IIN

IIN INTERNATIONAL LIMITED

(incorporated in the Cayman Islands with limited liability)

First Quarterly Report 2003

www.iini.com

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.

Highlights

- Turnover for the quarter under review rose approximately 158% to HK$43.8 million compared with HK$17.0 million for the same period of 2001.

- Gross profit for the quarter under review rose approximately 51% to HK$7.1 million compared with HK$4.7 million for the same period of 2001.

- The Group completed the acquisition of Shengxin to capture incremental revenue and profits in the infrastructure and transmission markets through upstream vertical integration.

- The Board does not recommend the payment of an interim dividend for the Three Month Period.

Business Review

With the completion of China Telecom Group's ("China Telecom") restructuring and the successful initial public offering of China Telecom Corporation Limited, the telecommunications sector in the People's Republic of China (the "PRC") is now regaining its growth momentum. Projects of IIN International Limited (the "Company") together with its subsidiaries (the "Group" or "IIN") under negotiations that were previously delayed are once again making satisfactory progress or being finalised.

During the quarter under review, the Group's subsidiary, Hunan IIN-Galaxy Software Development Co., Limited, signed a commercial contract to provide Local Exchange Network Management and Monitoring System to the Provincial Telecommunications Corporation ("PTC") of China Telecom in Jiangsu Province.

The contract, amounting to approximately RMB25.2 million covered the management and monitoring systems for Jiangsu PTC's 12 local exchange networks and its provincial network. The contract also included the provision of the Group's proprietary application software, third party hardware, infrastructure construction and integration of related monitoring systems and technical services.

Jiangsu PTC is one of the largest enterprises within China Telecom and is also one of the four provincial telecommunications carriers selected for China Telecom Corporation Limited's initial public offering. There are a total of 13 local exchange networks under Jiangsu PTC, and the Group signed a contract in April 2002 to start testing one of them in Suzhou.

The winning of the Jiangsu PTC contract, together with the Group's previous contract with Yunnan PTC as the two pilot sites selected by China Telecom for operational efficiency consolidation and streamlining, demonstrates the Group's strong capability in network management solutions as well as its reception by China Telecom as a network management solutions vendor.

The Group made a strategic decision last year to enter the transmission segment of the telecommunications market. In December 2002, the Group completed the acquisition of Future Frontier Limited ("Future Frontier") which holds a controlling interest in Wujiang Shengxin Optoelectronics Technology Co., Ltd. ("Shengxin"). The Group currently engages in the provision of network solutions at the system and sub-system level while Shengxin manufactures and markets communication cables and optical fiber cables in the transmission segment, together providing complementary product portfolio to the PRC telecommunications operators. The acquisition presents the Group with the opportunity for upstream vertical integration to increase turnover and profits in the infrastructure and transmission markets. The Group is optimistic that Shengxin will continue to deliver solid performance, bringing the Group positive financial contributions.

In 2002, the Group also entered into the high-growth e-government sector through the acquisition of Telechina Group Limited, the investment holding company of Hunan Modern Time Technology Limited ("HNMTT"). Through HNMTT, the Group will be able to further expand its clientele to selected government enterprises. The Group is optimistic that e-government projects will become an incremental revenue and profit generator to the Group in the future.

Network Infrastructure and Network Management Solutions

During the quarter under review, providing network infrastructure solutions continued to be the Group's core revenue generator. It represented HK$34.1 million, or 78% of the Group's turnover. Network management solutions contributed to 4% of the Group's turnover, amounting to HK$1.7 million. The provision of network solutions, including design, implementation and maintenance of network systems for the PRC customers in sectors other than telecommunication in the PRC, contributed to 18% of the Group's turnover, amounting to HK$8.0 million. These customers included mainly government agencies and state-owned enterprises.

Corporate Development

In December 2002, the Group completed the acquisition of Future Frontier, the investment holding company that holds 51% equity interest in Shengxin. The total consideration of HK$59.6 million was satisfied by the issue and allotment of 22,680,000 new shares of the Company at an issue price of HK$0.6 per share and cash payment of HK$46.0 million. Part of the proceeds from the Company's new issue and placement of shares to the public in November 2001 and the exercise of the Over-allotment Option in December 2001 was used to effect the cash payment.

Financial Review

Projects previously delayed due to China Telecom's restructuring have resumed their progress, the Group's turnover for the quarter under review was HK$43.8 million, representing an increase of 157.6%, compared with HK$17.0 million for the same quarter last year. The Group's gross profit margin dropped to 16% in the quarter under review as compared with 27% for the same quarter last year. This was because a major portion of the Group's turnover in the quarter under review was contributed from network infrastructure solutions which normally has a lower profit margin as compared with the Group's proprietary software products used in network management solutions.

Administrative expenses rose to HK$9.2 million for the quarter under review, compared with HK$6.7 million for the same quarter last year mainly due to (i) increase in staff cost (including directors' emoluments) of HK$0.6 million, representing an increase of 23.0%; (ii) increase in traveling and entertainment expenses of HK$0.6 million, representing an increase of 48.6%; and (iii) increase in office rental expenses of HK$0.4 million, representing an increase of 115.1% due to office contract renewal and relocation. Selling and distribution cost for the quarter under review totaled HK$2.3 million, compared with HK$1.1 million for the same quarter last year. The selling and distribution cost increased substantially due to the Group's ongoing efforts to maintain a high quality marketing force to increase its share of the network solutions market in the PRC, given the revival of business activities following the completion of the restructuring of China Telecom and the successful initial public offering of China Telecom Corporation Limited, as evidenced by and in line with the growth in turnover of the Group.

Due to the increase in administrative expenses and the selling and distribution costs, the Group reported a net loss of HK$5.5 million, compared with a net loss of HK$3.6 million for the same quarter last year.

Efforts are being made by management to further streamline operations and rationalise costs in order to improve profit levels of the Group.

Prospects

With the completion of China Telecom's restructuring, the PRC telecommunications infrastructure investment is now showing its steady growth pace. Competitions among telecommunications carriers will also intensify under this more sophisticated and more open market. The previously delayed projects due to China Telecom's restructuring have been re-initiated and are making satisfactory progress or being finalised.

The demand for quality network infrastructure solutions and network management solutions will accelerate as the incumbent and new telecommunications operators compete on service quality and operational efficiency. The Group is confident that its established advantage as a network solutions provider is capable of providing a comprehensive suite of proprietary telecommunications network management solutions, coupled with last year's strategic acquisitions and consolidation, have created a solid organisation poised to take full advantage of the immense business opportunities.

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 2002 together with the comparative unaudited figures for the corresponding period in 2001 as follows:

	Notes	For the three months period ended 31 December 2002 HK$'000	31 December 2001 HK$'000
Turnover	2	43,764	16,987
Cost of sales		(36,698)	(12,323)
Gross profit		7,066	4,664
Other revenue		318	802
Selling and distribution costs		(2,293)	(1,092)
Administrative expenses		(9,171)	(6,744)
Other operating expenses		(539)	(344)
Loss from operating activities	3	(4,619)	(2,714)
Finance costs		(856)	(1,743)
Loss before tax		(5,475)	(4,457)
Tax	4	–	–
LOSS BEFORE MINORITY INTERESTS		(5,475)	(4,457)
Minority interests		(32)	880
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		(5,507)	(3,577)
Dividend	5	–	–
LOSS PER SHARE	6		
Basic		(0.39) cents	(0.33) cents
Diluted		–	–

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 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 II 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 telecommunication 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 Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

The directors consider that this basis provides meaningful information for shareholders as regard the historical performance of the companies now comprising the Group. All significant intra-group transactions and balances have been eliminated on consolidation. The unaudited consolidated results have not been audited nor reviewed by the Company's auditors, but have been reviewed by the Company's audit committee.

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.

An analysis of the Group's turnover is as follows:

	For the three months ended	
	31 December 2002 HK$'000	31 December 2001 HK$'000
Telecommunications network infrastructure solutions	34,134	7,794
Network management solutions	1,653	4,066
Other network solutions for sectors other than telecommunications	7,977	5,127
	43,764	16,987

3. Loss from operating activities

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

	For the three months ended 31 December 2002 HK$'000	31 December 2001 HK$'000
Staff costs (including directors' emoluments)	4,550	3,104
Depreciation	1,004	686
Amortisation of deferred development costs	344	344
Amortisation of goodwill	195	–
Minimum lease payments under operating leases in respect of land and buildings	1,002	497

4. Tax

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong during the three months ended 31 December 2002 (2001: Nil).

PRC corporate income tax has not been provided as the Group did not generate any net assessable profits attributable to their operations in the PRC during the three months ended 31 December 2002 (2001: Nil).

Deferred tax has not been provided as there were no significant timing differences which would give rise to a deferred tax liability as at 31 December 2002 (2001: Nil).

5. Dividend

The Board does not recommend payment of an interim dividend for the period under review (2001: Nil).

6. Loss per share

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the three months ended 31 December 2002 of HK$5,507,000 (2001: HK$3,577,000) and the weighted average of 1,417,781,698 shares (2001: 1,072,391,439 shares) in issue during the three months ended 31 December 2002.

The diluted loss per share amount for the three months ended 31 December 2002 and 2001 has not been presented as the potential ordinary shares outstanding had an anti-dilutive effect on the basic loss per share for the three months ended 31 December 2002 and 2001.

7. Reserves

Movement in reserves for the three months ended 31 December 2002 and 2001 were as follows:

	Retained profits/ (accumulated losses) HK$'000	Share premium account HK$'000	Statutory reserve HK$'000	Asset revaluation reserve HK$'000	Exchange fluctuation reserve HK$'000	Capital reserve HK$'000	Total HK$'000
At 1 October 2001	24,954	83,749	4	4,171	(13)	(11,742)	101,123
Capitalisation of shares	–	(69,652)	–	–	–	–	(69,652)
New issue and placing of shares to the public	–	109,318	–	–	–	–	109,318
Listing and share issue expenses	–	(25,410)	–	–	–	–	(25,410)
Net loss for the period	(3,577)	–	–	–	–	–	(3,577)
Special Dividend	–	(44,566)	–	–	–	–	(44,566)
At 31 December 2001	21,377	53,439	4	4,171	(13)	(11,742)	67,236
At 1 October 2002	(29,468)	54,102	4	4,463	(13)	(7,742)	21,346
New issue of shares upon acquisition of subsidiaries	–	862	–	–	–	–	862
Net loss for the period	(5,507)	–	–	–	–	–	(5,507)
At 31 December 2002	(34,975)	54,964	4	4,463	(13)	(7,742)	16,701

Directors' and Chief Executives' Interests in Share Capital

As at 31 December 2002, 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 or as required, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

	Number of issued ordinary shares of US$0.01 each in the Company held and nature of interests				
Name of director	Personal	Family	Corporate	Other	Total
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, as at 31 December 2002, none of the directors and chief executives 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 or which required, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

Directors' and Chief Executives' 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 and chief executives 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:

	Number of shares subject to Pre-IPO Share Option						
Name of director	As at 1 October 2000	Granted in July 2001	As at 30 September 2001	Adjusted for consolidation and capitalisation of shares subsequent to 30 September 2001	As at the date of this report	Adjusted exercise price per share, HK$*	Exercise period of share options
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. Chang 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 on 22 November 2001, as well as adjusted from the US currency to the HK currency on 1 March 2002.

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 period 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 of its subsidiary, and none of the directors, or their spouses or children under 18 years of age, had any right to subscribe for the shares of the Company, or had exercised any such right during the period under review.

Substantial Shareholders

As at 31 December 2002, 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	13.56%	194,823,000
Multico Holdings Limited	25.27%	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 as at 31 December 2002.

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.

Competition and Conflicts of Interest

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 conflicts of interest with the Group.

Sponsors' Interests

As at 31 December 2002, as updated by the Company's sponsor, Core Pacific – Yamaichi Capital Limited ("CPY"), neither CPY nor its directors, employees or associates (as referred to Note 3 to Rule 6.35 of the GEM Listing Rules) had 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 or until the agreement is terminated pursuant to the terms and conditions set out therein.

Audit Committee

As required by Rule 5.23, 5.24 and 5.25 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. The audit committee has reviewed the Group's unaudited results for the three months ended 31 December 2002 and has provided advice and comment thereon.

Purchase, Redemption or Sale of Listed Securities of the Company

During the three months ended 31 December 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, 12 February 2003