



# INNOVIS

HOLDINGS LIMITED

華智控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Print address system  
Emergency alarm network  
Voice network  
Data network  
Image car park control system  
CCTV/SMATV system  
Security camera alarm detection system  
Fibre optic system  
Professional video system  
Estate control system  
Nurse call system  
Smart home system  
Digital video system

**2003**  
**THIRD QUARTERLY 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.**

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*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.*

### THIRD QUARTER UNAUDITED RESULTS

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

#### CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	Notes	Nine months ended		Three months ended	
		30th September, 2003	2002	30th September, 2003	2002
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover					
- Continuing operations		19,255	27,146	5,785	11,852
- Discontinuing operations		-	37,549	-	-
	2	<u>19,255</u>	<u>64,695</u>	<u>5,785</u>	<u>11,852</u>
Cost of sales					
- Continuing operations		(11,731)	(16,783)	(3,658)	(6,993)
- Discontinuing operations		-	(33,546)	-	-
		<u>(11,731)</u>	<u>(50,329)</u>	<u>(3,658)</u>	<u>(6,993)</u>
Gross Profit					
- Continuing operations		7,524	10,363	2,127	4,859
- Discontinuing operations		-	4,003	-	-
		7,524	14,366	2,127	4,859
Other income		503	27	451	-
Administrative and other operating expenses		<u>(4,948)</u>	<u>(8,701)</u>	<u>(2,143)</u>	<u>(1,261)</u>
Operating profit/(loss)					
- Continuing operations		3,079	6,135	435	3,598
- Discontinuing operations		-	(443)	-	-
		3,079	5,692	435	3,598
Finance costs		(52)	(57)	(11)	(37)
Share of loss of an associate - discontinuing operation		-	(16)	-	-
Profit before taxation		3,027	5,619	424	3,561
Taxation	3	<u>(534)</u>	<u>(962)</u>	<u>(74)</u>	<u>(570)</u>
Profit after taxation		2,493	4,657	350	2,991
Minority interests		-	175	-	-
Profit attributable to shareholders		<u>2,493</u>	<u>4,832</u>	<u>350</u>	<u>2,991</u>
Dividend	4	<u>(2,000)</u>	<u>(873)</u>	<u>-</u>	<u>-</u>
Earnings per share					
- Basic	5	<u>0.7 cent</u>	<u>1.6 cents</u>	<u>0.1 cent</u>	<u>1.0 cent</u>
- Diluted	5	<u>0.7 cent</u>	<u>1.5 cents</u>	<u>0.1 cent</u>	<u>0.9 cent</u>

NOTES:

**1. Basis of preparation**

The condensed consolidated financial statements of the Company are prepared in accordance with the accounting principles generally accepted in Hong Kong and accounting standards issued by the Hong Kong Society of Accountants.

Certain comparative figures have been reclassified to conform with the current period's presentation.

**2. Turnover**

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

	Nine months ended 30th September,		Three months ended 30th September,	
	2003	2002	2003	2002
	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
IBS solutions and maintenance	16,355	25,446	5,785	10,552
IBS consultancy services	2,900	1,700	-	1,300
Discontinuing operation				
- building contracting services				
and sales of building materials	-	37,549	-	-
	<u>19,255</u>	<u>64,695</u>	<u>5,785</u>	<u>11,852</u>

**3. Taxation**

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

**4. Dividend**

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

On 30th May, 2003, the Company 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 of the Company dated 17th June, 2003 (the "Prospectus").

During the period for the nine months ended 30th September, 2002, ITL paid an interim dividend by way of distribution-in-specie of the equity interests in a subsidiary held by ITL pursuant to the corporate reorganisation for the purpose of listing on GEM.

## 5. Earnings per share

Earnings per share are calculated based on the following figures:

	Nine months ended 30th September,		Three months ended 30th September,	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Earnings</b>				
The Group's consolidated profit attributable to shareholders	2,493	4,832	350	2,991
<b>Number of shares</b>				
Weighted average number of shares				
Basic earnings per share	332,692,308	309,000,000	375,000,000	309,000,000
Diluted earnings per share	338,540,449	318,375,000 <sup>#</sup>	388,763,298	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).

## 6. Reserves

There were no transfers to or from reserves of the Group during the nine months ended 30th September, 2003 and 2002.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Review

For the three months and nine months ended 30th September, 2003, turnover of the Group amounted to approximately HK\$5.8 million and HK\$19.3 million respectively, as compared to HK\$11.9 million and HK\$27.1 million for the corresponding period in 2002. The decrease in turnover was due to the continuous sluggish Hong Kong economy and the outbreak of the SARS epidemic from February to June 2003. Despite its ending in June 2003, the SARS had a lingering effect on the construction industry that has depressed the Group's turnover in the third quarter by delaying many of the Group's existing projects.

For the nine months ended 30th September, 2003, gross profit margin for the group was 39.1% as compared to 38.2% for the corresponding period in 2002. This represented a slight increase of 2% despite the decrease in turnover. The increase was attributed to the management's continuous efforts in cost control in both materials and labours.

For the three months and nine months ended 30th September, 2003, other incomes of the Group were approximately HK\$451,000 and HK\$503,000 respectively, as compared to HK\$Nil and HK\$270,000 for the corresponding period in 2002. The increase in other incomes was due to recovery in 2003 on provision for bad debts made in 2002.

As a result of the decrease in turnover, profit attributable to shareholders for the nine months ended 30th September, 2003 which was approximately HK\$2.5 million as compared to HK\$4.8 million for the corresponding period last year. Administrative and other operating expenses for the nine months ended 30th September, 2003 was approximately HK\$4.9 million as compared to HK\$4.3 million for the corresponding period last year. The increase in administrative and other operating expenses was attributed to increase in research and development expenses in accordance with the Group's expansion plan as stated in the prospectus and some one-off non-recurring listing expenses. Consequently, net profit margin for the nine months ended 30th September, 2003 was 12.9% as compared to 18.9% for the corresponding period last year.

### **Business Review**

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

For the period under review, the Group completed the two PRC projects to provide IBS consultancy services in Shenzhen and Shanghai signed under the Master Consultancy Contract (as defined in the Prospectus) with Shum Yip Development Co., Ltd. Although there is no other subsisting project in the PRC at the moment, the management is actively pursuing and tendering for a number of consultancy projects in major cities in the PRC. The management expects that projects would be awarded to the Group within the coming months.

As for the Group's expansion plan into PRC, one particular company in Shenzhen was identified as a potential joint venture partner. That company fits the profile of potential partners of the Group as it has the necessary licenses and technology know how to perform public security works in the PRC. That company also possesses the right to retail electronic products in the PRC. If the joint venture is successful, the Group plans to market some of its products through this channel. Negotiation on the details of partnership is currently taken place between the Group and that company's shareholders and legal advisers.

Additionally, the Group's intended services in the PRC fall under different government authorities and jurisdictions in the PRC. Thus, it has retained a legal counsel to research and identify the requirements including the type of licenses, the required capital and human resources needed to form a joint venture to perform services in the areas of communication, public safety, and intelligent buildings. Once the research is completed and the requirements identified, the management would approach and begin discussions with the already short-listed potential joint venture partners.

#### *Business Development in Hong Kong*

As indicated in the last interim report, the Group has 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". Several rounds of questionings from the Government have taken place since then with favorable responses. The Group is confident in obtaining the approval from the Government in the very near future and to widen its scopes of clientele in providing IBS solution for government projects.

The Group has targeted re-engineering of old building with intelligent building management system as a future growth area. During the review period, the management is pleased to report that several small projects of this nature were awarded to the Group with several more potential projects in discussion.

Apart from the above, the Group is targeting new markets in the hotel industry, hospitals, and government managed public estates. By leverage its expertise in technologies such as the Smart Card and SMS messages, the Group is developing new intelligent building solutions catering specifically to these sectors. Discussions have already started with potential business partners on the new business plan.

### **Research and Development**

During the review period, the Group has made a joint application with the Hong Kong Polytechnic University for the Innovation and Technology Fund (ITF) sponsored by the HKSAR Government. However, the application has not yet be approved as the scientific research element of our proposal needs to be more specific. Revised proposals are being prepared to address the Government's concern. The Management remains confident in applying for the fund. If successful, the fund will help research that would put the Group as a technology and market leader in the area of commercial and home security in Hong Kong and China. The fund will also reduce the company overall research and development cost as the Government would contribute half of the research funding.

In line with its objectives as stated in the prospectus, the Group has allocated more resources to research and development ("R&D") during the review period by expanding on the service and scopes of Inno-tech, a strategic partner that the Group employs to undertake some of its R&D work. On their expanded scopes, Inno-tech is currently developing Intelligent Building Systems for Hotels and Hospitals, which the Company expects will open up new markets.

Pursuant to a letter of intent entered into with the South China University of Technology on 19th December, 2002, Innovis China Limited, a wholly owned subsidiary of the Company is currently working with the University on developing prototypes of an affordable home surveillance system for the Hong Kong and the PRC market.

### **Business Outlook**

During the review period, the Group was involved in the tendering of several sizable projects in Shanghai and Shenzhen where the Group is most active. There is high probable chance that the Group would be awarded with at least one of those projects. The Group's focus for the immediate future would be to finalize on at least one joint venture deal currently in negotiations. If completed, it would give the Group an avenue to capture the tremendous opportunities currently exists for IBS solution providers such as the Company in the PRC.

In Hong Kong, the sluggish economic environment especially in the construction industry continues to be the storyline. The Group's turnover during the review period was down compared to the previous year. Fortunately, the Group is well established in Hong Kong thus turnover although down is still relatively steady as a whole. Signs of recovery was seen in the construction sector during September of this year as much of the

Group's current projects begin to pick up its pace. This was further evidenced by the favorable figures recently released by the Government on the territory's property market.

Looking ahead, 2003 will be a steady year for the Group. If the Group can finalize on one of its deals in the PRC, 2004 look to be a promising year for the Group.

#### **CHANGE OF EXECUTIVE DIRECTOR**

On 17th October, 2003, Mr. Sung Fung Chin, Stanley resigned as an executive Director, an authorized representative and a member of the audit committee of the Company for health reasons. Upon the resignation of Mr. Sung Fung Chin, Stanley, the Board announced that Mr. Tsang Hon Ming, a non-executive Director, is appointed as an executive Director with effect from 17th October, 2003.

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

As at 30th September, 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**

<b>Name of Directors</b>	<b>Type of interests</b>	<b>Number of securities</b>	<b>Approximate percentage of interests</b>
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 September, 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 SFO AND SUBSTANTIAL SHAREHOLDING**

So far as is known to any Director or chief executive of the Company, as at 30th September, 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**

Name	Type of interests	Number of securities	Approximate percentage of interests
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 September, 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 September, 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 nine months ended 30th September, 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 currently comprises two independent non-executive Directors. One meeting has been convened since the establishment of the Audit Committee.

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

Hong Kong, 13th November, 2003