



**INTERIM REPORT**

**2004**



**IIN INTERNATIONAL LIMITED**  
(incorporated in the Cayman Islands with limited liability)

# 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.

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*This report, for which the directors of IIN International Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to IIN International Limited. The directors of IIN International Limited, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*



## Highlights

Turnover recorded approximately HK\$19.9 million for the Quarterly Period and HK\$63.6 million for the Review Period respectively.

Net loss amounted to approximately HK\$6.3 million for the Quarterly Period and HK\$8.0 million for the Review Period respectively.

No dividend was declared for the Quarterly Period.

## Business Review and Prospects

During the three months ended 31 March 2004 (the "Quarterly Period") and the six months ended 31 March 2004 (the "Review Period"), the turnover decreased by approximately 45% and 21% respectively as compared to that of the corresponding periods of last year. The significant drop of turnover for the Quarterly Period was due to fierce competition of the telecommunications market and some projects that pursued by the Group were delayed. Furthermore, as the turnover for the Quarterly Period was mainly attributable by network infrastructure solutions, gross profit margin also dropped from 26% to 16%. Despite substantial savings from administrative expenses for the Quarterly Period and Review Period achieved as a result of continued effort on the cost control measures, the Group recorded a net loss from ordinary activities attributable to shareholders for the Quarterly Period and Review Period. Net loss for the Quarterly Period widened by 45% to HK\$6.3 million as compared with that of the corresponding period of last year whereas the net loss for the Review Period narrowed by 19% to HK\$8.0 million as compared to the net loss for the corresponding period of last year.

For network infrastructure solutions, the Company continued to experience intense market competition and pressure on profit margin. During the Review Period, the Group secured repeating orders from Provincial Telecommunications Corporation in Shanghai for expansion of Metropolitan Area Networks.



Network management solutions mainly comprised of the Group's proprietary products. The turnover generated for the Review Period was much lower than anticipated owing to lack of major tenders from China Telecom.

During the Review Period, turnover generated by other network solutions and Wujiang Shengxin Optoelectronics Technology Co., Ltd. ("Shengxin") were in line with that of the same period last year. However, the bottom line of Shengxin has been adversely affected during the period under review due to elevation in copper cost.

The cost control measures taken by the Group continued to positively benefit the Group for the Review Period as evidenced by the net loss for the Review Period narrowed by 19% compared with that of last year.

With the view that the market competition would remain fierce as well as the squeezing margin of network solutions market, the Group, while consolidating on existing businesses, has also been actively exploring collaboration opportunities with multinational system integrators in order to extend business coverage to communication and information network software and services which would help improve profit margins and become a profit growth engine. We earnestly anticipate this would realize in the near future and as a primary target for us to create profit base to the interest of the Group as well as the shareholders of the Company.



### 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

	<b>Business objectives for the Review Period as set out in the Prospectus</b>	<b>Actual business progress in the Review Period</b>
Unicom version 2.0 for the CPEM 8000 Power and Environmental Monitoring System	Complete the development by 31 March 2004	This system has been covered by a generalized version 7.0. The generalized version 7.0 is applicable to China Telecom, China Mobile and Unicom.
China Telecom version 3.0 for the IIN-Acterna PSTN SS7 Signalling Monitoring System	Complete the development by 31 March 2004	The development and marketing of this system were delayed pending market readiness.
China Telecom version 4.0 for the Local Exchange Network Management and Monitoring System	Complete the development by 31 March 2004	The system is currently in the stage of demand analysis and system design.
Unicom version 2.0 for the IP Network Monitoring and Management System	Complete the development by 31 March 2004	This system has been integrated with the Network Management and Safeguard System and is collectively called as the IP Network Management and Monitoring System. The Group plans to use this IP Network Management and Monitoring System as its platform and incorporates new functionalities into it so as to develop communications and information network service for the enterprise.



**Research and Product Development**

	<b>Business objectives for the Review Period as set out in the Prospectus</b>	<b>Actual business progress in the Review Period</b>
China Telecom version 9.0 and China Mobile version 4.0 for the CPEM 8000 Power and Environmental Monitoring System	Commence the development by 31 March 2004	This system has been covered by a generalized version 7.0. The generalized version 7.0 is applicable to China Telecom, China Mobile and Unicom.
China Telecom version 4.0 for the Network Management and Safeguard System	Commence the development by 31 March 2004	This system has been integrated with the IP Network Management and Monitoring System and is collectively called as the IP Network Management and Monitoring System. The Group plans to use this IP Network Management and Monitoring System as its platform and incorporates new functionalities into it so as to develop communications and information network service for the enterprise.
China Telecom version 4.0 and China Mobile version 3.0 for the IP Network Management and Monitoring System	Commence the development by 31 March 2004	This system has been integrated with the Network Management and Safeguard System and is collectively called as the IP Network Management and Monitoring System. The Group plans to use this IP Network Management and Monitoring System as its platform and incorporates new functionalities into it so as to develop communications and information network service for the enterprise.
China Telecom version 3.0 for the Broadband Access Network Management System	Commence the development by 31 March 2004	The development and marketing of this system were delayed pending market readiness.



### Sales and Marketing

	<b>Business objectives for the Review Period as set out in the Prospectus</b>	<b>Actual business progress in the Review Period</b>
Unicom version 2.0 for the CPEM 8000 Power and Environmental Monitoring System	Formally launch the system by 31 March 2004	The generalized version 7.0 for the system will be launched in accordance with market demands.
China Telecom version 3.0 for the IIN-Acterna PSTN SS7 Signalling Monitoring System	Formally launch the system by 31 March 2004	The development and marketing of this system were delayed pending market readiness.
China Telecom version 4.0 for the Local Exchange Network Management and Monitoring System	Formally launch the system by 31 March 2004	The system has been developed into the Local Exchange Network Comprehensive Management System version 1.0 and it is expected to be released in September of 2004.
Unicom version 2.0 for the IP Network Management and Monitoring System	Formally launch the system by 31 March 2004	This system has been integrated with the Network Management and Safeguard System and is collectively called as the IP Network Management and Monitoring System. The system will be promoted to the existing clients.
Establish a New Representative Office	Officially implement by 31 March 2004	The decision to establish new representative office will be made in accordance with the business need.

### Strategic Alliance and Acquisitions

<b>Business objectives for the Review Period as set out in the Prospectus</b>	<b>Actual business progress in the Review Period</b>
Continue business pursuit of previous years	The Group is actively seeking strategic and cooperative partners which have synergistic effects with the Group, especially those with products and technologies that are complementary to the Group and are beneficial to the Group's business growth.

**Use of Proceeds from the Placing**

Proceeds from the Group's placing in November 2001 ("the Placing") and from the exercise of the over-allotment options in connection with the Placing which remains unutilized as at 31 March 2004 amounted to approximately HK\$1.1 million.

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

<b>Use of Proceeds from the Placing</b>	<b>Planned usage according to the Prospectus</b> <i>(HK\$ million)</i>	<b>Acquisition of Future Frontier Limited</b> <i>(HK\$ million)</i> <i>Note (1)</i>	<b>Actual usage before 31 March 2004</b> <i>(HK\$ million)</i> <i>Note (2)</i>	<b>Unutilized proceeds as at 31 March 2004</b> <i>(HK\$ million)</i>
1. Repayment of convertible bonds	37.0	–	37.0	–
2. Research and development in developing new network solutions	17.5	–	17.5	–
3. Upgrade of existing network solutions	14.0	–	14.0	–
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	2.4	1.1
5. Ongoing working capital	49.3	39.5	9.8	–
	<u>127.8</u>	<u>46.0</u>	<u>80.7</u>	<u>1.1</u>

Note 1: The Group re-directed certain portion of the unutilized proceeds from the Placing to acquire Future Frontier Limited ("Future Frontier") which holds 51% equity interests in Shengxin. Details of which were set out in the circular to the shareholders of the Company 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 dropped 21% to approximately HK\$63.6 million compared to approximately HK\$80.2 million for the corresponding period last year. The decrease in turnover was mainly due to keen market competition.

The Group's gross profit margin for the Review Period was 20% which was in line with the gross profit margin for the corresponding period in last year.

During the Review Period, the Group recorded net loss from ordinary activities attributable to shareholders amounted to approximately HK\$8.0 million which is narrowed from HK\$9.9 million for the corresponding period last year. The improvement in operating results was attributable to saving in operating expenses during the Review Period.

Selling and distribution cost of the Group for the Review Period increased by 10% to approximately HK\$5.5 million from approximately HK\$5.0 million for the corresponding period last year. The increase in selling and distribution cost was due to the increased marketing activities for broader geographical marketing and sales opportunities.

Administrative expenses of the Group for the Review Period decreased by 26% to approximately HK\$14.0 million from approximately HK\$18.8 million for the corresponding period last year. The decrease in administrative expenses was attributable to the Group's continuing effort in cost control.

## Segmental Information

During the Review Period, turnover generated from network infrastructure solutions decreased 20% to approximately HK\$28.6 million (2003: approximately HK\$35.6 million). Turnover generated from network management solutions decreased 88% to approximately HK\$2.6 million (2003: approximately HK\$22.3 million). Turnover generated from provision of other network solutions for governmental and enterprise customers amounted to approximately HK\$12.0 million, which was in line with approximately HK\$12.8 million for the corresponding period last year. Following the completion of acquisition of Future Frontier and its 51% interest in Shengxin, turnover from transmission segment was fully reflected in the Group's results during the Review Period. Turnover contributed from the transmission segment during the Review Period amounted to approximately HK\$20.3 million (2003: approximately HK\$9.5 million).

Operating results for transmission segment and other network solutions for governmental and enterprise customers segment recorded losses of approximately HK\$2.6 million and approximately HK\$2.5 million respectively during the Review Period, represented an increase in losses from approximately HK\$0.2 million and approximately HK\$1.9 million respectively for the corresponding period last year.



As a result of substantial decrease in turnover generated from the network management solutions segment, the segment recorded an operating loss of approximately HK\$1.8 million during the Review Period as compared to an operating profit of approximately HK\$3.6 million for the corresponding period last year.

Segment result for the network infrastructure solutions recorded an operating loss of approximately HK\$2.1 million which was improved as compared to approximately HK\$10.5 million for the corresponding period last year.

#### **Order Book**

During the Review Period, the Group has secured approximately HK\$20.0 million contracts on hand.

#### **Liquidity, Financial Resources and Capital Structure**

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 2004 of approximately HK\$25.5 million (30 September 2003: approximately HK\$29.5 million).

As at 31 March 2004, the Group had cash on hand and deposits placed in banks amounted to approximately HK\$9.9 million (30 September 2003: approximately HK\$68.8 million).

As at 31 March 2004, the Group's total bank and other borrowings amounted to RMB27.2 million (equivalent to approximately HK\$25.4 million) (30 September 2003: RMB62.8 million (equivalent to approximately HK\$58.7 million)) at fixed interest rates ranging from 5.4% per annum to 10% per annum which are repayable within one year or on demand.

#### **Charges on Group Asset**

As at 31 March 2004, the bank loans of the Group were secured by (1) a legal charge on the Group's leasehold land and buildings with a net book value of approximately HK\$22.6 million; (2) a legal charge on the Group's machineries and motor vehicle with a net book value of approximately HK\$6.0 million; and (3) guarantee provided by an independent third party of approximately HK\$1.9 million.

#### **Gearing Ratio**

As at 31 March 2004, the gearing ratio of the Group, based on total liabilities over total assets was approximately 39.5% (30 September 2003: approximately 52.9%).



### **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.

### **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.

### **Material Acquisition and Disposals**

The Group had no material acquisitions and disposals of subsidiaries and affiliated companies during the Review Period.

### **Future Plans for Material Investment or Capital Assets**

Save as disclosed in the Company's announcement dated 3 March 2004 that there are negotiations under way relating to a proposed acquisition of equity interests in another company the owner of which is not a connected person of the Company (as defined in the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules")). As at the date of this report, no agreement has been signed regarding this proposed acquisition and the Group does not have any other future plans for material investment or capital assets.

### **Contingent Liabilities**

The Group did not have any significant contingent liabilities as at 31 March 2004.

### **Employees**

As at 31 March 2004, the Group employed 233 staff. The staff cost, including directors' emoluments was approximately HK\$6.0 million for the Review Period (2003: approximately HK\$7.8 million).

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



## 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 2004 together with the unaudited comparative figures for the corresponding periods in 2003 as follows:

### Condensed Consolidated Profits And Loss Account

	Notes	Three months ended 31 March		Six months ended 31 March	
		2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)
Turnover		19,940	36,478	63,619	80,242
Cost of sales		(16,738)	(27,104)	(50,837)	(63,802)
Gross profit		3,202	9,374	12,782	16,440
Other revenue		898	709	1,588	1,028
Selling and distribution costs		(2,300)	(2,715)	(5,525)	(5,009)
Administrative expenses		(7,136)	(9,660)	(13,996)	(18,830)
Other operating expenses		(1,131)	(1,132)	(2,334)	(1,672)
Loss from operating activities	4	(6,467)	(3,424)	(7,485)	(8,043)
Finance costs		(464)	(995)	(1,060)	(1,851)
Loss before tax		(6,931)	(4,419)	(8,545)	(9,894)
Tax	5	–	–	–	–
LOSS BEFORE MINORITY INTERESTS		(6,931)	(4,419)	(8,545)	(9,894)
Minority interests		607	44	561	12
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		(6,324)	(4,375)	(7,984)	(9,882)
Dividend	6	–	–	–	–
LOSS PER SHARE	7				
– Basic		HK(0.44) cents	HK(0.30) cents	HK(0.56) cents	HK(0.69) cents
– Diluted		N/A	N/A	N/A	N/A



## IIN INTERNATIONAL LIMITED

**Condensed Consolidated Balance Sheet**

31 March 2004

		<b>31 March 2004 HK\$'000 (Unaudited)</b>	30 September 2003 HK\$'000 (Audited)
NON-CURRENT ASSETS			
Fixed assets	8	<b>40,733</b>	42,910
Intangible assets	9	<b>1,113</b>	1,727
Rental deposits and golf club membership		<b>1,056</b>	1,128
Goodwill	10	<b>37,515</b>	39,235
		<b>80,417</b>	85,000
CURRENT ASSETS			
Inventories		<b>11,576</b>	11,091
Trade receivables	11	<b>56,715</b>	61,316
Prepayments, trade deposits, other deposits and other receivables		<b>13,364</b>	14,077
Due from related companies		<b>3,206</b>	2,943
Pledged bank deposits		<b>272</b>	46,005
Cash and bank balances		<b>9,594</b>	22,769
		<b>94,727</b>	158,201
CURRENT LIABILITIES			
Trade and bills payables	12	<b>25,580</b>	48,091
Accrued liabilities, deposits received and other payables		<b>14,787</b>	18,529
Interest-bearing bank and other loans		<b>25,431</b>	58,653
Tax payable		<b>3,388</b>	3,388
		<b>69,186</b>	128,661
NET CURRENT ASSETS		<b>25,541</b>	29,540
TOTAL ASSETS LESS CURRENT LIABILITIES		<b>105,958</b>	114,540
NON-CURRENT LIABILITIES			
Interest-bearing bank loans		-	37
MINORITY INTERESTS		<b>14,191</b>	14,752
		<b>91,767</b>	99,751
CAPITAL AND RESERVES			
Issued capital	13	<b>112,041</b>	112,041
Reserves	14	<b>(20,274)</b>	(12,290)
		<b>91,767</b>	99,751



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**Condensed Consolidated Statement of Changes in Equity (Unaudited)**

For the six months ended 31 March 2004

	Share capital	Share premium account	Capital reserve	Statutory reserve	Asset revaluation reserve	Exchange fluctuation reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 October 2003	112,041	54,964	(4,742)	4	4,568	(13)	(67,071)	99,751
Net loss for the period	-	-	-	-	-	-	(7,984)	(7,984)
At 31 March 2004	112,041	54,964	(4,742)	4	4,568	(13)	(75,055)	91,767
At 1 October 2002	110,272	54,102	(7,742)	4	4,463	(13)	(29,468)	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	(7,742)	4	4,463	(13)	(39,350)	124,367

**Condensed Consolidated Cash Flow Statement**

For the six months ended 31 March 2004

	<b>Six months ended 31 March</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
Net cash inflow/(outflow) from operating activities	<b>(25,289)</b>	13,213
Net cash outflow from investing activities	<b>(360)</b>	(20,788)
Net cash inflow from financing activities	<b>13,409</b>	2,154
Decrease in cash and cash equivalents	<b>(12,240)</b>	(5,421)
Cash and cash equivalents at beginning of period	<b>21,834</b>	15,605
Cash and cash equivalents at end of period	<b>9,594</b>	10,184



Notes:

## 1. Basis of Preparation

The Group's unaudited condensed interim financial statements have been prepared in accordance with the Hong Kong Statement of Standard Accounting Practice ("SSAP") 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 condensed interim financial statements have been prepared under the historical cost convention. The accounting policies adopted are consistent with those set out in the Group's annual financial statements for the year ended 30 September 2003, except that:

The Group has adopted, for the first time for the current period's unaudited condensed interim financial statements, the SSAP 12 (Revised) "Income taxes" ("SSAP 12 (Revised)") issued by the HKSA as follows:

SSAP 12 (Revised) principally prescribes the accounting treatment and disclosures for deferred tax. In prior years, deferred tax is provided using the income statement liability method on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax is not recognised until its realisation is assured beyond reasonable doubt. SSAP 12 (Revised) requires the adoption of the balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. The adoption of SSAP 12 (Revised) has had no material effect on the results for the current or prior accounting periods.

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

## 2. Related party and connected transactions

During the Review Period, 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\$168,000 (2003: approximately HK\$234,000) and approximately HK\$56,000 (2003: approximately HK\$359,000) 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 HK\$19,000 (2003: HK\$19,000) and HK\$19,000 (2003: 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. Segment information

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

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;



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- (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.
- (e) the corporate and other segment consists of the Group's investing holding, corporate assets and liabilities items.

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.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

**(a) Business segments**

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments.

Group	Telecommunications network infrastructure solutions				Network management solutions		Other network solutions for sectors other than telecommunications		Transmission		Eliminations		Consolidated	
	Six months ended 31 March		Six months ended 31 March		Six months ended 31 March		Six months ended 31 March		Six months ended 31 March		Six months ended 31 March		Six months ended 31 March	
	2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)
Segment revenue:														
Sales to external customers	28,636	35,636	2,647	22,303	12,027	12,839	20,309	9,464	-	-	-	-	63,619	80,242
Intersegment sales	-	529	-	-	-	-	-	-	-	-	(529)	-	-	-
<b>Total</b>	<b>28,636</b>	<b>36,165</b>	<b>2,647</b>	<b>22,303</b>	<b>12,027</b>	<b>12,839</b>	<b>20,309</b>	<b>9,464</b>	<b>-</b>	<b>-</b>	<b>(529)</b>	<b>-</b>	<b>63,619</b>	<b>80,242</b>
Segment results	(2,103)	(10,487)	(1,830)	3,586	(2,508)	(1,932)	(2,632)	(238)	-	-	-	-	(9,073)	(9,071)
Unallocated income and gains													1,588	1,028
Loss from operating activities													(7,485)	(8,043)
Finance costs													(1,060)	(1,851)
Loss before tax													(8,545)	(9,894)
Tax													-	-
Loss before minority interests													(8,545)	(9,894)
Minority interests													561	12
Net Loss from ordinary activities attributable to shareholders													(7,984)	(9,882)



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Group	Telecommunications network infrastructure solutions				Other network solutions for sectors other than telecommunications				Corporate and other				Consolidated			
	31 March 2004		30 September 2003		31 March 2004		30 September 2003		31 March 2004		30 September 2003		31 March 2004		30 September 2003	
	HK\$'000 (Unaudited)	HK\$'000 (Audited)	HK\$'000 (Unaudited)	HK\$'000 (Audited)	HK\$'000 (Unaudited)	HK\$'000 (Audited)	HK\$'000 (Unaudited)	HK\$'000 (Audited)	HK\$'000 (Unaudited)	HK\$'000 (Audited)	HK\$'000 (Unaudited)	HK\$'000 (Audited)	HK\$'000 (Unaudited)	HK\$'000 (Audited)	HK\$'000 (Unaudited)	HK\$'000 (Audited)
Segment assets	45,665	73,269	8,198	12,062	2,827	3,766	50,188	53,963					106,878	143,060		
Unallocated assets									68,266	100,141			68,266	100,141		
Total assets									68,266	100,141			175,144	243,201		
Segment liabilities	22,771	45,475	3,403	5,495	2,355	2,489	21,218	23,924					49,747	77,383		
Unallocated liabilities									19,439	51,315			19,439	51,315		
Total liabilities									19,439	51,315			69,186	128,698		
Other segment information:																
Depreciation	827	1,640	365	767	238	544	641	1,130	329	878			2,400	4,959		
Impairment of goodwill	-	-	-	-	-	-	-	-	-	3,407			-	3,407		
Surplus arising on revaluation of leasehold land and buildings	-	-	-	-	-	-	-	-	-	(105)			-	(105)		
Amortisation of goodwill	-	-	-	-	-	-	-	-	1,720	2,773			1,720	2,773		
Amortisation of deferred development costs	-	-	614	1,375	-	-	-	-	-	-			614	1,375		
Provision for doubtful debts	-	-	-	2,493	(404)	3,169	-	3,103	-	-			(404)	8,765		
Provision for other receivables	-	261	-	-	-	288	117	439	-	287			117	1,275		
Capital expenditure	-	31	-	18	203	10	218	184	-	-			421	243		

(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. Loss from operating activities

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

	Three months ended 31 March		Six months ended 31 March	
	2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)
Cost of sales	16,738	27,104	50,837	63,802
Depreciation	1,194	1,189	2,400	2,193
Minimum lease payments under operating leases:				
Land and building	280	1,073	537	2,075
Staff costs (including directors' emoluments):	3,047	3,318	6,031	7,798
Amortisation of goodwill	861	789	1,720	984
Amortisation of deferred development costs	270	344	614	688

#### 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 2004 (2003: Nil).

#### 6. Dividend

The Directors do not recommend payment of an interim dividend for the period (2003: Nil).

#### 7. Loss per share

The calculation of the basic loss per share for the three months and six months ended 31 March 2004 is based on the respective unaudited consolidated net loss from ordinary activities attributable to shareholders of approximately HK\$6,324,000 and HK\$7,984,000 (three months ended 31 March 2003: approximately HK\$4,375,000 and six months ended 31 March 2003: approximately HK\$9,882,000) and the weighted average number of 1,436,517,350 shares and 1,436,517,350 shares respectively (2003: 1,436,517,350 and 1,426,672,735 respectively) in issue during the period.

Diluted loss per share for the three months and six months ended 31 March 2003 and 2004 is not presented as the potential ordinary shares outstanding had an anti-dilutive effect on the basic loss per share for the three months and six months ended 31 March 2003 and 2004.



## 8. Fixed assets

The movements of fixed assets of the Group were:

	<b>31 March 2004 HK\$'000 (Unaudited)</b>	30 September 2003 HK\$'000 (Audited)
Net book value, beginning of period/year	42,910	29,748
Additions	421	243
Acquisition of subsidiaries	–	17,832
Disposals	(198)	(59)
Depreciation	(2,400)	(4,959)
Depreciation written back on revaluation	–	105
Net book value, end of period/year	<u>40,733</u>	<u>42,910</u>

## 9. Intangible assets

Intangible assets of the Group comprised:

	<b>31 March 2004 HK\$'000 (Unaudited)</b>	30 September 2003 HK\$'000 (Audited)
Net book value, beginning of the period/year	1,727	3,102
Amortisation	(614)	(1,375)
Net book value, end of period/year	<u>1,113</u>	<u>1,727</u>

## 10. Goodwill

	<b>31 March 2004 HK\$'000 (Unaudited)</b>	30 September 2003 HK\$'000 (Audited)
Net book value, beginning of period/year	<b>39,235</b>	2,146
Acquisition of subsidiaries	–	39,862
Acquisition of minority interests in a subsidiary	–	407
Amortisation	<b>(1,720)</b>	(2,773)
Impairment	–	(407)
	<hr/>	<hr/>
Net book value, end of period/year	<b><u>37,515</u></b>	<b><u>39,235</u></b>

Goodwill of approximately HK\$39.9 million arose from the acquisition of Future Frontier and its subsidiaries in December 2002.

## 11. Trade receivables

Trade 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:

	<b>31 March 2004 HK\$'000 (Unaudited)</b>	30 September 2003 HK\$'000 (Audited)
0 – 90 days	<b>12,429</b>	23,111
91 – 180 days	<b>10,853</b>	13,139
181 – 365 days	<b>19,855</b>	17,307
Over 365 days	<b>13,578</b>	7,759
	<hr/>	<hr/>
	<b><u>56,715</u></b>	<b><u>61,316</u></b>



## 12. Trade and bills payables

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

	<b>31 March 2004 HK\$'000 (Unaudited)</b>	30 September 2003 HK\$'000 (Audited)
0 – 90 days	<b>11,871</b>	33,296
91 – 180 days	<b>3,100</b>	4,905
181 – 365 days	<b>4,341</b>	5,227
Over 365 days	<b>6,268</b>	4,663
	<b><u>25,580</u></b>	<u>48,091</u>

## 13. Share capital

	<b>31 March 2004 HK\$'000 (Unaudited)</b>	30 September 2003 HK\$'000 (Audited)
Authorised: 2,000,000,000 (30 September 2003: 2,000,000,000) ordinary shares of US\$0.01 each	<b><u>156,000</u></b>	<u>156,000</u>
Issued and fully paid: 1,436,517,350 (30 September 2003: 1,436,517,350) ordinary shares of US\$0.01 each	<b><u>112,041</u></b>	<u>112,041</u>



**14. Movement of Reserves (Unaudited)**

For the six months ended 31 March 2004

	Share premium account <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Statutory reserve <i>HK\$'000</i>	Asset revaluation reserve <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 October 2003	54,964	(4,742 )	4	4,568	(13 )	(67,071 )	(12,290 )
Net loss for the period	—	—	—	—	—	(7,984 )	(7,984 )
At 31 March 2004	<u>54,964</u>	<u>(4,742 )</u>	<u>4</u>	<u>4,568</u>	<u>(13 )</u>	<u>(75,055 )</u>	<u>(20,274 )</u>
At 1 October 2002	54,102	(7,742 )	4	4,463	(13 )	(29,468 )	21,346
New issue of shares upon acquisition of subsidiaries	862	—	—	—	—	—	862
Net loss for the period	—	—	—	—	—	(9,882 )	(9,882 )
At 31 March 2003	<u>54,964</u>	<u>(7,742 )</u>	<u>4</u>	<u>4,463</u>	<u>(13 )</u>	<u>(39,350 )</u>	<u>12,326</u>



## 15. 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 2004, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<b>31 March 2004 HK\$'000 (Unaudited)</b>	30 September 2003 HK\$'000 (Audited)
Within one year	<b>816</b>	632
In the second to fifth years, inclusive	<b>484</b>	554
	<b><u>1,300</u></b>	<u>1,186</u>

### (ii) Capital commitments contracted for

The Group did not have any significant capital commitments at 31 March 2004.

## 16. Pending litigation

As at 31 March 2004, 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 Executive's Interests or Short Positions in the Share Capital of the Company and its Associated Corporation

As at 31 March 2004, 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, Chapter 571 of the Laws of Hong Kong (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 5.46 to 5.67 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 the capacity		Percentage of the Company's issued share capital
	Total interests in shares	Capacity	
Mr. Wu Shu Min	154,823,000	Beneficial owner	10.78%
Mr. Chang Ye Min, William	16,840,000	Beneficial owner	1.17%
Mr. Zhu Rong	87,638,000	Beneficial owner	6.10%
Mr. Leong Ka Cheong, Christopher (note)	371,988,350	Nominee	25.90%

Note: The sole shareholder of Multico Holdings Limited ("MHL") and Huiya South China Investments Limited ("Huiya") is Transpac Nominees Pte Ltd. ("TNPL") which is a wholly-owned subsidiary of Transpac Capital Pte Ltd. ("TCPL"). TNPL, through MHL and Huiya, holds the 371,988,350 shares as nominee for three investment funds, namely Transpac Capital 1996 Investment Trust, Transpac Capital Parallel 1996 Investment Trust and Transpac Managers III Ltd in respect of approximately 96.0 per cent, 3.0 per cent and 1.0 per cent of the 371,988,350 shares. TCPL is the manager of a number of venture capital funds including those specified herein and Mr. Leong is a director of TCPL. Transpac Managers III Ltd is a venture capital fund contributed by the staff of TCPL to invest in parallel to funds managed by TCPL.

**(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 executive 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 31 March 2004, 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 2003 and 31 March 2004	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 31 March 2004, 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 2003 and 31 March 2004	Date of grant	Exercise period	Exercise price per share HK\$
Mr. Wu Shu Min	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	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 31 March 2004, 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 the SFO and Substantial Shareholders**

So far as is known to the directors of the Company, as at 31 March 2004, 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 which were required pursuant to section 336 of the SFO, to be entered into the register referred to therein, were as follows:

**Long positions**

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)	Nominee	371,988,350	25.90%	–	371,988,350
Transpac Capital Pte Ltd. (Note 1)	Nominee	371,988,350	25.90%	–	371,988,350
Ms. Lei Dong Ling (Note 2)	Interests of spouse	154,823,000	10.78%	28,000,000	182,823,000
Ms. Wu Yong Jun (Note 3)	Interests of spouse	87,638,000	6.10%	–	87,638,000

## Notes:

- (1) Multico Holdings Limited (“MHL”) and Huiya South China Investments Limited (“Huiya”) held 362,948,350 shares and 9,040,000 shares respectively and the sole shareholder of MHL and Huiya is Transpac Nominees Pte Ltd. (“TNPL”) which in turn is a wholly-owned subsidiary of Transpac Capital Pte Ltd. (“TCPL”). Both TNPL and TCPL therefore are deemed to be interested in 371,988,350 shares in which MHL and Huiya are interested. TNPL through MHL and Huiya, holds the 371,988,350 shares as nominee for three investment funds, namely Transpac Capital 1996 Investment Trust, Transpac Capital Parallel 1996 Investment Trust and Transpac Managers III Ltd in respect of approximately 96.0 per cent, 3.0 per cent and 1.0 per cent of the 371,988,350 shares. TCPL is the manager of a number of venture capital funds including those specified herein and Mr. Leong is a director of TCPL. Transpac Managers III Ltd is a venture capital fund contributed by the staff of TCPL to invest in parallel to funds managed by TNPL.



- (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 154,823,000 shares and 28,000,000 share options in which Mr. Wu Shu Min is interested.
- (3) Ms. Wu Yong Jun is the spouse of Mr. Zhu Rong. Under section 316 of the SFO, Ms. Wu Yong Jun is therefore deemed to be interested in all 87,638,000 shares in which Mr. Zhu Rong is interested.

Save as disclosed above, as at 31 March 2004, 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 which were required, pursuant to section 336 of the SFO, to be entered into the register referred to therein.

## Outstanding Share Options

### a) Pre-IPO Share Option Plan

As at 31 March 2004, options to subscribe for an aggregate of 41,928,000 shares were outstanding (including the directors of the Company as disclosed above). Under the Pre-IPO Share Option Plan, the grantees may include (a) any full-time employee and director (including non-executive director and independent non-executive director) of the Company or any of its subsidiaries; (b) any part-time employee with weekly working hours of 15 hours and above of the Company or any of its subsidiaries; (c) any advisor or consultant (in the areas of technical, financial or corporate managerial) to the Company or any of its subsidiaries; and (d) any other person who, at the sole determination of the board of directors, has contributed to the Group based on certain assessment criteria. Details of which as at 31 March 2004 were as follows:

Date of grant of share options	As at 1 October 2003	Granted during the period	Cancelled during the period	Exercised during the period	Lapsed during the period	As at 31 March 2004	Exercise period of share options	Adjusted exercise price per share* HK\$
7 January 2000	25,650,000	-	-	-	750,000	24,900,000	7 January 2000 to 6 January 2008	0.150
26 February 2000	10,628,000	-	-	-	100,000	10,528,000	26 February 2000 to 25 February 2008	0.150
23 May 2000	6,500,000	-	-	-	-	6,500,000	23 May 2000 to 22 May 2008	0.515
20 July 2001	150,000	-	-	-	150,000	-	20 July 2001 to 19 July 2009	0.515
	<u>42,928,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,000,000</u>	<u>41,928,000</u>		

\* 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\$.



**b) The Scheme**

As at 31 March 2004, options to subscribe for an aggregate of 99,900,000 shares were outstanding (including the directors of the Company as disclosed above). Under the Scheme, the grantees may include (i) any full-time employee, director (including non-executive director and independent non-executive director) and part-time employee with weekly working hours of 15 hours and above of the Company and any of its subsidiaries; (ii) any advisor or consultant (in the areas of technical, financial or corporate managerial) to the Company or any of its subsidiaries; and (iii) any other person who, at the sole determination of the board of directors, has contributed to the Group based on certain assessment criteria. Details of which as at 31 March 2004 were as follows:

Date of grant of share options	As at 1 October 2003	Granted during the period	Cancelled during the period	Exercised during the period	Lapsed during the period	As at 31 March 2004	Exercise period of share options	Exercise price per share HK\$
1 March 2002	38,600,000	-	-	-	4,300,000	34,300,000	1 March 2002 to 21 December 2011	0.475
7 March 2002	20,000,000	-	-	-	-	20,000,000	7 March 2002 to 21 December 2011	0.465
5 June 2003	48,000,000	-	-	-	2,400,000	45,600,000	5 June 2003 to 21 December 2011	0.078
	<u>106,600,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,700,000</u>	<u>99,900,000</u>		

**Competition and Conflict of Interests**

Mr. Leong Ka Cheong, Christopher, non-executive director of the Company, is a non-executive director of YesMobile Holdings Company Limited ("YesMobile") which provides services to the telecommunication industry in Asia. At the present time, the nature of the business of YesMobile is different from the Group but YesMobile does operate in the same business domain.

Save as disclosed above, 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 interests, with the Group.



### **Sponsors' Interests**

As at 31 March 2004, as updated and notified 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 then 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 Quarterly Period and 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 then 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 2004