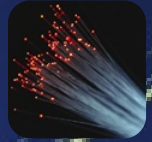




**IIN INTERNATIONAL LIMITED**

(Incorporated in the Cayman Islands with limited liability)

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3rd 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. 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.

## Business Review

The telecommunications market of the People's Republic of China (the "PRC") has entered a new era with the completion of China Telecom's long anticipated reorganization. However, the asset integration of the merged companies is taking much longer than expected. This delay has resulted in a much lower overall capital expenditure on telecommunications compared with previous years.

Despite this, the PRC telecommunications market on the whole is still enjoying healthy expansion. According to market data released in July 2002, the number of new fixed line users in the country increased by almost 20 million in the first six months of 2002. This makes a total of 198 million. Mobile users and Internet users increased by 31.4 million and 3.6 million respectively to reach 176 million and 40 million. There is still significant room for the industry's continued development.

IIN International Limited (the "Company") together with its subsidiaries (the "Group") remains confident that it can realize the tremendous business potential of the PRC's information industry. Although business progress has, to some extent, been affected by the reduced market spending, the Group continues its marketing efforts to pursue large telecommunications infrastructural projects, and believes it will report solid business progress in various areas.

In June 2002, the Group completed the acquisition of the entire issued share capital of Telechina Group Limited, the investment holding company of Hunan Modern Time Technology Limited ("HNMTT"). In 2000, HNMTT was certified as one of Hunan Province's top ten information technology system integrators. HNMTT is a major player in e-government projects in Hunan governmental bureaus; and broadband network solutions projects for cable TV, broadcasting and telecommunications industries in the province. The acquisition is in line with the Group's business objectives as stated in the Prospectus dated 26 November 2001. The acquisition will further strengthen the Group's position as a network solutions provider to the telecommunications and enterprise customers in Hunan Province. More importantly, the acquisition is a great step forward for the Group as it will be engaged in the provision of network solutions to the cable TV, broadcasting industry and the high-growth e-government sector, especially the e-management system for the Industrial and Commercial Administrative Bureau of Hunan Province. This system can be extended to cover the other provinces in the PRC.

In this quarter, the Group's subsidiary, Hunan IIN-Galaxy Software Development Co., Ltd., has completed the project to upgrade the Local Exchange Network Management and Monitoring System for the Provincial Telecommunications Corporation ("PTC") of China Telecom in Yunnan Province. The project is one of China Telecom's key projects to upgrade local exchange networks in the western region of the PRC. Yunnan PTC of China Telecom is particularly pleased with the Group's proprietary Local Exchange Network Management and Monitoring System that helps the telecommunications carrier to collectively manage and maintain its various local exchange networks efficiently. The project is the first time for the Group to establish a presence in Yunnan Province and signifies its greatly expanded network in the southwest part of the PRC.

## Research and Product Development

The Group continues to invest in research and product development to stay ahead of competitors and to maintain its leading edge in the fast moving telecommunications industry.

The Group upgraded China Telecom version 2.0 for the Network Management and Monitoring System to versions 2.0B and 2.0C to cater for the requirements of the PTCs of China Telecom in Jiangsu and Yunnan provinces respectively.

The Group completed the development of China Telecom version 7.0 and China Mobile version 2.0 for the CPEM 8000 Power and Environmental Monitoring System as planned and has started marketing the systems.

The Group continues to develop the China Telecom version 2.0 for the PSTN SS7 Signaling Monitoring System as planned. The system satisfies the business requirements of leading telecommunications carriers in the PRC, including China Telecom, China Netcom and China Mobile.

## Financial Review

The decrease in overall spending of telecommunications carriers in the PRC has affected the turnover and profit of the Group for the quarter under review.

The Group's turnover for the quarter under review ended 30 June 2002 was approximately HK\$9.5 million compared to approximately HK\$31.2 million for the previous quarter. For the quarter under review, the Group recorded a net loss of approximately HK\$7.9 million. The Group continues to enjoy a high gross profit margin of 51% for the quarter ended 30 June 2002 as it was engaged more in the profitable network management solutions business.

For the nine months ended 30 June 2002, providing network infrastructure solutions continued to be the Group's core revenue generator. It represented approximately HK\$33.4 million or 57.9 % of the Group's total turnover. Network management solutions business made up 32.9% of the total turnover amounting to approximately HK\$19.0 million. The provision of network solutions for customers in other market sectors in the PRC, including educational institutions, medical institutions, state-owned enterprises and government agencies, brought in approximately HK\$5.3 million representing 9.2% of the Group's total turnover for the nine months ended 30 June 2002.

Maintaining its healthy financial position, the Group's net current assets as at 30 June 2002 totaled approximately HK\$143 million of which approximately HK\$95 million was in cash and bank balances, with approximately HK\$57 million as pledged bank deposits.



## Prospects

The Group believes that the slow down in capital spending of the PRC telecommunications sector is only temporary and it remains optimistic about the overall market business potential. The PRC economy grew at a rate of 7% in the first six months of the year and is likely to enjoy this level of growth for the rest of 2002.

With the continued opening up of the PRC market, the growth of the telecommunications sector will soon resume its healthy pace as China Telecom and China Netcom develop their national networks. The demand for quality service and operational efficiency will remain the core competitive differentiators for telecommunications carriers.

With its established presence in the network management solutions sector; its strength in research and product development and a much expanded coverage, the Group will continue to actively pursue the tremendous business opportunities offered by the dynamic PRC telecommunications market.

## Financial 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 and nine months ended 30 June 2002 together with the comparative unaudited figures for the corresponding periods in 2001 as follows:

	Notes	Three months ended 30 June		Nine months ended 30 June	
		2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Turnover	2	9,522	96,322	57,673	150,113
Cost of sales		(4,640)	(69,721)	(32,957)	(108,712)
Gross profit		4,882	26,601	24,716	41,401
Other revenue	3	530	58	2,004	30,360
Selling and distribution costs		(2,501)	(3,451)	(6,418)	(10,114)
Administrative expenses		(10,671)	(8,604)	(26,334)	(26,563)
Other operating expenses		(344)	(202)	(1,028)	(863)
Profit/(loss) from operating activities		(8,104)	14,402	(7,060)	34,221
Finance costs		(811)	(2,238)	(3,184)	(3,718)
Profit/(loss) before tax	4	(8,915)	12,164	(10,244)	30,503
Tax	5	–	(2,054)	–	(2,054)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS		(8,915)	10,110	(10,244)	28,449
Minority interests		991	717	2,524	1,380
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		(7,924)	10,827	(7,720)	29,829
Dividend	6	–	–	–	–
EARNINGS/(LOSS) PER SHARE					
– Basic	7	(HK0.61) cents	HK1.19 cents	(HK0.60) cents	HK3.27 cents
– Diluted		N/A	HK1.14 cents	N/A	HK3.15 cents

### Remarks:

The results of the Group for the nine months ended 30 June 2001 has included the net gain resulting from the Disposed Operations (as defined in Note 3) attributable to the Group on 31 December 2000 of HK\$29,046,000.

**Notes:****1. Basis of preparation**

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. Turnover**

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

	For the three months ended 30 June		For the nine months ended 30 June	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Network infrastructure solutions	1,973	79,077	33,368	109,428
Network management solutions	7,452	7,860	18,994	18,889
Other network solutions for sectors other than telecommunications	97	9,385	5,311	21,796
<b>Total turnover</b>	<b>9,522</b>	<b>96,322</b>	<b>57,673</b>	<b>150,113</b>

**3. Other revenue**

The results of the Group for the nine months ended 30 June 2001 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 approximately HK\$29,046,000 had been included in the results of the Group for the nine months ended 30 June 2001.

#### 4. Profit/(Loss) before tax

The Group's profit/(loss) before tax is arrived at after charging:

	For the three months ended 30 June		For the nine months ended 30 June	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Staff cost	4,344	3,778	13,495	10,112
Provision for doubtful debts	2,610	480	2,610	3,717
Depreciation	910	861	2,655	3,153
Amortisation of deferred development costs	344	202	1,028	863

#### 5. 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 nine months ended 30 June 2002.

#### 6. Interim dividend

The Directors do not recommend payment of an interim dividend for the period (2001: Nil).

#### 7. Earnings/(Loss) per share

The calculation of the basic loss per share for the three months and nine months ended 30 June 2002 is based on the respective unaudited consolidated net loss from ordinary activities attributable to shareholders of approximately HK\$7,924,000 and HK\$7,720,000 (three months ended 30 June 2001: net profit from ordinary activities attributable to shareholders of approximately HK\$10,827,000 and nine months ended 30 June 2001: net profit from ordinary activities attributable to shareholders of approximately HK\$29,829,000) and the weighted average number of 1,290,832,119 shares and 1,290,832,119 shares (2001: 911,197,350 and 911,197,350) in issue during the period.

No diluted loss per share for the three months and nine months ended 30 June 2002 have been presented because there were no dilutive potential ordinary shares in existence during the periods.





## 8. Reserves

Movement in reserves for the nine months ended 30 June 2002 and 2001 were as follows:

	<b>Retained profits/ (accumulated losses)</b>			<b>Total</b> HK\$'000
	<b>Share premium</b> HK\$'000	<b>losses</b> HK\$'000	<b>Others</b> HK\$'000	
As at 1 October 2000	83,749	(23,586)	(11,752)	48,411
Profit for the period	–	29,829	–	29,829
Exchange realignment	–	–	(1)	(1)
As at 30 June 2001	83,749	6,243	(11,753)	78,239
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
Issue of new shares upon exercise of share options	59	–	–	59
Share issue expenses	(25,410)	–	–	(25,410)
Loss for the period	–	(7,720)	–	(7,720)
Exchange realignment	–	–	(2)	(2)
As at 30 June 2002	53,498	17,234	(7,582)	63,150

## Directors' Interests in Share Capital

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	Personal	Number of issued ordinary shares of US\$0.01 each in the Company held and nature of interests			Total
		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						Adjusted exercise price per share, HK\$*	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	As at the date of this report			
Mr. Wu Shu Min	1,000,000	-	1,000,000	4,000,000	5,000,000	0.150	7 January 2000 to 6 January 2008	
	2,000,000	-	2,000,000	8,000,000	10,000,000	0.150	26 February 2000 to 25 February 2008	
Mr. Cheng Ye Min, William	3,000,000	-	3,000,000	12,000,000	15,000,000	0.150	7 January 2000 to 6 January 2008	
	1,000,000	-	1,000,000	4,000,000	5,000,000	0.515	23 May 2000 to 22 May 2008	
Mr. Li Zhi Sheng	1,000,000	-	1,000,000	4,000,000	5,000,000	0.515	23 May 2000 to 22 May 2008	
Mr. Cheng Wing Tsan	-	200,000	200,000	800,000	1,000,000	0.515	20 July 2001 to 19 July 2009	
Mr. Zhu Rong	1,000,000	-	1,000,000	4,000,000	5,000,000	0.150	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, as well as adjusted from the US currency to the HK currency.

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. Under the Scheme, the board of directors was authorised, at its absolute discretion, to grant options to employees, including directors of the Company or any of its subsidiaries, to subscribe for shares in the Company under the terms of the Scheme. Details of the share options granted to the directors under the Scheme are as follows:

Name of director	Date of grant	Number of share option granted	Exercise price per share HK\$	Exercise period of options
Mr. Wu Shu Min	7 March 2002	10,000,000	0.465	7 March 2002 to 21 December 2011
Mr. Chang Ye Min, William	7 March 2002	10,000,000	0.465	7 March 2002 to 21 December 2011
Mr. Li Zhi Sheng	7 March 2002	10,000,000	0.465	7 March 2002 to 21 December 2011
Mr. Cheng Wing Tsan	7 March 2002	10,000,000	0.465	7 March 2002 to 21 December 2011

Save as disclosed above, at no time during the periods under review was the Company or any of its subsidiaries a party to any arrangement to enable the Company's directors, their respective spouse, or children under 18 years of age to acquire benefits by means of the acquisition of shares in 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	13.87%	194,823,000
Multico Holdings Limited	25.84%	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.

## Shares Pledged by Initial Management Shareholder

Referring to the announcement dated 7 March 2002, on 5 March 2002, Mr. Zhu Rong, one of the initial management shareholders, has pledged approximately 59.9 million of his shares in the Company to an authorised institution as security for an overdraft facility to himself. He has confirmed to the Company that the pledged shares will be held by a nominee of the authorised institution for the remaining term of the moratorium period up to and including 29 November 2002.

## 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

As required by Rule 5.23 of the GEM Listing Rules, the Company has established an audit committee with written terms of reference which deal clearly with its authority and duties. The audit committee's primary duties are to review and to supervise the financial reporting process and internal control system of the Group and to provide advice and comments to the directors of the Company.

The audit committee comprises an executive director, Mr. Wu Sun Min, and two independent non-executive directors, namely, Mr. Chan Wai Dune and Mr. Ng Ching Wo. Mr. Chan Wai Dune is the chairman of the audit committee.



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

During the nine months ended 30 June 2002, 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, 9 August 2002