



INTERIM 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\$24.7 million for the Review Period.

Loss after tax amounted to approximately HK\$5.7 million for the Review Period.

No dividend was declared for the Review Period.

BUSINESS REVIEW AND PROSPECTS

During the three months ended 31 March 2006 (the "Quarterly Period") and the six months ended 31 March 2006 (the "Review Period"), the turnover of IIN International Limited (the "Company") together with its subsidiaries (the "Group") decreased by approximately 13% and 46% respectively as compared to that of the corresponding period of last year. The significant decrease was mainly due to the fact that the Group's turnover was mostly generated from the transmission segment and the gradual fading out of the network infrastructure solutions segment whereas the transmission business represented approximately 34% of the turnover of the Group for the corresponding period of last year.

During the Quarterly Period, the Group's effort is focused on the research and development of radio frequency identification ("RFID") project and related projects, and has also conducted investigations into feasibility projects with the leading players of the logistics industry. The initial response was encouraging. The Group is planning to apply the RFID technology to developing logistics management solutions, so as to enhance the effectiveness of logistics operation. The Group will be seeking relevant professionals to form a special taskforce in the short term, to implement and execute the RFID project and related projects. The Group is looking forward to the concrete implementation of operation projects in the near future, to bring a new breakthrough to the business of the Group.

During the Quarterly Period, the Company has completed a placing of 85 million new shares of the Company to AG Investment No. 1 Investment Partnership at a placing price of HK\$0.078 per share. The net proceeds from the placing are mainly used in the development of the RFID project and related projects.

As the RFID project and related projects are still in the stages of development and establishment, the transmission business will still be the main source of revenue of the Group in the short term. It is expected that the transmission business will still be affected by the price of copper in the second half of this year. The Group will continue to implement cost control measures, so as to improve the financial position of the Group.

FINANCIAL REVIEW

The Group's turnover during the Review Period dropped to approximately HK\$24.7 million compared to approximately HK\$45.7 million for the corresponding period of last year. The decrease in turnover was mainly due to the Company's gradual fading out of the network infrastructure solutions segment with lower gross profit margin.

During the Review Period, turnover contributed from transmission segment, amounting to approximately HK\$24.4 million, represented approximately 99% of the Group's turnover (corresponding period last year: approximately HK\$15.7 million, representing approximately 34% 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 18% 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\$6.2 million as compared to approximately HK\$10.9 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 amortization costs for the Review Period resulting from the provision for partial assets in light of the poor performance of some business segments for the prior year.

In view of the shrinking business segments, selling and distribution costs of the Group for the Review Period dropped significantly from approximately HK\$2.8 million for the corresponding period of last year to approximately HK\$2.2 million.

Administrative expenses of the Group for the Review Period decreased by approximately 45% to approximately HK\$6.9 million from approximately HK\$12.5 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 the shrinking of business segments.

Segmental Information

During the Review Period, turnover mainly generated from the transmission solutions by Wujiang Shengxin Optoelectronics Technology Co., Ltd., a subsidiary of the Group, amounted to approximately HK\$24.4 million, representing 99% of the turnover of the Group (2005: approximately HK\$15.7 million).

During the Review Period, improvement on operating results for transmission segment was achieved and recorded a profit of approximately HK\$0.91 million as compared to a loss of approximately HK\$0.063 million for the corresponding period of last year. The operating results for the provision of other network solutions for customers in other market sectors in the PRC recorded a substantial decrease in loss from HK\$10.2 million for the corresponding period of last year to approximately HK\$6.3 million for the Review Period.

Order Book

During the Review Period, the Group has secured approximately HK\$12.0 million contracts on hand.

Liquidity, Financial Resources and Capital Structure

Net current liabilities of the Group as at 31 March 2006 was approximately HK\$39.6 million (30 September 2005: approximately HK\$42.2 million). As at 31 March 2006, the Group had short-term cash and bank balances (including pledged deposits of HK\$3.2 million) of approximately HK\$12.7 million (30 September 2005: approximately HK\$6.3 million).

As at 31 March 2006, the Group's total bank and other borrowings amounted to RMB32.6 million (equivalent to approximately HK\$30.5 million) (30 September 2005: RMB25.0 million (equivalent to approximately HK\$24.0 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 2006, the bank loans of the Group were secured by (1) a legal charge on the Group's land use rights and buildings with a net book value of approximately HK\$25.8 million; and (2) a legal charge on the Group's machineries and motor vehicle with a net book value of approximately HK\$3.8 million.

GEARING RATIO

As at 31 March 2006, the gearing ratio of the Group slightly decreased to 104.9% (30 September 2005: approximately 106.2%). The gearing ratio was based on total liabilities over total assets.

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 2006, 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 2006.

EMPLOYEES

As at 31 March 2006, the Group employed 142 staff. The staff cost, including directors' emoluments was approximately HK\$2.6 million for the Review Period (2005: approximately HK\$5.0 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 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 31 March		Six months ended 31 March	
		2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)
Turnover	3	11,486	13,227	24,706	45,649
Cost of sales		(8,938)	(8,482)	(20,369)	(37,084)
Gross profit		2,548	4,745	4,337	8,565
Other revenue		278	108	889	1,035
Selling and distribution costs		(1,235)	(1,421)	(2,239)	(2,783)
Administrative expenses		(4,701)	(6,602)	(6,911)	(12,516)
Other operating expenses		(503)	(1,510)	(555)	(3,529)
Loss from operating activities	4	(3,613)	(4,680)	(4,479)	(9,228)
Finance costs		(590)	(467)	(915)	(827)
Loss before tax		(4,203)	(5,147)	(5,394)	(10,055)
Tax	5	(308)	(524)	(346)	(543)
Loss after tax		(4,511)	(5,671)	(5,740)	(10,598)
Attributable to:					
Equity holders of the Company		(4,683)	(6,027)	(6,183)	(10,854)
Minority interests		172	356	443	256
Loss for the period		(4,511)	(5,671)	(5,740)	(10,598)
Dividend	6	–	–	–	–
Loss per share attributable to the equity holders of the Company	7				
– Basic (HK cent)		(0.30)	(0.39)	(0.40)	(0.70)
– Diluted (HK cent)		N/A	N/A	N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

		31 March 2006 HK\$'000 (Unaudited)	30 September 2005 HK\$'000 (Audited) (As restated)
	<i>Notes</i>		
ASSETS AND LIABILITIES			
Non-current assets			
Land use rights		4,040	4,240
Property, plant and equipment	8	30,804	32,176
Intangible assets	9	80	184
Rental deposits and golf club membership		873	873
		35,797	37,473
Current assets			
Inventories		2,580	4,443
Trade and retention receivables	11	20,938	18,995
Prepayments, trade deposits, other deposits and other receivables		4,109	5,640
Due from related companies		1,891	2,628
Pledged deposits		3,203	5,093
Cash and cash equivalents		9,496	1,230
		42,217	38,029
Current liabilities			
Trade and bills payables	12	22,903	30,865
Accrued liabilities, deposits received and other payables		22,357	19,727
Interest-bearing bank and other loans		30,505	23,998
Due to directors		1,677	1,476
Tax payable		4,359	4,113
		81,801	80,179
Net current liabilities		(39,584)	(42,150)
Total assets less current liabilities		(3,787)	(4,677)
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	13	126,989	120,359
Reserves		(139,200)	(133,017)
		(12,211)	(12,658)
Minority interests		8,424	7,981
Total equity		(3,787)	(4,677)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 31 March 2006

	Share		Statutory	Asset	Exchange	Accumulated	Minority	Total	
	Share capital	premium account							Capital reserve
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
			(As restated)	(As restated)		(As restated)		(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	120,359	54,964	(7,202)	4	4,242	(13)	(109,754)	12,458	75,058
Net loss for the period	–	–	–	–	–	–	(10,854)	256	(10,598)
At 31 March 2005	<u>120,359</u>	<u>54,964</u>	<u>(7,202)</u>	<u>4</u>	<u>4,242</u>	<u>(13)</u>	<u>(120,608)</u>	<u>12,714</u>	<u>64,460</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	120,359	54,964	–	4	3,938	(13)	(191,910)	7,981	(4,677)
Issue of shares	6,630	–	–	–	–	–	–	–	6,630
Net loss for the period	–	–	–	–	–	–	(6,183)	443	(5,740)
At 31 March 2006	<u>126,989</u>	<u>54,964</u>	<u>–</u>	<u>4</u>	<u>3,938</u>	<u>(13)</u>	<u>(198,093)</u>	<u>8,424</u>	<u>(3,787)</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 31 March 2006

	Six months ended 31 March	
	2006	2005
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash outflow from operating activities	(4,893)	(4,656)
Net cash inflow from investing activities	1,950	7,562
Net cash inflow/(outflow) from financing activities	11,209	(11,210)
Increase/(Decrease) in cash and cash equivalents	8,266	(8,304)
Cash and cash equivalents at beginning of period	1,230	13,808
Cash and cash equivalents at end of period	9,496	5,504

1. Basis of preparation

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting”, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the disclosure requirements as set out in Chapter 18 of the GEM Listing Rules. The interim financial statements should be read in conjunction with the audited financial statements and notes thereto for the year ended 30 September 2005.

2. Principal accounting policies

The accounting policies and basis of presentation used in the preparation of the condensed consolidated interim financial statements are consistent with those adopted in the audited financial statements for the year ended 30 September 2005, except that in the Review Period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (“HKFRSs”), HKASs and Interpretations (hereinafter collectively referred to as “New HKFRSs”) issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2005. The application of the New HKFRSs has resulted in changes in the presentation of the income statement, balance sheet and the statement of changes in equity. The changes in presentation have been applied retrospectively. The adoption of the New HKFRSs has resulted in changes to the Group’s accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented.

(i) Adoption of HKFRS 3

In prior years, positive goodwill arising on or after 1 July 2001 was amortised on a straight line basis over its estimated useful life and was subject to impairment testing when there were indications of impairment. Positive goodwill which arose prior to 1 July 2001, was taken directly to capital reserves in accordance with the transitional provisions set out in the Statement of Standard Accounting Practice 30 “Business Combinations”.

In accordance with HKFRS 3 “Business Combinations” and HKAS 36 “Impairment of Assets”, the Group no longer amortises positive goodwill. Such goodwill is tested for impairment. Impairment losses are recognised when the carrying amount of the cash generating units to which the goodwill has been allocated exceeds its recoverable amount. Negative goodwill is recognised immediately in the income statement as it arises.

(ii) Adoption of HKAS 1

In prior years, minority interests were presented in the consolidated balance sheet separately from liabilities and as a deduction from net assets. Financial results shared by minority interests were separately presented in the consolidated income statement as a deduction before arriving at the profit attributable to shareholders.

In order to comply with HKAS 1 “Presentation of Financial Statements” and HKAS 27 “Consolidated and Separate Financial Statements”, minority interests are presented in the consolidated balance sheet within equity, separately from the equity attributable to the ordinary shareholders of the Company, and the results shared by minority interests are presented on the face of the consolidated income statement as an allocation of the attributable profit between the minority interests and the equity holders of the Company.

2. Principal accounting policies (Continued)

(iii) Adoption of HKFRS 2

In the Review Period, the Group has applied HKFRS 2 "Share-based Payment" which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares, or in exchange for other assets equivalent in value to a given number of shares or rights over shares. The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options granted to eligible participants of the Company, determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. In relation to share options granted before 1 October 2005, in accordance with the relevant transitional provision, the Group has not applied HKFRS 2 to share options granted and vested on or before 1 October 2005. As at 31 March 2006, all outstanding share options of the Group were granted and vested before 1 October 2005, the application of HKFRS 2 has had no financial impact on the results of the Group for current or prior accounting periods.

(iv) Adoption of HKAS 17

In prior years, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings are separated into leasehold land and leasehold buildings. Leasehold land is classified as operating leases, because the title of land is not expected to be passed to the Group by the end of the leases terms, and is reclassified from property, plant and equipment to prepaid land lease payments. Leasehold buildings continue to be classified as part of property, plant and equipment. Prepaid land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the respective lease terms. When the lease payment cannot be allocated between the land and buildings elements, the entire lease payment is included in the cost of land and building as a finance lease in property, plant and equipment.

Summary of the change in accounting policies

The adoption of HKAS 17 resulted in:

Consolidated balance sheet (Unaudited)

	As at 31 March 2006 HKAS 17 HK\$'000	As at 30 September 2005 HKAS 17 HK\$'000
Increase in land use rights	4,040	4,240
Decrease in property, plant and equipment	<u>(4,040)</u>	<u>(4,240)</u>

2. Principal accounting policies (Continued)

(iv) *Adoption of HKAS 17 (Continued)*

Consolidated Income statement (Unaudited)

	Six months ended 31 March 2006 HKAS 17 HK\$'000	Six months ended 31 March 2005 HKAS 17 HK\$'000
Total increase in loss for the period	<u> —</u>	<u> —</u>
Increase in loss per share attributable to the equity holders of the Company (HK cent)	<u> —</u>	<u> —</u>

3. Segment Information

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

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

- (a) the telecommunications network infrastructure solutions segment consists of the sale of the broadband data network information platform developed by the Group as well as the integration of third-party software and hardware for telecommunications sectors;
- (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.

3. Segment Information (Continued)

(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				Other network solutions for sectors other than telecommunications				Eliminations		Consolidated	
	infrastructure solutions		Network management solutions		telecommunications		Transmission				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	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	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)
Segment revenue:												
Sales to external customers	-	27,806	-	905	293	1,261	24,413	15,677	-	-	24,706	45,649
Intersegment sales	-	8,641	-	-	-	164	-	-	-	(8,805)	-	-
Total	-	36,447	-	905	293	1,425	24,413	15,677	-	(8,805)	24,706	45,649
Segment results	(4,355)	(6,614)	(864)	(1,325)	(1,060)	(2,261)	911	(63)			(5,368)	(10,263)
Unallocated income and gains											889	1,035
Loss from operating activities											(4,479)	(9,228)
Finance costs											(915)	(827)
Loss before tax											(5,394)	(10,055)
Tax											(346)	(543)
Loss after tax											(5,740)	(10,598)

3. Segment Information (Continued)
(a) Business Segments (Continued)

Group	Telecommunications network infrastructure solutions				Network management solutions				Other network solutions for sectors other than telecommunications				Transmission		Corporate and other		Consolidated			
	31 March 2006		30 September 2005		31 March 2006		30 September 2005		31 March 2006		30 September 2005		31 March 2006		30 September 2005		31 March 2006		30 September 2005	
	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	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)
Segment assets	<u>3,093</u>	<u>4,353</u>	<u>1,281</u>	<u>1,751</u>	<u>97</u>	<u>141</u>	<u>47,416</u>	<u>46,065</u>	-	-	<u>51,887</u>	<u>52,310</u>								
Unallocated assets														<u>26,127</u>	<u>23,192</u>	<u>26,127</u>	<u>23,192</u>			
Total assets																<u>78,014</u>	<u>75,502</u>			
Segment liabilities	<u>23,854</u>	<u>24,545</u>	<u>14,958</u>	<u>14,854</u>	<u>2,207</u>	<u>2,207</u>	<u>29,793</u>	<u>29,439</u>	-	-	<u>70,812</u>	<u>71,045</u>								
Unallocated liabilities														<u>10,989</u>	<u>9,134</u>	<u>10,989</u>	<u>9,134</u>			
Total liabilities																<u>81,801</u>	<u>80,179</u>			
Other segment information																				
Depreciation	490	1,751	390	1,040	19	63	599	1,570	8	33	1,507	4,457								
Impairment of goodwill	-	-	-	-	-	-	-	-	-	30,763	-	30,763								
Amortisation of goodwill	-	-	-	-	-	-	-	-	-	5,213	-	5,213								
Amortisation of deferred development costs	-	-	104	536	-	-	-	-	-	-	104	536								
Provision for impairment of trade and retention receivables	-	7,978	-	9,346	-	93	-	4,981	-	-	-	22,398								
Provision for impairment of other receivable	-	511	-	6,297	-	3	-	501	451	-	451	7,312								
Provision for obsolete inventories	-	159	-	147	-	-	-	-	-	-	-	306								
Loss on write-off of intangible assets	-	-	-	49	-	-	-	-	-	-	-	49								
Capital expenditure	-	10	-	-	-	-	33	798	-	-	33	808								

3. Segment Information *(Continued)*

(b) Geographical Segments

Over 90% of the Group's revenue, results, assets and liabilities are derived from customers based in the PRC and accordingly, no further detailed analysis of the Group's geographical segments is disclosed.

4. Loss from operating activities

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

	Three months ended 31 March		Six months ended 31 March	
	2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)
Cost of sales	8,938	8,482	20,369	37,084
Staff costs (including directors' emoluments)	1,492	2,587	2,564	5,070
Depreciation	937	2,343	1,507	3,267
Amortisation of deferred development costs	52	172	104	344
Amortisation of goodwill	–	1,338	–	2,690
Minimum lease payments under operating leases in respect of land and buildings	126	493	252	926
Provision for impairment of trade and retention receivables	451	495	451	990
	<u>451</u>	<u>495</u>	<u>451</u>	<u>990</u>

5. Tax

	Six months ended 31 March	
	2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)
PRC corporate income tax	<u>346</u>	<u>543</u>

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 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 six months ended 31 March 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 31 March 2006 (2005: Nil).

6. Dividend

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

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

The calculation of basic loss per share for the six months ended 31 March 2006 is based on the respective unaudited consolidated net loss attributable to the equity holders of the Company of approximately HK\$6,183,000 (2005: approximately HK\$10,854,000) and the weighted average of 1,551,660,470 shares (2005: 1,543,160,470 shares) in issue during the periods.

The diluted loss per share for the six months ended 31 March 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 six months ended 31 March 2006 and 2005.

8. Property, plant and equipment

The movements of property, plant and equipment of the Group were:

	31 March 2006 HK\$'000 (Unaudited)	30 September 2005 HK\$'000 (Audited) (As restated)
Net book value, beginning of period/year	32,376	36,628
Additions	32	808
Disposals	(97)	(440)
Depreciation	(1,507)	(4,457)
Depreciation written back on revaluation	—	(363)
	<u>30,804</u>	<u>32,176</u>

9. Intangible assets

	31 March 2006 HK\$'000 (Unaudited)	30 September 2005 HK\$'000 (Audited)
Net book value, beginning of the period/year	184	769
Amortisation	(104)	(536)
Written-off	—	(49)
	<u>80</u>	<u>184</u>

10. Goodwill

	31 March 2006 HK\$'000 (Unaudited)	30 September 2005 HK\$'000 (Audited)
Net book value, beginning of period/year	–	28,774
Amortisation	–	(5,213)
Impairment	–	(23,561)
	<hr/>	<hr/>
Net book value, end of period/year	<u>–</u>	<u>–</u>

11. Trade and retention receivables

Trade and retention receivables, which generally have credit terms pursuant to the provisions of the relevant contracts. The fair values of trade and retention receivables approximate their carrying amounts.

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 2006 HK\$'000 (Unaudited)	30 September 2005 HK\$'000 (Audited)
0 – 90 days	17,987	9,618
91 – 180 days	2,564	6,764
181– 365 days	294	2,597
Over 365 days	93	16
	<hr/>	<hr/>
	<u>20,938</u>	<u>18,995</u>

12. 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 2006 HK\$'000 (Unaudited)	30 September 2005 HK\$'000 (Audited)
0 – 90 days	7,304	10,515
91 – 180 days	1,237	5,487
181– 365 days	8,036	9,356
Over 365 days	6,326	5,507
	<hr/>	<hr/>
	<u>22,903</u>	<u>30,865</u>

13. Share capital

	31 March 2006 HK\$'000 (Unaudited)	30 September 2005 HK\$'000 (Audited)
Authorised:		
2,000,000,000 (30 September 2005:		
2,000,000,000) ordinary shares of US\$0.01 each	<u>156,000</u>	<u>156,000</u>
Issued and fully paid:		
1,628,160,470 (30 September 2005:		
1,543,160,470) ordinary shares of US\$0.01 each	<u>126,989</u>	<u>120,359</u>

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 2006 HK\$'000 (Unaudited)	30 September 2005 HK\$'000 (Audited)
Within one year	–	77

(ii) Capital commitments contracted for

The Group did not have any significant capital commitments at 31 March 2006.

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

As at 31 March 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%
Mr. Chang Ye Min, William	6,840,000	Beneficial owner	0.42%
Mr. Leong Ka Cheong, Christopher (Note)	371,988,350	Nominee	22.84%

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.

Mr. Leong Ka Cheong, Christopher resigned as non-executive director of the Company with effect from 10 May 2006.

(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 2006, 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 2005 and 31 March 2006		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 2006, 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 2005 and 31 March 2006	Date of grant	Exercise period	Exercise price per share HK\$
Mr. Wu Shu Min	10,000,000	7 March 2002	7 March 2002 to 21 December 2011	0.465
	3,000,000	5 June 2003	5 June 2003 to 21 December 2011	0.078
Mr. Chang Ye Min, William	10,000,000	7 March 2002	7 March 2002 to 21 December 2011	0.465
	3,000,000	5 June 2003	5 June 2003 to 21 December 2011	0.078
Mr. Jin Feng	3,000,000	5 June 2003	5 June 2003 to 21 December 2011	0.078
Mr. 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

Save as disclosed above, as at 31 March 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 31 March 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 31 March 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 31 March 2006, options to subscribe for an aggregate of 37,578,000 shares were outstanding (including the directors of the Company as disclosed above). Under the Pre-IPO Share Options 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 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 31 March 2006	Exercise period of share options	Adjusted exercise price per share*
7 January 2000	23,150,000	-	-	-	1,100,000	22,050,000	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>38,678,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,100,000</u>	<u>37,578,000</u>		

* The exercise price per share was adjusted for the consolidation and capitilisation 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 2006, options to subscribe for an aggregate of 61,200,000 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 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 31 March 2006	Exercise period of share options	Exercise price per share
1 March 2002	15,100,000	-	-	-	2,300,000	12,800,000	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	-	-	-	4,600,000	28,400,000	5 June 2003 to 21 December 2011	0.078
	<u>68,100,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,900,000</u>	<u>61,200,000</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 RECEIVABLE UNDER CHAPTER 17 OF THE GEM LISTING RULES

As at 31 March 2006, there were 1,628,160,470 shares of the Company in issue. Based on the average closing price of the Company's shares of HK\$0.0238 per share as stated in the Stock Exchange's daily quotation sheet for the trading days from 24 March 2006 to 30 March 2006 (both days inclusive), being the five trading days immediately preceding 31 March 2006, the total market capitalization of the Company was approximately HK\$38,750,000 (the "Total Market Capitalization").

As at 31 March 2006, the following trade receivable (the “Trade Receivable”) exceeded 8% of the Total Market Capitalization.

Customer	Amount due to the Group as at 31 March 2006 (HK\$)	Approximate Percentage of Total Market Capitalization
中國網通(集團)有限公司河南省分公司	12,700,935	33%

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 and interest-free. The payment terms of the Trade Receivable is defined under the relevant contracts and by instalments with reference to the progress of the projects.

The above customer is independent of, and is 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 2006, 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.

CODE ON CORPORATE GOVERNANCE PRACTICE

The Company has complied with the code provisions of the Code on Corporate Governance Practice (the “CG Code”) set out in Appendix 15 of the GEM Listing Rules throughout the Review Period, except for the following deviations:

- (i) The non-executive directors should be appointed for a specific term, subject to re-election. All directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment, and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years;
- (ii) The Company does not have a remuneration committee; and
- (iii) The Company has not yet disclosed the terms of reference of the remuneration committee and audit committee on the website of the Company.

Code Provision A.4.1 and A.4.2

At present, the non-executive directors and independent non-executive directors are not appointed for a specific term, but are subject to retirement by rotation and re-election in accordance with the Company's Articles of Association. In addition, not every director is subject to retirement by rotation. Directors are subject to rotation in accordance with the Articles of Association of the Company provided that notwithstanding anything herein, the chairman of the Board and/or the managing director of the Company shall not, whilst holding such office, be subject to retirement by rotation or be taken into account in determining the number of directors to retire in each year. At such, with the exception of the Chairman and the Chief Executive Officer, all directors are subject to retirement by rotation in accordance with the Company's Articles of Association. The Company considers that for stability reasons, the Chairman and the Chief Executive Officer do not need to be subject to retirement by rotation and there is no imminent need to amend the Company's Articles of Association.

Code Provision B.1.1

A remuneration committee was established on 12 May 2006 with written terms of reference.

The remuneration committee comprises one executive director, namely, Mr. Wu Shu Min and the two independent non-executive directors, namely, Mr. Li Jun Lin and Mr. Jin Dunshen (Chairman of the remuneration committee).

Code B.1.4 and C.3.4

Appropriate actions are being taken to update the website for the Company, whereat the written terms of reference of the audit committee and remuneration committee will be disclosed. These terms of reference was also available from the Company on request.

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, Mr. Jin Feng, Mr. Chang Xiao Hui and Mr. Li Jun Chao as executive Directors, Mr. Chang Ye Min, William 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, 12 May 2006