



THIRD QUARTERLY REPORT

2004



IIN INTERNATIONAL LIMITED

(incorporated in the Cayman Islands with limited liability)



Highlights

Turnover was approximately HK\$39.0 million for the Quarterly Period and approximately HK\$102.6 million for the Review Period respectively.

Net loss amounted to approximately HK\$6.5 million for the Quarterly Period and approximately HK\$14.5 million for the Review Period respectively.

No dividend was declared for the Quarterly Period.

Business Review and Prospects

As the market competition in the network solutions industry remains fierce, the turnover of IIN International Limited (the "Company") together with its subsidiaries (the "Group") generated during the three months ended 30 June 2004 (the "Quarterly Period") and the nine months ended 30 June 2004 (the "Review Period") decreased by approximately 15% and approximately 19% respectively as compared to those of the corresponding periods of last year. The gross profit margin of the Group for the Quarterly Period dropped to approximately 9% from approximately 11% for the same period of 2003 due to the fact that the turnover recorded for the Quarterly Period was mainly attributable by network infrastructure solutions and transmission solutions. Resulted by the drop of gross profit margin, the net loss for the Quarterly Period was approximately HK\$6.5 million, representing an increase of approximately 18% as compared to that of the last year. Despite positive contributions to the Group's results as attributable by the cost control measures taken, the decreases of both turnover as well as gross profit margin have pressed the Group's overall performance resulting in the net loss from ordinary activities attributable to shareholders for the Review Period only slightly narrowing to approximately HK\$14.5 million from approximately HK\$15.4 million for the corresponding period last year.

In the past few quarters, the Group has continually implemented cost control measures, anticipated results were achieved as reflected by the drop in various business expenditures. We will adopt this approach and will look for rooms to further improve the operational efficiency of the Group.

In June 2004, the Group had completed the acquisition of 51% equity interest of TM Technology Corporation, which beneficially owns 100% equity interest of Chengdu TM Network Corporation, a company armed with a strong research and development team and self-developed products with great market potentials. With this acquisition, the Group would be able to implement its strategy to expand its business scope and further strengthen its market position, including the entry into the wireless network management system arena.



The Group will, while consolidating the existing businesses, actively seek for opportunities to enlarge revenue base and improve gross profit margin by capturing possible cooperation with multinational system integrators and their associated joint venture companies in the People's Republic of China (the "PRC") for the provision of communication and information network services for enterprises which we believe that will offer added value to the Group for future business development.

Financial Review

The Group's turnover during the Review Period dropped approximately 19% to approximately HK\$102.6 million compared to approximately HK\$126.1 million for the corresponding period last year. The decrease in turnover was mainly due to keen market competition.

During the Review Period, turnover contributed from network infrastructure solution and transmission segments which are of lower gross profit margin totalling approximately HK\$85.9 million, represents approximately 84% of the Group's turnover (corresponding period last year: approximately HK\$89.3 million, representing approximately 71% of the Group's turnover). As a result of this and keen market competition, the Group's gross profit margin for the Review Period dropped to approximately 16% compared to approximately 17% for the corresponding period last year.

During the Review Period, the Group recorded net loss from ordinary activities attributable to shareholders amounted to approximately HK\$14.5 million which is narrowed from approximately HK\$15.4 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 amounted to approximately HK\$7.2 million which was in line with approximately HK\$6.8 million for the corresponding period last year.

Administrative expenses of the Group for the Review Period decreased by approximately 19% to approximately HK\$20.7 million from approximately HK\$25.4 million for the corresponding period last year. The decrease in administrative expenses was attributable to the Group's continuing effort in cost control.



IIN INTERNATIONAL LIMITED

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

| | Notes | Three months ended 30 June | | Nine months ended 30 June | |
|--|-------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| | | 2004 HK\$'000 (Unaudited) | 2003 HK\$'000 (Unaudited) | 2004 HK\$'000 (Unaudited) | 2003 HK\$'000 (Unaudited) |
| Turnover | 2 | 39,003 | 45,826 | 102,622 | 126,068 |
| Cost of sales | | (35,583) | (40,915) | (86,420) | (104,717) |
| Gross profit | | 3,420 | 4,911 | 16,202 | 21,351 |
| Other revenue | | 12 | 801 | 1,600 | 1,829 |
| Selling and distribution costs | | (1,690) | (1,831) | (7,215) | (6,840) |
| Administrative expenses | | (6,674) | (6,576) | (20,670) | (25,406) |
| Other operating expenses | | (1,171) | (1,856) | (3,505) | (3,528) |
| Loss from operating activities | 3 | (6,103) | (4,551) | (13,588) | (12,594) |
| Finance costs | | (431) | (1,141) | (1,491) | (2,992) |
| Loss before tax | | (6,534) | (5,692) | (15,079) | (15,586) |
| Tax | 4 | (287) | - | (287) | - |
| LOSS BEFORE MINORITY INTERESTS | | (6,821) | (5,692) | (15,366) | (15,586) |
| Minority interests | | 332 | 178 | 893 | 190 |
| NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS | | (6,489) | (5,514) | (14,473) | (15,396) |
| Dividend | 5 | - | - | - | - |
| LOSS PER SHARE | 6 | | | | |
| Basic | | (HK0.45) cents | (HK0.38) cents | (HK1.01) cents | (HK1.08) cents |
| Diluted | | N/A | N/A | N/A | N/A |



Notes:

1. Basis of preparation

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.

The unaudited consolidated results 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:

| | Three months ended 30 June | | Nine months ended 30 June | |
|--|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| | 2004 HK\$'000 (Unaudited) | 2003 HK\$'000 (Unaudited) | 2004 HK\$'000 (Unaudited) | 2003 HK\$'000 (Unaudited) |
| Network infrastructure solutions | 19,051 | 30,079 | 47,687 | 65,715 |
| Network management solutions | – | 424 | 2,647 | 22,727 |
| Other network solutions for sectors other than telecommunications | 2,086 | 1,160 | 14,113 | 13,999 |
| Transmission | 17,866 | 14,163 | 38,175 | 23,627 |
| | 39,003 | 45,826 | 102,622 | 126,068 |

3. Loss from operating activities

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

| | Three months ended 30 June | | Nine months ended 30 June | |
|--|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| | 2004 HK\$'000 (Unaudited) | 2003 HK\$'000 (Unaudited) | 2004 HK\$'000 (Unaudited) | 2003 HK\$'000 (Unaudited) |
| Staff costs (including directors' emoluments) | 2,519 | 2,726 | 8,637 | 10,849 |
| Depreciation | 936 | 1,156 | 3,336 | 3,349 |
| Amortisation of deferred development costs | 172 | 344 | 786 | 1,032 |
| Amortisation of goodwill | 858 | 789 | 2,578 | 1,773 |
| Minimum lease payments under operating leases in respect of land and buildings | 426 | 779 | 963 | 2,854 |
| Provision for doubtful debts | 141 | 723 | 141 | 723 |

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 2004 (2003: Nil).

PRC corporate income tax has been provided at the relevant tax rate of the net assessable profits attributable to the Group's operations in the PRC during the nine months ended 30 June 2004 (2003: 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 2004 (2003: Nil).

5. Dividend

The Board does not recommend payment of a dividend for the period under review (2003: Nil).

6. Loss per share

The calculation of basic loss per share for the three months and nine months ended 30 June 2004 is based on the respective unaudited consolidated net loss from ordinary activities attributable to shareholders of approximately HK\$6,489,000 and HK\$14,473,000 (2003: approximately HK\$5,514,000 and HK\$15,396,000) and the weighted average of 1,440,033,057 shares and 1,437,684,975 shares respectively (2003: 1,436,517,350 shares and 1,429,954,273 shares respectively) in issue during the periods.

The diluted loss per share for the three months and nine months ended 30 June 2004 and 2003 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 2004 and 2003.

7. Reserves

Movement in reserves for the nine months ended 30 June 2004 and 2003 were as follows:

| | Share premium account HK\$'000 (Unaudited) | Capital reserve HK\$'000 (Unaudited) | Statutory reserve HK\$'000 (Unaudited) | Asset revaluation reserve HK\$'000 (Unaudited) | Exchange fluctuation reserve HK\$'000 (Unaudited) | Accumulated losses HK\$'000 (Unaudited) | Total HK\$'000 (Unaudited) |
|---|--|---|---|--|---|--|----------------------------------|
| 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 | - | - | - | - | - | (15,396) | (15,396) |
| At 30 June 2003 | <u>54,964</u> | <u>(7,742)</u> | <u>4</u> | <u>4,463</u> | <u>(13)</u> | <u>(44,864)</u> | <u>6,812</u> |
| At 1 October 2003 | 54,964 | (4,742) | 4 | 4,568 | (13) | (67,071) | (12,290) |
| New issue of shares upon acquisition of subsidiaries | 576 | - | - | - | - | - | 576 |
| Net loss for the period | - | - | - | - | - | (14,473) | (14,473) |
| Exchange realignment | - | - | - | - | (1) | - | (1) |
| At 30 June 2004 | <u>55,540</u> | <u>(4,742)</u> | <u>4</u> | <u>4,568</u> | <u>(14)</u> | <u>(81,544)</u> | <u>(26,188)</u> |



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

As at 30 June 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 | | Approximate Percentage of the Company's issued share capital |
|---|--|------------------|--|
| | Total interests in shares | Capacity | |
| Mr. Wu Shu Min | 154,823,000 | Beneficial owner | 10.03% |
| Mr. Chang Ye Min, William | 16,840,000 | Beneficial owner | 1.09% |
| Mr. Zhu Rong | 87,638,000 | Beneficial owner | 5.68% |
| Mr. Leong Ka Cheong, Christopher (Note) | 371,988,350 | Nominee | 24.11% |

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 30 June 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 30 June 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 30



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June 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 | Date of grant | Exercise period | Exercise |
|------------------------------|--|---------------|-------------------------------------|------------------------------------|
| | 30 June 2004 | | | 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 to 21 December 2011 |
| 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 to 21 December 2011 |
| 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 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 5.46 to 5.67 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 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:

| Name | Capacity | Interests in shares | Percentage of interests | Interests under equity derivatives | Aggregate interests |
|--|---------------------|---------------------|-------------------------|------------------------------------|---------------------|
| Multico Holdings Limited (Note 1) | Beneficial owner | 362,948,350 | 23.52% | - | 362,948,350 |
| Transpac Nominees Pte Ltd. (Note 1) | Nominee | 371,988,350 | 24.11% | - | 371,988,350 |
| Transpac Capital Pte Ltd. (Note 1) | Nominee | 371,988,350 | 24.11% | - | 371,988,350 |
| Ms. Lei Dong Ling (Note 2) | Interests of spouse | 154,823,000 | 10.03% | 28,000,000 | 182,823,000 |
| Ms. Wu Yong Jun (Note 3) | Interests of spouse | 87,638,000 | 5.68% | - | 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.
- (2) Ms. Lei Dong Ling is the spouse of Mr. Wu Shu Min. Under Section 316 of the SFO, Ms. Lei Dong Ling is 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 deemed to be interested in all 87,638,000 shares in which Mr. Zhu Rong is interested.



Save as disclosed above, as at 30 June 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.

Competition and Conflicts of Interest

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.

Disclosure of Trade Receivables Under Chapter 17 of The GEM Listing Rules

As at 30 June 2004, there were two trade receivables (the "Trade Receivables") due from 北京國創華利科技有限公司 ("Beijing Guochuang") and Tongmao Co., Ltd. Shanghai Import & Export ("Shanghai Tongmao") amounted to approximately HK\$16,500,000, and HK\$21,200,000 respectively which were arisen from the provision of system integration solutions including the sales of software and hardware systems.

As at 30 June 2004, there were 1,543,160,470 shares of the Company in issue. Based on the average closing price of the Company's shares of HK\$0.0512 per share as stated in the Stock Exchange's daily quotation sheet for the trading days from 24 June 2004 to 30 June 2004 (both days inclusive), being the five trading days immediately preceding 30 June 2004, the total market capitalization of the Company was approximately HK\$79,010,000 (the "Total Market Capitalization"). As at 31 March 2004, the unaudited consolidated total assets value of the Group was approximately HK\$175,144,000 (the "Total Assets").



As at 30 June 2004, each of the Trade Receivables exceeded 8% of the Total Assets and the Total Market Capitalization respectively.

| Customer | Amount due to the Group as at 30 June 2004 (HK\$) | Percentage of Total Market Capitalization | Percentage of Total Assets | Amount already due (HK\$) |
|-------------------|--|--|-----------------------------------|--------------------------------------|
| Beijing Guochuang | 16,500,000 | 21% | 9% | 7,400,000 |
| Shanghai Tongmao | 21,200,000 | 27% | 12% | Nil |

The Trade Receivables were arisen from sales to the customers by the Group during its ordinary course of business and on normal commercial terms. The Trade Receivables are unsecured, interest-free and shall be settled in accordance with the terms of the relevant contracts.

As at 30 June 2004, Beijing Guochuang and Shanghai Tongmao are customers of the Group and are independent of, and are not connected with the Company or its subsidiaries, the directors, chief executive, management shareholders or substantial shareholders of the Company or its subsidiaries and their respective associates (as defined in the GEM Listing Rules).

Pursuant to the relevant contracts, HK\$16,700,000 of the total amount of the trade receivable due from Shanghai Tongmao was covered by irrevocable letter of credit. As at the date of this report, HK\$19,400,000 out of HK\$21,200,000 due from Shanghai Tongmao was received. The time for collecting the Trade Receivables is by instalments and determined by the progress of the projects with reference to the stage of completion. The Group will take appropriate steps to collect the Trade Receivables in accordance with the terms of the contracts.

Save for the above, as at 30 June 2004, so far as was known to the Directors, there was no other advance which would give rise to disclosure obligation under Rules 17.15 and 17.17 of the GEM Listing Rules.



Sponsor's Interests

As at 30 June 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

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 5.34 to 5.45 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 August 2004