



INTERIM REPORT

2005



IIN

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.

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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\$46.0 million for the Review Period.

Net loss amounted to approximately HK\$11.0 million for the Review Period

No dividend was declared for the Review Period.

Business Review and Prospects

For the three months ended 31 March 2005 (the "Quarterly Period") and the six months ended 31 March 2005 (the "Review Period"), the turnover of IIN International Limited (the "Company") together with its subsidiaries (the "Group") decreased by approximately 34% and 28% respectively as compared to that of the corresponding periods last year. Turnover for the Review Period was mainly attributable to provision of network infrastructure solutions and transmission solutions. The decline in turnover during the Review Period was due to low gross profit margin of the businesses and the shrinkage in market demand for the Group's proprietary products, against this background, the Group adjusted its strategy and market direction accordingly to focus on providing communication and information network services to enterprise customers through carriers as well as actively exploring the electronic payment platform ("e-Pay"). For the Review Period, the overall gross profit margin declined slightly as compared with the corresponding period of last year. Notwithstanding the gross profit margin of transmission solutions improved significantly as compared with the corresponding period of last year, however, the share of network management solutions, which rendered higher gross profit margin, in the Group's turnover declined substantially during the Review Period, making the overall gross profit margin to remain at almost the same level.

The "Enterprise IP Network Management and Maintenance Service Platform" developed by the Group's research and development team enables the enterprises to centrally manage and maintain IP networks and elements. During the Review Period, the Group has established several trial sites with the Provincial Telecommunications Corporation of China Telecom and China Netcom and commenced the market launch of IP service and we received enthusiastic response from telecom operators and corporations. It's expected that IP service will bring commercial benefits to the Group in the current financial year.

With the China economy growing rapidly, per capita income increasing and the consumption pattern changing, e-Pay is set to become one of the major payment methods for transaction. Therefore, the Group expects the e-Pay business has much room for development in the China market and to create new business opportunity as well as generating income and profit for the Group. During the Review Period, the Group's professional technological team cooperated with an international renowned provider of non-touch communication technology to jointly develop the electronic payment and mobile payment platforms (for small amount payment) which are suitable for use by the public in China. The development progresses satisfactorily and the service has now been promoted to the market by the Group. The platforms may provide operators and their clients with a set of e-Pay services which are convenient, reliable and of high-efficiency.

Since the "Enterprise IP Network Management and Maintenance Service Platform" and e-Pay are still in the stage of development and promotion, the overall performance of the Group's business is inevitably affected in the short run. The Group believes that these businesses will definitely contribute positively to the Group's performance upon launching to the market.

The Group remained endeavoring to cost control. During the Review Period, good improvement was recorded on controlling various kinds of expenses and costs cutting.

The Group is looking forward to achieving market breakthrough in its newly developed businesses shortly so as to improve the overall performance and in particular, increasing profit for our shareholders.

Financial Review

The Group's turnover during the Review Period dropped 28% to approximately HK\$45.6 million compared to approximately HK\$63.6 million for the corresponding period last year. The decrease in turnover was mainly due to keen market competition. Moreover, the Group had already gradually faded out system integration business to develop IP service and e-Pay businesses.

The Group's gross profit margin for the Review Period was 19%, recording a slight decrease as compared with that of the corresponding period last year.

During the Review Period, the Group recorded net loss from ordinary activities attributable to shareholders amounting to approximately HK\$10.9 million which is widened from approximately HK\$8.0 million for the corresponding period last year.

Selling and distribution costs of the Group for the Review Period dropped 49% to approximately HK\$2.8 million from approximately HK\$5.5 million for the corresponding period last year as 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 by 11% to approximately HK\$12.5 million from approximately HK\$14.0 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 3% to approximately HK\$27.8 million (2004: approximately HK\$ 28.6 million). The Group had already gradually faded out system integration business to focus on IP service

and e-Pay, turnover generated from network management solutions and from provision of other network solutions for customers in other market sectors in the PRC decreased 65% to approximately HK\$0.9 million (2004: approximately HK\$2.6 million) and 89% to approximately HK\$1.3 million (2004: approximately HK\$12.0 million), respectively. Turnover contributed from the transmission segment during the Review Period amounted to approximately HK\$15.7 million (2004: approximately HK\$20.3 million).

During the Review Period, improvement on operating results for transmission segment was achieved and recorded a loss of approximately HK\$0.063 million which was narrowed from HK\$2.6 million for the corresponding period last year, representing a decrease of 98%. The operating results for the provision of other network solutions for customers in other market sectors in the PRC recorded a slight decrease in loss from HK\$2.5 million for the corresponding period last year to approximately HK\$2.3 million for the Review Period.

As a result of substantial decrease in turnover generated from the network management solutions segment, the segment recorded an operating loss of approximately HK\$1.3 million during the Review Period as compared to an operating loss of approximately HK\$1.8 million for the corresponding period last year.

Segment result for the network infrastructure solutions recorded an operating loss of approximately HK\$6.6 million, represented an increase in loss from approximately HK\$ 2.1 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 with net current assets as at 31 March 2005 of approximately HK\$0.7 million (30 September 2004: approximately HK\$ 8.4 million).

As at 31 March 2005, the Group had cash on hand and deposits placed in banks amounted to approximately HK\$8.0 million (30 September 2004: approximately HK\$ 15.7 million).

As at 31 March 2005, the Group's total bank and other borrowings amounted to RMB24.4 million (equivalent to approximately HK\$22.8 million) (30 September 2004: RMB 24.1 million (equivalent to approximately HK\$ 22.5 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 2005, 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 2005, the gearing ratio of the Group, based on total liabilities over total assets was approximately 52.4% (30 September 2004: approximately 46.8%).

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

As at 31 March 2005, the Group does not have any future plans for material investment or capital assets.

Contingent Liabilities

The Group did not have any significant contingent liabilities as at 31 March 2005.

Employees

As at 31 March 2005, the Group employed 210 staff. The staff cost, including directors' emoluments was approximately HK\$5.0 million for the Review Period (2004: approximately HK\$ 6.0 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 2005 together with the unaudited comparative figures for the corresponding periods in 2004 as follows:

Condensed Consolidated Profit and Loss Account

| | Notes | Three months ended 31 March | | Six months ended 31 March | |
|----------------------------------------------------------------|-------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| | | 2005 HK\$'000 (Unaudited) | 2004 HK\$'000 (Unaudited) | 2005 HK\$'000 (Unaudited) | 2004 HK\$'000 (Unaudited) |
| Turnover | | 13,227 | 19,940 | 45,649 | 63,619 |
| Cost of sales | | (8,482) | (16,738) | (37,084) | (50,837) |
| Gross profit | | 4,745 | 3,202 | 8,565 | 12,782 |
| Other revenue | | 108 | 898 | 1,035 | 1,588 |
| Selling and distribution costs | | (1,421) | (2,300) | (2,783) | (5,525) |
| Administrative expenses | | (6,602) | (7,136) | (12,516) | (13,996) |
| Other operating expenses | | (1,510) | (1,131) | (3,529) | (2,334) |
| Loss from operating activities | 3 | (4,680) | (6,467) | (9,228) | (7,485) |
| Finance costs | | (467) | (464) | (827) | (1,060) |
| Loss before tax | | (5,147) | (6,931) | (10,055) | (8,545) |
| Tax | 4 | (524) | - | (543) | - |
| LOSS BEFORE MINORITY INTERESTS | | (5,671) | (6,931) | (10,598) | (8,545) |
| Minority interests | | (356) | 607 | (256) | 561 |
| NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS | | (6,027) | (6,324) | (10,854) | (7,984) |
| Dividend | 5 | - | - | - | - |
| LOSS PER SHARE | 6 | | | | |
| - Basic | | HK(0.39) cents | HK(0.44) cents | HK(0.70) cents | HK(0.56) cents |
| - Diluted | | N/A | N/A | N/A | N/A |

Condensed Consolidated Balance Sheet

31 March 2005

| | Notes | 31 March 2005 HK\$'000 (Unaudited) | 30 September 2004 HK\$'000 (Audited) |
|----------------------------------------------------------------------|-------|-------------------------------------------------------|-----------------------------------------------|
| NON-CURRENT ASSETS | | | |
| Fixed assets | 7 | 38,488 | 40,868 |
| Intangible assets | 8 | 634 | 769 |
| Rental deposits and golf club membership | | 873 | 873 |
| Pledged deposits | | – | 9,345 |
| Goodwill | 9 | 26,254 | 28,774 |
| | | 66,249 | 80,629 |
| CURRENT ASSETS | | | |
| Inventories | | 1,423 | 2,220 |
| Trade and retention receivables | 10 | 50,914 | 55,967 |
| Prepayments, trade deposits, other deposits and other receivables | | 11,112 | 9,608 |
| Due from related companies | | 2,893 | 3,150 |
| Pledged deposits | | 2,459 | 1,719 |
| Cash and cash equivalents | | 5,504 | 13,994 |
| | | 74,305 | 86,658 |
| CURRENT LIABILITIES | | | |
| Trade and bills payables | 11 | 27,364 | 21,206 |
| Accrued liabilities, deposits received and other payables | | 19,303 | 30,387 |
| Interest-bearing bank and other loans | | 22,837 | 22,504 |
| Tax payable | | 4,113 | 4,113 |
| | | 73,617 | 78,210 |
| NET CURRENT ASSETS | | 688 | 8,448 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 66,937 | 89,077 |
| NON-CURRENT LIABILITIES | | | |
| Interest-bearing bank and other loans | | 2,477 | 14,019 |
| MINORITY INTERESTS | | 12,714 | 12,458 |
| | | 51,746 | 62,600 |
| CAPITAL AND RESERVES | | | |
| Issued capital | 12 | 120,359 | 120,359 |
| Reserves | 13 | (68,613) | (57,759) |
| | | 51,746 | 62,600 |

Condensed Consolidated Statement of Changes in Equity (Unaudited)

For the six months ended 31 March 2005

| | 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 2004 | 120,359 | 54,964 | (2,242) | 4 | 5,061 | (13) | (115,533) | 62,600 |
| Net loss for the period | - | - | - | - | - | - | (10,854) | (10,854) |
| At 31 March 2005 | 120,359 | 54,964 | (2,242) | 4 | 5,061 | (13) | (126,387) | 51,746 |
| 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 |

Condensed Consolidated Cash Flow Statement

For the six months ended 31 March 2005

| | Six months ended 31 March | |
|-----------------------------------------------------|---------------------------------|---------------------------------|
| | 2005 HK\$'000 (Unaudited) | 2004 HK\$'000 (Unaudited) |
| Net cash outflow from operating activities | (4,656) | (25,289) |
| Net cash inflow/(outflow) from investing activities | 7,562 | (360) |
| Net cash inflow/(outflow) from financing activities | (11,210) | 13,409 |
| Decrease in cash and cash equivalents | (8,304) | (12,240) |
| Cash and cash equivalents at beginning of period | 13,808 | 21,834 |
| Cash and cash equivalents at end of period | 5,504 | 9,594 |

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 Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements set out in Chapter 18 of the GEM Listing Rules.

HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005.

The Group has not early adopted these new HKFRSs in the financial statements for the six months ended 31 March 2005. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

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 2004.

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

2. 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;
- (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 | | | | Other network solutions for sectors other than telecommunications | | | | Transmission | | Eliminations | | Consolidated | |
|----------------------------------------------------------------|-----------------------------------------------------|---------------|------------------|--------------|-------------------------------------------------------------------|---------------|------------------|---------------|------------------|-------------|------------------|-------------|------------------|---------------|
| | Six months ended | | Six months ended | | Six months ended | | Six months ended | | Six months ended | | Six months ended | | Six months ended | |
| | 31 March | | 31 March | | 31 March | | 31 March | | 31 March | | 31 March | | 31 March | |
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | |
| (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | |
| Segment revenue: | | | | | | | | | | | | | | |
| Sales to external customers | 27,806 | 28,636 | 905 | 2,647 | 1,261 | 12,027 | 15,677 | 20,309 | - | - | - | - | 45,649 | 63,619 |
| Intersegment sales | 8,641 | - | - | - | 164 | - | - | - | (8,805) | - | - | - | - | - |
| Total | 36,447 | 28,636 | 905 | 2,647 | 1,425 | 12,027 | 15,677 | 20,309 | (8,805) | - | - | - | 45,649 | 63,619 |
| Segment results | (6,614) | (2,103) | (1,325) | (1,830) | (2,261) | (2,508) | (63) | (2,632) | | | | | (10,263) | (9,073) |
| Unallocated income and gains | | | | | | | | | | | | | 1,035 | 1,588 |
| Loss from operating activities | | | | | | | | | | | | | (9,228) | (7,485) |
| Finance costs | | | | | | | | | | | | | (827) | (1,060) |
| Loss before tax | | | | | | | | | | | | | (10,055) | (8,545) |
| Tax | | | | | | | | | | | | | (543) | - |
| Loss before minority interests | | | | | | | | | | | | | (10,598) | (8,545) |
| Minority interests | | | | | | | | | | | | | (256) | 561 |
| Net Loss from ordinary activities attributable to shareholders | | | | | | | | | | | | | (10,854) | (7,984) |

| Group | Telecommunications network infrastructure solutions | | | | Other network solutions for sectors other than telecommunications | | | | Corporate and other | | Consolidated | |
|------------------------------------------------------------------------------------------------|-----------------------------------------------------|-------------------|------------------------------|-------------------|-------------------------------------------------------------------|-------------------|---------------------|-------------------|---------------------|-------------------|---------------------|-------------------|
| | network infrastructure solutions | | Network management solutions | | telecommunications | | Transmission | | Corporate and other | | Consolidated | |
| | 31 March 2005 | 30 September 2004 | 31 March 2005 | 30 September 2004 | 31 March 2005 | 30 September 2004 | 31 March 2005 | 30 September 2004 | 31 March 2005 | 30 September 2004 | 31 March 2005 | 30 September 2004 |
| | HKS'000 (Unaudited) | HKS'000 (Audited) | HKS'000 (Unaudited) | HKS'000 (Audited) | HKS'000 (Unaudited) | HKS'000 (Audited) | HKS'000 (Unaudited) | HKS'000 (Audited) | HKS'000 (Unaudited) | HKS'000 (Audited) | HKS'000 (Unaudited) | HKS'000 (Audited) |
| Segment assets | 31,336 | 41,752 | 12,358 | 12,562 | 1,210 | 1,641 | 45,218 | 45,913 | - | - | 90,122 | 101,868 |
| Unallocated assets | | | | | | | | | 50,432 | 65,419 | 50,432 | 65,419 |
| Total assets | | | | | | | | | 50,432 | 65,419 | 140,554 | 167,287 |
| Segment liabilities | 33,767 | 29,024 | 7,695 | 8,147 | 2,004 | 2,034 | 21,121 | 22,005 | - | - | 64,587 | 62,010 |
| Unallocated liabilities | | | | | | | | | 11,507 | 30,219 | 11,507 | 30,219 |
| Total liabilities | | | | | | | | | 11,507 | 30,219 | 76,094 | 92,229 |
| Other segment information: | | | | | | | | | | | | |
| Depreciation | 628 | 1,416 | 501 | 784 | 33 | 399 | 1,769 | 1,440 | 336 | 741 | 3,267 | 4,780 |
| Impairment of goodwill | - | - | - | - | - | - | - | - | - | 15,000 | - | 15,000 |
| Amortisation of goodwill | - | - | - | - | - | - | - | - | 2,690 | 3,872 | 2,690 | 3,872 |
| Surplus arising on revaluation of leasehold land and buildings – recognised directly in equity | - | - | - | - | - | - | - | - | - | (493) | - | (493) |
| Amortisation of deferred development costs | - | - | 344 | 958 | - | - | - | - | - | - | 344 | 958 |
| Provision for doubtful debts | 280 | 4,267 | - | - | 93 | (259) | 122 | 2,881 | - | - | 495 | 6,889 |
| Provision for other receivables | - | 2,164 | - | - | - | - | - | 467 | - | 190 | - | 2,821 |
| Capital expenditure | - | - | - | - | 10 | 196 | 887 | 310 | - | 16 | 897 | 522 |

(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.

3. 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 | |
|---------------------------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| | 2005 HK\$'000 (Unaudited) | 2004 HK\$'000 (Unaudited) | 2005 HK\$'000 (Unaudited) | 2004 HK\$'000 (Unaudited) |
| Cost of sales | 8,482 | 16,738 | 37,084 | 50,837 |
| Depreciation | 2,343 | 1,194 | 3,267 | 2,400 |
| Minimum lease payments under operating leases: | | | | |
| Land and building | 493 | 280 | 926 | 537 |
| Staff costs (including directors' emoluments): | 2,587 | 3,047 | 5,070 | 6,031 |
| Amortisation of goodwill | 1,338 | 861 | 2,690 | 1,720 |
| Amortisation of deferred development costs | 172 | 270 | 344 | 614 |

4. Tax

| | Six months ended 31 March | |
|----------------------------|---------------------------------|---------------------------------|
| | 2005 HK\$'000 (Unaudited) | 2004 HK\$'000 (Unaudited) |
| The charge comprises: | | |
| – Hong Kong profit tax | – | – |
| – PRC corporate income tax | 543 | – |
| | 543 | – |

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong during the six months ended 31 March 2005 (2004: 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 six months ended 31 March 2005 (2004: 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 March 2005 (2004: Nil).

5. Dividend

The Directors do not recommend payment of an interim dividend for the period (2004: Nil).

6. Loss per Share

The calculation of the basic loss per share for the three months and six months ended 31 March 2005 is based on the respective unaudited consolidated net loss from ordinary activities attributable to shareholders of approximately HK\$6,027,000 and HK\$10,854,000 (three months ended 31 March 2004: approximately HK\$6,324,000 and six months ended 31 March 2004: approximately HK\$7,984,000) and the weighted average number of 1,543,160,470 shares and 1,543,160,470 shares respectively (2004: 1,436,517,350 and 1,436,517,350 respectively) in issue during the period.

Diluted loss per share for the three months and six months ended 31 March 2004 and 2005 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 2004 and 2005.

7. Fixed Assets

The movements of fixed assets of the Group were:

| | 31 March 2005 HK\$'000 (Unaudited) | 30 September 2004 HK\$'000 (Audited) |
|------------------------------------------|-------------------------------------------------------|-----------------------------------------------|
| Net book value, beginning of period/year | 40,868 | 42,910 |
| Additions | 897 | 522 |
| Acquisition of subsidiaries | – | 1,922 |
| Disposals | (10) | (199) |
| Depreciation | (3,267) | (4,780) |
| Depreciation written back on revaluation | – | 493 |
| Net book value, end of period/year | 38,488 | 40,868 |

8. Intangible Assets

Intangible assets of the Group comprised:

| | 31 March 2005 HK\$'000 (Unaudited) | 30 September 2004 HK\$'000 (Audited) |
|----------------------------------------------|-------------------------------------------------------|-----------------------------------------------|
| Net book value, beginning of the period/year | 769 | 1,727 |
| Additions | 209 | – |
| Amortisation | (344) | (958) |
| Net book value, end of period/year | 634 | 769 |

9. Goodwill

| | 31 March 2005 HK\$'000 (Unaudited) | 30 September 2004 HK\$'000 (Audited) |
|------------------------------------------|-------------------------------------------------------|-----------------------------------------------|
| Net book value, beginning of period/year | 28,774 | 39,235 |
| Acquisition of subsidiaries | 170 | 5,911 |
| Amortisation | (2,690) | (3,872) |
| Impairment | – | (12,500) |
| Net book value, end of period/year | 26,254 | 28,774 |

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

10. Trade and Retention Receivables

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

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

| | 31 March 2005 HK\$'000 (Unaudited) | 30 September 2004 HK\$'000 (Audited) |
|----------------|-------------------------------------------------------|-----------------------------------------------|
| 0 – 90 days | 14,756 | 12,434 |
| 91 – 180 days | 7,912 | 11,613 |
| 181 – 365 days | 6,823 | 9,643 |
| Over 365 days | 21,423 | 22,277 |
| | 50,914 | 55,967 |

11. Trade and Bills Payables

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

| | 31 March 2005 HK\$'000 (Unaudited) | 30 September 2004 HK\$'000 (Audited) |
|----------------|-------------------------------------------------------|-----------------------------------------------|
| 0 – 90 days | 7,167 | 8,301 |
| 91 – 180 days | 11,049 | 2,603 |
| 181 – 365 days | 890 | 1,886 |
| Over 365 days | 8,258 | 8,416 |
| | 27,364 | 21,206 |

12. Share Capital

| | 31 March 2005 HK\$'000 (Unaudited) | 30 September 2004 HK\$'000 (Audited) |
|--------------------------------------------------------------------------------------|-------------------------------------------------------|-----------------------------------------------|
| Authorised: | | |
| 2,000,000,000 (30 September 2004: 2,000,000,000) ordinary shares of US\$0.01 each | 156,000 | 156,000 |
| Issued and fully paid: | | |
| 1,543,160,470 (30 September 2004: 1,543,160,470) ordinary shares of US\$0.01 each | 120,359 | 120,359 |

13. Movement of Reserves (Unaudited)

For the six months ended 31 March 2005

| | Share premium account HK\$'000 | Capital reserve HK\$'000 | Statutory reserve HK\$'000 | Asset revaluation reserve HK\$'000 | Exchange fluctuation reserve HK\$'000 | Accumulated losses HK\$'000 | Total HK\$'000 |
|-------------------------|-----------------------------------------|--------------------------------|----------------------------------|---------------------------------------------|------------------------------------------------|-----------------------------------|-------------------|
| At 1 October 2004 | 54,964 | (2,242) | 4 | 5,061 | (13) | (115,533) | (57,759) |
| Net loss for the period | - | - | - | - | - | (10,854) | (10,854) |
| At 31 March 2005 | 54,964 | (2,242) | 4 | 5,061 | (13) | (126,387) | (68,613) |
| 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 | 54,964 | (4,742) | 4 | 4,568 | (13) | (75,055) | (20,274) |

14. 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 2005, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | 31 March 2005 HK\$'000 (Unaudited) | 30 September 2004 HK\$'000 (Audited) |
|-----------------------------------------|-------------------------------------------------------|-----------------------------------------------|
| Within one year | 1,170 | 974 |
| In the second to fifth years, inclusive | – | 77 |
| | 1,170 | 1,051 |

(ii) Capital commitments contracted for

The Group did not have any significant capital commitments at 31 March 2005.



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

As at 31 March 2005, 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. 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 31 March 2005, 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 March 2005 | 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 2005, 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 March 2005 | | | | |
| 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. Chang Xiao Hui | 6,000,000 | | 1 March 2002 | 1 March 2002 to 21 December 2011 | 0.475 |
| | 3,000,000 | | 5 June 2003 | 5 June 2003 to 21 December 2011 | 0.078 |
| Mr. Li Jun Chao | 2,000,000 | | 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 2005, 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 March 2005, 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 |
| Mr. Zhu Rong (Note 3) | Beneficial owner | 86,894,000 | 5.63% | – | 86,894,000 |
| 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 March 2005, 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 2005, options to subscribe for an aggregate of 39,028,000 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 2005 were as follows:

| Date of grant of share options | As at 1 October 2004 | Granted during the period | Cancelled during the period | Exercised during the period | Lapsed during the period | As at 31 March 2005 | Exercise period of share options | Adjusted exercise price per share* HK\$ |
|--------------------------------|----------------------|---------------------------|-----------------------------|-----------------------------|--------------------------|---------------------|--------------------------------------|-----------------------------------------|
| 7 January 2000 | 23,750,000 | - | - | - | 250,000 | 23,500,000 | 7 January 2000 to 6 January 2008 | 0.150 |
| 26 February 2000 | 10,528,000 | - | - | - | - | 10,528,000 | 26 February 2000 to 25 February 2008 | 0.150 |
| 23 May 2000 | 5,000,000 | - | - | - | - | 5,000,000 | 23 May 2000 to 22 May 2008 | 0.515 |
| | <u>39,278,000</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>250,000</u> | <u>39,028,000</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 2005, options to subscribe for an aggregate of 76,300,000 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 2005 were as follows:

| Date of grant of share options | As at 1 October 2004 | Granted during the period | Cancelled during the period | Exercised during the period | Lapsed during the period | As at 31 March 2005 | Exercise period of share options | Exercise price per share HK\$ |
|--------------------------------|----------------------|---------------------------|-----------------------------|-----------------------------|--------------------------|---------------------|----------------------------------|-------------------------------|
| 1 March 2002 | 27,500,000 | - | - | - | 9,000,000 | 18,500,000 | 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 | 39,000,000 | - | - | - | 1,200,000 | 37,800,000 | 5 June 2003 to 21 December 2011 | 0.078 |
| | <u>86,500,000</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>10,200,000</u> | <u>76,300,000</u> | | |

Competition and Conflict of Interests

None of the directors, the management shareholders or substantial shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete with the business of the Group or has any other conflict of interests, with the Group.

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

As at 31 March 2005, 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\$0.0304 per share as stated in the Stock Exchange's daily quotation sheet for the trading days from 22 March 2005 to 30 March 2005 (both days inclusive), being the five trading days immediately preceding 31 March 2005, the total market capitalization of the Company was approximately HK\$46,900,000 (the "Total Market Capitalization").

As at 31 March 2005, each of the following trade receivables (the "Trade Receivables") exceeded 8% of the Total Market Capitalization.

| Customers | Amount due to the Group as at 31 March 2005 (HK\$) | Approximate Percentage of Total Market Capitalization |
|------------------|-----------------------------------------------------------------------|--------------------------------------------------------------------------|
| 北京國創華利科技有限公司 | 9,900,000 | 21% |
| 上海華立通信信息有限公司 | 5,600,000 | 12% |
| 上海吾凌通信工程有限公司 | 4,700,000 | 10% |
| 上海市郵電器材工業有限公司 | 1,000,000 | 2% |
| 湖南省電信物資供應有限責任公司 | 3,400,000 | 7% |
| 湖南省網通新鄉分公司 | 8,800,000 | 19% |

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 were unsecured and interest-free. The payment terms of the Trade Receivables are defined under the relevant contracts and by instalments with reference to the progress of the projects.

The above customers 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).

Save for the above, as at 31 March 2005, so far as was known to the Directors, there was no other advance which would give rise to disclose 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.

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.

Compliance with Board Practices and Procedures

During the Review Period, the Company was in compliance with the Board Practices and Procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules, which applied before the amendment of the GEM Listing Rules relating to the Code on Corporate Governance Practices and Rules on Corporate Governance Report on 1 January 2005. The Code has become effective for accounting periods commencing on or after 1 January 2005. The Company will prepare a Corporate Governance Report in accordance with Rule 18.44 of the GEM Listing Rules for the financial year ended 30 September 2006.

Securities Transactions by Directors

The Company has not adopted its own code of conduct regarding securities transactions by directors, but having made specific enquiry of all directors, the Company reported that during the Review Period, the directors have complied with the required standard of dealings as set out in Rules 5.46 to 5.68 of the GEM Listing Rules.

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

As of the date of this report, the Board of Directors of the Company comprises Wu Shu Min, Jin Feng, Chang Xiao Hui and Li Jun Chao as executive Directors, Leong Ka Cheong, Christopher and Chang Ye Min, William as non-executive Directors, Chan Wai Dune, Chen Junliang and Liu Yang as independent non-executive Directors.

Hong Kong, 11 May 2005