



**IIN INTERNATIONAL LIMITED**

*(incorporated in the Cayman Islands with limited liability)*

# Third Quarterly Report 2003

[www.iini.com](http://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 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

- Turnover during the quarter under review rose 382.1% to approximately HK\$45.8 million compared with approximately HK\$9.5 million for the same quarter last year.
- Losses attributable to shareholders during the quarter under review dropped to approximately HK\$5.5 million, compared with approximately HK\$7.9 million for the same quarter last year.
- The acquisition of Future Frontier Limited ("Future Frontier") provided the Group with the opportunity for upstream vertical integration, in offering a portfolio of transmission products complementary to the Group's network solutions for the PRC telecommunications operators.

## Business Review

According to China's Ministry of Information Industry, investment in fixed assets for the entire telecommunications market in the PRC picked up steadily to reach RMB78.5 billion during the first six months of 2003 and is expected to further improve in the second half of the year, after a negative growth in 2002. The growth momentum in the PRC telecommunications market provides a competitive yet favorable environment for IIN International Limited (the "Company") together with its subsidiaries (the "Group"). Owing to intensified competition in telecommunications network solutions tenders especially network infrastructure solutions projects, and a delay in the finalisation and execution of the Group's contracts due to the Severe Acute Respiratory Syndrome ("SARS") outbreak, the Group took concerted efforts to explore new business opportunities under disciplined cost-control measures.

During the quarter under review, network infrastructure solutions and transmission solutions from Future Frontier were the Group's core revenue generators. The Group's other two main business segments, the provision of proprietary network management solutions and the provision of other network solutions for customers in other market sectors in the PRC, focusing on governmental and enterprise projects, recorded smaller revenue contributions, though registering higher gross profit margins.

During the quarter under review, turnover from network infrastructure solutions and network management solutions amounted to approximately HK\$30.1 million and HK\$0.4 million respectively (three months ended 30 June 2002: approximately HK\$2.0 million and HK\$7.4 million respectively). The provision of other network solutions for customers in other market sectors in the PRC, focusing on governmental and enterprise projects, accounted for approximately HK\$1.1 million (three months ended 30 June 2002: approximately HK\$0.1 million).

From the second quarter ended 31 March 2003 ("Second Quarter") onwards, revenue from Future Frontier, which has 51% equity interests in Wujiang Shengxin Optoelectronics Technology Co., Ltd. ("Shengxin"), was consolidated into the Group's financial results. Shengxin's revenue rose 49.5% to approximately HK\$14.2 million during the quarter under review compared with approximately HK\$9.5 million in last quarter. Shengxin principally manufactures and markets communication cables and optical fiber cables. The acquisition of Future Frontier complemented the Group's provision of network solutions with transmission solutions to the PRC telecommunications operators. The strategic acquisition provides the Group with the opportunity for upstream vertical integration, which will benefit the Group in the long run.

## Financial Review

The Group's turnover during the quarter under review was approximately HK\$45.8 million, representing an increase of 382.1%, compared with approximately HK\$9.5 million for the same quarter last year. The increase in turnover was mainly attributable to resumption of capital investment in infrastructure by China Telecom Group ("China Telecom") following its completion of corporate restructuring. The Group's gross profit margins dropped to 10.7% during the quarter under review as compared with 51.3% for the same quarter last year primarily because a major portion of the Group's turnover during the quarter under review was from network infrastructure solutions and Future Frontier, representing 65.6% and 30.9% respectively (three months ended 30 June 2002: 20.7% and nil respectively), registering lower gross profit margins than the Group's proprietary network management solutions.

Selling and distribution cost and administrative expenses fell to approximately HK\$1.8 million and HK\$6.6 million respectively during the quarter under review, compared with approximately HK\$2.5 million and HK\$8.1 million respectively for the same quarter last year, and a further drop from approximately HK\$2.7 million and HK\$9.7 million respectively in the Second Quarter. The decrease in selling and distribution cost and administrative expenses was mainly due to the implementation of cost-control measures since the Second Quarter onwards. Furthermore, during the quarter under review, the Group cautiously reviewed its mainland operations and re-allocated the Group's resources to maximize operational efficiency and streamline operational expenses. Following the relocation of the Beijing office and the change of Directors' emoluments to performance based, the Group believes the effects of its cost-control measures will continue to be reflected in the coming quarters.

Losses attributable to shareholders during the quarter under review dropped to approximately HK\$5.5 million, compared with approximately HK\$7.9 million for the same quarter last year.

## Prospects

Following the completion of the corporate restructuring of China Telecom and PRC's accession to the World Trade Organisation, growth in the PRC telecommunications market will further accelerate. This will intensify competition among the PRC telecommunications network solutions providers. While the Group implemented cost-control measures as reflected during the quarter under review, the Group also actively explored business opportunities to further expand its product portfolio and clientele to diversify its revenue sources.

With a proven profitable business model in the provision of network management solutions to PRC fixed-line telecommunications operators, the Group took initiatives to advance into the high-growth mobile sector in the PRC. According to China's Ministry of Information Industry, the number of PRC mobile subscribers has reached 234.5 million in June 2003, an increase of 28.5 million from December 2002. During the quarter under review, the Group explored to develop close cooperation with several international vendors to provide network solutions and applications to PRC wireless operators to further diversify its revenue sources.

In anticipation of the growth of digitalisation and networking of television industry in the PRC, the Group entered into a contract amounted to RMB18.0 million with Harbin Broadcast & Television Bureau in the provision of network infrastructure solutions. The contract signified a quantum leap for the Group to expand its clientele to cable operators and extend its geographical reach into the Northeastern region in the PRC.

As of the date of this report, the Group has secured approximately HK\$32.8 million contracts on hand.

With the strong growth in the PRC telecommunications market and the revival of business activities following the SARS, the Group is fully confident in the PRC network and transmission solutions market and is committed to strengthening its foothold in these segments. In addition, the Group will take advantage of its leading position in the PRC telecommunications market to expand and diversify its revenue sources and clientele. Backed by the increase in revenue sources and the realisation of cost-control measures, the Group is optimistic that it will maintain sustainable revenue growth and improvements in gross profit margins in the future.

## 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 2003 together with the comparative unaudited figures for the corresponding periods in 2002 as follows:

	Notes	Three months ended 30 June		Nine months ended 30 June	
		2003 HK\$'000 (Unaudited)	2002 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)	2002 HK\$'000 (Unaudited)
Turnover	2	45,826	9,522	126,068	57,673
Cost of sales		(40,915)	(4,640)	(104,717)	(32,957)
Gross profit		4,911	4,882	21,351	24,716
Other revenue		801	530	1,829	2,004
Selling and distribution costs		(1,831)	(2,501)	(6,840)	(6,418)
Administrative expenses		(6,576)	(8,061)	(25,406)	(23,724)
Other operating expenses		(1,856)	(2,954)	(3,528)	(3,638)
Loss from operating activities	3	(4,551)	(8,104)	(12,594)	(7,060)
Finance costs		(1,141)	(811)	(2,992)	(3,184)
Loss before tax		(5,692)	(8,915)	(15,586)	(10,244)
Tax	4	-	-	-	-
LOSS BEFORE MINORITY INTERESTS		(5,692)	(8,915)	(15,586)	(10,244)
Minority interests		178	991	190	2,524
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		(5,514)	(7,924)	(15,396)	(7,720)
Dividend	5	-	-	-	-
LOSS PER SHARE	6				
Basic		(HK0.38) cents	(HK0.61) cents	(HK1.08) cents	(HK0.60) cents
Diluted		N/A	N/A	N/A	N/A

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

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 14 December 1999 under the Companies Law (1998 Revision) of the Cayman Islands. Pursuant to a reorganisation scheme (the "Reorganisation") to rationalize the Group's structure in preparation for the public listing of the Company's shares on The Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the companies now comprising the Group on 31 December 1999. This was accomplished by acquiring the entire issued share capital of 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 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 Companies Ordinance (Chapter 32 of the Laws of Hong Kong).

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 30 June		For the nine months ended 30 June	
	2003 HK\$'000 (Unaudited)	2002 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)	2002 HK\$'000 (Unaudited)
Network infrastructure solutions	30,079	1,973	65,715	33,368
Network management solutions	424	7,452	22,727	18,994
Other network solutions for sectors other than telecommunications	1,160	97	13,999	5,311
Transmission	14,163	-	23,627	-
	<b>45,826</b>	<b>9,522</b>	<b>126,068</b>	<b>57,673</b>

### 3. Loss from operating activities

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

	For the three months ended 30 June		For the nine months ended 30 June	
	2003 HK\$'000 (Unaudited)	2002 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)	2002 HK\$'000 (Unaudited)
Staff costs (including directors' emoluments)	2,726	4,344	10,849	13,495
Depreciation	1,156	910	3,349	2,655
Amortisation of deferred development costs	344	344	1,032	1,028
Amortisation of goodwill	789	–	1,773	–
Minimum lease payments under operating leases in respect of land and buildings	779	930	2,854	2,040
Provision for doubtful debts	723	2,610	723	2,610

### 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 nine months ended 30 June 2003 (2002: 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 nine months ended 30 June 2003 (2002: 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 30 June 2003 (2002: Nil).

### 5. Dividend

The Board does not recommend payment of a dividend for the period under review (2002: Nil).

### 6. Loss per share

The calculation of basic loss per share for the three months and nine months ended 30 June 2003 is based on the respective unaudited consolidated net loss from ordinary activities attributable to shareholders of approximately HK\$5,514,000 and HK\$15,396,000 (2002: approximately HK\$7,924,000 and HK\$7,720,000) and the weighted average of 1,436,517,350 shares and 1,429,954,273 shares respectively (2002: 1,290,832,119 shares and 1,290,832,119 shares respectively) in issue during the periods.

The diluted loss per share for the three months and nine months ended 30 June 2003 and 2002 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 and nine months ended 30 June 2003 and 2002.



## 7. Reserves

Movement in reserves for the nine months ended 30 June 2003 and 2002 were as follows:

	Retained profits/ (accumulated losses) HK\$'000 (Unaudited)	Share premium account HK\$'000 (Unaudited)	Statutory reserve HK\$'000 (Unaudited)	Asset revaluation reserve HK\$'000 (Unaudited)	Exchange fluctuation reserve HK\$'000 (Unaudited)	Capital reserve HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
At 1 October 2001	24,954	83,749	4	4,171	(13)	(11,742)	101,123
Capitalisation of share premium account	-	(69,652)	-	-	-	-	(69,652)
New issue and placing of shares to the public	-	109,318	-	-	-	-	109,318
Exercise of share options	-	59	-	-	-	-	59
Share issue expenses	-	(25,410)	-	-	-	-	(25,410)
Net loss for the period	(7,720)	-	-	-	-	-	(7,720)
Special Dividend	-	(44,566)	-	-	-	-	(44,566)
Exchange realignment	-	-	-	-	(2)	-	(2)
At 30 June 2002	17,234	53,498	4	4,171	(15)	(11,742)	63,150
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	(15,396)	-	-	-	-	-	(15,396)
At 30 June 2003	(44,864)	54,964	4	4,463	(13)	(7,742)	6,812

## 8. Comparative amounts

Provision of doubtful debts was reclassified as other operating expenses for the three months and nine months ended 30 June 2002 to conform with the presentation of the Group's audited results for the year ended 30 September 2002.

## Directors' and Chief Executive's Interests or Short Positions in the Share Capital of the Company and its Associated Corporation

As at 30 June 2003, the interests or short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short position which they are taken or deemed to have taken under such provisions of the SFO), or which will be required to be entered into the register kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules, were as follows:

### (a) Long position in shares

Name of director	Number of issued ordinary shares of US\$0.01 each in the Company held and nature of interests		Capacity	Percentage of the Company's issued share capital
	Personal interests	Total interests in shares		
Mr. Wu Shu Min	194,823,000	194,823,000	Beneficial owner	13.56%
Mr. Chang Ye Min, William	26,840,000	26,840,000	Beneficial owner	1.87%
Mr. Zhu Rong	118,750,000	118,750,000	Beneficial owner	8.27%

### (b) Long position under equity derivatives

#### (i) Pre-IPO share options

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). As at 30 June 2003, the following directors of the Company were granted or interested in the following options under the Pre-IPO Share Option Plan:

Name of director	Number of share options outstanding as at 1 October 2002 and 30 June 2003	Date of grant	Exercise period	Adjusted exercise price per share* HK\$
Mr. Wu Shu Min	5,000,000	7 January 2000	7 January 2000 to 6 January 2008	0.150
	10,000,000	26 February 2000	26 February 2000 to 25 February 2008	0.150
Mr. Chang Ye Min, William	15,000,000	7 January 2000	7 January 2000 to 6 January 2008	0.150
	5,000,000	23 May 2000	23 May 2000 to 22 May 2008	0.515

\* 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\$.

#### (ii) Post-IPO share options

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. As at 30 June 2003, the following directors of the Company were granted or interested in the following options under the Scheme:

Name of director	Number of share options outstanding as at 1 October 2002	Number of share options outstanding as at 30 June 2003	Date of grant	Exercise period	Exercise price per share HK\$
Mr. Wu Shu Min	10,000,000	10,000,000	7 March 2002	7 March 2002 to 21 December 2011	0.465
	-	3,000,000	5 June 2003	5 June 2003 to 21 December 2011	0.078
Mr. Chang Ye Min, William	10,000,000	10,000,000	7 March 2002	7 March 2002 to 21 December 2011	0.465
	-	3,000,000	5 June 2003	5 June 2003 to 21 December 2011	0.078
Mr. Jin Feng	-	3,000,000	5 June 2003	5 June 2003 to 21 December 2011	0.078
Mr. Ng Ching Wo	-	1,000,000	5 June 2003	5 June 2003 to 21 December 2011	0.078
Mr. Chan Wai Dune	-	1,000,000	5 June 2003	5 June 2003 to 21 December 2011	0.078
Mr. Chen Junliang	-	1,000,000	5 June 2003	5 June 2003 to 21 December 2011	0.078

Save as disclosed above, as at 30 June 2003, none of the directors, chief executive of the Company or their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short position which they are taken or deemed to have taken under such provisions of the SFO), or which will be required to be entered into the register kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors of the Company as referred to in Rules 5.40 to 5.58 of the GEM Listing Rules. At any time during the reporting period, there was no debt securities issued by the Group.

## Interests Discloseable under SFO and Substantial Shareholders

So far as is known to the directors of the Company, as at 30 June 2003, shareholders (other than directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, directly or indirectly interested in 10% or more of the issued share capital of the Company, or which will be required, pursuant to section 336 of the SFO, to be entered into the register referred to therein, were as follows:

Name	Capacity	Interests in shares	Percentage of interests	Interests under equity derivatives	Aggregate interests
Multico Holdings Limited (Note 1)	Beneficial owner	362,948,350	25.27%	-	362,948,350
Transpac Nominees Pte Ltd. (Note 1)	Interests of Controlled Corporation	362,948,350	25.27%	-	362,948,350
Transpac Capital Pte Ltd. (Note 1)	Interests of Controlled Corporation	362,948,350	25.27%	-	362,948,350
Ms. Lei Dong Ling (Note 2)	Interests of spouse	194,823,000	13.56%	28,000,000	222,823,000
Ms. Wu Rong Jun (Note 3)	Interests of spouse	118,750,000	8.27%	-	118,750,000

### Notes

- (1) The sole shareholder of Multico Holdings Limited is Transpac Nominees Pte Ltd. which in turn is a wholly-owned subsidiary of Transpac Capital Pte Ltd. Therefore, Transpac Nominees Pte Ltd. and Transpac Capital Pte Ltd. are deemed to be interested in all 362,948,350 shares in which Multico Holdings Limited is interested.
- (2) Ms. Lei Dong Ling is the spouse of Mr. Wu Shu Min. Under section 316 of the SFO, Ms. Lei Dong Ling is therefore deemed to be interested in all 194,823,000 shares and 28,000,000 share options in which Mr. Wu Shu Min is interested.
- (3) Ms. Wu Rong Jun is the spouse of Mr. Zhu Rong. Under section 316 of the SFO, Ms. Wu Rong Jun is therefore deemed to be interested in all 118,750,000 shares in which Mr. Zhu Rong is interested.

Save as disclosed above, as at 30 June 2003, the directors of the Company were not aware of any other person (other than directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, directly or indirectly interested in 10% or more of the issued share capital of the Company, or which will be required, pursuant to section 336 of the SFO, to be entered into the register referred to therein.

## 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.

## Sponsor's Interests

As at 30 June 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 three months and nine months ended 30 June 2003 and has provided advice and comment thereon.

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

During the nine months ended 30 June 2003, 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