



FIRST QUARTERLY REPORT
2005



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 The Stock Exchange of Hong Kong Limited (“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.

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for and loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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 was approximately HK\$32.4 million for the Review Period.

Net loss amounted to approximately HK\$4.8 million for the Review Period.

No dividend was declared for the Review Period.

Business Review and Prospects

During the three months ended 31 December 2004 ("Review Period"), the turnover of IIN International Limited (the "Company") together with its subsidiaries (the "Group") was mainly generated from the network infrastructure solutions segment and transmission solutions segment which generally has a lower profit margin. As a result, our overall gross profit margin was significantly lower as compared to that of last year. Repeating orders from Provincial Telecommunications Corporation in Shanghai for construction of Metropolitan Area Networks was secured during the Review Period.

Considering the keen market competition and pressed profit margin which has dampened our business development as well as the financial performance, the Group has taken proactive steps to utilize our know-how gained from providing network management solutions to telecommunications carriers to migrate downstream through carriers by providing communication and information network services to enterprise customers. Accordingly, our research and development team has developed a service platform, namely Enterprise IP Network Management and Maintenance Service Platform which enable enterprises to centrally manage and maintain IP networks and elements. This new service platform is now on trial by our potential customers, and we expect that this newly developed service platform would bring positive contribution to the Group's overall results in this fiscal year.

In order to explore new opportunities to expand the revenue source and improve the profit margin, the Group has during the Review Period put effort in exploring an electronic payment platform ("e-Pay") which provides an efficient means to carriers for convenient and reliable payment collection services to merchants and customers. A co-operative agreement was signed with a leading supplier of contactless communication technology to jointly develop the e-Pay platform.

As the newly introduced strategies as mentioned above have just been implemented and the implementation is still in the preliminary stage, the management and all staff are committed to dedicate their full energy and effort to materialize the opportunities and positive financial contributions are expected within this fiscal year. In addition, the Group will continue in maintaining its cost control measures in order to minimize the operating cost.

Corporate development

With effect from 28 January 2005, Mr. Zhu Rong and Mr. Lo Wai Shun, due to personal reasons, resigned as non-executive directors of the Company. Mr. Ng Ching Wo has retired as

independent non-executive director of the Company by rotation in accordance with the Articles of Association of the Company at the annual general meeting held on 28 January 2005 and ceased to act as member of the audit committee of the Company. Mr. Chang Ye Min, William, an executive director of the Company, has been re-designated as non-executive director of the Company and ceased to act as Chief Executive Officer and Authorised Representative of the Company with effect from 28 January 2005. In order to fill the vacancies as occasioned by the above changes, Mr. Chang Xiao Hui has been appointed as executive director and Chief Executive Officer of the Company, Mr. Li Jun Chao has been appointed as executive director of the Company and Mr. Liu Yang has been appointed as independent non-executive director and member of the audit committee of the Company with effect from 28 January 2005. Mr. Wu Shu Min has been appointed as Authorised Representative of the Company with effect from 28 January 2005.

Financial Review

The Group's turnover during the Review Period dropped by approximately 26% to approximately HK\$32.4 million compared to approximately HK\$43.7 million for the corresponding period last year. The decrease in turnover was mainly due to keen market competition and an adjustment of the Group's strategy and marketing direction with focus on provision of services to enterprise customers through carriers.

During the Review Period, turnover contributed from network infrastructure solution and transmission segments, which generally of lower gross profit margin totalling approximately HK\$31.8 million, represents approximately 98% of the Group's turnover (corresponding period last year: approximately HK\$32.9 million, representing approximately 75% of the Group's turnover). As a result of the above, the Group's gross profit margin for the Review Period dropped to approximately 12% compared to approximately 22% for the corresponding period last year.

During the Review Period, the Group's net loss from ordinary activities attributable to shareholders widened to approximately HK\$4.8 million from approximately HK\$1.7 million for the corresponding period last year.

Selling and distribution cost of the Group for the Review Period dropped to approximately HK\$1.4 million compared with last year of approximately HK\$3.2 million which was a result of decrease in turnover recorded during the Review Period. Moreover, the decrease in market development cost as a result of the Group's adjustment in marketing direction also contributed to decrease in selling and distribution cost.

Administrative expenses of the Group for the Review Period decreased to approximately HK\$5.9 million from approximately HK\$6.9 million for the corresponding period last year. The decrease in administrative expenses was attributable to the Group's continuing effort in cost control.

Results

The Board of Directors (the "Board") of IIN International Limited (the "Company") is pleased to announce the unaudited consolidated results of the Group for the three months ended 31 December 2004 together with the comparative unaudited figures for the corresponding period in 2003 as follows:

		For the three months ended	
	<i>Notes</i>	31 December 2004 HK\$'000 (Unaudited)	31 December 2003 HK\$'000 (Unaudited)
Turnover	2	32,422	43,679
Cost of sales		(28,602)	(34,099)
Gross profit		3,820	9,580
Other revenue		927	690
Selling and distribution costs		(1,362)	(3,225)
Administrative expenses		(5,914)	(6,860)
Other operating expenses		(2,019)	(1,203)
Loss from operating activities	3	(4,548)	(1,018)
Finance costs		(360)	(596)
Loss before tax		(4,908)	(1,614)
Tax	4	(19)	-
LOSS BEFORE MINORITY INTERESTS		(4,927)	(1,614)
Minority interests		100	(46)
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		(4,827)	(1,660)
Dividend	5	-	-
LOSS PER SHARE	6		
Basic		(0.31) cents	(0.12) cents
Diluted		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:

	For the three months ended	
	31 December 2004 HK\$'000 (Unaudited)	31 December 2003 HK\$'000 (Unaudited)
Telecommunications network infrastructure solutions	27,517	20,226
Network management solutions	589	2,647
Other network solutions for sectors other than telecommunications	–	8,126
Transmission	4,316	12,680
	32,422	43,679

3. Loss from operating activities

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

	For the three months ended	
	31 December 2004 HK\$'000 (Unaudited)	31 December 2003 HK\$'000 (Unaudited)
Staff costs (including directors' emoluments)	2,483	2,983
Depreciation	924	889
Amortisation of deferred development costs	172	344
Amortisation of goodwill	1,352	859
Minimum lease payments under operating leases in respect of land and buildings	433	257
Provision for bad and doubtful debts	495	–

4. Tax

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong during the three months ended 31 December 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 three months ended 31 December 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 31 December 2004 (2003: Nil).

5. Dividend

The Board does not recommend payment of a dividend for the Review Period (2003: Nil).

6. Loss per share

The calculation of basic loss per share for the three months ended 31 December 2004 is based on the unaudited consolidated net loss from ordinary activities attributable to shareholders of approximately HK\$4,827,000 (2003: approximately HK\$1,660,000) and the weighted average of 1,543,160,470 shares (2003: 1,436,517,350 shares) in issue during the period.

The diluted loss per share for the three months ended 31 December 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 ended 31 December 2004 and 2003.

7. Reserves

Movement in reserves for the three months ended 31 December 2004 and 2003 were as follows:

	Share Accumulated losses	Share premium account	Statutory reserve	Asset revaluation reserve	Exchange fluctuation reserve	Capital reserve	Total
	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
At 1 October 2003	(67,071)	54,964	4	4,568	(13)	(4,742)	(12,290)
Net loss for the period	(1,660)	-	-	-	-	-	(1,660)
At 31 December 2003	<u>(68,731)</u>	<u>54,964</u>	<u>4</u>	<u>4,568</u>	<u>(13)</u>	<u>(4,742)</u>	<u>(13,950)</u>
At 1 October 2004	(115,533)	54,964	4	5,061	(13)	(2,242)	(57,759)
Net loss for the period	(4,827)	-	-	-	-	-	(4,827)
At 31 December 2004	<u>(120,360)</u>	<u>54,964</u>	<u>4</u>	<u>5,061</u>	<u>(13)</u>	<u>(2,242)</u>	<u>(62,586)</u>

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

As at 31 December 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 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 5.46 to 5.68 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	6,840,000	Beneficial owner	0.44%
Mr. Zhu Rong (Note 1)	86,894,000	Beneficial owner	5.63%
Mr. Leong Ka Cheong, Christopher (Note 2)	371,988,350	Nominee	24.11%

Note:

- (1) With effect from 28 January 2005, Mr. Zhu Rong resigned as non-executive director of the Company due to personal reasons.
- (2) 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 December 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 2004 and 31 December 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 December 2004, the following directors of the Company were interested in the following options under the Scheme:

Name of director	Number of share options outstanding as at 1 October 2004 and		Date of grant	Exercise period	Exercise price per share HK\$
	31 December 2004				
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 (Note)	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

Note: Mr. Ng Ching Wo has retired as independent non-executive Director of the Company by rotation in accordance with the Articles of Association of the Company at the annual general meeting held on 28 January 2005.

Save as disclosed above, as at 31 December 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 5.68 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 31 December 2004, persons (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	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	86,894,000	5.63%	–	86,894,000

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 86,894,000 shares in which Mr. Zhu Rong is interested.

Save as disclosed above, as at 31 December 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

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 31 December 2004, there was a trade receivable (the "Trade Receivable") due from 北京國創華利科技有限公司 ("Beijing Guochuang") amounting to approximately HK\$9,900,000, which was arisen from the provision of system integration solutions including the sales of software and hardware systems.

As at 31 December 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\$0.055 per share as stated in the Stock Exchange's daily quotation sheet for the trading days from 24 December 2004 to 31 December 2004 (both days inclusive), being the five trading days immediately preceding 31 December 2004, the total market capitalization of the Company was approximately HK\$84,874,000 (the "Total Market Capitalization").

As at 31 December 2004, the Trade Receivable exceeded 8% of the Total Market Capitalization.

Customer	Amount due to the Group as at 31 December 2004 (HK\$)	Approximate Percentage of Total Market Capitalization
Beijing Guochuang	9,900,000	12%

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

As at 31 December 2004, Beijing Guochuang is a customer of the Group and is 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).

Save for the above, as at 31 December 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.

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.

With effect from 28 January 2005, Mr. Ng Ching Wo ceased to act as member of audit committee and Mr. Liu Yang was appointed for replacement. The audit committee currently comprises three independent non-executive directors, namely, Mr. Chan Wai Dune, Mr. Chen Junliang and Mr. Liu Yang. 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
Wu Shu Min
Chairman

Hong Kong, 14 February 2005

A decorative graphic in the bottom left corner of the page, featuring a blue and white abstract pattern of light rays or fiber optic lines radiating from a central point.