		**(1,863)**	(2,057)
Income tax paid in the PRC		**(240)**	(195)
Net cash outflow from operating activities		**(5,670)**	(16,395)

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 SEPTEMBER 2005

	Notes	2005 HK$'000	2004 HK$'000
Cash flows from investing activities			
Interest received		**42**	232
Purchase of fixed assets		**(808)**	(522)
Proceeds from disposal of fixed assets		**226**	71
Acquisition of subsidiaries	*29*	**–**	(2,132)
Decrease in non-pledged time deposit with original maturity of more than three months when acquired		**186**	749
Decrease in pledged deposits		**5,971**	34,941
Net cash inflow from investing activities		**5,617**	33,339
Cash flows from financing activities			
Drawdown of bank loans		**16,169**	23,364
Drawdown of other loans		**2,176**	1,684
Repayment of bank loans		**(27,290)**	(50,018)
Repayment of other loans		**(3,580)**	–
Net cash outflow from financing activities		**(12,525)**	(24,970)
Net decrease in cash and cash equivalents		**(12,578)**	(8,026)
Cash and cash equivalents at beginning of year		**13,808**	21,834
Cash and cash equivalents at end of year		**1,230**	13,808
Analysis of balances of cash and cash equivalents			
Cash and bank balances	*22*	**1,230**	13,808

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 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. BASIS OF PRESENTATION

As at 30 September 2005, the Group had net current liabilities of HK$42,150,000 and net liabilities of HK$12,658,000. Notwithstanding these, the financial statements have been prepared on the going concern basis which assumes that the Group will continue to operate as a going concern. In the opinion of the directors, the liquidity of the Group can be maintained in the coming year taking into consideration the proposed financing arrangements which include, but are not limited to, the following:

1) the directors are in the process of identifying and negotiating with potential investors in respect of injection of new equity into the Group (the "New Funding").

2) the directors are in the process of securing the ongoing support of the Group's major bankers (the "Ongoing Support"); and

3) the directors anticipate that the Group will generate positive cash flows from its businesses.

On the basis that the New Funding will be successful, the Ongoing Support will continue to be in place and positive cash flows will be generated from the Group's businesses, the directors consider that the Group will have sufficient working capital to finance its operations in the foreseeable future. Accordingly, the directors are satisfied that it is appropriate to prepare these financial statements on a going concern basis. However, should the Group be unable to continue in business as a going concern, adjustments would have to be made in the financial statements to restate the values of the assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effect of these potential adjustments has not been reflected in the financial statements.

3. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below:

(a) Basis of preparation

These financial statements are prepared in accordance with and comply with all applicable Hong Kong Financial Reporting Standards (which include Statements of Standard Accounting Practice ("SSAPs") and Interpretations) issued by The Hong Kong Institute of Certified Public Accountants ("HKICPA") 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.

(b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 30 September 2005. 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.

(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.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(d) Joint venture companies *(Continued)*

A joint venture company is treated as:

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

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

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

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

(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.

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.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(e) Goodwill *(Continued)*

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.

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.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(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.

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.

3. 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.

(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.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(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.

Deferred tax is the tax expected to be payable or recoverable on 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, 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.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(o) Income tax *(Continued)*

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;

– 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.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(q) Employee benefits *(Continued)*

(i) Pension scheme and other retirement benefits (Continued)

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.

(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.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(s) Foreign currencies *(Continued)*

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.

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.

(t) Recently issued accounting standards

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005.

The Group has not early adopted these new HKFRSs in the financial statements for the year ended 30 September 2005. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers 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.

4. 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	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	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	**27,806**	51,721	**861**	2,838	**2,173**	14,467	**29,229**	44,918	**–**	–	**60,069**	113,944
Intersegment sales	**8,641**	1,868	**–**	–	**3,422**	15	**–**	–	**(12,063)**	(1,883)	**–**	–
Total	**36,447**	53,589	**861**	2,838	**5,595**	14,482	**29,229**	44,918	**(12,063)**	(1,883)	**60,069**	113,944
Segment results	**(28,292)**	(19,944)	**(7,330)**	(6,178)	**(12,719)**	(4,753)	**(6,748)**	(5,173)	**–**	–	**(55,089)**	(36,048)
Unallocated income and gains											**1,381**	1,480
Unallocated expenses											**(30,763)**	(15,000)
Loss from operating activities											**(84,471)**	(49,568)
Finance costs											**(1,863)**	(2,057)
Loss before taxation											**(86,334)**	(51,625)
Taxation											**(240)**	(920)
Loss before minority interests											**(86,574)**	(52,545)
Minority interests											**4,477**	4,083
Net loss from ordinary activities attributable to shareholders											**(82,097)**	(48,462)

4. SEGMENT INFORMATION *(Continued)*

(a) Business segments *(Continued)*

Group

	Telecommunications network infrastructure solutions		Network management solutions		Other network solutions for sectors other than telecommunications		Transmission		Corporate and other		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	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	**4,353**	41,752	**1,751**	12,562	**141**	1,641	**46,065**	45,913	**–**	–	**52,310**	101,868
Unallocated assets									**23,192**	65,419	**23,192**	65,419
Total asset											**75,502**	167,287
Segment liabilities	**24,545**	29,824	**14,854**	8,147	**2,207**	2,034	**29,439**	22,005	**–**	–	**71,045**	62,010
Unallocated liabilities									**9,134**	30,219	**9,134**	30,219
Total liabilities											**80,179**	92,229
Other segment information:												
Depreciation	**1,751**	1,416	**1,040**	784	**63**	399	**1,570**	1,440	**33**	741	**4,457**	4,780
Impairment of goodwill	**–**	–	**–**	–	**–**	–	**–**	–	**30,763**	15,000	**30,763**	15,000
Amortisation of goodwill	**–**	–	**–**	–	**–**	–	**–**	–	**5,213**	3,872	**5,213**	3,872
Deficit/(Surplus) arising on revaluation of leasehold land and buildings – recognised directly in equity	**–**	–	**–**	–	**–**	–	**–**	–	**363**	(493)	**363**	(493)
Amortisation of deferred development cost	**–**	–	**536**	958	**–**	–	**–**	–	**–**	–	**536**	958
Provision for bad and doubtful debts	**7,978**	4,267	**9,346**	–	**93**	(259)	**4,981**	2,881	**–**	–	**22,398**	6,889
Provision for other receivables	**511**	2,164	**6,297**	–	**3**	–	**501**	467	**–**	190	**7,312**	2,821
Provision for obsolete inventories	**159**	–	**147**	–	**–**	–	**–**	–	**–**	–	**306**	–
Loss on written-off of intangible assets	**–**	–	**49**	–	**–**	–	**–**	–	**–**	–	**49**	–
Capital expenditure	**10**	–	**–**	–	**–**	196	**798**	310	**–**	16	**808**	522

4. 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.

5. TURNOVER, OTHER REVENUE AND GAINS

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

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

	2005	2004
	HK$'000	*HK$'000*
Turnover	**60,069**	113,944
Other revenue and gains:		
Bank interest income	**42**	232
Others	**1,339**	1,248
	1,381	1,480

6. LOSS FROM OPERATING ACTIVITIES

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

	Notes	2005 HK$'000	2004 HK$'000
Cost of inventories sold and services provided		**51,527**	97,790
Depreciation	*14*	**4,457**	4,780
Research and development costs:			
Deferred development costs amortised*	*15*	**536**	958
Loss on write-off of intangible assets*	*15*	**49**	–
Current year expenditure**		**–**	5,820
		585	6,778
Goodwill:			
Amortisation for the year*	*17*	**5,213**	3,872
Impairment arising during the year	*17*	**30,763**	15,000
		35,976	18,872
Minimum lease payments under operating leases in respect of land and buildings		**1,497**	1,153
Auditors' remuneration		**400**	580
Staff costs (including directors' emoluments *(Note 8)*):			
Wages and salaries		**10,135**	13,186
Pension scheme contributions		**144**	163
		10,279	13,349
Provision for bad and doubtful debts*		**22,398**	6,889
Provision for other receivables*		**7,312**	2,821
Provision for obsolete inventories*		**306**	–
Loss on disposal of fixed assets*		**214**	128

6. LOSS FROM OPERATING ACTIVITIES *(Continued)*

* *Amortisation of deferred development costs, amortisation of goodwill, loss on write-off of intangible assets, 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.*

** *For the year ended 30 September 2004, the research and development costs included an amount of approximately HK$3,520,000 relating to staff costs which is also included in the staff costs total amount disclosed above.*

7. FINANCE COSTS

	Group	
	2005	2004
	HK$'000	*HK$'000*
Interest on bank loans wholly repayable within five years	**1,516**	1,496
Interest on other loans	**347**	561
	1,863	2,057

8. 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	
	2005	2004
	HK$'000	*HK$'000*
Fees		
Executive directors	**–**	–
Non-executive directors	**–**	–
Independent non-executive directors	**268**	312
	268	312
Other emoluments of executive directors		
Salaries, allowances and benefits in kind	**1,750**	2,397
Pension scheme contributions	**–**	–
	1,750	2,397
	2,018	2,709

8. DIRECTORS' REMUNERATION *(Continued)*

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

	2005	2004
Nil – HK$1,000,000	**13**	9
HK$1,000,001 – HK$1,500,000	**–**	1
HK$1,500,001 – HK$2,000,000	**–**	–
HK$2,000,001 – HK$2,500,000	**–**	–
	13	10

The emoluments of each director, on a named basis, for the year ended 30 September 2005 are set out below:

	2005					
	Director fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Discretionary bonus *HK$'000*	Lump sum ex-gratia payment *HK$'000*	Pension scheme contributions *HK$'000*	Total *HK$'000*
Independent non-executive directors:						
Chan Wai Dune*	100	–	–	–	–	100
Chen Junliang*	72	–	–	–	–	72
Ng Ching Wo*	32	–	–	–	–	32
Liu Yang**	64	–	–	–	–	64
	268	–	–	–	–	268
Executive directors:						
Chang Ye Min, William ("Mr. Chang")#	–	417	–	–	–	417
Wu Shu Min	–	627	–	–	–	627
Chang Xiao Hui**	–	160	–	–	–	160
Li Jun Chao**	–	160	–	–	–	160
Jin Feng	–	386	–	–	–	386
	–	1,750	–	–	–	1,750
Total-2005	268	1,750	–	–	–	2,018

8. DIRECTORS' REMUNERATION *(Continued)*

	2004					
	Director fees	Salaries, allowances and benefits in kind	Discretionary bonus	Lump sum ex-gratia payment	Pension scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Independent non-executive directors:						
Chan Wai Dune*	120	–	–	–	–	120
Chen Junliang*	96	–	–	–	–	96
Ng Ching Wo*	96	–	–	–	–	96
	312	–	–	–	–	312
Executive directors:						
Chang Ye Min, William ("Mr. Chang")#	–	1,383	–	–	–	1,383
Wu Shu Min	–	626	–	–	–	626
Jin Feng	–	388	–	–	–	388
	–	2,397	–	–	–	2,397
Total-2004	312	2,397	–	–	–	2,709

* *resigned during the year ended 30 September 2005.*

** *appointed during the year ended 30 September 2005.*

\# *being an executive director during the year ended 30 September 2004 and re-designated as a non-executive director on 28 January 2005.*

During the two years ended 30 September 2005 and 2004, the emoluments which were paid to Mr. Chang were paid for his appointment as an executive director of the Company. On 28 January 2005, Mr. Chang was re-designated as non-executive director and no emoluments were paid by the Group to him as the non-executive director for the year ended 30 September 2005.

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

During the years ended 30 September 2005 and 2004, no share options were granted to the directors in respect of their services to the Group. The details of the share option schemes were set out in note 27 to the financial statements.

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2004: three) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2004: two) non-director, highest paid employees for the year are as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Salary, allowances and benefits in kind	**722**	1,056
Pension scheme contributions	**12**	12
	734	1,068

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

	2005	2004
Nil – HK$1,000,000	**2**	2
	2	2

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

	2005	2004
	HK$'000	*HK$'000*
I	**442**	577
II	**292**	491
	734	1,068

During the year ended 30 September 2004 and 2005, no share options were granted.

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

10. TAXATION

	Group	
	2005	2004
	HK$'000	*HK$'000*
Current tax – Hong Kong		
Tax for the year	–	725
Current tax – PRC		
Tax for the year	**240**	–
Under-provision in respect of prior years	–	195
	240	920

Hong Kong profits tax has not been provided as the Group had no assessable profits arising in Hong Kong during the year (2004: 17.5%). Taxes on profit assessable elsewhere have been calculated at the applicable rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof during both years.

	2005	2004
	HK$'000	*HK$'000*
Loss before taxation	**(86,334)**	(51,625)
Tax at the statutory tax rate of 17.5% (2004: 17.5%)	**(15,108)**	(9,034)
Different tax rate of other jurisdiction	**(955)**	(605)
Expenses not deductible for tax	**14,068**	7,712
Income not subject to tax	**(45)**	(210)
Tax losses not recognised	**2,280**	2,901
Adjustments in respect of current tax of previous periods	–	195
Tax losses utilised from previous periods	–	(39)
Actual tax expense	**240**	920

The Group has tax losses of approximately HK$96,810,000 (2004: HK$88,483,000) 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 utilised.

10. TAXATION *(Continued)*

As at 30 September 2005, the Group and the Company did not have any significant unprovided deferred tax liabilities (2004: Nil).

11. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company for the year was HK$63,525,000 (2004: HK$45,469,000).

12. DIVIDEND

The Company resolved not to declare a final dividend in respect of the year (2004: Nil).

13. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the year of HK$82,097,000 (2004: HK$48,462,000) and the weighted average of 1,543,160,470 (2004: 1,464,197,941) ordinary shares in issue during the year.

Diluted loss per share for the years ended 30 September 2005 and 2004 have not been disclosed as the potential ordinary shares outstanding had an anti-dilutive effect on the basic loss per share for these years.

14. FIXED ASSETS

Group

	Leasehold land and buildings	Lease rights on medium term leases of properties	Leasehold improvements	Plant and machinery	Computer equipment	Office equipment, furniture and fixtures	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost or valuation								
At 1 October 2004	27,200	1,355	2,623	9,348	12,868	5,036	3,311	61,741
Additions	–	–	–	798	7	3	–	808
Disposals	–	–	(793)	–	(449)	(449)	(282)	(1,973)
Revaluation	(1,000)	–	–	–	–	–	–	(1,000)
At 30 September 2005	**26,200**	**1,355**	**1,830**	**10,146**	**12,426**	**4,590**	**3,029**	**59,576**
Analysis of cost or valuation								
At cost	–	1,355	1,830	10,146	12,426	4,590	3,029	33,376
At valuation	26,200	–	–	–	–	–	–	26,200
	26,200	1,355	1,830	10,146	12,426	4,590	3,029	59,576
Accumulated depreciation								
At 1 October 2004	–	182	1,799	1,682	10,679	4,476	2,055	20,873
Provided during the year	637	25	440	1,110	1,354	458	433	4,457
Disposals	–	–	(723)	–	(339)	(395)	(76)	(1,533)
Revaluation	(637)	–	–	–	–	–	–	(637)
At 30 September 2005	**–**	**207**	**1,516**	**2,792**	**11,694**	**4,539**	**2,412**	**23,160**
Net book value								
At 30 September 2005	**26,200**	**1,148**	**314**	**7,354**	**732**	**51**	**617**	**36,416**
At 30 September 2004	27,200	1,173	824	7,666	2,189	560	1,256	40,868

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

14. FIXED ASSETS *(Continued)*

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$26,200,000 (2004: HK$27,200,000). One of the leasehold land and buildings was revalued at HK$18,300,000 using the open market basis and the other one was revalued at HK$7,900,000 using depreciated replacement costs basis. A revaluation deficit of HK$363,000 (2004: surplus of HK$493,000), resulting from the above valuations, has been debited 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$21,220,000 (2004: HK$22,010,000).

At 30 September 2005, the Group's leasehold land and buildings, plant and machinery and motor vehicles with net book values of approximately HK$26,200,000 (2004: HK$27,200,000), HK$4,252,000 (2004: HK$5,125,000) and HK$Nil (2004: HK$259,000), respectively, were pledged to secure general banking facilities granted to the Group *(note 24)*.

15. INTANGIBLE ASSETS

Group

	Deferred development costs *HK$'000*
Cost	
At beginning of year	7,098
Written-off	(814)
At 30 September 2005	**6,284**
Accumulated amortisation	
At beginning of year	6,329
Provided during the year	536
Written-off	(765)
At 30 September 2005	**6,100**
Net book value	
At 30 September 2005	**184**
At 30 September 2004	769

16. RENTAL DEPOSITS AND GOLF CLUB MEMBERSHIP

	Group	
	2005	2004
	HK$'000	*HK$'000*
Rental deposits	**114**	114
Golf club membership *(Note)*	**759**	759
	873	873

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

17. GOODWILL AND NEGATIVE GOODWILL

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

	Goodwill
	HK$'000
Opening net book value at 1 October 2004	28,774
Amortisation provided during the year	(5,213)
Impairment provided during the year	(23,561)
Closing net book value at 30 September 2005	–
At 30 September 2005	
Cost	48,521
Accumulated amortisation and impairment losses	(48,521)
Net book value	**–**
At 30 September 2004	
Cost	48,521
Accumulated amortisation and impairment losses	(19,747)
Net book value	28,774

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

17. GOODWILL AND NEGATIVE GOODWILL *(Continued)*

The amounts of the goodwill and negative goodwill remaining in consolidated reserves as at 30 September 2005, 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*
Opening net book value at 1 October 2004	7,202	(4,960)
Impairment provided during the year	(7,202)	–
Closing net book amount at 30 September 2005	–	(4,960)
At 30 September 2005		
Cost	16,702	(4,960)
Accumulated Impairment losses	(16,702)	–
Net book amount	**–**	**(4,960)**
At 30 September 2004		
Cost	16,702	(4,960)
Accumulated Impairment losses	(9,500)	–
Net book amount	7,202	(4,960)

18. INTERESTS IN SUBSIDIARIES

	Company	
	2005	2004
	HK$'000	*HK$'000*
Unlisted shares, at cost	**43,437**	43,437
Due from subsidiaries	**141,668**	143,223
Due to subsidiaries	**(26,811)**	(26,811)
	158,294	159,849
Provision for impairment	**(158,294)**	(95,807)
	–	64,042

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

18. INTERESTS IN SUBSIDIARIES *(Continued)*

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Particulars of issued/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
II Networks International Limited	BVI	16,666,667 ordinary shares of US$0.01 each	100	–	Investment holding
IIN Network Technology Limited	Hong Kong	400,000,000 ordinary shares of HK$0.005 each	–	100	Investment holding and overseas trading
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
Hunan Modern Time Technology Limited#	PRC	RMB1,000,000	–	100	Communication network system related business
Wujiang Shengxin Optoelectronics Technology Co. Ltd.##	PRC	RMB14,350,000	–	51	Manufacturing and sale of communication cables and optical cables
Chengdu TM Network Corporation ("Chengdu TM")#	PRC	RMB30,000,000	–	51	Telecom network management

18. INTERESTS IN SUBSIDIARIES *(Continued)*

\# *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.*

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.

19. INVENTORIES

	Group	
	2005	2004
	HK$'000	*HK$'000*
Raw materials	**1,442**	1,001
Work in progress	**123**	959
Finished goods	**2,878**	260
	4,443	2,220

At the balance sheet date, no inventories were stated at net realisable value (2004: Nil).

20. 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.

20. TRADE AND RETENTION RECEIVABLES *(Continued)*

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	
	2005	2004
	HK$'000	*HK$'000*
0 – 90 days	**9,618**	12,434
91 – 180 days	**6,764**	11,613
181 – 365 days	**2,597**	9,643
Over 365 days	**16**	22,277
	18,995	55,967

21. DUE FROM RELATED COMPANIES

Particulars of the amounts due from related companies disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows:

Name of related companies	30 September 2005	Maximum amount outstanding during the year	1 October 2004
	HK$'000	*HK$'000*	*HK$'000*
IIN Medical Industrial Limited ("IIN Medical HK")	197	220	220
Hunan IIN Network Education Co., Ltd. ("IIN Education PRC")	1,777	1,777	1,777
Hunan IIN Medical Network Technology Development Co., Ltd. ("IIN Medical PRC")	640	963	963
IIN Network Education (BVI) Limited ("IIN Education BVI")	14	114	114
IIN Medical Industrial (BVI) Limited ("IIN Medical BVI")	–	76	76
	2,628		3,150

21. DUE FROM RELATED COMPANIES *(Continued)*

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 2005 arose from the connected transactions as set out in note 33 to the financial statements and certain expenses incurred by the Group on behalf of these related companies. These expenses are reimbursed to the Group on an actual cost basis.

22. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

		Group		Company	
		2005	2004	**2005**	2004
	Note	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances		**6,323**	13,808	**3**	20
Time deposits		**–**	11,250	**–**	–
		6,323	25,058	**3**	20
Less: Pledged time deposits for bank loans repayable within one year	*24*	**–**	(1,719)	**–**	–
Pledged time deposits for long term bank loans	*24*	**–**	(9,345)	**–**	–
Pledged deposits for bills payable repayable within one year	*24*	**(5,093)**	–	**–**	–
Cash and cash equivalents		**1,230**	13,994	**3**	20

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$6,201,000 (2004: HK$23,130,000). 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.

23. 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	
	2005	2004
	HK$'000	*HK$'000*
0 – 90 days	**10,515**	8,301
91 – 180 days	**5,487**	2,603
181 – 365 days	**9,356**	1,886
Over 365 days	**5,507**	8,416
	30,865	21,206

24. INTEREST-BEARING BANK AND OTHER LOANS

	Group	
	2005	2004
	HK$'000	*HK$'000*
Secured bank loans repayable		
Within one year	**18,318**	20,093
In the second year	**–**	9,346
	18,318	29,439
Unsecured other loans repayable		
Within one year or on demand	**5,680**	2,411
In the second year	**–**	4,673
	5,680	7,084
	23,998	36,523
Portion classified as current liabilities	**(23,998)**	(22,504)
Long term portion	**–**	14,019

24. INTEREST-BEARING BANK AND OTHER LOANS *(Continued)*

At the balance sheet date, the Group's bank loans and other bank facilities are secured by charges on the Group's bank deposits of approximately HK$5,093,000 (2004: fixed deposits of HK$11,064,000), legal charges on the Group's leasehold land and buildings, plant and machinery and motor vehicles with carrying values of approximately HK$26,200,000 (2004: HK$27,200,000), HK$4,252,000 (2004: HK$5,125,000) and HK$Nil (2004: HK$259,000) respectively.

The other loans are unsecured and bear interest at 7% (2004: 8%) per annum. At the balance sheet date, the balances of the other loans included the borrowings of approximately HK$2.5 million from certain directors of the subsidiaries of the Company (2004: HK$4.7 million). The interest expenses incurred to these directors of the Company's subsidiaries during the year amounted to approximately HK$180,000 (2004: HK$380,000).

25. DUE TO DIRECTORS

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

26. SHARE CAPITAL

Shares

	2005	2004
	US$'000	*US$'000*
Authorised:		
2,000,000,000 (2004: 2,000,000,000) ordinary shares of US$0.01	**20,000**	20,000

	2005	2004
	HK$'000	*HK$'000*
Issued and fully paid:		
1,543,160,470 (2004: 1,543,160,470) ordinary shares of US$0.01	**120,359**	120,359

Share options

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

27. 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 2005, the number of shares issuable under share options granted under the Pre-IPO Share Option Plan was 38,678,000 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.

27. SHARE OPTION SCHEME *(Continued)*

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

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

	Number of share options outstanding under Pre-IPO Share Option Plan							
	As at 1 October 2004	Exercised during the year	Cancelled during the year	Lapsed during the year	As at 30 September 2005	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	4,278,000	–	–	(600,000)	3,678,000	*Note 1*	*Note 2*	0.150
	39,278,000	–	–	(600,000)	38,678,000			

* *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$.*

Notes:

1. Approximately 86% and 14% of the outstanding share options were granted on 7 January 2000 and 26 February 2000, respectively.

2. Approximately 86% and 14% 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.

27. SHARE OPTION SCHEME *(Continued)*

(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 percent 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 percent limit must be subject to shareholders' approval, with that participant and his associates abstaining from voting.

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 2005, the number of shares issuable under share options granted under the Share Option Plan was 68,100,000, which represented approximately 4.4% of the Company's shares in issue as at that date. The limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Plan and any other schemes must not exceed 30% of the shares of the Company from time to time.

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

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

27. SHARE OPTION SCHEME *(Continued)*

(b) Share Option Plan *(Continued)*

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

	Number of share options outstanding under Share Option Plan									
	As at 1 October 2004	Grant during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	As at 30 September 2005	Date of grant of share options	Exercise period of share options	Exercise price of share options HK$	Company's share price at the date immediately before the grant date of options HK$
Directors										
Mr. Chang Ye Min, William	10,000,000	–	–	–	–	10,000,000	7 March 2002	7 March 2002 to 21 December 2011	0.465	0.455
	3,000,000	–	–	–	–	3,000,000	5 June 2003	5 June 2003 to 21 December 2011	0.078	0.045
Mr. Wu Shu Min	10,000,000	–	–	–	–	10,000,000	7 March 2002	7 March 2002 to 21 December 2011	0.465	0.455
	3,000,000	–	–	–	–	3,000,000	5 June 2003	5 June 2003 to 21 December 2011	0.078	0.045
Mr. Jin Feng	3,000,000	–	–	–	–	3,000,000	5 June 2003	5 June 2003 to 21 December 2011	0.078	0.045
Mr. Ng Ching Wo#	1,000,000	–	–	–	(1,000,000)	–	5 June 2003	5 June 2003 to 21 December 2011	0.078	0.045
Mr. Chan Wai Dune#	1,000,000	–	–	–	–	1,000,000	5 June 2003	5 June 2003 to 21 December 2011	0.078	0.045
Mr. Chen Junliang#	1,000,000	–	–	–	–	1,000,000	5 June 2003	5 June 2003 to 21 December 2011	0.078	0.045
Mr. Chang Xiao Hui*	6,000,000	–	–	–	–	6,000,000	1 March 2002	1 March 2002 to 21 December 2011	0.475	0.470
	3,000,000	–	–	–	–	3,000,000	5 June 2003	5 June 2003 to 21 December 2011	0.078	0.045
Mr. Li Jun Chao*	2,000,000	–	–	–	–	2,000,000	5 June 2003	5 June 2003 to 21 December 2011	0.078	0.045
	43,000,000	–	–	–	(1,000,000)	42,000,000				
Other employees										
In aggregate	14,000,000	–	–	–	(4,900,000)	9,100,000	1 March 2002	1 March 2002 to 21 December 2011	0.475	0.470
	22,000,000	–	–	–	(5,000,000)	17,000,000	5 June 2003	5 June 2003 to 21 December 2011	0.078	0.045
	36,000,000	–	–	–	(9,900,000)	26,100,000				
Others										
In aggregate	7,500,000	–	–	–	(7,500,000)	–	1 March 2002	1 March 2002 to 1 March 2005	0.475	0.470
	86,500,000	–	–	–	(18,400,000)	68,100,000				

* *appointed as directors during the year.*
\# *resigned as directors during the year.*

27. SHARE OPTION SCHEME *(Continued)*

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the 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 38,678,000 share options outstanding under the Pre-IPO Share Option Plan.

As at the balance sheet date, the Company had 68,100,000 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 106,778,000 additional ordinary shares and cash proceeds to the Company of approximately HK$26,673,000, before related issuing expense.

28. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior year are presented in the consolidated statement of changes in equity on page 28.

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 17 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.

28. RESERVES *(Continued)*

(b) Company

	Share premium account	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1 October 2003	44,929	(57,219)	(12,290)
Net loss for the year	–	(45,469)	(45,469)
At 30 September 2004 and 1 October 2004	44,929	(102,688)	(57,759)
Net loss for the year	–	(63,525)	(63,525)
At 30 September 2005	**44,929**	**(166,213)**	**(121,284)**

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.

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Major non-cash transactions

During the year ended 30 September 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 for the acquisition of 51% shareholding interests in TM Technology Corporation ("TM Technology"). TM Technology is the investment holding company which owns a 100% equity interest in Chengdu TM.

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(b) Acquisition of subsidiaries

	2005	2004
	HK$'000	*HK$'000*
Net assets acquired:		
Fixed assets	–	1,922
Inventories	–	162
Trade receivables	–	7,323
Prepayments, trade deposits, other deposits and other receivables	–	415
Cash and bank balances	–	2,393
Trade and bills payables	–	(104)
Accrued liabilities, deposits received and other payables	–	(587)
Interest-bearing bank and other loans	–	(2,803)
Due to shareholders	–	(5,070)
Minority interests	–	(1,789)
	–	1,862
Acquisition of balances due to shareholders	–	5,070
Goodwill arising on acquisition	–	5,911
	–	12,843
Satisfied by:		
Cash	–	4,525
New issue of shares	–	8,318
	–	12,843

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 during the year ended 30 September 2004.

29. 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:

	2005	2004
	HK$'000	*HK$'000*
Cash consideration	–	(4,525)
Cash and bank balances acquired	–	2,393
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	–	(2,132)

30. CONTINGENT LIABILITIES

The Group and the Company did not have any significant contingent liabilities at the balance sheet date (2004: Nil).

31. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to two years. None of the leases include contingent rentals.

At 30 September 2005, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Within one year	**77**	974
In the second to fifth years, inclusive	–	77
	77	1,051

The Company did not have any significant operating lease arrangements at the balance sheet date (2004: Nil).

32. COMMITMENTS

The Group and the Company did not have any significant commitments at the balance sheet date (2004: Nil).

33. RELATED PARTY AND CONNECTED TRANSACTIONS

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

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 would 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 were capped at HK$1,500,000 each. During the year, the Group charged licence fees of HK$Nil (2004: HK$180,000) and HK$Nil (2004: HK$60,000) 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. Effective from 1 July 2004, the Company charged a fixed royalty fee of HK$1 per annum. During the year, the Group charged royalty fees of HK$1 (2004: HK$28,500) and HK$1 (2004: HK$28,500) to IIN Medical BVI and IIN Education BVI, respectively.

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

34. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements on pages 25 to 70 were approved and authorised for issue by the board of directors on 30 December 2005.