IIN International Limited

(Incorporated in the Cayman Islands with limited liability)

Annual Report 2006

(Stock Code : 8128)

GEM CHARACTERISTICS

Characteristics of the Growth Enterprise Market ("GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange")

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. 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 any liability whatsoever for any 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.

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BOARD OF DIRECTORS

Executive directors

Wu Shu Min
Xu Zhi Feng

Non-executive director

Yukihiko Izutsu

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

COMPLIANCE OFFICER

Wu Shu Min

QUALIFIED ACCOUNTANT

Chen Jing

COMPANY SECRETARY

Wong Lai Yuk

AUDIT COMMITTEE

Jin Dunshen *(Chairman)*
Liu Yang
Li Junlin

REMUNERATION COMMITTEE

Jin Dunshen *(Chairman)*
Liu Yang
Li Junlin

AUTHORISED REPRESENTATIVES

Wu Shu Min
Wong Lai Yuk

PRINCIPAL BANKER

The Hongkong and Shanghai Banking Corporation Limited
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Central
Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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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
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AUDITORS

Grant Thornton
Certified Public Accountants
13th Floor
Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

STOCK CODE

8128

CHAIRMAN'S STATEMENT

To all shareholders of IIN International Limited

I am announcing the results of IIN International Limited (the "Company") together with its subsidiaries (collectively referred to as the "Group" or "IIN") for the year ended 30 September 2006 (the "Fiscal Year 2006").

For the Fiscal Year 2006, the Group has recorded improvement on turnover as well as gross profit whereas the turnover and gross profit has increased by 18% to approximately HK$71.0 million (2005: approximately HK$60.1 million) and by 15% to approximately HK$9.8 million (2005: approximately HK$8.5 million) respectively. Furthermore, the loss attributable to equity holders of the Company has significantly narrowed down to HK$16.2 million (2005: approximately HK$82.1 million).

During the past year, the Group put concerted effort in exploring new business opportunities as well as potential investors in order to broaden and enhance the business base and bring higher value for the shareholders of the Company. In February 2006, the Company has successfully completed a placing of 85 million new shares of the Company to AG Investment No. 1 Investment Partnership at a placing price of HK$0.078 per share. The Group also cooperated with its strategic partners to carry out research and development of radio frequency identification ("RFID") project and related projects. The main focus was applying the RFID technology in developing the logistics management solutions. Continuous effort will surely be dedicated in pursuing these projects by the Group and we look forward to achieving breakthrough in the near future. On the other hand, the Group will constantly look for potential investors for new funding in order to uplift the financial condition of the Group.

Albeit the Fiscal year 2006 has been a tough year for the Group, we still achieved some improvement on the Group's results for which I would sincerely extend my appreciation for the hard work and dedication of our Board of Directors and staff members. I would also like to take this opportunity to express our immense gratitude for the support and patience of our shareholders.

Wu Shu Min
Chairman

FINANCIAL REVIEW

Turnover

Turnover for the fiscal year ended 30 September 2006 amounted to approximately HK$71.0 million compared with approximately HK$60.1 million last year, representing an increase of 18.2%. The increase in turnover was mainly attributable to the success of the transmission solutions of Wujiang Shengxin Optoelectronics Technology Co, Ltd. ("Shengxin") to have secured significant market share in markets like Shandong and Shanghai during the year.

During the year under review, the Group's net loss attributable to equity holder of the Company was substantially narrowed down to approximately HK$16.2 million (2005: approximately HK$82.1 million). The Group remained committed to implementing cost control measures during the year resulting in a marked narrowing of loss.

Gross profit margin

Gross profit margin for the year under review was 13.7%, dropping slightly as compared with that of last year. During the year under review, the Group focused its business on transmission solutions, which was usually of lower gross profit margin as compared with other business segments of the Group.

Selling and distribution costs and administrative expenses

Selling and distribution costs for the year under review totaled approximately HK$3.8 million (2005: approximately HK$5.6 million). Sales during the year involved mainly transmission business, which was generally of lower sales expenses.

Administrative expenses decreased to approximately HK$13.6 million in 2006 (2005: approximately HK$22.0 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 the transmission segment of Shengxin amounted to approximately HK$70.7 million, accounting for 99.6% of the turnover for the year under review (2005: approximately HK$29.2 million). In light of the intense market competition for the Company's existing business, the Company is gradual fading out of the other business segments while pioneering in new businesses.

Order book

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

Financial resources and liquidity

Net current liabilities of the Group as at 30 September 2006 were approximately HK$28.3 million (2005: approximately HK$42.2 million). As at 30 September 2006, the decrease of net current liabilities was because the Group had made up for bank loans with its real estates. The Group had short-term cash and bank deposits of approximately HK$3.5 million (2005: approximately HK$6.3 million). The decrease in cash and bank deposit balance was a result of the operating losses recorded during the year under review.

As at 30 September 2006, the Group's total bank and other borrowings amounted to approximately HK$27.5 million at fixed interest rates ranging from 7.25% p.a. to 12% p.a. (2005: approximately HK$24.0 million at fixed interest rates ranging from 7% p.a. to 7.25% p.a.).

Charge on Group assets

Details of the charge on Group assets are set out in note 27 to the financial statements.

Exposure to fluctuations in exchange rates

The Group continued 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 2006 increased to 119.4% (2005: 106.2%). The gearing ratio was based on the Group's total liabilities over its total assets.

Employees

As at 30 September 2006, the Group has had 127 employees, including 115 employees of Shengxin, as compared with 175 employees for the same period last year. The staff costs, including directors' emoluments, totaled approximately HK$5.6 million for the year under review (2005: approximately HK$10.3 million). During the year under review, the Group strived to streamline operations and keep the costs under control so that the number of employees and the amount of staff costs could be reduced.

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 note 30 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.

Dividend

The Directors do not recommend the payment of a final dividend for the year ended 30 September 2006 (2005: Nil).

Capital structure

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

In February 2006, the Company allotted 85,000,000 shares of US$0.01 each to an independent third party at a subscription price of HK$0.078 per share.

As at 30 September 2006, 1,628,160,470 shares of the Company were issued and fully paid.

Capital commitment and substantial investments

The Group did not have any capital commitment, other than HK$467,000 in respect of construction of building, 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

During the year, the Group was defaulted in repayment of bank loan of approximately HK$13.7 million and the pledged property of the Group with a carrying value of approximately HK$18.3 million was assigned to the bank for settlement of the bank loan.

Save as disclosed, the Group did not have any major acquisitions or disposals during the year under review.

BUSINESS REVIEW AND OUTLOOK

Transmission solutions

During the year under review, the turnover of the Group mainly generated from the transmission segment which was a result of the strategic adjustment adopted by the Group in the past year in consideration of the development of the Group and the market conditions. The transmission segment carries business of manufacturing and sale of communication cables and optical fiber cables through Shengxin, a subsidiary that the Group owns 51% equity interest. Turnover attributable by this segment for the year under review was approximately HK$70.7 million, representing 99.6% of the turnover. For the fiscal year 2006, growth in turnover was recorded particularly some substantial orders were secured by Shengxin in the third quarter of the year. However, due to the copper price, the main raw material of this business, has remained high, the profit margin was still under pressure.

Corporate development

Considering that the existing business is insufficient to support the Group's development, the Group has embarked on the research and development and marketing of the RFID technology and other relevant projects.

For improving the Group's results and operational efficiency, stringent cost control measure was implemented during the year under review and the Group's structure and workforce had also been streamlined.

Over the past two years, the Group has been keen on exploring new business opportunities in order to enhance the business base and to improve the performance of the Group. We have pursued different business projects, such as electronic payment platform and RFID technology and relevant projects. However, these projects took longer time than expected to be realized. On the other hand, the financial constraint of the Group also affected the pace of implementation of some projects. Nevertheless, we're still confident in pursuing these new business opportunities and full effort will be devoted to the potential projects.

For the further business development and enhancement of the financial condition of the Group, we will continuously look for new funding, potential investors and business partners with strategic value.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

EXECUTIVE DIRECTORS

Mr. Wu Shu Min (吳樹民), aged 43, Chairman of the Company, is responsible for the strategic direction of the Group. He has over 20 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. Xu Zhi Feng (許志峰), aged 43, the General Manager of Product Department of the Group, was appointed as executive Director of the Company on 7 July 2006. Mr. Xu holds a Bachelor's degree in Mathematics from Jinan University (暨南大學). Prior to joining the Group in 2002, he had worked for The Industrial and Commercial Bank of China and was responsible for credit and financing work during 1985-1990. He also has over 10 years' experience in telecommunications industry.

NON-EXECUTIVE DIRECTOR

Mr. Yukihiko Izutsu (井筒幸彥), aged 61, was appointed as non-executive Director of the Company on 1 June 2006. Mr. Izutsu graduated from Kyoto Sangyo University in 1968. Mr. Izutsu has over 40 years' experience in the household appliances industry and gained substantial experience on logistics management in his career.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Liu Yang (劉陽), aged 34, 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), aged 42, 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 23 years of working experience in post and telecommunications field.

Mr. Jin Dunshen (金敦申), aged 52, 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. Wang Wei Ping (王偉平), aged 40, is the Managing Director of Shengxin, completed the secondary school and then continued his studies in manufacturing of communication cables and optical fibre cables. He has over 17 years' working experience in the industry of communication cables and optical fibre cables.

The directors present their report and the audited financial statements of the Company and the Group for the year ended 30 September 2006.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of its subsidiaries are set out in note 20 to the financial statements.

An analysis of the Group's performance for the year ended 30 September 2006 by business segments are set out in note 7 to the financial statements.

RESULTS

The Group's loss for the year ended 30 September 2006 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 21 to 72.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and the assets, liabilities and minority interests of the Group for the last five financial years is set out below. This summary does not form part of the audited financial statements.

Results

	Year ended 30 September				
	2006	2005	2004	2003	2002
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	**71,013**	60,069	113,944	166,849	59,522
Loss before income tax	**(13,232)**	(86,334)	(51,625)	(39,420)	(57,228)
Income tax expense	**(1,056)**	(240)	(920)	(900)	–
Loss for the year	**(14,288)**	(86,574)	(52,545)	(40,320)	(57,228)
Attributable to:					
Equity holders of the Company	**(16,204)**	(82,097)	(48,462)	(37,603)	(54,422)
Minority interests	**1,916**	(4,477)	(4,083)	(2,717)	(2,806)
	(14,288)	(86,574)	(52,545)	(40,320)	(57,228)

Assets, liabilities and minority interests

	As at 30 September				
	2006	2005	2004	2003	2002
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	**60,448**	75,502	167,287	243,201	237,638
Total liabilities	**(72,178)**	(80,179)	(92,229)	(128,698)	(105,112)
Minority interests	**(10,195)**	(7,981)	(12,458)	(14,752)	(908)
Equity attributable to equity holders of the Company	**(21,925)**	(12,658)	62,600	99,751	131,618

Note: Certain comparative figures have been restated due to the adoption of the new or revised standards and interpretations of Hong Kong Financial Reporting Standards effective from 1 October 2005.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 15 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in notes 29 and 30 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 31 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 2006, the Company did not have any reserves available for distribution (2005: Nil).

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 84% of the total sales for the year and sales to the largest customer included therein amounted to 25%. Purchases from the Group's five largest suppliers accounted for 88% of the total purchases for the year and purchases from the largest supplier included therein amounted to 75%.

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. Xu Zhi Feng	(appointed on 7 July 2006)
Mr. Jin Feng	(resigned on 1 June 2006)
Mr. Chang Xiao Hui	(resigned on 1 June 2006)
Mr. Li Jun Chao	(resigned on 1 June 2006)

Non-executive directors:

Mr. Yukihiko Izutsu	(appointed on 1 June 2006)
Mr. Leong Ka Cheong, Christopher	(resigned on 10 May 2006)
Mr. Chang Ye Min, William	(resigned on 1 June 2006)
Mr. Wang Qian	(ceased to be alternate director to Mr. Leong Ka Cheong, Christopher on 10 May 2006)

Independent non-executive directors:

Mr. Liu Yang
Mr. Li Junlin
Mr. Jin Dunshen

Note: In accordance with articles 86, 87 and 88 of the Company's articles of association, each of Messrs. Xu Zhi Feng, Yukihiko Izutsu and Liu Yang 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 page 8 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 36 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 2006, 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:

Name of director	Capacity	Number of issued share of US$0.01 each in the Company held and the capacity Total	Percentage of the Company's issued share capital
Mr. Wu Shu Min	Beneficial owner	154,823,000	9.51%
Mr. Xu Zhi Feng	Beneficial owner	4,376,000	0.27%

The interests of the directors and the chief executive of the Company in the share options of the Company are separately disclosed in note 30 to the financial statements.

Save as disclosed above, as at 30 September 2006, 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 OR DEBENTURES

Save as disclosed in note 30 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 30 to the financial statements.

Concerning the share options granted to the directors and employees as detailed in note 30 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 2006, 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	356,540,350	21.89%	–	356,540,350
TNPL *(Note 1)*	Nominee	356,580,350	21.90%	–	356,580,350
TCPL *(Note 1)*	Nominee	356,580,350	21.90%	–	356,580,350
AG Investment No.1 Investment Partnership	Beneficial owner	85,000,000	5.22%	–	85,000,000
Ms. Lei Dong Ling *(Note 2)*	Interests of spouse	154,823,000	9.51%	28,000,000	182,823,000

Notes:

1. Multico Holdings Limited ("MHL") and Huyia South China Investments Limited ("Huiya") held 356,540,350 shares and 40,000 shares respectively and the sole shareholder of MHL and Huiya is Transpac Nominees Pte Ltd. ("TNPL") which in turn is a wholly-owned subsidiary of Transpac Capital Pte Ltd. ("TCPL"). Both TNPL and TCPL therefore are deemed to be interested in 356,580,350 shares in which MHL and Huiya are interested. TNPL through MHL and Huiya, holds the 356,580,350 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 356,580,350 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.

Save as disclosed above, as at 30 September 2006, 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 TRANSACTIONS

Details of the significant related party transactions of the Group are set out in note 36 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.

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. The Audit Committee has reviewed the Group's financial statements for the year ended 30 September 2006 and has provided advice and comments thereon. The Audit Committee held four meetings during the year.

CORPORATE GOVERNANCE

The Company's Corporate Governance Report is set out on pages 16 to 18.

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 5.48 to 5.67 of the GEM Listing Rules and its code of conduct regarding securities transactions by directors.

AUDITORS

The Company's auditors, Grant Thornton, retire and, being eligible, offer themselves for reappointment.

For and on behalf of the Board

Wu Shu Min
Chairman

Hong Kong, 29 December 2006

CORPORATE GOVERNANCE REPORT

The Company is committed to achieving high standards of corporate governance to protect the interests of the shareholders of the Company. The Company had complied with most of the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 15 of the GEM Listing Rules throughout the year ended 30 September 2006. This report describes the corporate governance standards and practices used by the Company to direct and manage its business affairs. It also explains the applications of the Code and deviations, if any.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has not adopted its own code of conduct regarding securities transactions by directors, but having made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules during the period under review.

BOARD OF DIRECTORS

As at 30 September 2006, the Board comprised six Directors, including two executive Directors, namely Mr. Wu Shu Min and Mr. Xu Zhi Feng, an non-executive Director, namely Mr. Yukihiko Izutsu and three independent non-executive Directors, namely Mr. Liu Yang, Mr. Li Junlin and Mr. Jin Dunshen. Mr. Wu Shu Min is the Chairman of the Board. One of the independent non-executive Directors has appropriate professional qualifications, or accounting or related financial management expertise.

According to the Articles of Association of the Company, at each annual general meeting, one third of the Directors for the time being, or their number is not three or a multiple of three, then the number nearest one-third, shall retire from office by rotation, provided that no Director holding office as chairman or managing director shall be subject to retirement by rotation or be taken into account in determining the number of Directors to retire. In order to comply with the Code provision A.4.2, amendment to the Articles of Association of the Company will be proposed at the forthcoming annual general meeting of the Company for approval by the shareholders such that every directors (including the chairman and managing director) will be subject to retirement by rotation at least once every three years.

To the knowledge of the Directors, the Board members have no financial, business, family or other material/relevant relationships with each others.

The Board held regular meetings during the year to discuss the overall business, development strategy, operations and financial reporting of the Company.

During the year ended 30 September 2006, ten meetings were held. Details of the attendance of the Directors at the meetings of the Board and its respective committees are as follows:

Name of Director	Board Meeting	Audit Committee	Remuneration Committee
Executive Directors			
Mr. Wu Shu Min	10/10	N/A	N/A
Mr. Xu Zhi Feng (appointed on 7 July 2006)	1/10	N/A	N/A
Mr. Chang Xiao Hui (resigned on 1 June 2006)	5/10	N/A	N/A
Mr. Jin Feng (resigned on 1 June 2006)	7/10	N/A	N/A
Mr. Li Jun Chao (resigned on 1 June 2006)	5/10	N/A	N/A
Non-executive Directors			
Mr. Yukihiko Izutsu (appointed on 1 June 2006)	2/10	N/A	N/A
Mr. Leong Ka Cheong, Christopher (resigned on 10 May 2006)	1/10	N/A	N/A
Mr. Chang Ye Min, William (resigned on 1 June 2006)	5/10	N/A	N/A
Mr. Wang Qian (ceased as alternate director on 10 May 2006) – Alternate for Mr. Leong Ka Cheong, Christopher	2/10	N/A	N/A
Independent non-executive Directors			
Mr. Liu Yang	5/10	4/4	0/1
Mr. Li Junlin	7/10	3/4	1/1
Mr. Jin Dunshen	7/10	4/4	1/1

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under the Code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Certain period during the year ended 30 September 2006, Mr. Wu Shu Min ("Mr. Wu") and Mr. Chang Xiao Hui ("Mr. Chang") respectively acted as Chairman and chief executive officer of the Company. However, after the resignation of Mr. Chang as executive Director and chief executive officer of the Company on 1 June 2006, there was no appointment of chief executive officer. Since that, the responsibilities of chairman and the chief executive officer of the Company are performed by Mr Wu. The management considered that there is no imminent need to change this arrangement and believe that this structure will enable the Group to make and implement decisions promptly and efficiently.

NON-EXECUTIVE DIRECTORS

Under the Code Provision A.4.1, all the non-executive directors should be appointed for a specific term, subject to re-election. At present, the non-executive Director and independent non-executive Directors are not appointed for a specific term, but are subject to retirement by rotation and re-election in accordance with the Company's Articles of Association.

The Company has received, from each of the independent non-executive directors, an annual confirmation of their independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers that all of the independent non-executive directors are independent.

REMUNERATION COMMITTEE

A remuneration committee was only formed in May 2006 with specific written terms of reference which deal clearly with its authority and duties in accordance with the requirements of the new Code. The remuneration committee is responsible for reviewing and developing the remuneration polices of the Directors and senior management. The remuneration committee consists of all the three independent non-executive directors of the Company, namely Mr. Liu Yang, Mr. Li Junlin and Mr. Jin Dunshen.

During the year under review, one meeting was held by the remuneration committee to consider and approve the terms of an executive director's service contract.

NOMINATION COMMITTEE

The Company does not establish a nomination committee at present. The appointment of new director(s) is therefore a matter for consideration and decision by the Board. In considering the nomination of a new director or where vacancies on the Board exist, the Board will take into account the skills, qualification, working experience, professional knowledge, leadership and personal integrity of the candidates.

AUDITORS' REMUNERATION

For the year ended 30 September 2006, the remuneration in respect of audit services provided by the auditors, Grant Thornton, amounted to HK$400,000. There was no significant non-audit service assignment undertaken by Messrs. Grant Thornton during the year.

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with the GEM Listing Rules. The primary duties of the audit committee are, among others, to review and supervise the financial reporting processes and internal control procedures of the Group and to provide advice and comments to the Board accordingly. The audit committee consists of the three independent non-executive Directors of the Company, namely Mr. Liu Yang, Mr. Li Junlin and Mr. Jin Dunshen. However, during certain period 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. Since 30 December 2005, the composition of the Audit Committee has re-complied with the requirement of the GEM Listing Rules.

The audit committee is of the opinion that the audited financial statements of the Company and the Group for the year ended 30 September 2006 comply with applicable accounting standards, GEM Listing Rules and that adequate disclosures have been made.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors are responsible for the preparation of the financial statements, which give a true and fair view of the financial position of the Group. The Auditors are responsible to form an independent opinion, based on the audit, on the financial statements prepared by the Directors and report the opinion solely to the shareholders of the Company.

INTERNAL CONTROLS

The Board has overall responsibilities for maintaining an adequate and effective internal control system and for reviewing its effectiveness to safeguard the Company's assets against unauthorised use of disposition, and to protect the interests of shareholders of the Company.

FUNDAMENTAL UNCERTAINTIES

The financial statements for the year ended 30 September 2006 have been prepared on a going concern basis. The auditors' opinion on the fundamental uncertainty relating to the going concern basis of the financial statements has been set out on pages 19 to 20.

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 21 to 72 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 Hong Kong Standards on Auditing 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 3 to the financial statements, the financial statements have been prepared on a going concern basis, the validity of which depends upon the assumption that the Group will obtain the ongoing support from the Group's major bankers and creditors and 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 as current assets. 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 2006 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
29 December 2006

CONSOLIDATED INCOME STATEMENT

For The Year Ended 30 September 2006

	Notes	2006 *HK$'000*	2005 *HK$'000* (Restated)
Revenue	6	**71,013**	60,069
Cost of sales		**(61,262)**	(51,527)
Gross profit		**9,751**	8,542
Other income	8	**4,795**	1,381
Selling and distribution costs		**(3,822)**	(5,608)
Administrative expenses		**(13,624)**	(21,995)
Other operating expenses		**(7,877)**	(36,028)
Impairment of goodwill		**–**	(30,763)
Loss from operating activities	9	**(10,777)**	(84,471)
Finance costs	10	**(2,455)**	(1,863)
Loss before income tax		**(13,232)**	(86,334)
Income tax expense	11	**(1,056)**	(240)
Loss for the year		**(14,288)**	(86,574)
Attributable to:			
Equity holders of the Company		**(16,204)**	(82,097)
Minority interests		**1,916**	(4,477)
Loss for the year		**(14,288)**	(86,574)
Loss per share attributable to equity holders of the Company during the year	13		
Basic		**HK(1.02 cent)**	HK(5.32 cents)
Diluted		**N/A**	N/A

CONSOLIDATED BALANCE SHEET

As At 30 September 2006

	Notes	2006 *HK$'000*	2005 *HK$'000* (Restated)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	15	**12,781**	33,133
Prepaid land lease payments	16	**3,371**	3,283
Intangible assets	17	**–**	184
Rental deposits and golf club membership	18	**379**	873
		16,531	37,473
Current assets			
Inventories	21	**5,578**	4,443
Trade and retention receivables	22	**32,103**	18,995
Prepayments, trade deposits, other deposits and other receivables	23	**2,719**	5,640
Due from related companies	24	**–**	2,628
Pledged deposits	25	**59**	5,093
Cash and cash equivalents	25	**3,458**	1,230
		43,917	38,029
Current liabilities			
Trade and bills payables	26	**17,929**	30,865
Accrued liabilities, deposits received and other payables		**20,768**	19,727
Borrowings	27	**27,522**	23,998
Due to directors	28	**1,394**	1,476
Tax payable		**4,565**	4,113
		72,178	80,179
Net current liabilities		**(28,261)**	(42,150)
Net liabilities		**(11,730)**	(4,677)
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	29	**126,989**	120,359
Reserves	31	**(148,914)**	(133,017)
		(21,925)	(12,658)
Minority interests		**10,195**	7,981
Total equity		**(11,730)**	(4,677)

Wu Shu Min
Director

Xu Zhi Feng
Director

BALANCE SHEET

As At 30 September 2006

	Notes	2006 *HK$'000*	2005 *HK$'000*
ASSETS AND LIABILITIES			
Non-current assets			
Interests in subsidiaries	20	**–**	–
Current assets			
Cash and cash equivalents	25	**51**	3
Current liabilities			
Accrued liabilities and other payables		**749**	928
Due to subsidiaries	20	**27,094**	–
		27,843	928
Net current liabilities		**(27,792)**	(925)
Net liabilities		**(27,792)**	(925)
EQUITY			
Issued capital	29	**126,989**	120,359
Reserves	31	**(154,781)**	(121,284)
Total equity		**(27,792)**	(925)

Wu Shu Min
Director

Xu Zhi Feng
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For The Year Ended 30 September 2006

	Equity attributable to equity holders of the Company									
	Issued share capital	Share premium account	Capital reserve	Statutory reserve	Asset revaluation reserve	Exchange fluctuation reserve	Accumulated losses	Total	Minority interests	Restated Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 October 2004	120,359	54,964	(2,242)	4	5,061	(13)	(115,533)	62,600	12,458	75,058
Deficit arising on revaluation of buildings	–	–	–	–	(363)	–	–	(363)	–	(363)
Net expenses recognised directly in equity	–	–	–	–	(363)	–	–	(363)	–	(363)
Net loss for the year	–	–	–	–	–	–	(82,097)	(82,097)	(4,477)	(86,574)
Goodwill transferred to income statement on impairment	–	–	7,202	–	–	–	–	7,202	–	7,202
Total recognised income and expenses for the year	–	–	7,202	–	(363)	–	(82,097)	(75,258)	(4,477)	(79,735)
At 30 September 2005	120,359	54,964	4,960	4	4,698	(13)	(197,630)	(12,658)	7,981	(4,677)
At 1 October 2005, as previously stated	120,359	54,964	4,960	4	4,698	(13)	(197,630)	(12,658)	7,981	(4,677)
Effect of initial adoption of HKFRS 3	–	–	(4,960)	–	–	–	4,960	–	–	–
At 1 October 2005, as restated	120,359	54,964	–	4	4,698	(13)	(192,670)	(12,658)	7,981	(4,677)
Issuance of new shares	6,630	–	–	–	–	–	–	6,630	–	6,630
Surplus realised upon disposal of revalued assets	–	–	–	–	(4,243)	–	4,243	–	–	–
Surplus arising on revaluation of buildings	–	–	–	–	311	–	–	311	298	609
Currency translation	–	–	–	–	–	(4)	–	(4)	–	(4)
Net income recognised directly in equity	–	–	–	–	311	(4)	–	307	298	605
Net profit/(loss) for the year	–	–	–	–	–	–	(16,204)	(16,204)	1,916	(14,288)
Total recognised income and expenses for the year	–	–	–	–	311	(4)	(16,204)	(15,897)	2,214	(13,683)
At 30 September 2006	126,989	54,964	–	4	766	(17)	(204,631)	(21,925)	10,195	(11,730)

CONSOLIDATED CASH FLOW STATEMENT

For The Year Ended 30 September 2006

	Notes	2006 HK$'000	2005 HK$'000
Cash flows from operating activities			
Loss before income tax		**(13,232)**	(86,334)
Adjustments for:			
Interest income	8	**(47)**	(42)
Loss on disposal of property, plant and equipment	9	**4,634**	214
Loss on disposal of golf club memberships	9	**143**	–
Depreciation of property, plant and equipment	9	**3,142**	4,382
Loss on write-off of intangible assets	9	**–**	49
Amortisation of intangible assets	9	**193**	536
Amortisation of prepaid land lease payments	9	**73**	75
Amortisation of goodwill	9	**–**	5,213
Impairment of goodwill	9	**–**	30,763
Finance costs	10	**2,455**	1,863
Write-back of impairment loss on trade and retention receivables	8	**(1,284)**	–
Impairment loss on amounts due from related companies	9	**2,250**	–
Operating loss before working capital changes		**(1,673)**	(43,281)
Increase in inventories		**(1,135)**	(2,223)
(Increase)/decrease in trade and retention receivables		**(11,824)**	36,972
Decrease in rental deposits		**114**	–
Decrease in prepayments, trade deposits, other deposits and other receivables		**2,921**	3,968
Decrease in amounts due from related companies		**378**	522
(Decrease)/increase in due to directors		**(82)**	1,476
(Decrease)/increase in trade and bills payables		**(12,936)**	9,659
Increase/(decrease) in accrued liabilities, deposits received and other payables		**1,041**	(10,660)
Cash used in operations		**(23,196)**	(3,567)
Interest paid		**(2,455)**	(1,863)
Income tax paid in the PRC		**(604)**	(240)
Net cash outflow from operating activities		**(26,255)**	(5,670)

CONSOLIDATED CASH FLOW STATEMENT

For The Year Ended 30 September 2006

	Notes	2006 HK$'000	2005 HK$'000
Cash flows from investing activities			
Interest received		**47**	42
Purchase of property, plant and equipment		**(351)**	(808)
Proceeds from disposal of property, plant and equipment		**1,388**	226
Proceeds from disposal of golf club membership		**237**	–
Decrease in non-pledged time deposit with original maturity of more than three months when acquired		**–**	186
Decrease in pledged deposits		**5,034**	5,971
Net cash inflow from investing activities		**6,355**	5,617
Cash flows from financing activities			
Drawdown of bank loans		**15,506**	16,169
Drawdown of other loans		**12,093**	2,176
Repayment of bank loans		**(5,491)**	(27,290)
Repayment of other loans		**(4,859)**	(3,580)
Proceeds from issue of new shares		**6,630**	–
Net cash inflow/(outflow) from financing activities		**23,879**	(12,525)
Net increase/(decrease) in cash and cash equivalents		**3,979**	(12,578)
Cash and cash equivalents at beginning of year		**1,230**	13,808
Effect of foreign exchange rates, net		**(1,751)**	–
Cash and cash equivalents at end of year		**3,458**	1,230
Analysis of balances of cash and cash equivalents			
Cash and bank balances	25	**3,458**	1,230

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 14 December 1999 as an exempted company with limited liability under the Company Law (1998 Revision) of the Cayman Islands. The address of its registered office is Huntlaw Building, George Town, Grand Cayman, Cayman Islands. The Company's principal place of business in Hong Kong is Unit 2201A, 22/F, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong. The Company's shares are listed on The Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited ("Stock Exchange").

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are sale and distribution of telecommunication equipment, sale of network management software and manufacturing and sale of communication cables and optical cables.

The financial statements on pages 21 to 72 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants. The financial statements include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM of the Stock Exchange ("GEM Listing Rules").

The financial statements for the year ended 30 September 2006 were approved by the board of directors on 29 December 2006.

2. ADOPTION OF NEW OR REVISED HKFRS

From 1 October 2005, the Group has adopted for the first time the new or revised standards and interpretations of HKFRS, which are relevant to its operations. These include the following new, revised and renamed standards:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transitional and Initial Recognition of Financial Assets and Financial Liabilities
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HK(SIC) Int-15	Operating Leases – Incentives

2. ADOPTION OF NEW OR REVISED HKFRS *(Continued)*

All the standards have been applied retrospectively except where specific transitional provisions require a different treatment and accordingly the 2005 financial statements and their presentation have been amended in accordance with HKAS 8. Due to the change in accounting policies, the 2005 comparatives contained in these financial statements differ from those published in the financial statements of the Group for the year ended 30 September 2005.

Significant effects on current, prior or future periods arising from the first-time application of the standards listed above in respect to presentation, recognition and measurement of accounts are described in the following notes:

2.1 Adoption of HKAS 1

The application of HKAS 1 led to an update of the presentation of the financial statements. Minority interests are now included as a separate line item within equity. Profit and loss attributable to minority interests and that attributable to equity holders of the Company are now presented as an allocation of the net result of the year.

2.2 Adoption of HKAS 17

In previous years, leasehold land and buildings were included in property, plant and equipment and carried at valuation less accumulated depreciation and accumulated impairment losses.

Upon the adoption of HKAS 17, the land and buildings elements are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid land lease payments under operating leases, which are carried at cost and subsequently amortised on a straight-line basis over the lease term. This change in accounting policy has been applied retrospectively.

2.3 Adoption of HKAS 36, HKAS 38 and HKFRS 3

These standards stipulate a prospective change to the accounting policies:

Goodwill

In previous years, goodwill arising on acquisition prior to 1 October 2001 was eliminated against reserve in the year of acquisition and was not recognised in the income statement until disposal or impairment of the acquired business.

Goodwill arising on acquisition on or after 1 October 2001 was capitalised and amortised on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment.

In accordance with the provisions of HKFRS 3, with respect to goodwill previously capitalised on the consolidated balance sheet, the amortisation of goodwill has ceased from 1 October 2005 and the accumulated amortisation at 30 September 2005 was eliminated against the original gross amount of goodwill. Goodwill is now subject only to annual testing for impairment as well as when there is an indication of impairment. The Group has allocated the carrying amount of its goodwill to its cash generating units.

2. ADOPTION OF NEW OR REVISED HKFRS *(Continued)*

2.3 Adoption of HKAS 36, HKAS 38 and HKFRS 3 *(Continued)*

Goodwill (Continued)

In respect of goodwill previously eliminated against or credited to reserves, HKFRS 3 does not require the Group to recognise that goodwill in profit or loss when it disposes of all or part of the business to which that goodwill relates or when a cash-generating unit to which the goodwill relates becomes impaired. Moreover, the Group is not required nor permitted to restate goodwill previously eliminated against reserves.

Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised immediately in profit or loss in the period in which the acquisition takes place.

In prior years, negative goodwill arising from acquisition prior to 1 October 2001 was credited to reserves. In accordance with the relevant transitional provisions in HKFRS 3, the Group derecognised the carrying amounts of negative goodwill on 1 October 2005 against accumulated losses.

2.4 Adoption of HKFRS 2

Prior to the adoption of HKFRS 2 on 1 October 2005, the Group did not recognise the financial effect of share options until they were exercised. The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options granted to directors and employees of the Company and its subsidiaries and other parties, determined at the date of grant of the share options, over the vesting period with a corresponding credit to equity, unless the transaction is a cash settled share-based payment. The adoption of this standard had no significant impact on the Group.

2.5 Adoption of HKAS 32 and HKAS 39

In accordance with the transitional provisions of HKAS 39, it does not permit the recognition, derecognition and measurement of financial assets and liabilities in accordance with the standard on a retrospective basis. Accordingly, any adjustment to the previous carrying amount is recognised in the opening balance of accumulated losses on 1 October 2005 and the comparative figures have not been restated.

2.6 Other standards adopted

The adoption of other new or revised HKFRS did not result in significant changes to the Group's accounting policies. The specific transitional provisions contained in some of these standards were considered. The adoption of these other standards did not result in any significant changes to the amounts or disclosures in these financial statements.

2. ADOPTION OF NEW OR REVISED HKFRS *(Continued)*

2.7 The effect of changes in the accounting policies on the consolidated balance sheet is summarised below:

	Effect of adopting		
	HKAS 17#	**HKFRS 3***	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 October 2004			
Increase/(Decrease) in assets			
Property, plant and equipment	(3,358)	–	(3,358)
Prepaid land lease payments	3,358	–	3,358
At 30 September 2005			
Increase/(Decrease) in assets			
Property, plant and equipment	(3,283)	–	(3,283)
Prepaid land lease payments	3,283	–	3,283
At 1 October 2005			
Increase/(Decrease) in assets			
Property, plant and equipment	(3,283)	–	(3,283)
Prepaid land lease payments	3,283	–	3,283
Increase/(Decrease) in equity			
Capital reserve	–	(4,960)	(4,960)
Accumulated losses	–	4,960	4,960
At 30 September 2006			
Increase/(Decrease) in assets			
Property, plant and equipment	(3,371)	–	(3,371)
Prepaid land lease payments	3,371	–	3,371

* *adjustments which take effect prospectively from 1 October 2005*

\# *adjustments which take effect retrospectively*

2. ADOPTION OF NEW OR REVISED HKFRS *(Continued)*

2.8 New standards or interpretations that have been issued but are not yet effective

The Group has not early adopted the following standards or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the adoption of these standards and interpretations will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKAS 19 (Amendment)	Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures[2]
HKAS 21(Amendment)	The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation[2]
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions[2]
HKAS 39 (Amendment)	The Fair Value Option[2]
HKAS 39 & HKFRS 4 (Amendment)	Financial Instruments: Recognition and Measurement and Insurance Contracts – Financial Guarantee Contracts[2]
HKFRS 1 & HKFRS 6 (Amendments)	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources[2]
HKFRS 6	Exploration for and Evaluation of Mineral Resources[2]
HKFRS 7	Financial Instruments – Disclosures[1]
HK(IFRIC) – Int 4	Determining whether an Arrangement contains a Lease[2]
HK(IFRIC) – Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds[2]
HK(IFRIC) – Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment[3]
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]
HK(IFRIC) – Int 8	Scope of HKFRS 2[5]
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives[6]
HK(IFRIC) – Int10	Interim Financial Reporting and Impairment[7]

1 Effective for annual periods beginning on or after 1 January 2007
2 Effective for annual periods beginning on or after 1 January 2006
3 Effective for annual periods beginning on or after 1 December 2005
4 Effective for annual periods beginning on or after 1 March 2006
5 Effective for annual periods beginning on or after 1 May 2006
6 Effective for annual periods beginning on or after 1 June 2006
7 Effective for annual periods beginning on or after 1 November 2006

3. BASIS OF PRESENTATION

For the year ended 30 September 2006, the loss for the year attributable to equity holders of the Company amounted to HK$16,204,000 (2005: HK$82,097,000). As at 30 September 2006, the Group had net current liabilities of HK$28,261,000 and net liabilities of HK$11,730,000. 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 arrangements which include, but are not limited to, the following:

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

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

On the basis that 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 as current assets. The effect of these potential adjustments has not been reflected in the financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Basis of preparation

The significant accounting policies that have been used in the preparation of these financial statements are summarised below.

The financial statements have been prepared on the historical cost basis except for the revaluation of certain assets and liabilities. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

4.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 30 September each year. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside equity holders in the operating results and net assets of subsidiaries.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.3 Subsidiaries

Subsidiaries are entities over which the Company has the power to control the financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases.

Acquired subsidiaries are subject to application of the purchase method. This involves the revaluation at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their revalued amounts, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies. Goodwill represents the excess of acquisition cost over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisition of subsidiaries is presented separately in the consolidated balance sheet. If the cost of acquisition is less than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

In the Company's balance sheet, subsidiaries are carried at cost less any impairment loss. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the balance sheet date.

4.4 Foreign currencies

The financial statements are presented in Hong Kong Dollars ("HK$"), which is also the functional currency of the Company.

In the separate financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognised in the income statement.

In the consolidated financial statements, all separate financial statements of subsidiaries, originally presented in a currency different from the Group's presentation currency, have been converted into Hong Kong dollars. Assets and liabilities have been translated into Hong Kong dollars at the closing rates at the balance sheet date. Income and expenses have been converted into the Hong Kong dollars at the average rates over the reporting period. Any differences arising from this procedure have been dealt with in the exchange fluctuation reserve in equity. Goodwill and fair value adjustments arising on the acquisition of a foreign entity have been treated as assets and liabilities of the foreign entity and translated into Hong Kong dollars at the closing rates.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.5 Income and expense 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:

(i) Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(ii) Revenue from the rendering of services is recognised when the agreed services have been rendered; and

(iii) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the effective interest rate applicable.

Operating expenses are recognised in the income statement when incurred.

4.6 Intangible assets (other than goodwill) and research and development costs

Intangible assets (other than goodwill)

Intangible assets acquired separately are recognised initially at cost. After initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on straight-line basis over their estimated useful lives.

Intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses. Intangible assets are tested for impairment as described below in note 4.10. Amortisation commences when the intangible assets are available for use.

Research and development costs

Cost associated with research activities are expensed in the income statement as they occur. Costs that are directly attributable to the development phase are recognised as intangible assets provided they meet the following recognition requirements:

(i) demonstration of technical feasibility of the prospective product for internal use or sale;

(ii) the intangible asset will generate probable economic benefits for internal use or sale;

(iii) sufficient technical, financial and other resources are available for completion; and

(iv) the intangible asset can be reliably measured.

Direct costs include employee costs incurred on development along with an appropriate portion of relevant overheads. The costs of internally generated product developments are recognised as intangible assets. They are subject to the same subsequent measurement method as externally acquired intangible assets.

All other development costs are expensed as incurred.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.7 Goodwill

Goodwill arising on acquisition prior to 1 October 2005

Goodwill arising on acquisition of a subsidiary for which the agreement date is before 1 October 2005 represents the excess of the cost of acquisition over the Group's interest in fair value of the identifiable assets and liabilities of the relevant subsidiary at the date of acquisition.

Goodwill arising on acquisition prior to 1 October 2001 continues to be held in reserves and will be charged to the accumulated losses at the time when the business to which the goodwill relates is disposed of or when a cash-generating unit to which goodwill relates becomes impaired.

For previously capitalised goodwill arising on acquisition after 1 October 2001, the Group has discontinued amortisation from 1 October 2005 onwards, and such goodwill is tested for impairment annually and whenever there is indication that the cash-generating unit to which the goodwill relates becomes impaired.

Goodwill arising on acquisition on or after 1 October 2005

Goodwill arising on acquisition of a subsidiary for which the agreement date is on or after 1 October 2005 represents the excess of the cost of acquisition over the fair value of the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

On subsequent disposal of subsidiaries, the attributable amount of goodwill capitalised is included in the determination of the amount of gain or loss on disposal.

4.8 Property, plant and equipment

(i) Depreciation

Depreciation on property, plant and equipment other than construction in progress is provided to write off the costs or revalued amounts over their respective estimated useful lives using the straight-line method. The estimated useful lives of the property, plant and equipment are as follows:

Buildings/Lease rights on medium term leases of properties	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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.8 Property, plant and equipment *(Continued)*

(ii) Measurement bases

All buildings are recognised at fair value, based on their use at the date of revaluation less subsequent accumulated depreciation and any subsequent impairment losses. Fair value is determined in appraisals by external professional valuers with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment other than construction in progress are stated at acquisition cost less accumulated depreciation and accumulated impairment losses.

Any surplus arising on revaluation of buildings is credited to the asset revaluation reserve in equity, unless the carrying amount of that asset has previously suffered a revaluation decrease or impairment loss as described in note 4.10. To the extent that any decrease has previously been recognised in income statement, a revaluation increase is credited to income statement with the remaining part of the increase dealt with in the asset revaluation reserve. A decrease in net carrying amount of buildings arising on revaluations or impairment testing is charged against any revaluation surplus in the revaluation reserve relating to the asset and the remaining decrease recognised in income statement.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

The assets' residual value and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

The gain or loss arising on disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement. Any revaluation surplus remaining in equity is transferred to accumulated losses on the disposal of buildings.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses and is not depreciated. Cost comprises direct cost of construction during the period of construction.

4.9 Prepaid land lease payments

Prepaid land lease payments represent up-front payments to acquire the land use rights/leasehold land. They are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated on a straight line basis over the lease term.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.10 Impairment of assets

Goodwill, other intangible assets, property, plant and equipment, prepaid land lease payments and interests in subsidiaries are subject to impairment testing.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill in particular is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management controls the related cash flows.

Individual assets or cash-generating units that include goodwill (and other intangible assets with an indefinite useful life) are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use based on an internal discounted cash flow evaluation. Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit.

An impairment loss on goodwill is not reversed in subsequent periods. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined net of depreciation or amortisation, if no impairment loss had been recognised.

4.11 Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Annual rentals applicable to such operating leases are charged to the income statement on a straight line basis over the lease terms.

4.12 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any impairment losses. Any changes in their value are recognised in income statement.

Loans and receivables are provided against when objective evidence is received that the Group will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.13 Inventories

Inventories are carried 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, comprise 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.

4.14 Income taxes

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, tax authorities relating to the current or prior reporting period, that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in the income statement.

Deferred tax is calculated using the liability method on temporary differences at the balance sheet date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

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

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised in the income statement, or in equity if they relate to items that are charged or credited directly to equity.

4.15 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand as well as short term bank deposit.

4.16 Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Any transaction costs associated with the issuing of shares are deducted from the proceeds (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.17 Pension scheme and other retirement benefits

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

The Company's subsidiaries in the People's Republic of China except Hong Kong ("PRC") are required to participate in the employee retirement scheme operated by the relevant local government bureau in the PRC and to make contributions for their eligible employees. The contributions payable by these subsidiaries are calculated based on a certain percentage of the salaries and wages of those eligible employees and are charged to the income statement in the period to which they relate.

4.18 Share-based employee compensation

The Group operates equity-settled share-based compensation plans for remuneration of its employees.

All employee services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the share options awarded. The value is appraised at the grant date and excludes the impact of any non-market vesting conditions.

All share-based compensation is recognised as an expense in income statement with a corresponding credit to share option reserve. If vesting periods or other vesting conditions apply, the expense is recognised over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates. No adjustment to expense recognised in prior periods is made if fewer share options ultimately are exercised than originally estimated.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated losses.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.19 Financial liabilities

Financial liabilities are recognised when the Group becomes a party to the contractual agreements of the instrument. All interest related charges are recognised as an expense in finance costs in the income statement.

Borrowings are recognised initially at fair value, net of transaction costs incurred, and are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost, using the effective interest rate method.

4.20 Provisions and contingencies

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.21 Related parties

A party is considered to be related to the Group if:

(i) directly, or indirectly through one or more intermediaries, the party (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(ii) the party is an associate;

(iii) the party is a jointly-controlled entity;

(iv) the party is a member of the key management personnel of the Group or its parent;

(v) the party is a close member of the family or any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Depreciation

The Group depreciates the property, plant and equipment in accordance with the accounting policy stated in note 4.8. The estimated useful lives reflect the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment.

Impairment of receivables

The Group's management determines impairment of receivables on a regular basis. The estimate is based on the credit history of its customers and current market conditions. The management of the Group reassesses the impairment of receivables at the balance sheet date.

Allowance for inventories

In determining the amount of allowance required for obsolete and slow-moving inventories, the Group would evaluate aging analysis of inventories and compare the carrying value of inventories to their respective net realisable values. A considerable amount of judgement is required in determining such allowance. If conditions which have impact on the net realisable value of inventories deteriorate, additional allowances may be required.

6. REVENUE

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts where applicable and services rendered. All significant intra-group transactions have been eliminated on consolidation.

7. 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 service 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.

7. 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	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
												(Restated)
Segment revenue:												
Sales to external customers	**–**	27,806	**–**	861	**308**	2,173	**70,705**	29,229	**–**	–	**71,013**	60,069
Intersegment sales	**–**	8,641	**–**	–	**–**	3,422	**–**	–	**–**	(12,063)	**–**	–
Total	**–**	36,447	**–**	861	**308**	5,595	**70,705**	29,229	**–**	(12,063)	**71,013**	60,069
Segment results	**(10,375)**	(28,292)	**(3,656)**	(7,330)	**(2,567)**	(12,719)	**1,026**	(6,748)	**–**	–	**(15,572)**	(55,089)
Unallocated income and gains											**4,795**	1,381
Unallocated expenses											**–**	(30,763)
Loss from operating activities											**(10,777)**	(84,471)
Finance costs											**(2,455)**	(1,863)
Loss before income tax											**(13,232)**	(86,334)
Income tax expense											**(1,056)**	(240)
Loss for the year											**(14,288)**	(86,574)

7. 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	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
												(Restated)
Segment assets	**1,272**	4,353	**930**	1,751	**34**	141	**56,175**	46,065	**–**	–	**58,411**	52,310
Unallocated assets									**2,037**	23,192	**2,037**	23,192
Total asset											**60,448**	75,502
Segment liabilities	**9,954**	24,545	**15,372**	14,854	**2,141**	2,207	**34,734**	29,439	**–**	–	**62,201**	71,045
Unallocated liabilities									**9,977**	9,134	**9,977**	9,134
Total liabilities											**72,178**	80,179
Other segment information:												
Depreciation of property, plant and equipment	**898**	1,751	**685**	1,040	**36**	63	**1,508**	1,495	**15**	33	**3,142**	4,382
Amortisation of prepaid land lease payments	**–**	–	**–**	–	**–**	–	**73**	75	**–**	–	**73**	75
Impairment of goodwill	**–**	–	**–**	–	**–**	–	**–**	–	**–**	30,763	**–**	30,763
Amortisation of goodwill	**–**	–	**–**	–	**–**	–	**–**	–	**–**	5,213	**–**	5,213
Surplus/(Deficit) arising on revaluation of buildings – recognised directly in equity attributable to equity holder	**–**	–	**–**	–	**–**	–	**–**	–	**311**	(363)	**311**	(363)
Amortisation of deferred development cost	**–**	–	**193**	536	**–**	–	**–**	–	**–**	–	**193**	536
Impairment loss on trade and retention receivables	**–**	7,978	**–**	9,346	**–**	93	**–**	4,981	**–**	–	**–**	22,398
Impairment loss on other receivables	**498**	511	**159**	6,297	**–**	3	**–**	501	**–**	–	**657**	7,312
Impairment loss on amount due from related companies	**922**	–	**1,328**	–	**–**	–	**–**	–	**–**	–	**2,250**	–
Allowance for obsolete inventories	**–**	159	**–**	147	**–**	–	**–**	–	**–**	–	**–**	306
Loss on written-off of intangible assets	**–**	–	**–**	49	**–**	–	**–**	–	**–**	–	**–**	49
Loss on disposal of property, plant and equipment	**4,634**	214	**–**	–	**–**	–	**–**	–	**–**	–	4,634	214
Loss on disposal of golf club membership	**–**	–	**–**	–	**–**	–	**–**	–	143	–	143	–
Capital expenditure	**–**	10	**–**	–	**–**	–	**351**	798	**–**	–	351	808

7. 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.

8. OTHER INCOME

	Group	
	2006	2005
	HK$'000	*HK$'000*
Other income:		
Bank interest income	**47**	42
Write-back of impairment loss on trade and retention receivables	**1,284**	–
Tax refund and others	**3,464**	1,339
	4,795	1,381

9. LOSS FROM OPERATING ACTIVITIES

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

		Group	
		2006	2005
	Notes	***HK$'000***	*HK$'000*
			(Restated)
Cost of inventories sold and services provided		**61,262**	51,527
Depreciation of property, plant and equipment	15	**3,142**	4,382
Amortisation of prepaid land lease payments	16	**73**	75
Research and development costs:			
Deferred development costs amortised*	17	**193**	536
Loss on write-off of intangible assets*	17	**–**	49
		193	585
Goodwill:			
Amortisation for the year*	19	**–**	5,213
Impairment arising during the year	19	**–**	30,763
		–	35,976
Minimum lease payments under operating leases in respect of land and buildings		**363**	1,497
Auditors' remuneration		**400**	400
Staff costs (including directors' emoluments (Note 14)):			
Wages and salaries		**5,595**	10,135
Pension scheme contributions		**17**	144
		5,612	10,279
Impairment loss on trade and retention receivables*		**–**	22,398
Impairment loss on amounts due from related companies*		**2,250**	–
Impairment loss on other receivables*		**657**	7,312
Allowance for obsolete inventories*		**–**	306
Loss on disposal of property, plant and equipment*		**4,634**	214
Loss on disposal of golf club membership*		**143**	–

* *Included in "Other operating expenses" on the face of the consolidated income statement.*

10. FINANCE COSTS

	Group	
	2006	2005
	HK$'000	*HK$'000*
Interest on bank loans wholly repayable within five years	**1,770**	1,516
Interest on other loans	**685**	347
	2,455	1,863

11. INCOME TAX EXPENSE

Hong Kong profits tax has not been provided as the Group had no assessable profits arising in Hong Kong during the year (2005: Nil). 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.

	Group	
	2006	2005
	HK$'000	*HK$'000*
Current tax – PRC		
Charge for the year	**1,056**	240

The taxation for the year can be reconciled to the loss before income tax per the income statement as follows:

	2006	2005
	HK$'000	*HK$'000*
Loss before income tax	**(13,232)**	(86,334)
Tax at the statutory tax rate of 17.5% (2005: 17.5%)	**(2,316)**	(15,108)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**360**	(955)
Tax effect of non-deductible expenses	**2,537**	14,068
Tax effect of non-taxable revenue	**(434)**	(45)
Tax effect of tax losses not recognised	**909**	2,280
Income tax expense	**1,056**	240

11. INCOME TAX EXPENSE *(Continued)*

At the balance sheet date, the Group has tax losses of approximately HK$99,997,000 (2005: HK$96,810,000) 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.

As at 30 September 2006, the Group and the Company did not have any significant unprovided deferred tax liabilities (2005: Nil).

12. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The loss attributable to equity holders includes a loss of HK$33,497,000 (2005: HK$63,525,000) which has been dealt with in the financial statements of the Company.

13. LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of basic loss per share is based on the loss for the year attributable to equity holders of the Company of HK$16,204,000 (2005: HK$82,097,000) and the weighted average of 1,594,393,347 (2005: 1,543,160,470) ordinary shares in issue during the year.

Diluted loss per share for the years ended 30 September 2006 and 2005 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. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES' REMUNERATION

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

	Group	
	2006	2005
	HK$'000	*HK$'000*
Fees		
Executive directors	–	–
Non-executive directors	–	–
Independent non-executive directors	**248**	268
	248	268
Other emoluments of executive directors		
Salaries, allowances and benefits in kind	**1,565**	1,750
	1,813	2,018

14. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES' REMUNERATION *(Continued)*

The emoluments of each director, on a named basis, for the year ended 30 September 2006 and 2005 are set out below:

	2006					
	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:						
Liu Yang	96	–	–	–	–	96
Li Jun Lin**	80	–	–	–	–	80
Jin Dun Shen**	72	–	–	–	–	72
	248	–	–	–	–	248
Non-executive directors:						
Chang Ye Min, William (Mr. Chang)*#	–	–	–	–	–	–
Leong Ka Cheong, Christopher*	–	–	–	–	–	–
Wang Qian*	–	–	–	–	–	–
Yukihiko Izutsu**	–	–	–	–	–	–
	–	–	–	–	–	–
Executive directors:						
Wu Shu Min	–	1,440	–	–	–	1,440
Xu Zhi Feng**	–	125	–	–	–	125
Chang Xiao Hui*	–	–	–	–	–	–
Li Jun Chao*	–	–	–	–	–	–
Jin Feng*	–	–	–	–	–	–
	–	1,565	–	–	–	1,565
Total – 2006	248	1,565	–	–	–	1,813

14. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES' REMUNERATION *(Continued)*

Directors emoluments

	2005					
	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^	100	–	–	–	–	100
Chen Junliang^	72	–	–	–	–	72
Ng Ching Wo^	32	–	–	–	–	32
Liu Yang^^	64	–	–	–	–	64
	268	–	–	–	–	268
Non-executive directors:						
Leong Ka Cheong, Christopher*	–	–	–	–	–	–
Lo Wai Shun^	–	–	–	–	–	–
Wang Qian*	–	–	–	–	–	–
Zhu Rong^	–	–	–	–	–	–
	–	–	–	–	–	–
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

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

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

* *resigned during the year ended 30 September 2006.*

** *appointed during the year ended 30 September 2006.*

\# *being an executive director in prior years and re-designated as a non-executive director on 28 January 2005.*

During the year ended 30 September 2005, 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 a 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.

14. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES' REMUNERATION *(Continued)*

Directors emoluments *(Continued)*

There was no arrangement under which a director waived or agreed to waive any remuneration during the years ended 30 September 2006 and 2005.

During the years ended 30 September 2006 and 2005, 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 30 to the financial statements.

Five highest paid individuals

The five highest paid individuals in the Group during the year included two (2005: three) directors, details of whose emoluments are disclosed above. The emoluments paid to the remaining three (2005: two) non-director, highest paid individuals for the year are as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Salary, allowances and benefits in kind	**1,130**	722
Pension scheme contributions	**12**	12
	1,142	734

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

	2006	2005
Nil – HK$1,000,000	**3**	2

During the years ended 30 September 2006 and 2005, no emoluments were paid by the Group to the directors or any of the five highest paid employees of the Group as an inducement to join the Group or upon joining the Group, or as compensation for loss of office.

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Construction in progress HK$'000	Leasehold buildings HK$'000	Lease rights on medium term leases of properties HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Computer equipment HK$'000	Office equipment, furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000 (Restated)
At 1 October 2004									
Cost or valuation	–	23,842	1,355	2,623	9,348	12,868	5,036	3,311	58,383
Accumulated depreciation	–	–	(182)	(1,799)	(1,682)	(10,679)	(4,476)	(2,055)	(20,873)
Net book amount	–	23,842	1,173	824	7,666	2,189	560	1,256	37,510
Year ended 30 September 2005									
Opening net book amount	–	23,842	1,173	824	7,666	2,189	560	1,256	37,510
Additions	–	–	–	–	798	7	3	–	808
Depreciation	–	(562)	(25)	(440)	(1,110)	(1,354)	(458)	(433)	(4,382)
Revaluation	–	(363)	–	–	–	–	–	–	(363)
Disposal	–	–	–	(70)	–	(110)	(54)	(206)	(440)
Closing net book amount	–	22,917	1,148	314	7,354	732	51	617	33,133
At 30 September 2005									
Cost or valuation	–	22,917	1,355	1,830	10,146	12,426	4,590	3,029	56,293
Accumulated depreciation	–	–	(207)	(1,516)	(2,792)	(11,694)	(4,539)	(2,412)	(23,160)
Net book amount	–	22,917	1,148	314	7,354	732	51	617	33,133
Year ended 30 September 2006									
Opening net book amount	–	22,917	1,148	314	7,354	732	51	617	33,133
Additions	317	–	–	–	34	–	–	–	351
Depreciation	–	(556)	(26)	(191)	(1,050)	(868)	(208)	(243)	(3,142)
Disposal	–	(18,300)	(1,176)	(137)	–	(32)	(1)	(101)	(19,747)
Revaluation	–	609	–	–	–	–	–	–	609
Translation adjustment	–	–	54	14	295	882	301	31	1,577
Closing net book amount	317	4,670	–	–	6,633	714	143	304	12,781
At 30 September 2006									
Cost or valuation	317	4,670	–	235	10,677	7,208	2,013	1,978	27,098
Accumulated depreciation	–	–	–	(235)	(4,044)	(6,494)	(1,870)	(1,674)	(14,317)
Net book amount	317	4,670	–	–	6,633	714	143	304	12,781

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

The Group's leasehold buildings were revalued individually at the balance sheet date by RHL Appraisal Ltd (2005: Malcolm & Associates Appraisal Limited), independent professionally qualified valuers, at an aggregate of HK$4,670,000 (2005: HK$22,917,000). During the year, one of the leasehold buildings with a carrying amount of HK$18,300,000 was disposed of to settle a bank loan (note 32). The remaining building was revalued at HK$4,670,000 using depreciated replacement costs basis. A revaluation surplus of HK$609,000 (2005: deficit of HK$363,000), resulting from the above valuations, has been credited to the relevant asset revaluation reserve.

Had these leasehold buildings been carried at historical cost less accumulated depreciation, their carrying amounts would have been approximately HK$3,996,000 (2005: HK$17,937,000).

15. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

At 30 September 2006, the Group's leasehold buildings and plant and machinery with carrying values of approximately HK$4,670,000 (2005: HK$22,917,000) and HK$6,633,000 (2005: HK$4,252,000) respectively, were pledged to secure general banking facilities granted to the Group (note 27).

The analysis of the cost or valuation at 30 September 2006 of the above assets is as follows:

	Construction in progress	Leasehold 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*	*HK$'000*
At cost	317	–	–	235	10,677	7,208	2,013	1,978	22,428
At valuation	–	4,670	–	–	–	–	–	–	4,670
	317	4,670	–	235	10,677	7,208	2,013	1,978	27,098

The analysis of the cost or valuation at 30 September 2005 of the above assets is as follows:

	Leasehold buildings	Lease rights on medium term leases of properties	Leasehold improvements	Plant and machinery	Computer equipment	Office equipment, furniture and fixtures	Motor vehicles	Restated Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At cost	–	1,355	1,830	10,146	12,426	4,590	3,029	33,376
At valuation	22,917	–	–	–	–	–	–	22,917
	22,917	1,355	1,830	10,146	12,426	4,590	3,029	56,293

16. PREPAID LAND LEASE PAYMENTS

The Group's prepaid land lease payments represent upfront payments to acquire interests in the usage of land situated in the PRC, which are held under medium term leases.

	Group	
	2006	2005
	HK$'000	*HK$'000*
		(Restated)
Outside Hong Kong, held on:		
– Leases of between 10 to 50 years	**3,371**	3,283

The above land use rights were pledged to secure bank loans (note 27).

	Group	
	2006	2005
	HK$'000	*HK$'000*
		(Restated)
At the beginning of the year		
Cost	**3,485**	3,485
Accumulated amortisation	**(202)**	(127)
Net book amount	**3,283**	3,358
For the year ended		
Opening net book value	**3,283**	3,358
Amortisation	**(73)**	(75)
Translation adjustment	**161**	–
Closing net book amount	**3,371**	3,283
At end of the year		
Cost	**3,657**	3,485
Accumulated amortisation	**(286)**	(202)
Net book amount	**3,371**	3,283

17. INTANGIBLE ASSETS

Group

	Deferred development costs *HK$'000*
At 1 October 2004	
Cost	7,098
Accumulated amortisation	(6,329)
Net book amount	769
Year ended 30 September 2005	
Opening net book amount	769
Amortisation	(536)
Written off	(49)
Closing net book amount	184
At 30 September 2005	
Cost	6,284
Accumulated amortisation	(6,100)
Net book amount	184
Year ended 30 September 2006	
Opening net book amount	184
Amortisation	(193)
Translation adjustment	9
Closing net book amount	–
At 30 September 2006	
Cost	6,285
Accumulated amortisation	(6,285)
Net book amount	–

The Group's deferred development costs were amortised over the useful life of not exceeding five years.

18. RENTAL DEPOSITS AND GOLF CLUB MEMBERSHIP

	Group	
	2006	2005
	HK$'000	*HK$'000*
Rental deposits	–	114
Golf club membership (note)	**379**	759
	379	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.

19. 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
At 1 October 2004	
Gross carrying amount	48,521
Accumulated amortisation and impairment losses	(19,747)
Net carrying amount	28,774
Year ended 30 September 2005	
Opening net carrying amount	28,774
Amortisation	(5,213)
Impairment loss	(23,561)
Closing net carrying amount	–
At 30 September 2005	
Gross carrying amount	48,521
Accumulated amortisation and impairment losses	(48,521)
Net carrying amount	–

19. GOODWILL AND NEGATIVE GOODWILL *(Continued)*

	Goodwill
	HK$'000
At 1 October 2005	
Gross carrying amount, as previously reported	48,521
Effect of initial adoption of HKFRS 3	(12,053)
Gross carrying amount, as restated	36,468
Year ended 30 September 2006	
Opening net carrying amount	–
Impairment loss	–
Closing net carrying amount	–
At 30 September 2006	
Gross carrying amount	36,468
Accumulated impairment losses	(36,468)
Net carrying amount	–

19. GOODWILL AND NEGATIVE GOODWILL *(Continued)*

The amounts of the goodwill and negative goodwill remaining in consolidated reserves as at 30 September 2006, 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*
At 1 October 2004		
Gross carrying amount	16,702	(4,960)
Accumulated impairment losses	(9,500)	–
Net carrying amount	7,202	(4,960)
Year ended 30 September 2005		
Opening net carrying amount	7,202	(4,960)
Impairment losses	(7,202)	–
Net carrying amount	–	(4,960)
At 30 September 2005		
Gross carrying amount	16,702	(4,960)
Accumulated impairment losses	(16,702)	–
Net carrying amount	–	(4,960)
At 1 October 2005		
Gross carrying amount, as previously reported	16,702	(4,960)
Effect of initial adoption of HKFRS 3	–	4,960
Gross carrying amount, as restated	16,702	–
At 30 September 2006		
Gross carrying amount	16,702	–
Accumulated impairment losses	(16,702)	–
Net carrying amount	–	–

20. INTERESTS IN SUBSIDIARIES

	Company	
	2006	2005
	HK$'000	*HK$'000*
Unlisted shares, at cost	**43,437**	43,437
Due from subsidiaries	**146,750**	141,668
Due to subsidiaries	**(27,094)**	(26,811)
	163,093	158,294
Impairment losses recognised	**(190,187)**	(158,294)
	(27,094)	–
Due to subsidiaries classified as current liabilities	**(27,094)**	–
	–	–

As at 30 September 2006, the balances with subsidiaries are unsecured, interest-free and repayable on demand. Accordingly, the amounts are classified as current.

As at 30 September 2005, the balances with subsidiaries were unsecured, interest-free and had no fixed terms of repayment. In the opinion of directors, no repayment would be demanded within 12 months from the balance sheet date. Accordingly, the amounts were classified as non-current.

20. 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	Percentage of equity attributable to the Company 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	PRC	RMB30,000,000	–	51	Telecom network management

20. 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.

21. INVENTORIES

	Group	
	2006	2005
	HK$'000	*HK$'000*
Raw materials	**667**	1,442
Work in progress	**–**	123
Finished goods	**4,911**	2,878
	5,578	4,443

22. TRADE AND RETENTION RECEIVABLES

The Group has a policy of allowing trade customers with credit terms pursuant to the provisions of the relevant contracts. An aged analysis of the Group's net trade receivables as at the balance sheet date is as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
0 – 90 days	**19,061**	9,618
91 – 180 days	**6,997**	6,764
181 – 365 days	**5,741**	2,597
Over 365 days	**304**	16
	32,103	18,995

23. PREPAYMENTS, TRADE DEPOSITS, OTHER DEPOSITS AND OTHER RECEIVABLES

As at 30 September 2006, the amounts of HK$706,000 (2005: nil) due from minority equity holders of subsidiaries were included in prepayment, trade deposits, other deposits and other receivables. The amounts due are unsecured, interest-free and repayable on demand.

24. 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:

		Group	
		Maximum amount	
	30 September	outstanding	30 September
	2006	during the year	2005
Name of related companies	*HK$'000*	*HK$'000*	*HK$'000*
IIN Medical Industrial Limited	–	197	197
Hunan IIN Network Education Co., Ltd.	–	1,777	1,777
Hunan IIN Medical Network Technology Development Co., Ltd.	–	640	640
IIN Network Education (BVI) Limited	–	14	14
	–	2,628	2,628

The amounts due from related companies are unsecured, interest-free and repayable on demand.

25. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

		Group		Company	
		2006	2005	**2006**	2005
	Note	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances		**3,517**	6,323	**51**	3
Less: Pledged deposits for bills payable repayable within one year	27	**(59)**	(5,093)	**–**	–
Cash and cash equivalents		**3,458**	1,230	**51**	3

Cash at bank earns interest at floating rates based on daily bank deposit rates.

As at 30 September 2006, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK$1,974,000 (2005: HK$6,201,000), which were deposited with banks in the PRC or held in hand. 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.

26. TRADE AND BILLS PAYABLES

The credit terms of trade payables varies according to the terms agreed with different suppliers. An aged analysis of the trade and bills payables as at the balance sheet date, is as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
0 – 90 days	**920**	10,515
91 – 180 days	**3,062**	5,487
181 – 365 days	**645**	9,356
Over 365 days	**13,302**	5,507
	17,929	30,865

27. BORROWINGS

	Group	
	2006	2005
	HK$'000	*HK$'000*
Current		
Secured bank loans	**14,608**	18,318
Unsecured other loans	**12,914**	5,680
	27,522	23,998

As at 30 September 2006, the Group's secured bank loans and other bank facilities were secured by i) charges on the Group's bank deposits of approximately HK$59,000, ii) legal charges on the Group's leasehold land, buildings, and plant and machinery with carrying values of approximately HK$3,371,000, HK$4,670,000 and HK$6,633,000 respectively; and iii) guarantees by a director of a subsidiary of the Company and 蘇州鼎盛擔保投資有限公司.

As at 30 September 2005, the Group's secured bank loans and other bank facilities were secured by i) charges on the Group's bank deposits of approximately HK$5,093,000 and ii) legal charges on the Group's leasehold land and buildings and plant and machinery with carrying values of approximately HK$26,200,000 and HK$4,252,000 respectively.

All bank loans of the Group were fixed interest rate bank loans with maturity date on or before the end of April 2007. The interest rates of the Group's bank loans ranged from 7.25% to 10.88% (2005: 7.25%) per annum.

The other loans of the Group were unsecured, bearing interest ranged from 7.25% to 12% (2005: 7%) per annum and were repayable on demand. As at 30 September 2005, the balances of the other loans included the borrowings of approximately HK$2.5 million from certain directors of the subsidiaries of the Company. The interest expenses incurred to these directors of the Company's subsidiaries during the year amounted to HK$60,000 (2005: HK$180,000).

28. DUE TO DIRECTORS

Amounts due to directors are unsecured, interest-free and repayable on demand.

29. SHARE CAPITAL

	Number of shares	Par value
	'000	*US$'000*
Authorised:		
Ordinary shares of US$0.01 each		
at 30 September 2005 and 2006	**2,000,000**	20,000

	Number of shares	Par value
	'000	*US$'000*
Issued and fully paid:		
Ordinary shares of US$0.01 each at 30 September 2004 and 2005	**1,543,160**	120,359
Issuance of ordinary shares of US$0.01 each	**85,000**	6,630
Ordinary shares of US$0.01 each		
at 30 September 2006	**1,628,160**	126,989

During the year ended 30 September 2006, the Company entered into a subscription agreement with an independent subscriber pursuant to which the subscriber subscribed 85,000,000 ordinary shares of US$0.01 each of the Company at a subscription price of HK$0.078 per share. The subscription of new shares raised total consideration of HK$6,630,000.

30. 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.

30. SHARE OPTION SCHEME *(Continued)*

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

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 2006, the number of shares issuable under share options granted under the Pre-IPO Share Option Plan was 15,000,000 which represented approximately 0.9% of the Company's shares in issue as at that date.

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

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 2005	Exercised during the year	Cancelled during the year	Lapsed during the year	As at 30 September 2006	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	–	–	(20,000,000)	15,000,000			
Other employees								
In aggregate	3,678,000	–	–	(3,678,000)	–	*Note 1*	*Note 2*	0.150
	38,678,000	–	–	(23,678,000)	15,000,000			

* *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. As at 1 October 2005, approximately 86% and 14% of the outstanding share options were granted on 7 January 2000 and 26 February 2000, respectively.

2. As at 1 October 2005, 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.

30. 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 2006, the number of shares issuable under share options granted under the Share Option Plan was 18,400,000, which represented approximately 1.1% 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.

30. 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 2005	Granted during the year	Exercised during the year	Reclassified during the year	Lapsed during the year	As at 30 September 2006	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. 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
Mr. Xu Zhi Feng#	–	–	–	1,000,000	–	1,000,000	5 June 2003	5 June 2003 to 21 December 2011	0.078	0.045
	42,000,000	–	–	1,000,000	(29,000,000)	14,000,000				
Other employees										
In aggregate	9,100,000	–	–	–	(8,300,000)	800,000	1 March 2002	1 March 2002 to 21 December 2011	0.475	0.470
	17,000,000	–	–	(1,000,000)	(12,400,000)	3,600,000	5 June 2003	5 June 2003 to 21 December 2011	0.078	0.045
	68,100,000	–	–	–	(49,700,000)	18,400,000				

\# *During the year ended 30 September 2006, Mr. Xu Zhi Feng was appointed as a director of the Company.*

30. SHARE OPTION SCHEME *(Continued)*

(b) Share Option Plan *(Continued)*

As at the balance sheet date, the Company had 15,000,000 share options outstanding under the Pre-IPO Share Option Plan.

As at the balance sheet date, the Company had 18,400,000 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 33,400,000 additional ordinary shares and cash proceeds to the Company of approximately HK$7,872,800, before related issuing expense.

31. 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 24.

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.

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.

31. RESERVES *(Continued)*

(b) Company

	Share premium account HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 October 2004	44,929	(102,688)	(57,759)
Net loss for the year	–	(63,525)	(63,525)
At 30 September 2005 and 1 October 2005	44,929	(166,213)	(121,284)
Net loss for the year	–	(33,497)	(33,497)
At 30 September 2006	44,929	(199,710)	(154,781)

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.

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transactions

Save as those disclosed elsewhere in the financial statements, the Group had the following major non-cash transactions:

(i) During the year, the Group was defaulted in repayment of bank loan of HK$13,725,000 and the pledged property of the Group with a carrying value of HK$18,300,000 was assigned to the bank for settlement of the bank loan.

33. CONTINGENT LIABILITIES

The Group and the Company did not have any significant contingent liabilities at the balance sheet date (2005: Nil).

34. 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 2006, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Within one year	–	77

The Company did not have any significant operating lease arrangements at the balance sheet date (2005: Nil).

35. CAPITAL COMMITMENTS

At the balance sheet date, the Group had the following outstanding capital commitments:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Contracted, but not provided for		
– Construction of building	**467**	–

The Company did not have any significant capital commitments at the balance sheet date (2005: Nil).

36. RELATED PARTY TRANSACTIONS

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

	Group	
	2006	2005
	HK$'000	*HK$'000*
Amounts due from minority equity holders of subsidiaries (i)	**706**	–
Amounts due to directors (ii)	**1,394**	1,476

Note:

(i) Amounts due from minority equity holders of subsidiaries are unsecured, interest-free and repayable on demand and are included in note 23.

(ii) Amounts due to directors are unsecured, interest-free and repayable on demand and are included in note 28.

(iii) In the opinion of the directors, the key management personnel are the directors of the Company. The details of the remuneration paid to them are set out in note 14 to the financial statements.

37. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group does not have written risk management policies and guidelines. However, the board of directors meets periodically to analyse and formulate measures to manage the Group's exposure to market risk, including principally changes in interest rate and currency exchange rates. Generally, the Group employs a conservative strategy regarding its risk management.

(a) Credit risk

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown on the face of the balance sheet or in the notes to the financial statements. Credit risk, therefore, is only disclosed in the circumstances where the maximum potential loss differs significantly from the financial asset's carrying amount.

The Group's bank deposits are mainly deposited with banks in Hong Kong and the PRC.

The Group has concentration of credit risk due to its relatively small customer base. The Group performs ongoing credit evaluation of its customers' financial positions. Provision for impairment is based upon a review of the expected collectibility of all receivables.

(b) Foreign currency risk

The Group is mainly exposed to foreign exchange risk arising from the exposure of RMB against Hong Kong Dollar. The Group does not hedge its foreign currency risks, as the management of the Group does not expect any significant movements in the exchange rate between RMB and Hong Kong Dollar.

37. RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(c) Cash flow and interest rate risk

Cash flow and interest rate risks are managed by means of derivative financial instruments, where necessary, to ensure short to medium term liquidity.

(d) Fair value

The fair values of the Group's current financial assets and liabilities are not materially different from their carrying amount because of the immediate or short term maturity.

(e) Liquidity risk

As at 30 September 2006, the Group had net current liabilities of HK$28,261,000 and net liabilities of HK$11,730,000. The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflow from operations to meet its debt obligations and to obtain ongoing support from its major bankers and creditors.