IIN

IIN INTERNATIONAL LIMITED

(incorporated in the Cayman Islands with limited liability)

Interim Report 2003

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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

- Gross profit increased 32% from HK$7.1 million for the quarter ended 31 December 2002 ("First Quarter") to HK$9.4 million for the quarter ended 31 March 2003 ("Second Quarter") and the gross profit margin increased from 16% for the First Quarter to 26% for the Second Quarter. The increases in gross profit and gross profit margin were mainly due to the increase in the provision of the Group's proprietary network management solutions, which have higher profit margins, to the telecommunications carriers in the People's Republic of China (the "PRC").

- The acquisition of Future Frontier Limited ("Future Frontier") was completed in December 2002 and Future Frontier's results began to be consolidated into the Group's financial results for the Second Quarter.

	For the three months ended	
	31 March 2003 HK$'000 (Unaudited)	31 December 2002 HK$'000 (Unaudited)
Turnover	36,478	43,764
Cost of sales	27,104	36,698
Gross profit	9,374	7,066
Loss from operating activities	(3,424)	(4,619)
Net loss form ordinary activities attributable to shareholders	(4,375)	(5,507)

Business Review

The completion of China Telecom Group's ("China Telecom") corporate restructuring and its successful global initial public offering of China Telecom Corporation Limited marked a new era of the telecommunications sector in the PRC. This sector continues to provide IIN International Limited (the "Company") together with its subsidiaries (the "Group") with opportunities and challenges. As the PRC telecommunications sector is regaining momentum steadily, there is increasing competition among the growing number of the PRC telecommunications carriers. The PRC telecommunications carriers are shifting their focus on optimizing management systems and facilitating value-added services that allow room for greater competitiveness and profitability. This has resulted in a growing demand for quality network infrastructure and network management solutions. Nonetheless, the keen competition among the PRC telecommunications network solutions providers to tender network infrastructure and network management solutions projects are experienced. The profit margins are squeezed and the business environment is competitive in the PRC telecommunications market.

Despite the difficult business environment, during the Second Quarter, the Group recorded 32% growth in the gross profit over the First Quarter and the gross profit margin rose from 16% in the First Quarter to 26% in the Second Quarter , primarily due to the increase in the provision of the Group's proprietary network management solutions, which have higher profit margins, to the PRC telecommunications carriers.

Network infrastructure solutions continued to be the Group's core revenue generator during the six months ended 31 March 2003 (the "Review Period"), representing approximately HK$35.6 million, or 44% of the Group's turnover. Network management solutions accounted for 28% of the Group's turnover amounting to approximately HK$22.3 million. Another business segment was the provision of other network solutions for customers in other market sectors in the PRC, focusing on governmental and enterprise projects. This segment accounted for approximately HK$12.8 million, representing 16% of the Group's turnover during the Review Period.

During the Review Period, 12% of the Group's turnover, approximately HK$9.5 million, was contributed by the newly established transmission segment, following the completion of acquisition of Future Frontier and its 51% equity interests in Wujiang Shengxin Optoelectronics Technology Co., Ltd. ("Shengxin") in December 2002. Shengxin manufactures and markets communication cables and optical cables for the transmission market, providing a product portfolio to the PRC telecommunications operators complementary to that of the Group. Shengxin's revenue rose 164% to approximately HK$9.5 million during the quarter ended 31 March 2003 compared with approximately HK$3.6 million as per its unaudited management account for the same quarter in 2002. The Group is optimistic that the acquisition will further complement the Group's marketing resources and sales network, resulting in increase in business volume.

Prospects

After the rapid growth in the PRC telecommunications sector in the previous years, China's Ministry of Information Industry projected telecommunications revenue to reach approximately RMB460 billion in 2003, representing a growth rate of 12% over 2002, down from 15% over that of the previous year. Investments in fixed assets for the overall telecommunications market in the PRC, after posting a negative growth rate of 20% for 2002, were projected to have a flat growth rate for the year 2003. Coupled with the intense competition among the PRC telecommunications carriers, the Group expected to continue to experience pressure on the profit margin of the network infrastructure solutions and network management solutions projects.

Amidst the difficult economic environment in the year ahead, the Group is confident that the growth in demand for quality network infrastructure solutions and network management solutions by the telecommunications carriers to compete on service quality and operational efficiency, together with the re-initiation of previously delayed projects due to China Telecom's corporate restructuring, will unleash tremendous opportunities for the Group to tap on.

Besides, there is increasing need to upgrade the PRC telecommunications transmission quality while at the same time more and more new telecommunications operators are entering the market. These factors will fuel the growth of the PRC transmission market, which is expected to grow at a strong and healthy pace. The Group is optimistic that the acquisition of Future Frontier will present the Group with the opportunity for upstream vertical integration to increase turnover and profits in the infrastructure and transmission markets.

The technology agreement signed with Changsha Galaxy Computer Company, an entity under National University of Defense and Technology ("NUDT"), expired in May 2002 and a supplemental agreement concluding respective responsibilities of both parties was reached in February 2003. The Group will continue to explore collaboration opportunities with NUDT to continue receiving their technology advice and to commercialise viable development projects.

The Group, while focuses on exploring more business opportunities, will make concerted efforts to sustain solid revenue growth against a well-managed and competitive cost base. Most of the measures for enhancing efficiency and cost control were implemented in the Second Quarter. The Group expects the effects of these cost control measures will be reflected in the coming quarters.

Progress against Business Objectives

The following is a comparison of actual business progress in the Review Period and the business objectives for the same period as set out in the prospectus of the Company dated 26 November 2001 (the "Prospectus"). The Group reviews its business objectives and strategies on an ongoing basis and makes adjustments as necessary.

Research and Product Development

As stated in the Company's 2002 Annual Report, the Group reviewed its research and development strategy in consideration of the restructuring of the PRC telecommunications market. Certain products under development were rationalized to expand their respective specifications to cater for additional operator requirements including China Telecom, China Netcom, China Mobile and China Unicom etc., as applicable ("generalized version").

	Business objectives for the Review Period as set out in the Prospectus	**Actual business progress in the Review Period**
Unicom version 1.0 for the CPEM 8000 Power and Environment Monitoring System	Complete the development by 31 March 2003	This system will be covered by a generalized version 7.0 and its development is expected to be completed by September 2003.
China Telecom version 2.0 for the IIN-Acterna PSTN SS7 Signalling Monitoring System	Complete the development by 31 March 2003	The Company continues to seek co-operative partners to further develop this system. A generalized version 2.0 is under development.
China Telecom version 3.0 for the Local Exchange Network Management and Monitoring System	Complete the development by 31 March 2003	Initial research, planning, feasibility study and software design are in progress. The development is expected to be completed by September 2003.

Research and Product Development

	Business objectives for the Review Period as set out in the Prospectus	Actual business progress in the Review Period
Unicom version 1.0 for the IP network management and monitoring system	Complete the development by 31 March 2003	The development was pending in accordance with the market demand.
China Telecom version 8.0 and China Mobile version 3.0 for the CPEM 8000 Power and Environmental Monitoring System	Commence the development by 31 March 2003	This system will be covered by a generalized version 7.0 and its development is expected to be completed by September 2003.
China Mobile version 2.0 for the IIN-Acterna PSTN SS7 Signalling Monitoring System	Commence the development by 31 March 2003	A generalized version 2.0 is under development.
China Telecom version 3.0 for the Network Management and Safeguard System	Commence the development by 31 March 2003	Initial research, planning, feasibility study and software design are in progress. The development is expected to be completed by September 2003.
China Telecom version 3.0 and China Mobile version 2.0 for the IP network management and monitoring system	Commence the development by 31 March 2003	The development was delayed in accordance with the market demand and the completion of a test report by a PTC trial site.
China Telecom version 2.0 for the Unified Communications System	Commence the development by 31 March 2003	The development and launch of this system were delayed pending market readiness.
China Telecom version 2.0 for the Broadband Access Network Management System	Commence the development by 31 March 2003	The development and launch of this system were delayed pending market readiness.

Sales and Marketing

	Business objectives for the Review Period as set out in the Prospectus	Actual business progress in the Review Period
Unicom version 1.0 for the CPEM 8000 Power and Environmental Monitoring System	Formally launch the system by 31 March 2003	This system will be covered by a generalized version 7.0 and its development is expected to be completed by September 2003. The launch work will commence subsequent to the completion of development.
China Telecom version 2.0 for the IIN-Acterna PSTN SS7 Signalling Monitoring System	Formally launch the system by 31 March 2003	This system will be covered by a generalized version 2.0. The launch work will commence subsequent to the completion of development.
China Telecom version 3.0 for the Local Exchange Network Management and Monitoring System	Formally launch the system by 31 March 2003	The development of this system is expected to be completed by September 2003. The launch work will commence subsequent to the completion of development.
Unicom version 1.0 for the IP network management and monitoring system	Formally launch the system by 31 March 2003	As the development of this version was delayed, the launch work did not commence.
Representative Office	Establish a new representative office	The decision to establish new representative offices will be made in accordance with the business need.

Strategic Alliance and Acquisitions

Business objectives for the Review Period as set out in the Prospectus	Actual business progress in the Review Period
Continue business pursuit of previous years	In December 2002, the Group completed the acquisition of Future Frontier and its 51% equity interests in Shengxin, presenting the Group the opportunity for upstream vertical integration to increase turnover and profits in the infrastructure and transmission markets. In addition, the Group continues to seek suitable technology partners or application vendors in the areas of network management solutions and the broadband value-added services.

Use of Proceeds from the Placing

Proceeds from the Placing and from the exercise of the over-allotment options in connection with the Placing which remains unutilized as at 31 March 2003 amounted to approximately HK$10.2 million.

The table below summarizes the actual and intended use of proceeds from the Placing by the Company:

Use of Proceeds from the Placing	Planned usage according to the Prospectus (HK$ million)	Acquisition of Future Frontier (HK$ million) Note (1)	Actual usage before 31 March 2003 (HK$ million) Note (2)	Unutilized proceeds as at 31 March 2003 (HK$ million)
1. Repayment of convertible bonds	37.0	–	37.0	–
2. Research and development in developing new network solutions	17.5	–	11.3	6.2
3. Upgrade of existing network solutions	14.0	–	12.0	2.0
4. Purchase of new network, equipment and/or software for the existing offices of the Group and establishment of new representative offices in major PRC provinces	10.0	6.5	1.5	2.0
5. Ongoing working capital	49.3	39.5	9.8	–
	127.8	46.0	71.6	10.2

Note 1: The Group re-directed certain portion of the unutilized proceeds from the Placing to acquire Future Frontier which holds 51% equity interests in Shengxin. Details of which were set out in the circular to shareholders dated 16 December 2002.

Note 2: Excluding the proceeds re-directed for the acquisition of Future Frontier as detailed in note (1) above.

Financial Review

The Group's turnover during the Review Period rose 66% to approximately HK$80.2 million (2002: approximately HK$48.2 million). Excluding contribution from Future Frontier to the Group of approximately HK$9.5 million in the Second Quarter, the Group's turnover was approximately HK$70.7 million which represented 47% increase compared with the same period last year. The increase in turnover was mainly attributable to resumption of capital investment in infrastructure by China Telecom following its completion of corporate restructuring.

The Group's gross profit margin dropped to 20% during the Review Period as compared with 41% for the same period last year. This was mainly because of increased market competition and the Group's turnover for the First Quarter was mainly contributed from network infrastructure solutions which have lower profit margin as compared with the Group's proprietary software products used in network management solutions.

Though the gross profit margin for the Review Period was lower than the same period last year, the Group recorded an increase in gross profit margin from 16% to 26% over the First Quarter. Gross profit also increased 32% from approximately HK$7.1 million to approximately HK$9.4 million over the First Quarter. This was attributable to the turnover generated from network management solutions for the Second Quarter which have a higher profit margin as compared with that of network infrastructure solutions. The Group will continue to seek more business opportunities in network management solutions, while maintaining its strong foothold in the network infrastructure solutions market.

During the Review Period, the net loss from ordinary activities attributable to shareholders of the Group was HK$9.9 million (2002: net profit of HK$0.2 million). The net loss was mainly attributable to lower profit margin as a result of increased competition and relatively high operating expenses.

Selling and distribution cost and administrative expenses rose to approximately HK$5.0 million and HK$18.8 million during the Review Period, compared with approximately HK$3.9 million and HK$15.7 million, respectively, over the same period last year. The increase in selling and distribution cost and administrative expenses, in line with the growth in turnover of the Group, was due to the increased marketing activities for broader geographical marketing and sales opportunities and the hiring of high caliber marketing personnel.

The Group has started to implement measures in controlling the selling and distribution cost and administrative expenses in the Second Quarter in order to lower the operating expenses of the Group. As a result of these, the selling and distribution cost decreased by HK$0.2 million and administrative expenses decreased by HK$0.4 million in the Second Quarter as compared with the First Quarter (excluding the expenditures incurred by the newly acquired Future Frontier). The Group continues its efforts in these areas and expects further improvement in cost control to be reflected in the coming quarters.

Segmental Information

During the Review Period, turnover generated from network infrastructure solutions increased 13% to approximately HK$35.6 million (2002: approximately HK$31.4 million). Turnover generated from network management solutions increased 94% to approximately HK$22.3 million (2002: approximately HK$11.5 million). Turnover generated from provision of other network solutions for governmental and enterprise customers increased 146% to approximately HK$12.8 million (2002: approximately HK$5.2 million). Turnover generated from the transmission segment, as contributed by the newly acquired Future Frontier, amounted to approximately HK$9.5 million.

Though there was growth in turnover generated from provision of network infrastructure solutions and other network solutions, operating results from those segments recorded a loss of approximately HK$10.5 million and a loss of approximately HK$2.0 million respectively in the Review Period (2002: approximately HK$4.1 million and approximately HK$0.1 million respectively). This was attributed to the lowered profit margin as a result of intense competition.

Contribution from the provision of network management solutions for the Review Period was a profit of approximately HK$3.6 million (2002: approximately HK$3.8 million).

Segment results from the newly acquired Future Frontier contributed to a profit of approximately HK$0.4 million for the Review Period, before the amortization of goodwill of HK$0.6 million.

Order Book

During the Review Period, the Group has secured approximately HK$30.0 million contracts on hand.

Liquidity and Financial Resources

The Group adhered to a prudent financial management policy and continued to be in a healthy financial position with net current assets as at 31 March 2003 at approximately HK$51.3 million (30 September 2002: approximately HK$71.7 million).

As at 31 March 2003, the Group had cash on hand and deposits placed in banks amounted to approximately HK$53.3 million (30 September 2002: approximately HK$72.2 million).

As at 31 March 2003, the Group's total bank borrowings amounted to RMB67.7 million (equivalent to approximately HK$63.3 million) (30 September 2002: RMB71.1 million (equivalent to approximately HK$66.4 million)) at interest rates ranging from 5.5% per annum to 6.4% per annum which are repayable within one year.

Capital Structure

During the Review Period, the Company issued 22,680,000 new ordinary shares of US$0.01 each, valued at HK$0.116 per share, which is the fair value based on the closing price quoted on the Stock Exchange at the date of completion of the acquisition, as part of the consideration paid for acquisitions of subsidiaries.

Treasury Policies

The Group continues to adopt a conservative treasury policy with all bank deposits being kept in either Hong Kong Dollars, or in the local currencies of the operating subsidiaries, keeping a minimum exposure to foreign exchange risks.

Capital Commitments and Significant Investments

As at 31 March 2003, the Group did not have any significant capital commitments and investments.

Material Acquisition/Disposals

Save for the completion of the acquisition of 100% equity interests in Future Frontier which holds 51% equity interests in Shengxin in December 2002, the Group had no other material acquisitions or disposals of subsidiaries and affiliated companies during the Review Period.

Details of Future Plans for Material Investment or Capital Assets

As at 31 March 2003, the Group does not have any future plans for material investment or capital assets.

Contigent Liabilities

The Group did not have any significant contingent liabilities at 31 March 2003.

Employees

As at 31 March 2003, the Group employed 175 staff as compared with that of 205 staff for the same period last year. The drop in the number of staff during the interim period under review was due to the Group's efforts to streamline operations and rationalize costs in order to improve profitability of the Group. The staff cost, including directors' emoluments was approximately HK$7.8 million for the Review Period as compared with approximately HK$8.5 million for the same period of the preceding financial year. The decrease of staff cost was attributable to the decrease in number of staff and cost control measures taken.

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

Charges on Group Asset

As at 31 March 2003, the bank loans of the Group were secured by (1) charges on the Group's fixed deposits of approximately HK$43.1 million; (2) a legal charge on the Group's leasehold land and buildings with a net book value of approximately HK$26.6 million; (3) a legal charge on the Group's machineries and motor vehicle with a net book value of approximately HK$6.5 million; (4) guarantee provided by an independent third party of approximately HK$1.9 million; and (5) fixed deposits placed by the shareholders of a non-wholly owned subsidiary of approximately HK$1.8 million.

Gearing Ratio

As at 31 March 2003, the gearing ratio of the Group, based on total liabilities over total assets was approximately 46.3% (30 September 2002: approximately 44.2%).

Foreign Exchange Exposure

The Group mainly earns revenue and incurs cost in Renminbi. The Directors consider that the impact of foreign exchange exposure of the Group is minimal.

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 six months ended 31 March 2003 together with the unaudited comparative figures for the corresponding periods in 2002 as follows:

Condensed Consolidated Profits And Loss Account

	Notes	Three months ended 31 March 2003 HK$'000 (Unaudited)	Three months ended 31 March 2002 HK$'000 (Unaudited)	Six months ended 31 March 2003 HK$'000 (Unaudited)	Six months ended 31 March 2002 HK$'000 (Unaudited)
Turnover		36,478	31,164	80,242	48,151
Cost of sales		(27,104)	(15,994)	(63,802)	(28,318)
Gross profit		9,374	15,170	16,440	19,833
Other revenue		709	672	1,028	1,474
Selling and distribution costs		(2,715)	(2,825)	(5,009)	(3,917)
Administrative expenses		(9,660)	(8,920)	(18,830)	(15,663)
Other operating expenses		(1,132)	(340)	(1,672)	(684)
Profit/(loss) from operating activities	4	(3,424)	3,757	(8,043)	1,043
Finance costs		(995)	(630)	(1,851)	(2,373)
Profit/(loss) before tax		(4,419)	3,127	(9,894)	(1,330)
Tax	5	–	–	–	–
PROFIT/(LOSS) BEFORE MINORITY INTERESTS		(4,419)	3,127	(9,894)	(1,330)
Minority interests		44	656	12	1,534
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		(4,375)	3,783	(9,882)	204
Dividend	6	–	–	–	–
EARNINGS/(LOSS) PER SHARE	7				
– Basic		HK(0.30) cents	HK0.27 cents	HK(0.69) cents	HK0.02 cents
– Diluted		N/A	HK0.26 cents	N/A	HK0.02 cents

Condensed Consolidated Balance Sheet
31 March 2003

	Notes	31 March 2003 HK$'000 (Unaudited)	30 September 2002 HK$'000 (Audited)
NON-CURRENT ASSETS			
Fixed assets	8	45,937	29,748
Intangible assets	9	2,853	3,102
Rental deposits and golf club membership		1,532	1,819
Goodwill	10	36,793	2,146
Deposit paid for proposed acquisition of an unlisted investment	11	–	24,000
		87,115	60,815
CURRENT ASSETS			
Inventories	12	14,934	1,897
Trade and retention receivables	13	86,850	64,846
Prepayments, deposits paid and other deposits and other receivables		12,692	35,479
Due from related companies		2,647	2,404
Pledged bank deposits		43,092	56,592
Cash and bank balances		10,184	15,605
		170,399	176,823
CURRENT LIABILITIES			
Trade payables	14	30,502	21,613
Accrued liabilities, deposits received and other payables		22,841	14,562
Interest-bearing bank borrowings, secured		63,271	66,449
Tax payable		2,488	2,488
		119,102	105,112
NET CURRENT ASSETS		51,297	71,711
TOTAL ASSETS LESS CURRENT LIABILITIES		138,412	132,526
MINORITY INTERESTS		14,045	908
		124,367	131,618
CAPITAL AND RESERVES			
Issued capital	15	112,041	110,272
Reserves		12,326	21,346
		124,367	131,618

Condensed Consolidated Statement of Changes in Equity (Unaudited)

For the six months ended 31 March 2003

	Share capital HK$'000	Share premium account HK$'000	Retained profits/ (accumulated losses) 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 2002	110,272	54,102	(29,468)	4	4,463	(13)	(7,742)	131,618
New issue of shares upon acquisition of subsidiaries	1,769	862	–	–	–	–	–	2,631
Net loss for the period	–	–	(9,882)	–	–	–	–	(9,882)
At 31 March 2003	112,041	54,964	(39,350)	4	4,463	(13)	(7,742)	124,367
At 1 October 2001	1,414	83,749	24,954	4	4,171	(13)	(11,742)	102,537
Special Dividend	–	(44,566)	–	–	–	–	–	(44,566)
Capitalisation of share premium account	69,652	(69,652)	–	–	–	–	–	–
New issue and placing of shares to the public	38,409	109,318	–	–	–	–	–	147,727
Share issue expenses	–	(25,410)	–	–	–	–	–	(25,410)
Net profit for the period	–	–	204	–	–	–	–	204
Exchange realignment	–	–	–	–	–	(1)	–	(1)
At 31 March 2002	109,475	53,439	25,158	4	4,171	(14)	(11,742)	180,491

Condensed Consolidated Cash Flow Statement
For the six months ended 31 March 2003

	Six months ended 31 March	
	2003	2002
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Net cash inflow/(outflow) from operating activities	13,213	(26,272)
Net cash outflow from investing activities	(20,788)	(974)
Net cash inflow from financing activities	2,154	89,401
Increase/(decrease) in cash and cash equivalents	(5,421)	62,155
Effect of foreign exchange rate changes, net	–	1
Cash and cash equivalents at beginning of period	15,605	4,507
Cash and cash equivalents at end of period	10,184	66,663

Notes:

1. Basis of preparation and accounting policies

The unaudited condensed interim financial statements have been prepared in accordance with the Hong Kong Statement of Standard Accounting Practice ("SSAP"s) No. 25 " Interim Financial Reporting" issued by the Hong Kong Society of Accountants ("HKSA") and the disclosure requirements set out in Chapter 18 of the GEM Listing Rules.

The unaudited condensed interim financial statements are unaudited but have been reviewed by the audit committee of the Company.

The accounting policies adopted are consistent with those set out in the annual financial statements for the year ended 30 September 2002, except as described below:

The accounting policies adopted, for the first time for the current period's unaudited condensed interim financial statements, a number of new and revised SSAPs issued by HKSA as follows:

SSAP 1 (Revised)	:	"Presentation of financial statements"
SSAP 11 (Revised)	:	"Foreign currency transiation"
SSAP 15 (Revised)	:	"Cash flow statements"
SSAP 34	:	"Employee benefits"

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these interim financial statements of adopting these SSAPs, those SSAPs which have had a significant effect on the interim financial statements, are summarised as follows:

SSAP 1 prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision of this SSAP is that a consolidated statement of changes in equity is now presented on page 11 of the interim report in place of the consolidated statement of recognised gains and losses that was previously required and in place of the Group's reserves note.

SSAP 11 prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the profit and loss accounts of overseas subsidiaries are now translated into Hong Kong dollars at the weighted average exchange rates for the period, whereas previously they were translated at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAP 11 had no material effect on the financial statements.

SSAP 15 prescribes the revised format of the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three heading, cash flows from operation, investing and financing activities, rather than the five headings previously required. In addition, cash flows from overseas subsidiaries arising during the period are now translated into Hong Kong dollars at the exchange rates at the dates of the transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates at the balance sheet date. Further details of these changes are included in the accounting policy "Foreign currencies".

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has no material change to the previously adopted accounting treatments for employee benefits. In addition, disclosures are now required in respect of the Company's share option scheme, as detailed in note 15 to the financial statements. These share option scheme disclosures are similar to the Rules Governing the Listing of Securities on the General Enterprise Market (the "GEM Listing Rules") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") disclosures previously included in the section "Directors' and Chief Executives' Rights to Acquire Shares" which are now required to be included in the notes to the financial statements as a consequence of the SSAP.

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries are translated into Hong Kong dollars at the weighted average exchange rates for the period, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the period are translated into Hong Kong dollars at the weighted average exchange rates for the period.

Prior to the adoption of the revised SSAPs 11 and 15 during the period, as explained above, the profit and loss accounts of overseas subsidiaries and the cash flows of overseas subsidiaries were translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAP 11 had no material effect on the financial statements. The adoption of the revised SSAP 15 had no material effect on the amounts of the previously-reported cash flows of the prior period.

Employee benefits

Pension scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident fund Schemes Ordinance for those employees who are eligible to participate in the Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account 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.

The employees of the Group's subsidiary which operates in the PRC are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute certain percentage of its payroll costs to the central pension scheme. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the central pension scheme.

Share options scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charged is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

2. Related party and connected transactions

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

(i) On 31 December 2000, the Group entered into an agreement with IIN Network Education (BVI) Limited ("IIN Education BVI") and IIN Medical Industrial (BVI) Limited ("IIN Medical BVI"), companies beneficially owned by certain directors and shareholders of the Company, for the provision of services, premises and intellectual properties. Pursuant to the agreement, the Group granted for a period of three years commencing from 1 October 2000, to IIN Education BVI, IIN Network Education Limited ("IIN Education HK") and Hunan IIN Network Education Co., Ltd. ("IIN Education PRC"), (collectively known as the "IIN Education Group") and IIN Medical BVI, IIN Medical Industrial Limited ("IIN Medical HK") and Hunan IIN Medical Network Technology Development Co., Ltd. ("IIN Medical PRC"), (collectively known as the "IIN Medical Group"):

(a) a licence to use the Group's office premises on a cost-sharing basis, based on the actual size of the premises occupied or used by the IIN Education Group and the IIN Medical Group, for a monthly fee as agreed between the Company, the IIN Education Group and the IIN Medical Group on the last business day of each calendar month. The maximum annual licence fees charged to IIN Education BVI and IIN Medical BVI are capped at HK$1,500,000 each. During the Review Period, the Group charged licence fees of approximately HK$234,000 (2002: HK$399,000) and HK$359,000 (2002: HK$677,000) to IIN Medical BVI and IIN Education BVI, respectively.

(b) a non-exclusive licence to conduct business using the intellectual properties, including the trademarks and logos of the Company in Hong Kong and the PRC, for a fixed royalty fee of HK$38,000 per annum. During the Review Period, the Group charged royalty fees of approximately HK$19,000 (2002: HK$19,000) and HK$19,000 (2002: HK$19,000) to IIN Medical BVI and IIN Education BVI, respectively.

The granting of the licences by the Group to the IIN Education Group and the IIN Medical Group as set out in (i)(a) above constitutes non-exempt continuing connected transactions under the GEM Listing Rules. In this respect, the Company has obtained a conditional waiver from the Stock Exchange from the announcement requirements and shareholders' approval requirements under the GEM Listing Rules.

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

3. Segmental information

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

(d) the transmission segment consists of manufacturing and marketing of communication cables and optical cables, primarily for communications sectors.

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.

(a) Business segments

Group	Telecommunicatins network infrastructure solutions Six months ended 31 March		Network management solutions Six months ended 31 March		Other network solutions for sectors other than telecommunications Six months ended 31 March		Transmission Six months ended 31 March		Eliminations Six months ended 31 March		Consolidated Six months ended 31 March	
	2003 HK$'000 (Unaudited)	2002 HK$'000 (Unaudited)	2003 HK$'000 (Unaudited)	2002 HK$'000 (Unaudited)	2003 HK$'000 (Unaudited)	2002 HK$'000 (Unaudited)	2003 HK$'000 (Unaudited)	2002 HK$'000 (Unaudited)	2003 HK$'000 (Unaudited)	2002 HK$'000 (Unaudited)	2003 HK$'000 (Unaudited)	2002 HK$'000 (Unaudited)
Segment revenue:												
Sales to external customers	35,636	31,395	22,303	11,543	12,839	5,213	9,464	–			80,242	48,151
Intersegment sales	529	529	–	–	–	–	–	–	(529)	(529)	–	–
Total	36,165	31,924	22,303	11,543	12,839	5,213	9,464	–	(529)	(529)	80,242	48,151
Segment results	(10,487)	(4,110)	3,586	3,804	(1,932)	(125)	(238)	–			(9,071)	(431)
Other revenue											1,028	1,474
Profit/(loss) from operating activities											(8,043)	1,043
Finance costs											(1,851)	(2,373)
Loss before tax											(9,894)	(1,330)
Tax											–	–
Loss before minority interests											(9,894)	(1,330)
Minority interests											12	1,534
Net profit/(loss) from ordinary activities attributable to shareholders											(9,882)	204

Group	Telecommunications network infrastructure solutions		Network management solutions		Other network solutions for sectors other than telecommunications		Transmission		Corporate and other		Consolidated	
	31 March 2003 HK$'000 (Unaudited)	30 September 2002 HK$'000 (Audited)	31 March 2003 HK$'000 (Unaudited)	30 September 2002 HK$'000 (Audited)	31 March 2003 HK$'000 (Unaudited)	30 September 2002 HK$'000 (Audited)	31 March 2003 HK$'000 (Unaudited)	30 September 2002 HK$'000 (Audited)	31 March 2003 HK$'000 (Unaudited)	30 September 2002 HK$'000 (Audited)	31 March 2003 HK$'000 (Unaudited)	30 September 2002 HK$'000 (Audited)
Segment assets	61,147	80,369	41,830	41,219	11,035	11,679	55,636	-			169,648	133,267
Unallocated assets									87,866	104,371	87,866	104,371
Total assets									87,866	104,371	257,514	237,638
Segment liabilities	9,021	23,264	20,610	6,184	6,764	4,675	22,113	-			58,508	34,123
Unallocated liabilities									60,594	70,989	60,594	70,989
Total liabilities									60,594	70,989	119,102	105,112
Other segment information:												
Depreciation	862	1,347	400	735	275	899	224	-	432	808	2,193	3,789
Impairment of goodwill	-	-	-	-	-	-	-	-	-	4,000	-	4,000
Surplus arising on revaluation of leasehold land and buildings	-	-	-	-	-	-	-	-	-	(292)	-	(292)
Amortisation of goodwill	-	-	-	-	-	-	-	-	984	195	984	195
Amortisation of deferred development costs	-	-	688	1,372	-	-	-	-	-	-	688	1,372
Provision for doubtful debts	-	13,674	-	3,386	-	9	-	-	-	93	-	17,162
Capital expenditure	-	318	-	1,635	10	328	101	-	-	1,173	111	3,454

(b) Geographical segments

Over 90% of the Group's revenue, results, 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.

4. Profit/(loss) from operating activities

The Group's profit/(loss) from operating activities is arrived at after charging:

	Three months ended 31 March		Six months ended 31 March	
	2003 HK$'000 (Unaudited)	2002 HK$'000 (Unaudited)	2003 HK$'000 (Unaudited)	2002 HK$'000 (Unaudited)
Cost of sales	27,104	15,994	63,802	28,318
Depreciation	1,189	904	2,193	1,590
Minimum lease payments under operating leases:				
Land and building	1,073	613	2,075	1,110
Staff costs (including directors' emoluments):	3,318	5,075	7,798	8,485
Amortisation of goodwill	789	–	984	–
Amortisation of deferred development costs	344	340	688	684

5. Tax

No provisions for Hong Kong profits tax and PRC corporate income tax have been made as the companies comprising the Group have no assessable profits for the three months and six months ended 31 March 2003 (2002: Nil).

6. Dividend

The Directors do not recommend payment of an interim dividend for the period (2002: Nil).

7. Earnings/(loss) per share

The calculation of the basic loss per share for the three months and six months ended 31 March 2003 is based on the respective unaudited consolidated net loss from ordinary activities attributable to shareholders of approximately HK$4,375,000 and HK$9,882,000 (three months ended 31 March 2002: net profits attributable to shareholder of approximately HK$3,783,000 and six months ended 31 March 2002: net profits attributable to shareholders of approximately HK$204,000) and the weighted average number of 1,436,517,350 shares and 1,426,672,735 shares respectively (2002: 1,403,621,350 and 1,234,415,086 respectively) in issue during the period.

Diluted loss per share for the three months and six months ended 31 March 2003 is not presented as there were no potential dilutive ordinary shares in existence during that periods.

The calculation of diluted earnings per share for the three months and six months ended 31 March 2002 is based on the unaudited consolidated net profits from ordinary activities attributable to shareholders of HK$3,783,000 and HK$204,000 respectively. The weighted average number of ordinary shares used in the calculation of diluted earnings per share for the three months and six months ended 31 March 2002 is 1,446,767,998 shares and 1,274,221,396 shares respectively.

8. Fixed assets

The movements of fixed assets of the Group were:

	31 March 2003 HK$'000 (Unaudited)	30 September 2002 HK$'000 (Audited)
Net book value, beginning of period/year	29,748	29,451
Additions	111	3,454
Acquisition of subsidiaries	18,271	374
Disposals	–	(34)
Depreciation	(2,193)	(3,789)
Depreciation written back on revaluation	–	292
Net book value, end of period/year	45,937	29,748

9. Intangible assets

Intangible assets of the Group comprised:

	31 March 2003 HK$'000 (Unaudited)	30 September 2002 HK$'000 (Audited)
Net book value, beginning of the period/year	3,102	4,441
Acquisition of subsidiaries	439	–
Additions	–	33
Amortisation	(688)	(1,372)
Net book value, end of period/year	2,853	3,102

10. Goodwill

	31 March 2003 HK$'000 (Unaudited)	30 September 2002 HK$'000 (Audited)
Net book value, beginning of period/year	2,146	–
Acquisition of subsidiaries	35,631	2,341
Amortisation	(984)	(195)
Net book value, end of period/year	36,793	2,146

Goodwill of approximately HK$35.6 million arose from the acquisition of Future Frontier and its subsidiaries in December 2002.

11. Deposits paid for proposed acquisition of an unlisted investment

Balance represented a refundable deposit paid to the vendor in relation to the acquisition of the entire issued share capital of Future Fronter. Details of which are set out in the Group's circular to shareholders dated 16 December 2002. On 17 December 2002, the conditions as laid down in the sales and purchase agreement were fulfilled and the acquisition was completed.

12. Inventories

	31 March 2003 HK$'000 (Unaudited)	30 September 2002 HK$'000 (Audited)
Raw materials	1,822	641
Work in progress	2,500	1,256
Finished goods	10,612	–
	14,934	1,897

At the balance sheet date, no inventories were stated at net realisable value.

Following the completion of acquisition of Future Frontier and its subsidiaries, its assets were consolidated in the Group's financial statement. As a result, an increase of approximately HK$12.6 million in the aggregate amount of inventories was attributable to the consolidation.

13. Trade and retention receivables

Trade and retention receivables, which generally have credit terms pursuant to the provisions of the relevant contracts, are recognised and carried at original invoice amount, and estimates of doubtful debts are made and deducted when collection of the full amount is no longer probable. Bad debts are written off as incurred.

An ageing analysis of the Group's trade receivables as at the balance sheet date, based on invoice date, and net of provisions, is as follows:

	31 March 2003 HK$'000 (Unaudited)	30 September 2002 HK$'000 (Audited)
0 – 90 days	38,498	2,016
91 – 180 days	24,205	5,847
181 – 365 days	8,350	15,872
Over 365 days	12,684	37,387
	83,737	61,122
Retention receivables	3,113	3,724
	86,850	64,846

Following the completion of acquisition of Future Frontier and its subsidiaries, its assets were consolidated in the Group's financial statements. As a result, an increase of approximately HK$17.8 million in the aggregate amount of trade receivable was attributable to the consolidation.

14. Trade payables

Ageing analysis of the Group's trade payables as at the balance sheet date is as follows:

	31 March 2003 HK$'000 (Unaudited)	30 September 2002 HK$'000 (Audited)
0 – 90 days	18,757	798
91 – 180 days	4,887	1,076
181 – 365 days	2,205	1,873
Over 365 days	4,653	17,866
	30,502	21,613

Following the completion of acquisition of Future Frontier and its subsidiaries, its liabilities were consolidated in the Group's financial statements. As a result, an increase of approximately HK$6.1 million in the aggregate amount of trade payable was attributable to the consolidation.

15. Share capital

	31 March 2003 HK$'000 (Unaudited)	30 September 2002 HK$'000 (Audited)
Authorised:		
2,000,000,000 (30 September 2002: 2,000,000,000) ordinary shares of US$0.01 each	156,000	156,000
Issued and fully paid:		
1,436,517,350 (30 September 2002: 1,413,837,350) ordinary shares of US$0.01 each	112,041	110,272

On 19 December 2002, 22,680,000 shares of US$0.01 each were alloted and issued to an independent third party, valued at HK$0.116 each, being the market value of the Company's shares on that date, for the acquisition of Future Frontier together with its subsidiaries.

Share Option

(a) Pre-IPO Share Option Plan

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). However, upon listing of the Company's shares on the GEM of the Stock Exchange on 30 November 2001, no further 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 six months ended 31 March 2003:

	Number of share options outstanding under Pre-IPO Share Option Plan							
	As at 1 October 2002	Cancelled during the period	Exercised during the period	Lapsed during the period	As at 31 March 2003	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
Mr. Li Zhi Sheng	5,000,000	–	–	–	5,000,000	23 May 2000	23 May 2000 to 22 May 2008	0.515
Mr. Cheng Wing Tsan	1,000,000	–	–	–	1,000,000	20 July 2001	20 July 2001 to 19 July 2009	0.515
Mr. Zhu Rong	5,000,000	–	–	(5,000,000)	–	7 January 2000	7 January 2000 to 6 January 2003	0.150
	46,000,000	–	–	(5,000,000)	41,000,000			
Other employees								
In aggregate	25,384,000	–	–	(16,706,000)	8,678,000	Note 1	Note 2	0.150
	2,900,000	–	–	–	2,900,000	Note 3	Note 4	0.515
	28,284,000	–	–	(16,706,000)	11,578,000			
	74,284,000	–	–	(21,706,000)	52,578,000			

* The exercise price per share was adjusted for the consolidation and capitalisation issue of the Company's shares on 22 November 2001 as well as conversion from US$ to HK$.

Notes:

1. Approximately 68%, and 7% of the share options were granted on 7 January 2000 and 26 February 2000, respectively.

2. Approximately 68% and 7% of the 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.

3. Approximately 22% and 3% of the share options were granted on 23 May 2000 and 20 July 2001, respectively.

4. Approximately 9%, 13% and 3% of the share options granted are exercisable during the periods from 23 May 2000 to 22 May 2003, 23 May 2000 to 22 May 2008 and 20 July 2001 to 19 July 2009, respectively.

As at 31 March 2003, Pre-IPO Share Options comprising a number of 5,000,000 underlying shares granted to a director and a number of 16,706,000 underlying shares granted to certain employees and persons who have contributions to the Group have lapsed. Save as aforesaid, all such Pre-IPO Share Options granted were outstanding as at 31 March 2003.

(b) Post-IPO Share Option Plan

On 22 November 2001, the Company conditionally adopted a further share option scheme (the "Post-IPO Share Option Plan") for a period of ten years from the date on which it was adopted. The Post-IPO Share Option Plan became unconditional upon the listing of the Company's shares on the GEM of the Stock Exchange on 30 November 2001. Under the Post-IPO Share Option Plan, 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.

The following share options were outstanding under the Post-IPO Share Option Plan during the six months ended 31 March 2003:

	Number of share options outstanding under Post-IPO Share Option Plan								
	At 1 October 2002	Granted during the period	Cancelled during the period	Exercised during the period	Lapsed during the period	At 31 March 2003	Date of grant of share options	Exercise period of share options	Exercise price of share 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
Mr. Wu Shu Min	10,000,000	–	–	–	–	10,000,000	7 March 2002	7 March 2002 to 21 December 2011	0.465
Mr. Li Zhi Sheng	10,000,000	–	–	–	–	10,000,000	7 March 2002	7 March 2002 to 21 December 2011	0.465
Mr. Cheng Wing Tsan	10,000,000	–	–	–	–	10,000,000	7 March 2002	7 March 2002 to 21 December 2011	0.465
	40,000,000	–	–	–	–	40,000,000			
Other employees									
In aggregate	50,500,000	–	–	–	(10,400,000)	40,100,000	1 March 2002	1 March 2002 to 21 March 2011	0.475
Others									
In aggregate	7,500,000	–	–	–	–	7,500,000	1 March 2002	1 March 2002 to 1 March 2005	0.475
	98,000,000	–	–	–	(10,400,000)	87,600,000			

As at 31 March 2003, options comprising a total of 10,400,000 underlying shares granted to certain employees of the Group under the Post-IPO Share Option Plan has lapsed. Save as aforesaid, all such options granted were outstanding as at 31 March 2003.

Mr. Cheng Wing Tsan resigned from the executive director of the Company effective from 31 March 2003. The Pre-IPO share options granted to him were lapsed on 30 April 2003 and the Post-IPO share options granted to him will be lapsed on 30 June 2003.

Save as disclosed above, no options have been granted to the directors, chief executive, management shareholders, substantial shareholder, or their respective associates, or to the suppliers of goods or services under the above two share option plans.

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.

16. Commitments

(i) Operating lease commitments

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.

As at 31 March 2003, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	31 March 2003 HK$'000 (Unaudited)	30 September 2002 HK$'000 (Audited)
Within one year	3,537	3,785
In the second to fifth years, inclusive	5	1,665
	3,542	5,450

The Company did not have any operating lease arrangements at 31 March 2003.

(ii) Capital commitments contracted for

As at 30 September 2002, the Group had capital commitment contracted for, in respect of the proposed acquisition of Future Frontier to issue and allot 22,680,000 ordinary shares of the Company and to pay cash of HK$22,000,000. These capital commitments were settled during the Review Period.

The Company and the Group did not have any significant capital commitments at 31 March 2003.

17. Contingent liabilities

The Company and the Group did not have any significant contingent liabilities at 31 March 2003 (30 September 2002: Nil).

18. Pending litigation

As at 31 Mach 2003, a claim (the "Claim") of RMB2,191,000 (equivalent to approximately HK$2,048,000) for the alleged breach of contractual duties was lodged against the Group by a contractor. Having considered legal counsel's advice, the directors are of the opinion that the Group has a meritorious defence against the Claim. Accordingly, no provision has been made in these financial statements.

Directors' and Chief Executives' Interests in Share Capital

As at 31 March 2003, the interests of the directors and chief executives of the Company 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:

	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. Li Zhi Sheng (Note 1)	–	48,705,000	–	–	48,705,000
Mr. Lo Wai Shun (Note 2)	1,414,000	–	–	–	1,414,000

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

Note 2: Subsequent to 31 March 2003, Mr Lo Wai Shun disposed 1,414,000 shares in April 2003.

Save as disclosed above, none of the directors or 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.

Directors' and Chief Executives' Rights to Acquire Shares

Details of directors' and chief executives' rights to acquire shares are set out in note 15 to the financial statements.

Substantial Shareholders

As at 31 March 2003, 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.

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

As at 31 March 2003, 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 Shu 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 Review Period and has provided advice and comment thereon.

Board Practices and Procedures

The Company has complied with Board Practices and Procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules for the Review Period.

Purchase, Redemption or Sale of Listed Securities of the Company

During the Review Period, 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 May 2003