



# INNOVIS

HOLDINGS LIMITED

華智控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Public address system

Emergency call alarm system

Voice network

Data network

2003

CABD/SMATV system

Estate control system

Security central and remote management system

Fibre optic system

Professional video system

Image car park control system

Nurse call system

Smart home system

Inter-talkie system

## INTERIM REPORT

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

**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 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 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 GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on 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 GEM.**

**The principal means of information dissemination on 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 GEM-listed issuers.**

*The Stock Exchange of Hong Kong Limited 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 (the “Directors”) of Innovis Holdings Limited (the “Company”) 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 of Hong Kong Limited (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, 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**

- Successfully listed on GEM on 25th June, 2003.
- For the six months ended 30th June, 2003, gross profit margin increased by approximately 11.1% as compared with that for the corresponding period in 2002.
- For the six months ended 30th June, 2003, profit attributable to shareholders was approximately HK\$2.1 million, representing an approximate 16.4% increase as compared with that for the corresponding period in 2002.
- For the six months ended 30th June, 2003, turnover was approximately HK\$13.5 million as compared to HK\$15.3 million for the corresponding period in 2002.
- The board of directors of the Company (the “Board”) does not recommend the payment of an interim dividend for the six months ended 30th June, 2003.

## INTERIM RESULTS

The Board is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the three months and six months ended 30th June, 2003, together with the comparative unaudited figures for the corresponding periods in 2002 as follows:-

### CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	Six months ended 30th June,		Three months ended 30th June,	
		2003 HK\$'000 (Unaudited)	2002 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)	2002 HK\$'000 (Unaudited)
Turnover					
- Continuing operations		13,470	15,294	5,002	9,832
- Discontinuing operation	2	-	37,549	-	18,775
	3	<u>13,470</u>	<u>52,843</u>	<u>5,002</u>	<u>28,607</u>
Cost of sales					
- Continuing operations		(8,073)	(9,790)	(3,001)	(6,194)
- Discontinuing operation	2	-	(33,546)	-	(16,773)
		<u>(8,073)</u>	<u>(43,336)</u>	<u>(3,001)</u>	<u>(22,967)</u>
Gross profit					
- Continuing operations		5,397	5,504	2,001	3,638
- Discontinuing operation	2	-	4,003	-	2,002
		<u>5,397</u>	<u>9,507</u>	<u>2,001</u>	<u>5,640</u>
Other income		52	27	52	15
Administrative and other operating expenses		(2,805)	(7,440)	(1,442)	(4,267)
Operating profit/(loss)					
- Continuing operations		2,644	2,537	611	1,609
- Discontinuing operation	2	-	(443)	-	(221)
		<u>2,644</u>	<u>2,094</u>	<u>611</u>	<u>1,388</u>
Finance costs		(41)	(20)	(17)	(13)
Share of loss of an associate - discontinuing operation	2	-	(16)	-	(8)
Profit before taxation	5	2,603	2,058	594	1,367
Taxation	6	(460)	(392)	(104)	(360)
Profit after taxation		2,143	1,666	490	1,007
Minority interests		-	175	-	87
Profit attributable to shareholders		<u>2,143</u>	<u>1,841</u>	<u>490</u>	<u>1,094</u>
Dividend	7	<u>2,000</u>	<u>873</u>	<u>2,000</u>	<u>873</u>
Earnings per share					
- Basic	8	<u>0.7 cent</u>	<u>0.6 cent</u>	<u>0.2 cent</u>	<u>0.4 cent</u>
- Diluted	8	<u>0.7 cent</u>	<u>0.6 cent</u>	<u>0.2 cent</u>	<u>0.3 cent</u>

## CONDENSED CONSOLIDATED BALANCE SHEET

		As at 30th June, 2003 HK\$'000 (Unaudited)	As at 31st December, 2002 HK\$'000 (Audited)
<b>Non-Current Assets</b>			
Fixed assets	9	351	463
Retention money receivable		617	1,767
		968	2,230
<b>Current Assets</b>			
Inventories	10	–	1,231
Amount due from ultimate holding company	11	–	5
Amount due from a related company	11	–	52
Trade debtors	12	11,457	13,889
Other debtors, deposits and prepayments		2,763	3,374
Pledged time deposit		131	131
Cash and bank balances		14,104	533
		28,455	19,215
<b>Total Current Assets</b>		28,455	19,215
<b>Current Liabilities</b>			
Unsecured bank overdrafts		–	1,023
Bills payable, unsecured		–	463
Trade creditors	13	2,464	5,912
Other creditors and accruals		1,441	971
Obligation under finance lease	14	64	60
Tax payable		1,571	1,111
		5,540	9,540
<b>Total Current Liabilities</b>		5,540	9,540
<b>Net Current Assets</b>		22,915	9,675
<b>Total Assets Less Current Liabilities</b>		23,883	11,905
<b>Representing:-</b>			
<b>Share Capital</b>	15	3,750	210
<b>Reserves</b>		20,045	11,570
<b>Shareholders' Funds</b>		23,795	11,780
<b>Non-Current Liability</b>			
Obligation under finance lease	14	88	125
		23,883	11,905

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

	<b>Six months ended</b>	
	<b>30th June,</b>	
	<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Net cash from operating activities	4,568	7,473
Net cash used in investing activities	(9)	(9,465)
Net cash from/(used in) financing activities	10,035	(637)
Increase/(decrease) in cash and cash equivalents	14,594	(2,629)
Cash and cash equivalents at the beginning of the period	(490)	5,228
Cash and cash equivalents at the end of the period	14,104	2,599
Analysis of the balances of cash and cash equivalents		
Cash and bank balances	14,104	2,599

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Special reserve <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 1st January, 2002	327	4,996	-	-	5,323
Special reserve arising on the Reorganisation	(117)	-	117	-	-
Profit for the year	-	7,330	-	-	7,330
Dividend	-	(873)	-	-	(873)
As at 31st December, 2002 (Audited)	<u>210</u>	<u>11,453</u>	<u>117</u>	<u>-</u>	<u>11,780</u>
As at 1st January, 2003	210	11,453	117	-	11,780
Placing of new shares	660	-	-	-	660
Premium on placing of new shares	-	-	-	15,840	15,840
Capitalisation	2,880	-	-	(2,880)	-
Issuing expenses for share placing	-	-	-	(4,628)	(4,628)
Profit for the period	-	2,143	-	-	2,143
Dividend	-	(2,000)	-	-	(2,000)
As at 30th June, 2003 (Unaudited)	<u>3,750</u>	<u>11,596</u>	<u>117</u>	<u>8,332</u>	<u>23,795</u>

The special reserve represents the difference between the nominal value of the ordinary shares issued by the Company and the share capital of WLEE (as defined below) acquired pursuant to the Reorganisation (as defined below).

## NOTES TO FINANCIAL STATEMENTS

### 1. Basis of preparation

The Company was incorporated in the Cayman Islands on 8th July, 2002 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

Pursuant to the reorganisation to rationalise the structure of the Company and its subsidiaries in the preparation for the listing of the Company's shares on GEM operated by the Stock Exchange (the "Reorganisation"), the Company acquired the entire issued share capital of Wah Lam (Electronic Engineering) Limited ("WLEE") in consideration of the allotment of 20,999,999 shares of HK\$0.01 each in the share capital of the Company credited as fully paid and thereafter the Company became the holding company of the companies now comprising the Group. Prior to the Reorganisation, the businesses of the Group were carried on by WLEE and its subsidiaries.

The unaudited condensed consolidated interim accounts ("interim accounts") are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 2.125 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and Chapter 18 of the GEM Listing Rules. The interim accounts should be read in conjunction with the Accountants' Report as disclosed in the prospectus of the Company dated 17th June, 2003 (the "Prospectus").

The accounting policies (except that disclosed below) and methods of computation used in the preparation of the interim accounts are consistent with those used in the Accountants' Report as set out in the Prospectus.

During the period ended 30th June, 2003, the Group adopted SSAP 12 (revised) "Income Taxes" for the first time in the preparation of the interim accounts.

The principal effect of the implementation of SSAP 12 (revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, with limited exceptions. The adoption of SSAP 12 (revised) had no significant effect on the results for the current or prior accounting periods.



## 2. Discontinuing operation

	<b>Six months ended 30th June, 2002</b>	<b>Three months ended 30th June, 2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Turnover	37,549	18,775
Cost of sales and services rendered	(33,546)	(16,773)
Gross profit	4,003	2,002
Other income	24	12
Administrative and other operating expenses	(4,470)	(2,235)
Operating loss	(443)	(221)
Finance costs	(5)	(3)
Share of loss of an associate	(16)	(8)
Loss for the period	(464)	(232)
Minority interests	175	87
Loss attributable to shareholders	(289)	(145)

## 3. Turnover and revenue

The Group is principally engaged in the provision of Intelligent Building Systems (IBS) solutions, maintenance and consultancy services and the sales of electronic equipment.

Turnover for the period ended 30th June, 2003 represents revenue recognised from the provision of IBS solutions, maintenance, the net invoiced value of goods sold and consultancy services. Turnover for the period ended 30th June, 2002 represents revenue recognised from the aforementioned activities and building contracting services. An analysis of the Group's turnover and other major revenue is set out below:

	<b>Six months ended 30th June,</b>		<b>Three months ended 30th June,</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
IBS solutions and maintenance	10,570	14,894	3,752	9,432
IBS consultancy services	2,900	400	1,250	400
Discontinuing operation				
– building contracting services and sales of building materials	–	37,549	–	18,775
Turnover	13,470	52,843	5,002	28,607
Interest income	1	17	1	15
Total revenue	13,471	52,860	5,003	28,622

#### 4. Segmental information

The Group's operating businesses are structured and managed separately, according to 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 IBS solutions and maintenance segment engages in the provision of IBS design, supply and installation, IBS maintenance and sales of electronic equipment;
- (b) The IBS consultancy services segment engages in the provision of IBS consultancy services; and
- (c) The building contracting segment engages in the provision of building contracting services and sales of building materials.

	<b>Six months</b>		<b>Three months</b>	
	<b>ended 30th June,</b>		<b>ended 30th June,</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
	<i>HK\$ '000</i>	<i>HK\$ '000</i>	<i>HK\$ '000</i>	<i>HK\$ '000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
<b>Segment revenue</b>				
IBS design, supply and installation and IBS maintenance	10,570	14,894	3,752	9,432
IBS consultancy services	2,900	400	1,250	400
Discontinuing operation				
– building contracting services and sales of building materials	–	37,549	–	18,775
	<u>13,470</u>	<u>52,843</u>	<u>5,002</u>	<u>28,607</u>
<b>Segment results</b>				
IBS design, supply and installation and IBS maintenance	2,787	5,192	976	3,326
IBS consultancy services	2,610	312	1,025	312
Discontinuing operation				
– building contracting services and sales of building materials	–	4,003	–	2,002
	<u>5,397</u>	<u>9,507</u>	<u>2,001</u>	<u>5,640</u>

## 5. Profit before taxation

Profit before taxation is arrived at after charging/(crediting):

	Six months ended 30th June,		Three months ended 30th June,	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Auditors' remuneration	125	40	62	40
Cost of materials used	4,981	27,046	2,714	13,523
Depreciation	121	177	61	89
Staff costs	2,775	2,749	1,489	1,375
Minimum lease payments under operating leases	83	141	41	71
Research and development costs	249	190	121	95
Provision for doubtful debts	-	3,374	-	3,374
Interest expenses on borrowings	21	5	5	3
Finance lease interest	7	7	3	3
Provision for doubtful debts written back	(51)	-	-	-

## 6. Taxation

Taxation represents the provision for Hong Kong profits tax at 17.5% (2002: 16%) on the estimated assessable profits for the period presented.

## 7. Dividend

For the six months ended 30th June, 2003, the Board does not recommend the payment of an interim dividend.

On 30th May, 2003, WLEE declared a special dividend in an amount of HK\$2 million to its then shareholders which was paid on 19th June, 2003, details of which were disclosed in the Prospectus.

During the period for the six months ended 30th June, 2002, WLEE paid an interim dividend by way of distribution-in-specie of the equity interests in a subsidiary held by WLEE.

## 8. Earnings per share

Earnings per share are calculated based on the following figures:-

	Six months ended 30th June,		Three months ended 30th June,	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The Group's consolidated profit attributable to shareholders	2,143	1,841	490	1,094
Weighted average number of shares Basic earnings per share	311,187,845	309,000,000	313,351,648	309,000,000
Diluted earnings per share <sup>#</sup>	320,562,845	318,375,000	322,726,648	318,375,000

<sup>#</sup> The number of shares comprised the shares used for calculation of basic earnings per share and 9,375,000 shares assumed to be issued at no consideration on the deemed exercise of the Pre-IPO Share Option Scheme (as defined in the Prospectus).

## 9. Fixed assets

	Computers HK\$'000	Furniture & equipment HK\$'000	Leasehold improvements HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>Cost:</b>					
At 1st January, 2003	295	182	276	324	1,077
Additions	7	2	-	-	9
At 30th June, 2003	302	184	276	324	1,086
<b>Aggregate depreciation:</b>					
At 1st January, 2003	167	95	165	187	614
Charge for the period	35	15	23	48	121
At 30th June, 2003	202	110	188	235	735
<b>Net book value:</b>					
At 30th June, 2003	100	74	88	89	351
At 31st December, 2002	128	87	111	137	463

## 10. Inventories

	As at 30th June, 2003 HK\$'000	As at 31st December, 2002 HK\$'000
Flat screen videophones	-	1,231

All inventories were stated at cost.

## 11. Amount due from ultimate holding company/a related company

The amounts are interest-free, unsecured and repayable on demand.

## 12. Trade debtors

Details of the aging analysis of trade debtors net of provision for doubtful debts are as follows:

	As at 30th June, 2003 HK\$'000	As at 31st December, 2002 HK\$'000
Within 3 months	7,259	11,274
Over 3 months but within 6 months	2,851	1,762
Over 6 months but within 1 year	922	335
Over 1 year	425	518
	11,457	13,889

**13. Trade creditors**

Details of the aging analysis of trade creditors are as follows:

	<b>As at 30th June, 2003 HK\$'000</b>	<b>As at 31st December, 2002 HK\$'000</b>
Within 3 months	917	3,670
Over 3 months but within 6 months	658	626
Over 6 months but within 1 year	300	38
Over 1 year	589	1,578
	<u>2,464</u>	<u>5,912</u>

**14. Obligation under finance lease**

	<b>Minimum lease payments</b>		<b>Present value of minimum lease payments</b>	
	<b>As at 30th June, 2003 HK\$'000</b>	<b>As at 31st December, 2002 HK\$'000</b>	<b>As at 30th June, 2003 HK\$'000</b>	<b>As at 31st December, 2002 HK\$'000</b>
Amounts payable under finance lease				
- Within one year	81	81	64	60
- After one year but within five years	101	142	88	125
	<u>182</u>	<u>223</u>	<u>152</u>	<u>185</u>
Less: Future finance charges	30	38	-	-
Present value of lease obligation	<u>152</u>	<u>185</u>	<u>152</u>	<u>185</u>

The term of the lease is four years and the lease is on a fixed repayment basis.

## 15. Share capital

HK\$'000

### *Authorised:*

As at 31st December, 2002

– 38,000,000 ordinary shares of HK\$0.01 each 380

Increase in authorised share capital

– 9,962,000,000 ordinary shares of HK\$0.01 each 99,620

As at 30th June, 2003

– 10,000,000,000 ordinary shares of HK\$0.01 each 100,000

### *Issued and fully paid:*

As at 31st December, 2002

– 21,000,000 ordinary shares of HK\$0.01 each 210

Placing

– 66,000,000 ordinary shares of HK\$0.01 each 660

Capitalisation Issue

– 288,000,000 ordinary shares of HK\$0.01 each 2,880

As at 30th June, 2003

– 375,000,000 ordinary shares of HK\$0.01 each 3,750

On 6th June, 2003, the authorised share capital of the Company was increased from HK\$380,000 to HK\$100,000,000 divided into 10,000,000,000 shares of HK\$0.01 each.

Immediately following completion of the Placing and the Capitalisation Issue on 25th June, 2003, 375,000,000 shares were allotted and issued fully paid or credited as fully paid.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Financial Review**

For the six months ended 30th June, 2003, profit attributable to shareholders was approximately HK\$2.1 million, representing an approximate 16.4% increase as compared with that for the corresponding period in 2002. Turnover for the same period was approximately HK\$13.5 million, representing a decrease of approximately 11.9% as compared with that for the corresponding period in 2002. Basic earnings per share was 0.7 cent.

For the six months ended 30th June, 2003, profit attributable to shareholders was increased by approximately HK\$0.3 million as compared with that for the corresponding period in 2002. This happened despite a decrease in turnover. The decrease in turnover was mainly due to the continuous sluggish Hong Kong economy and the outbreak of the SARS epidemic from February to June 2003. The SARS in particular has caused delay in most of the Company's on-going projects in Hong Kong. Upon recovery from SARS, the Directors expect that the on-going projects would pick up its pace in the latter half of 2003.

For the six months ended 30th June, 2003, gross profit margin increased by approximately 11.1% as compared with that for the corresponding period in 2002. The increase was attributable to the management continuous efforts in cost control in both materials and labours. Similarly, net profit margin for the same period was approximately 15.9% as compared to 12.0% with that of the corresponding period in 2002, which was resulted from the Company's efforts in reducing administrative and other operating expenses by approximately 5% in the period.

### **Business Review**

#### *Business Development in the People's Republic of China ("PRC")*

For the period under review, the Group continues to provide IBS consultancy services for the two PRC projects signed under the Master Consultancy Contract (as defined in the Prospectus) to Shum Yip Development Co., Ltd.. One project was completed in April 2003 whereas the other was completed in July 2003. There is no other IBS consultancy contract signed at the moment. Currently, the management is in negotiation on several other IBS consultancy projects in the PRC and expects them to materialise in the latter half of 2003.

Aside from providing IBS consultancy services, the Group's expansion plan into the PRC includes setting up joint ventures with potential partners to provide all scopes of IBS services. For the period under review, the Group has identified potential partners and is in discussion with them regarding the formation of joint ventures.

#### *Business Development in Hong Kong*

In July 2003, the Group made applications to the relevant government departments to become a government approved specialist contractor in Hong Kong under the category of "Burglar Alarm and Security Installation". If the applications are successful, the Group would widen its scopes of clientele in providing IBS solutions for government projects.

In accordance with the business objectives as stated in the Prospectus, the Group has discussed with several property developers and electrical and mechanical subcontractors during the review period to re-engine old building projects with new IBS solutions that would reduce their maintenance costs and improve the value of their buildings.

#### *Research and Development*

The Group signed a Memorandum of Understanding with the Hong Kong Polytechnic University in July 2003 to jointly apply for the Innovation and Technology Fund (ITF) sponsored by the HKSAR Government. The purpose of the fund is to support projects that contribute to innovation and technology upgrading in industry. If the application is successful, the fund would be used to develop an integrated, affordable, reliable, and user-friendly security and surveillance system for buildings and real estates.

During the review period, the Group recruited two new engineers dedicated to the design and development of IBS applications.

### *Business Outlook*

The Group will continue to pursue the business objectives as stated in the Prospectus where emphasis and majority of the resources are placed in the PRC market. The Group believes it is well positioned to capture the tremendous opportunities that currently exists for IBS solution providers such as the Company. Favorable environment also plays a big part, as the recently introduced CEPA will provide the Group with advantages over its international competitors.

Despite the continuous sluggish economic environment in Hong Kong for the construction industry and the unforeseen outbreak of SARS from February to June of this year, the Group's business in Hong Kong remained relatively stable. In the near future, the management would continue its emphasis on costs control. More resources would also be allocated to bidding government projects where the Group has successfully landed a major government project in Tsuen Wan during the review period. With the Company's long established market presence and a dedicated and strong management team, the Group remains optimistic and expects a steady and profitable return in Hong Kong. However, much of it would depend on the economy and the residual impact of SARS.

In sum, with a bright outlook in the PRC, a steady business in Hong Kong, a strong management team and adequate resources, the Group expects to meet the challenges ahead with favorable result to the Company's shareholders.

### **LIQUIDITY AND FINANCIAL RESOURCES**

The Company was successfully listed on GEM on 25th June, 2003 by placing of 127,000,000 shares. The proceeds of placing received by the Company, net of related expenses, were approximately HK\$12 million. The Company shall apply the proceeds in the way as set out in the Prospectus. As at 30th June, 2003, shareholders' funds of the Group amounted to approximately HK\$23.8 million. Current assets amounted to approximately HK\$28.5 million, of which approximately HK\$14.2 million was cash and bank deposits. The Group's current liabilities amounted to approximately HK\$5.5 million which mainly comprised its trade payables, accruals and tax payables. Taken into consideration of its current financial resources, the Group shall have adequate capital for its continual operation and development.

### **PLEDGE OF ASSETS AND CONTINGENT LIABILITIES**

As at 30th June, 2003, the Group did not have any substantial pledge of assets and contingent liabilities.

### **GEARING RATIO**

As at 30th June, 2003, the total assets of the Group was approximately HK\$29.4 million whereas the total liabilities was approximately HK\$5.6 million. The gearing ratio (total liabilities divided by total assets) is 19.1%.



## STAFF INFORMATION

As at 30th June, 2003, the Group employed an aggregate of 49 staff in Hong Kong. For the period under review, the salary expenses of executive Directors and staff were approximately HK\$2.4 million. The salary of staff was determined according to the performance of staff and the market trend.

The Company has adopted a share option scheme. A summary of the principal terms and conditions of the share option scheme are set out in the section headed "Share Option Scheme" in Appendix V of the Prospectus. Up to 30th June, 2003, no option has been granted pursuant to such share option scheme.

## USE OF PROCEEDS

The net proceeds for issue of new shares on 25th June, 2003 received by the Company were approximately HK\$12 million. During the period between the Latest Practicable Date as defined in the Prospectus (being 12th June, 2003) to 30th June, 2003, the net proceeds for issue of new shares had been applied as follows:

	<b>Planned use of proceeds as stated in the Prospectus from the Latest Practicable Date to 30th June, 2003 (HK\$'000)</b>	<b>Actual use of proceeds from the Latest Practicable Date to 30th June, 2003 (HK\$'000)</b>
<b>Business expansion in Hong Kong</b>		
- Pursuit of public sector IBS projects and re-engineering projects	28	32
- Merchandising of IBS products	-	-
<b>Geographical expansion to the PRC</b>		
- Establishment of joint ventures	120	27
- Tendering for IBS projects	100	20
- Launching IBS products	-	-
<b>Research and development</b>		
- Development of IBS products	75	14
- Forming strategic alliances	-	-
- Expansion of in-house team	30	-
<b>Sales and marketing</b>	39	32
<b>General working capital</b>	714	397
<b>Total</b>	<u>1,106</u>	<u>522</u>

Due to the short period of time from 12th June, 2003 to 30th June, 2003, several of the planned items for investment/expenditure had not yet been incurred but the Directors expect that all of which will be carried over to the subsequent period up to the six months ending 31st December, 2003.

## **COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL PROGRESS**

The following is a comparison of the implementation plan of the Group's business objectives for the period from the Latest Practical Date as defined in the Prospectus (being 12th June, 2003) to 30th June, 2003 (the "Review Period") and its actual progress. The Directors consider that the Group has followed its implementation plan during the Review Period as disclosed in the Prospectus. Nevertheless, in order to attain long-term business goals, the Group will review its business objectives and strategies on an on-going basis and makes adjustments as necessary.

### **Business objectives as set out in the Prospectus**

### **Actual business progress**

#### **Business development in Hong Kong**

- |  |  |
|--|--|
| <ul style="list-style-type: none"><li>- Establish contact and initiate preliminary discussions with reputable property developers and/or their electrical and mechanical subcontractors for old building re-engineering projects that involve the installation of IBS.</li><br/><li>- Apply for registration as an approved contractor under the "Security Alarm Contractor" category maintained by Architectural Services Department of the Hong Kong government.</li></ul> | <ul style="list-style-type: none"><li>- The Company has contacted several property developers and electrical and mechanical subcontractors during the Review Period in pursuit of old building re-engineering projects that involve the installation of IBS.</li><br/><li>- The Company has applied in early July 2003 with the relevant government departments to become a government approved specialist contractor under the category of "Burglar Alarm and Security Installation".</li></ul> |
|--|--|

#### **Geographic expansion to the PRC**

- |   |   |
|---|---|
| <ul style="list-style-type: none"><li>- Carry out strategic business research to enhance the Group's understanding in tendering for IBS projects and marketing IBS products in the PRC.</li></ul> | <ul style="list-style-type: none"><li>- The Group's staff has made several trips to the PRC since the Latest Practicable Date to conduct market research and to consult with various professionals in understanding the tendering process for IBS projects.</li></ul> |
|---|---|

**Business objectives as set out  
in the Prospectus**

**Actual business progress**

**Research and development**

- Identify appropriate software/hardware vendors to collaborate on the development of new IBS applications.
  - Continue the cooperation with InnoTech for the development of new IBS solutions and enhancement of existing IBS solutions for on-going and/or future projects.
- Three software and two hardware vendors in Hong Kong have been identified for development of new IBS applications.
  - The Group has engaged InnoTech in the development of a new network system on LAN base using smart card technology.

**Sales and marketing**

- Formulate marketing campaign to promote the benefit and convenience of IBS.
- The marketing team of the Group has formulated the overall marketing campaign to promote the benefit and convenience of IBS and finalisation of which is under progress.

**FOREIGN EXCHANGE EXPOSURE**

All the operating revenue and expenses of the Group are denominated in Hong Kong dollars, and therefore the Group does not have foreign exchange exposure during the period under review.

**DISCLOSURE OF DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN THE SECURITIES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS**

As at 30th June, 2003, the interests or short positions of the Directors and the chief executives of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 under the Laws of Hong Kong) ("SFO"), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they have

taken or deemed to have taken under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:-

**(a) Long positions in the shares and underlying shares of equity derivatives of the Company**

Name of Directors	Type of interests	Number of securities	Approximate percentage of interests
Mr. Lam Yew Kai ("Edmond Lam")	Corporate	211,229,000 shares ( <i>Note 1</i> )	56.33%
Mr. Tsang Hon Chung ("Derek Tsang")	Corporate Family	211,229,000 shares ( <i>Note 1</i> ) Option to subscribe for 5,625,000 shares ( <i>Note 2</i> )	56.33% 1.50%
Ms. Wong Mau Fa	Corporate and family	211,229,000 shares ( <i>Note 3</i> )	56.33%
Mr. Sung Fung Chin, Stanley ("Stanley Sung")	Corporate	7,540,875 shares ( <i>Note 4</i> )	2.01%

Notes:

1. These shares are legally owned by China Win Holding International Ltd. ("China Win"), which is ultimately beneficially owned by Emerging Purity Co., Ltd. ("Emerging Purity"), Mr. Derek Tsang, Ms. Wong Mau Fa, the spouse of Mr. Edmond Lam, and Mr. Stanley Sung as to 46.45%, 46.41%, 3.57% and 3.57% respectively. Emerging Purity is then 100% beneficially owned by Mr. Edmond Lam.

Since each of Mr. Edmond Lam and Mr. Derek Tsang is interested in more than one-third of the voting rights of China Win, each of them is taken to be interested in all the Company's shares held by China Win pursuant to Part XV of the SFO.

2. Such shares are subject to an option granted under the Pre-IPO Share Option Scheme (as defined in the Prospectus) held by Ms. Sung Sau Fan, the spouse of Mr. Derek Tsang. Accordingly, Mr. Derek Tsang is taken to be interested in these shares pursuant to Part XV of the SFO.
3. Ms. Wong Mau Fa, the spouse of Mr. Edmond Lam, is taken to be interested in these shares pursuant to Part XV of the SFO.
4. These shares represent attributable number of shares held by Mr. Stanley Sung through his 3.57% equity interest in China Win.

**(b) Short positions in the shares and underlying shares of equity derivatives of the Company**

Save as disclosed herein, as at 30th June, 2003, none of the Directors has short positions in the shares or underlying shares of equity derivatives of the Company.

**PERSONS WHO HAVE AN INTEREST OR A SHORT POSITION WHICH IS DISCLOSEABLE UNDER DIVISIONS 2 AND 3 OF PART XV OF THE SECURITIES AND FUTURES ORDINANCE AND SUBSTANTIAL SHAREHOLDING**

So far as is known to any Director or chief executive of the Company, as at 30th June, 2003, persons who have an interest or a short position in the shares or underlying shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO or be interested in, directly or indirectly, 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any member of the Group were as follows:

**(a) Long positions in the shares of the Company**

<b>Name</b>	<b>Type of interests</b>	<b>Number of securities</b>	<b>Approximate percentage of interests</b>
China Win ( <i>Note 1</i> )	Corporate	211,229,000 shares	56.33%
Mr. Edmond Lam ( <i>Note 2</i> )	Corporate	211,229,000 shares	56.33%
Emerging Purity ( <i>Note 2</i> )	Corporate	211,229,000 shares	56.33%
Mr. Derek Tsang ( <i>Note 3</i> )	Corporate	211,229,000 shares	56.33%
Ms. Wong Mau Fa ( <i>Note 4</i> )	Family and Corporate	211,229,000 shares	56.33%
Ms. Sung Sau Fan ( <i>Note 5</i> )	Family and Corporate	211,229,000 shares	56.33%

*Notes:*

1. China Win is a company incorporated in the BVI and is beneficially owned by Emerging Purity, Mr. Derek Tsang, Ms. Wong Mau Fa and Mr. Stanley Sung as to 46.45%, 46.41%, 3.57% and 3.57% respectively. Emerging Purity is then 100% beneficially owned by Mr. Edmond Lam. Under the GEM Listing Rules, each of Emerging Purity, Mr. Edmond Lam and Mr. Derek Tsang is a substantial shareholder.
2. Since Mr. Edmond Lam is the 100% registered and beneficial owner of Emerging Purity and Emerging Purity is beneficial owner of 46.45% interest in China Win, both Mr. Edmond Lam and Emerging Purity are taken to be interested in the shares held by China Win pursuant to Part XV of the SFO.
3. Since Mr. Derek Tsang is the beneficial owner of 46.41% interest in China Win, he is taken to be interested in the shares held by China Win pursuant to Part XV of the SFO.
4. Ms. Wong Mau Fa, the spouse of Mr. Edmond Lam, is taken to be interested in the shares held by Mr. Edmond Lam pursuant to Part XV of the SFO.
5. Ms. Sung Sau Fan is the wife of Mr. Derek Tsang and she is taken to be interested in the shares held by Mr. Derek Tsang pursuant to Part XV of the SFO.

**(b) Long positions in underlying shares of equity derivatives of the Company**

<b>Name</b>	<b>Type of interests</b>	<b>Number and description of equity derivatives</b>	<b>Number of underlying shares</b>
Mr. Derek Tsang	Family ( <i>Note</i> )	Share option to subscribe for 5,625,000 shares pursuant to the Pre-IPO Share Option Scheme	5,625,000
Ms. Sung Sau Fan	Personal	Share option to subscribe for 5,625,000 shares pursuant to the Pre-IPO Share Option Scheme	5,625,000

*Note:* Since Mr. Derek Tsang is the husband of Ms. Sung Sau Fan, he is taken to be interested in the share option pursuant to Part XV of the SFO.

**(c) Short positions in the shares and underlying shares of equity derivatives of the Company**

So far as the Directors are aware, save as disclosed herein, no persons have short positions in the shares or underlying shares of equity derivatives of the Company.

**COMPETING INTERESTS**

As at 30th June, 2003, none of the Directors or management shareholders (as defined in GEM Listing Rules) of the Company or their respective associates had interests in a business which competed or was likely to compete, either directly or indirectly, with the business of the Company.

**SPONSOR'S INTERESTS**

Pursuant to the agreement dated 13th June, 2003 entered into between the Company and MasterLink Securities (Hong Kong) Corporation Limited ("MasterLink"), for the purpose of Chapter 6 of the GEM Listing Rules, MasterLink was retained as Company's sponsor during the period between 25th June, 2003 to 31st December, 2005.

As at 30th June, 2003, neither MasterLink, its directors, employees or their respective associates has any interest in the Company's securities nor has any rights to subscribe for or to nominate persons to subscribe for securities of the Company.

**COMPLIANCE OF RULES 5.28 TO 5.39 OF THE GEM LISTING RULES**

The Company has complied with Rules 5.28 to 5.39 of the GEM Listing Rules concerning board practices and procedures since the listing of its shares on 25th June, 2003.

**PURCHASE, DISPOSAL OR REDEMPTION OF SECURITIES**

During the six months ended 30th June, 2003, neither the Company, nor any of its subsidiaries purchased, disposed of or redeemed any of the Company's listed securities.

## **AUDIT COMMITTEE**

The Company established an audit committee (“Audit Committee”) on 6th June, 2003 with its written terms of reference being in compliance with Rules 5.23 to 5.25 of the GEM Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group. The Audit Committee comprises two independent non-executive Directors and one executive Director. One meeting has been convened since the establishment of the Audit Committee.

By order of the Board  
**TSANG HON CHUNG**  
*Chairman*

Hong Kong, 14th August, 2003