



THIRD QUARTERLY REPORT
2006

IIN

IIN INTERNATIONAL LIMITED

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8128)

Characteristics of the Growth Enterprise Market (the “GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”)

The GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on the GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on the GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of the GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on the GEM, there is a risk that securities traded on the GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on the GEM.

The principal means of information dissemination on the GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on the GEM-listed issuers.

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 any 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 recorded approximately HK\$47.0 million for the Review Period.

Loss after tax amounted to approximately HK\$8.3 million for the Review Period.

No dividend was declared for the Review Period.

BUSINESS REVIEW AND PROSPECTS

During the three months ended 30 June 2006 (the "Quarterly Period") and the nine months ended 30 June 2006 (the "Review Period"), the turnover of IIN International Limited (the "Company") together with its subsidiaries (the "Group") increased by 250% and decreased by 10% respectively as compared to that of the corresponding periods of last year. The significant increase in turnover during the Quarterly Period was due to the fact that the transmission segment had secured some substantial contracts. The turnover during the Review Period was mainly contributed from the transmission business of the Group, which represented approximately 99% of the turnover of the Group.

During the Review Period, the Group's was committed to carrying out research and development of radio frequency identification ("RFID") technology and relevant projects, especially applying in logistics management solutions. In order to streamline the implementation of the relevant projects, the Group has formed a liaison group with its strategic cooperative partners. Through designating more resources in a focal and in-depth manner, the Group intends to substantially develop the RFID technology and relevant projects and logistics management solutions. Under the effort of the liaison group, we have made satisfactory progress in the relevant projects.

As the Group has reduced the proportion of sales of some core businesses, whereas, new businesses are pending for implementation, the Group has adopted stringent cost control measures during the Review Period, with an aim to achieve effective use of operating resources and cost reduction.

The Group expects that the transmission business will still be the main business in short term, and expects that the breakthrough in new businesses could bring contribution in businesses and provide a growth point for the turnover of the Group.

FINANCIAL REVIEW

The Group's turnover during the Review Period dropped approximately 10% to approximately HK\$47.0 million compared to approximately HK\$52.0 million for the corresponding period of last year. The decrease in turnover was mainly due to the Group's gradual fading out of the network infrastructure solutions segment.

During the Review Period, turnover contributed from transmission segment, amounting to approximately HK\$46.7 million, which represented approximately 99% of the Group's turnover (corresponding period last year: approximately HK\$21.7 million, representing approximately 42% of the Group's turnover). As the Group's existing business was mainly generated from the transmission segment with lower gross profit margin, the gross profit margin of the Group for the Review Period was approximately 16% as compared to that of the corresponding period last year of approximately 19%.

During the Review Period, the Group's net loss attributable to equity holders of the Company was substantially narrowed down to approximately HK\$8.9 million as compared to approximately HK\$20.9 million for the corresponding period of last year. It was mainly due to the Group's further implementation of cost control measures and the significant decrease in provision of intangible assets for the Review Period.

Selling and distribution costs of the Group for the Review Period amounted to approximately HK\$4.3 million which was basically at the same level of that of the corresponding period last year. During the Review Period, selling and distribution costs could not be further reduced due to the need of developing new businesses.

Administrative expenses of the Group for the Review Period decreased by approximately 46% to approximately HK\$9.7 million from approximately HK\$18.2 million for the corresponding period of last year. The decrease in administrative expenses was mainly attributable to the Group's continuing effort in cost control and reduction in the scope of operations.

FINANCIAL RESULTS

The Board of Directors (the “Board”) of IIN International Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the three months and nine months ended 30 June 2006 together with the unaudited comparative figures for the corresponding periods in 2005 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	Three months ended 30 June		Nine months ended 30 June	
		2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)
Turnover	2	22,289	6,366	46,995	52,015
Cost of sales		(19,274)	(5,214)	(39,643)	(42,298)
Gross profit		3,015	1,152	7,352	9,717
Other revenue		548	59	1,437	1,094
Selling and distribution costs		(2,018)	(1,491)	(4,257)	(4,274)
Administrative expenses		(2,797)	(5,678)	(9,708)	(18,194)
Other operating expenses		(724)	(6,394)	(1,279)	(9,923)
Loss from operating activities	3	(1,976)	(12,352)	(6,455)	(21,580)
Finance costs		(490)	(479)	(1,405)	(1,306)
Loss before tax		(2,466)	(12,831)	(7,860)	(22,886)
Tax	4	(112)	–	(458)	(543)
Loss after tax		(2,578)	(12,831)	(8,318)	(23,429)
Attributable to:					
Equity holders of the Company		(2,767)	(9,991)	(8,950)	(20,845)
Minority interests		189	(2,840)	632	(2,584)
Loss for the period		(2,578)	(12,831)	(8,318)	(23,429)
Dividend	5	–	–	–	–
Loss per share attributable to the equity holders of the Company	6				
– Basic (HK cents)		(0.17)	(0.65)	(0.57)	(1.35)
– Diluted (HK cents)		N/A	N/A	N/A	N/A

1. Basis of preparation

The unaudited consolidated results have been prepared in accordance with Chapter 18 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules").

The unaudited consolidated results have been prepared in accordance with accounting principles generally accepted in Hong Kong which include Hong Kong Financial Reporting Standards ("HKFRS"), Hong Kong Accounting Standards and Interpretations (collectively, "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants.

The accounting policies and methods of computation used in the preparation of this financial statements are the same as those adopted in preparing the annual audited financial statements for the year ended 30 September 2005 except that the Group has changed certain of its accounting policies following its adoption of the new HKFRSs which are effective for accounting periods on or after 1 January 2005. The adoption of the new HKFRSs had no material impact on the Company's results of operations and financial position except certain presentation and disclosure of financial statements would be changed.

Certain comparative figures have been reclassified to conform with the current periods' presentation resulting from the adoption of the new HKFRSs.

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	
	2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)
Telecommunications network infrastructure solutions	–	–	–	27,806
Network management solutions	–	–	–	905
Other network solutions for sectors other than telecommunications	–	306	293	1,567
Transmission	22,289	6,060	46,702	21,737
	22,289	6,366	46,995	52,015

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	
	2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)
Staff costs (including directors' emoluments)	950	2,036	3,514	7,106
Depreciation	845	1,058	2,352	4,325
Amortisation of deferred development costs	42	100	146	444
Amortisation of goodwill	-	1,337	-	4,027
Minimum lease payments under operating leases in respect of land and buildings	-	542	252	1,468
Provision for impairment of trade and retention receivables	-	4,956	451	5,451
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

4. Tax

	Three months ended 30 June		Nine months ended 30 June	
	2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)
PRC corporate income tax	112	-	458	543
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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 2006 (2005: 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 2006 (2005: 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 2006 (2005: Nil).

5. Dividend

The Board does not recommend payment of a dividend for the Review Period (2005: Nil).

6. Loss per share attributable to the equity holders of the Company

The calculation of basic loss per share for the three months and nine months ended 30 June 2006 is based on the respective unaudited consolidated net loss attributable to the equity holders of the Company of approximately HK\$2,767,000 and HK\$8,950,000 respectively (2005: approximately HK\$9,991,000 and HK\$20,845,000 respectively) and the weighted average of 1,628,160,470 shares and 1,582,827,137 shares respectively (2005: 1,543,160,470 shares and 1,543,160,470 shares respectively) in issue during the periods.

The diluted loss per share for the three months and nine months ended 30 June 2006 and 2005 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 2006 and 2005.

7. Condensed Consolidated Statement of Changes in Equity (Unaudited)

For the nine months ended 30 June 2006

	Attributable to equity holders of the Company								
	Share capital	Share premium	Capital reserve	Statutory reserve	Asset revaluation reserve	Exchange fluctuation reserve	Accumulated losses	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000 (As restated)	HK\$'000	HK\$'000 (As restated)	HK\$'000	HK\$'000 (As restated)	HK\$'000	HK\$'000 (As restated)
At 1 October 2004									
– as previously reported	120,359	54,964	(2,242)	4	5,061	(13)	(115,533)	12,458	75,058
– adjustment for initial adoption of HKFRS 3	–	–	(4,960)	–	–	–	4,960	–	–
HKAS 17	–	–	–	–	(819)	–	819	–	–
At 1 October 2004 (as restated)	120,359	54,964	(7,202)	4	4,242	(13)	(109,754)	12,458	75,058
Loss for the period	–	–	–	–	–	–	(20,845)	(2,584)	(23,429)
At 30 June 2005	<u>120,359</u>	<u>54,964</u>	<u>(7,202)</u>	<u>4</u>	<u>4,242</u>	<u>(13)</u>	<u>(130,599)</u>	<u>9,874</u>	<u>51,629</u>
At 1 October 2005									
– as previously reported	120,359	54,964	4,960	4	4,698	(13)	(197,630)	7,981	(4,677)
– adjustment for initial adoption of HKFRS 3	–	–	(4,960)	–	–	–	4,960	–	–
HKAS 17	–	–	–	–	(760)	–	760	–	–
At 1 October 2005 (as restated)	120,359	54,964	–	4	3,938	(13)	(191,910)	7,981	(4,677)
Issue of shares	6,630	–	–	–	–	–	–	–	6,630
Loss for the period	–	–	–	–	–	–	(8,950)	632	(8,318)
At 30 June 2006	<u>126,989</u>	<u>54,964</u>	<u>–</u>	<u>4</u>	<u>3,938</u>	<u>(13)</u>	<u>(200,860)</u>	<u>8,613</u>	<u>(6,365)</u>

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS OR SHORT POSITIONS IN THE SHARE CAPITAL OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2006, 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 5.67 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	9.51%

Note:

Mr. Xu Zhi Feng ("Mr. Xu") was appointed as executive director of the Company with effect from 7 July 2006. Mr. Xu holds 4,376,000 shares of the Company.

(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 2006, the following director of the Company was 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 2005 and		Date of grant	Exercise period	Adjusted exercise price per share* HK\$
	30 June 2006				
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

* *The exercise price per share was adjusted for the consolidation and capitalisation issue of the Company's shares on 22 November 2001 as well as conversion from US\$ to HK\$.*

(ii) *Post-IPO share options*

On 22 November 2001, the Company conditionally adopted a further share option scheme (the "Scheme") for a period of ten years from the date on which the Scheme was adopted. The Scheme became unconditional upon the listing of the Company's shares on the GEM of the Stock Exchange on 30 November 2001. Under the Scheme, the board of directors was authorised, at its absolute discretion, to grant options to employees, including directors of the Company or any of its subsidiaries, to subscribe for shares in the Company under the terms of the Scheme. As at 30 June 2006, the following director of the Company was interested in the following options under the Scheme:

Name of director	Number of share options outstanding as at 1 October 2005 and		Date of grant	Exercise period	Exercise price per share HK\$
	30 June 2006				
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

Note:

Mr. Xu Zhi Feng ("Mr. Xu") was appointed as executive director of the Company with effect from 7 July 2006. Mr. Xu holds 1,000,000 share options of the Company which are exercisable during the period from 5 June 2003 to 21 December 2011 at an exercise price of HK\$0.078 per share.

Save as disclosed above, as at 30 June 2006, 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 2006, 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	22.29%	-	362,948,350
Transpac Nominees Pte Ltd. (Note 1)	Nominee	371,988,350	22.84%	-	371,988,350
Transpac Capital Pte Ltd. (Note 1)	Nominee	371,988,350	22.84%	-	371,988,350
AG Investment No. 1 Investment Partnership	Beneficial owner	85,000,000	5.22%	-	85,000,000
Ms. Lei Dong Ling (Note 2)	Interests of spouse	154,823,000	9.51%	28,000,000	182,823,000
Mr. Zhu Rong (Note 3)	Beneficial owner	86,894,000	5.34%	-	86,894,000
Ms. Wu Yong Jun (Note 3)	Interests of spouse	86,894,000	5.34%	-	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 30 June 2006, 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 Options Plan

As at 30 June 2006, options to subscribe for an aggregate of 37,500,000 shares were outstanding (including the directors of the Company as disclosed above). Details of which as at 30 June 2006 were as follows:

Date of grant of share options	As at 1 October 2005	Granted during the period	Cancelled during the period	Exercised during the period	Lapsed during the period	As at 30 June 2006	Exercise period of share options	Adjusted exercise price per share* HK\$
7 January 2000	23,150,000	-	-	-	1,150,000	22,000,000	7 January 2000 to 6 January 2008	0.150
26 February 2000	10,528,000	-	-	-	28,000	10,500,000	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>38,678,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,178,000</u>	<u>37,500,000</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 30 June 2006, options to subscribe for an aggregate of 56,500,000 shares were outstanding (including the directors of the Company as disclosed above). Details of which as at 30 June 2006 were as follows:

Date of grant of share options	As at 1 October 2005	Granted during the period	Cancelled during the period	Exercised during the period	Lapsed during the period	As at 30 June 2006	Exercise period of share options	Exercise price per share HK\$
1 March 2002	15,100,000	-	-	-	3,600,000	11,500,000	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	33,000,000	-	-	-	8,000,000	25,000,000	5 June 2003 to 21 December 2011	0.078
	<u>68,100,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,600,000</u>	<u>56,500,000</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.

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. Liu Yang, Mr. Li Junlin and Mr. Jin Dunshen. Mr. Jin Dunshen 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.

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 and the Company was not aware of any non-compliance with the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules and its code of conduct regarding securities transactions by directors during 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.

As of the date of this report, the Board of Directors of the Company comprises Mr. Wu Shu Min and Mr. Xu Zhi Feng as executive Directors, Mr. Yukihiro Izutsu as non-executive Director, Mr. Liu Yang, Mr. Li Junlin and Mr. Jin Dunshen as independent non-executive Directors.

By Order of the Board
IIN International Limited
Wu Shu Min
Chairman

Hong Kong, 11 August 2006