



**IIN INTERNATIONAL LIMITED**

(Incorporated in the Cayman Islands with limited liability)



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# First Quarterly Report 2002

# GEM Characteristics

The GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on the GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on the GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of the GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on the GEM, there is a risk that securities traded on the GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on the GEM.

The principal means of information dissemination on the GEM is publication on the Internet website operated by The Stock Exchange of Hong Kong Limited. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on the GEM-listed issuers.

## Highlights

- The Group's gross profit margin rose to 27.5% compared with 22.8% for the 1st quarter of 2002. However, turnover dropped by 53.7% mainly due to the restructuring of China Telecom, delaying the finalisation of projects under negotiation.
- Net assets grew by 172% compared with same period in the previous year and totalled HK\$176.7 million, of which HK\$103.3 million were cash and bank balances.
- The Group was successfully listed on GEM on 30 November 2001.
- The Board does not recommend the payment of an interim dividend for the Three Month Period.

## Business Review

The People's Republic of China (the "PRC") is undergoing a revolutionary transformation of its telecommunications market. This was underlined by the recent reorganisation of China Telecom. The reform of the country's largest telecommunications carrier will boost investment, increase customer demand, and improve the quality of service.

This ushering in of a new era in the PRC telecommunications market will strengthen the market position of IIN International Limited (the "Company") together with its subsidiaries (the "Group") as long-term strategic partners in the PRC telecommunications sector. The Group will work closely with existing allies to pursue larger scale projects at state and provincial levels while finding new strategic allies for product development and market expansion.

To boost the expansion of its sales network, the Group relocated its headquarters in Hong Kong to a centrally located commercial premises and upgraded its computer and operations systems. The new headquarters opened for business on 24 December 2001.



## **Network Infrastructure and Network Management Solutions**

In the quarter ending 31 December 2001, providing network infrastructure solutions was the Group's core revenue earner. It represented HK\$7.8 million, or 46% of the Group's total turnover. Network management solutions business made up 24% of total turnover, amounting to HK\$4.0 million. Another revenue source was the provision of network solutions, including design, implementation and maintenance of network systems for customers in other market sectors in the PRC. These included educational institutions, medical institutions, state-owned enterprises and government agencies. This brought in HK\$5.0 million, representing 30% of the Group's total turnover for the quarter under review.

## **Research and Product Development**

To stay in the forefront of the fast moving telecommunications industry and well ahead of its competitors, the Group continues to invest heavily in research and product development.

The Group had completed the development of its Internet Data Center Solutions and is in negotiation with several potential provincial telecommunications corporations, namely PTA customers. An Internet Data Center involves the setting up of a centralized location to provide network solutions focusing on network facilities management and control as well as network data collection and analysis for ISPs and other users.

The Group continued negotiations for trial sites with potential PTA customers for the IP Network Management and Monitoring System. The system allows telecommunications service providers to perform real-time, remote and centralized monitoring and management control of IP networks.

The development of the Broadband Access Network Management System will start in the next quarter. The Broadband Access Network Management System will assist telecommunications service providers to monitor and manage their broadband networks.

The Group completed the feasibility study of the Unified Communications System in November 2001, in line with its schedule. It will begin the integration of third party solutions in the next quarter. The Unified Communications System enables telecommunications service providers to improve many management functions, including receiving, notifying and delivering messages.

The Group continued to enhance the functionality of existing products by developing new versions of software. It is currently working on the China Telecom version 7.0 for the CPEM 8000 Power and Environmental Monitoring System. It will begin development of the China Mobile version 2.0 for the CPEM 8000 Power and Environmental Monitoring System after collecting feedback from its existing customer, Guizhou PTA. The China Mobile version 1.0 for the IIN-Acterna Mobile SS7 Signaling Monitoring System is currently under discussion with the business partner. In the next quarter, the Group expects to start development of the China Telecom version 2.0 Network Management and Safeguard System. The Group has already begun identification of product specifications for the China Telecom version 2.0 for the IIN-Acterna PSTN SS7 Signaling Monitoring System.

### **Corporate Development**

On 7 December 2001, the Company repaid all outstanding Convertible Bonds of the principal amount of HK\$37 million, together with accrued interests at an aggregate repayment amount of approximately HK\$40.6 million. This was the result of MasterLink Securities (Hong Kong) Corporation Limited and Technique Enterprises Limited, holders of the Convertible Bonds, electing not to exercise their conversion rights. The repayment is in line with the intended applications of the use of proceeds as mentioned in the Prospectus dated 26 November 2001 (the "Prospectus"). The repayment was funded by the Company's placing proceeds of HK\$37 million and the remaining balance funded by the Company's internally generated cash.

The Over-allotment Placing Option referred to in the Prospectus was exercised by ICEA Capital Limited on behalf of the Placing Underwriters on 20 December 2001. The Over-allotment of 50,004,000 additional new Shares were issued and allotted by the Company at HK\$0.30 per Share and listed on The Stock Exchange of Hong Kong Limited on 24 December 2001. The net proceeds of approximately HK\$14 million from the issue of the Over-allotment Shares will be used for financing working capital requirements of the Company for hardware and software procurement for the Company's network solutions projects.



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

## Financial Review

The Group's total turnover for the quarter ended 31 December 2001 was approximately HK\$17.0 million. This compared with approximately HK\$36.7 million turnover for the same period last year. The drop in turnover was mainly due to the restructuring of China Telecom, delaying the finalisation of projects under negotiation. The Group will strive to complete the negotiations as soon as practicable.

The HK\$23.8 million net profit for the corresponding quarter last year was largely due to a net gain of approximately HK\$29.0 million. This came from the disposal of the Group's entire interest in Education Group and Medical Group to IIN Network Education (BVI) Limited and IIN Medical Industrial (BVI) Limited on 31 December 2000.

Due to the drop in turnover, the Group reported a net loss of approximately HK\$3.6 million for the quarter under review.

However, the Group showed an enhanced gross profit margin of 27.5% compared with 22.8% for the corresponding period in 2000. This was due to the higher profit margin from Jiangsu Local Exchange Network Management Solution, the Group's proprietary product.

Maintaining its robust financial position, the Group's net assets for the quarter increased by 172% to HK\$176.7 million. With a strong cash position, the Group's current assets as at 31 December 2001 were HK\$239.3 million, of which HK\$103.3 million were cash and bank balances.

## Prospects

The PRC's accession to the World Trade Organization will accelerate the growth of the telecommunications sector in the PRC. As a network solutions provider with significant presence in the PRC data communication sector, the Group is strategically positioned to take full advantage of the immense business opportunities that will result.

One of the Group's key strengths lies in its capability in providing a comprehensive suite of proprietary network management solutions to telecommunications service providers in the PRC. The Group will continue to build on this established advantage over its competitors to further strengthen its foothold in the market.

With a firm commitment in research and product development, coupled with an experienced team of management and technology experts with in-depth industry knowledge, the Group has both hardware and software in place to serve the PRC's fast-growing data network business, and to sustain its growth.

## Results

The Board of Directors (the "Board") of IIN International Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months ended 31 December 2001 together with the comparative unaudited figures for the corresponding period in 2000 as follows:

	Notes	For the three months period ended	
		31 December 2001 HK\$'000	31 December 2000 HK\$'000
Turnover		16,987	36,663
Cost of sales		(12,323)	(28,318)
Gross profit		4,664	8,345
Other revenue	2	802	29,802
Selling and distribution costs		(1,092)	(4,024)
Administrative expenses		(6,744)	(9,437)
Other operating expenses		(344)	(237)
Profit/(loss) from operating expenses	2	(2,714)	24,449
Finance costs		(1,743)	(759)
Share of profits less losses of jointly-controlled entities		–	–
Profit/(loss) before tax		(4,457)	23,690
Tax	3	–	–
PROFIT/(LOSS) BEFORE MINORITY INTERESTS		(4,457)	23,690
Minority interests		880	85
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		(3,577)	23,775
Dividends	4	–	–
EARNINGS/(LOSS) PER SHARE	5		
Basic		(0.33) cents	2.61 cents
Diluted		–	2.51 cents

### Remarks:

**The results of the Group for the three months ended 31 December 2000 has included the net gain resulting from the disposal of the Disposed Operations (as defined in Note 2) attributable to the Group on 31 December 2000 of HK\$29,046,000.**



**Notes:****1. Group reorganisation and basis of preparation**

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 14 December 1999 under the Companies Law (1998 Revision) of the Cayman Islands. Pursuant to a reorganisation scheme (the "Reorganisation") to rationalize the Group's structure in preparation for the public listing of the Company's shares on The Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the companies now comprising the Group on 31 December 1999. This was accomplished by acquiring the entire issued share capital of IIN Networks International Limited, the Group's former holding company, in consideration of and in exchange for the Company's allotted and issued share capital.

Further details of the Reorganisation and the subsidiaries acquired pursuant thereto are set out in the Company's prospectus dated 26 November 2001. Subsequently, the shares of the Company were listed on the GEM of The Stock Exchange of Hong Kong Limited on 30 November 2001.

During the period, the Group was principally engaged in the provision of network solutions to telecommunications service providers in the People's Republic of China (the "PRC"), excluding Hong Kong and Macau.

The unaudited results of the Group have been prepared in accordance with the Statement of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

- 2.** The results of the Group for the three months ended 31 December 2000 has included the results of IIN Network Education Limited, IIN Medical Industrial Limited, Hunan IIN Network Education Co., Ltd and Hunan IIN Medical Network Technology Development Co., Ltd., former subsidiaries of the Company which were disposed of to certain controlling shareholders of the Group on 31 December 2000 (collectively referred to as the "Disposed Operations") on consolidation.

Accordingly, the net gain resulting from the disposal of the Disposed Operations attributable to the Group on 31 December 2000 of HK\$29,046,000 had been included in the results of the Group.

**3. Taxation and overseas withholding taxation**

No provisions for Hong Kong profits tax and China PRC corporate income tax have been made as the companies comprising the Group have no assessable profits for the three months ended 31 December 2001. Overseas withholding taxation represents the PRC withholding taxes on the income subject to withholding taxes and is calculated at the applicable rates.

**4. Interim dividend**

The Directors do not recommend payment of an interim dividend for the period (2000: Nil).



## 5. Earnings/(Loss) per share

The calculation of the basic earnings/(loss) per share for the three months ended 31 December 2001 is based on the net loss from ordinary activities attributable to shareholders for the period of HK\$3,577,000 (2000: net profits from ordinary activities attributable to shareholders of HK\$23,775,000) and the weighted average of 1,072,391,439 shares in issue during the period (2000: 911,197,350 shares).

The calculation of the diluted earnings per share for the three months ended 31 December 2000 is based on the net profits from ordinary activities attributable to shareholders of HK\$23,775,000. The weighted average number of ordinary shares used in the calculation of diluted earnings per share for the three months ended 31 December 2000 is 945,877,750 shares, which includes 911,197,350 shares in issue during the period and the weighted average of 34,680,400 shares for the period assumed to have been issued at nil consideration on the deemed exercise of the options granted. Diluted loss per share for the period ended 31 December 2001 is not presented as there were no potential dilutive ordinary shares in existence during that period.

## 6. Reserves

Movement in reserves for the period ended 31 December 2001 and 2000 were as follows:

	Share Premium HK\$'000	Retained Profit HK\$'000	Others HK\$'000	Total HK\$'000
As at 1 October 2000	83,749	(23,586)	(11,752)	48,411
Profit for the period ended	-	23,775	-	23,775
As at 31 December 2000	83,749	189	(11,752)	72,186
As at 1 October 2001	83,749	24,954	(7,580)	101,123
Special dividend	(44,566)	-	-	(44,566)
Capitalisation of the share premium account	(69,652)	-	-	(69,652)
New issue and placing of shares to the public	98,217	-	-	98,217
Shares issued upon the exercise of the over-allotment option	11,101	-	-	11,101
Share issue expenses	(25,410)	-	-	(25,410)
Loss for the period	-	(3,577)	-	(3,577)
As at 31 December 2001	53,439	21,377	(7,580)	67,236

## Directors' Interests in Share Capital

Subsequent to the balance sheet date, on 30 November 2001, the shares of the Company were listed on the GEM of the Stock Exchange. At the date of this report, the interests of the directors and their associates in the share capital of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")), as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance, were as follows:

Name of director	Number of issued ordinary shares of US\$0.01 each in the Company held and nature of interests (adjusted for the consolidation and capitalisation issue of the Company's shares subsequent to the balance sheet date)					Total
	Personal	Family	Corporate	Other		
Mr. Chang Ye Min, William	26,840,000	-	-	-	26,840,000	
Mr. Wu Shu Min	194,823,000	-	-	-	194,823,000	
Mr. Zhu Rong	118,750,000	-	-	-	118,750,000	
Mr. Lo Wai Shun	5,014,000	-	-	-	5,014,000	
Mr. Li Zhi Sheng (Note 1)	-	48,705,000	-	-	48,705,000	

Note 1: These shares are held by Ms. Zhou Jian Hong, the spouse of Mr. Li Zhi Sheng, an executive director of the Company.

Save as disclosed above, none of the directors of the Company or their associates had any personal, family, corporate or other interests in the issued share capital of the Company or any of its associated corporations, as defined in the SDI Ordinance.

## Directors' Rights to Acquire Shares

Prior to the listing of the Company's shares on the GEM of the Stock Exchange, the board of directors was authorised, at its absolute discretion, to grant options (the "Pre-IPO Share Options") to employees, including directors of the Company or any of its subsidiaries, to subscribe for shares in the Company under the terms of a share option plan (the "Pre-IPO Share Option Plan") adopted by the Company on 7 January 2000. The Pre-IPO Share Option Plan became effective for a period of eight years commencing from 7 January 2000 (date of adopting the Pre-IPO Share Option Plan). Details of the Pre-IPO Share Options granted to the directors under the Pre-IPO Share Option Plan are as follows:

Name of director	Number of shares subject to Pre-IPO Share Option				As at the date of this report	Adjusted exercise price per share* US\$	Exercise period of share options
	As at 1 October 2000	Granted during the year	As at 30 September 2001	Adjusted for consolidation and capitalisation of shares subsequent to 30 September 2001			
Mr. Wu Shu Min	1,000,000	-	1,000,000	4,000,000	5,000,000	0.0192	7 January 2000 to 6 January 2008
	2,000,000	-	2,000,000	8,000,000	10,000,000	0.0192	26 February 2000 to 25 February 2008
Mr. Chang Ye Min, William	3,000,000	-	3,000,000	12,000,000	15,000,000	0.0192	7 January 2000 to 6 January 2008
	1,000,000	-	1,000,000	4,000,000	5,000,000	0.0660	23 May 2000 to 22 May 2008
Mr. Li Zhi Sheng	1,000,000	-	1,000,000	4,000,000	5,000,000	0.0660	23 May 2000 to 22 May 2008
Mr. Cheng Wing Tsan	-	200,000	200,000	800,000	1,000,000	0.0660	20 July 2001 to 19 July 2009
Mr. Zhu Rong	1,000,000	-	1,000,000	4,000,000	5,000,000	0.0192	7 January 2000 to 6 January 2003
	9,000,000	200,000	9,200,000	36,800,000	46,000,000		

\* The exercise price per share was adjusted for the consolidation and capitalisation issue of the Company's shares subsequent to the balance sheet date.

Subsequent to the balance sheet date, on 22 November 2001, the Company conditionally adopted a further share option scheme (the "Scheme") for a period of ten years from the date on which the Scheme was adopted. The Scheme became unconditional upon the listing of the Company's shares on the GEM of the Stock Exchange on 30 November 2001. As at the date of this report, no share options were granted under the Scheme.

Save as disclosed above and other than in connection with the Group Reorganisation and the Company's placing of shares on the GEM of the Stock Exchange, at no time during the year and up to the date of this report was the Company or any of its subsidiaries a party to any arrangement to enable the Company's directors, their respective spouses, or children under 18 years of age to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate.

## Substantial Shareholders

At the date of this report, the following parties had registered an interest of 10% or more in the issued share capital of the Company that were required to be recorded in the register of interests pursuant to Section 16(1) of the SDI Ordinance:

Name	Percentage of holding	Number of shares held
Mr. Wu Shu Min	13.88%	194,823,000
Multico Holdings Limited	25.86%	362,948,350

Save as disclosed above, no persons had registered an interest of 10% or more in the issued share capital of the Company that was required to be recorded in the register of interests pursuant to Section 16(1) of the SDI Ordinance.

## 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 interest with the Group.

## Sponsors' Interests

At the date of this report, the directors, employees or associates of Core Pacific-Yamaichi Capital Limited ("CPY"), did not have any interest in the share capital of the Company or any of its subsidiaries, or any right to subscribe for or to nominate persons to subscribe for the share capital of the Company or any of its subsidiaries.

Pursuant to the agreement dated 26 November 2001 entered into between the Company and CPY, CPY received, and will receive, fees for acting as the Company's retained sponsor for the period from 30 November 2001 to 30 September 2004.

## Audit Committee

The Company has established an audit committee (the "Committee") on 22 August 2000. The Committee comprises Mr. Chan Wai Dune and Mr. Ng Ching Wo, independent non-executive directors, and Mr. Wu Shu Min, an executive director. The Group's financial statements for the three months ended 31 December 2001 have been reviewed by the Committee, who were of the opinion that such statements complied with the applicable accounting standards, and the Stock Exchange and legal requirements, and that adequate disclosures had been made.

## Purchase, Redemption or Sale of Listed Securities of the Company

During the three months ended 31 December 2001, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

By Order of the Board  
**IIN International Limited**  
**Chang Ye Min, William**  
*President & Chief Executive Officer*

Hong Kong, 4 February 2002