

INNOVIS

HOLDINGS LIMITED

華智控股有限公司

(Incorporated in the Cayman Islands with limited liability)



2000

Annual Report

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Corporate Information

EXECUTIVE DIRECTORS

Mr. Tsang Hon Chung
Mr. Law Yew Kai
Mr. Sung Fung Chin, Stanley
(resigned on 17th October, 2003)
Mr. Tsang Hon Ming
(appointed on 17th October, 2003)

NON-EXECUTIVE DIRECTORS

Ms. Wong Mau Fa
Mr. Tsang Hon Ming
(resigned on 17th October, 2003)
Mr. Lai Ka Kit
(appointed on 12th January, 2004)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Fong Yick Jin, Eugene
Mr. Liu Pui Ming

REGISTERED OFFICE

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681GT
George Town
Grand Cayman
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit A, 6th Floor, Wyler Centre Phase 1
202-210 Tai Lin Pai Road
Kwai Chung, New Territories
Hong Kong

WEBSITE

<http://www.innovis.com.hk>

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Mr. Luk Wai Kuen, Patrick *AHKSA, CPA (Aust)*

AUTHORISED REPRESENTATIVES

Mr. Tsang Hon Chung
Mr. Lam Yew Kai
Mr. Sung Fung Chin, Stanley
(resigned on 17th October, 2003)

COMPLIANCE OFFICER

Mr. Tsang Hon Chung

MEMBERS OF THE AUDIT COMMITTEE

Mr. Fong Yick Jin, Eugene
Mr. Liu Pui Ming
Mr. Sung Fung Chin, Stanley
(resigned on 17th October, 2003)

CAYMAN ISLANDS REPRESENTATIVE

Conyers Dill & Pearman, Cayman

SPONSOR

MasterLink Securities (HK) Corp. Ltd.

AUDITORS

PKF
Certified Public Accountants

PRINCIPAL BANKERS

Hang Seng Bank Limited
The Hong Kong and Shanghai Banking
Corporation Limited

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tengis Limited
Ground Floor
Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

STOCK CODE

8065

Chairman's Statement

Nowadays, intelligent building system is a must for commercial buildings and housing estates as the system substantially enhances the effectiveness of building management by the use of digital technology, such as improved security, better distribution of information and utilisation of resources and greatly enhances the value of buildings, therefore the intelligent building system is now an essential investments for property developers. With those positive effects, Innovis, as an intelligent system solution provider, has successfully attracted investors and listed in Hong Kong in June, 2003, and then reached a new stage of development.

In year 2003, especially in the first half of the year, Hong Kong experienced an economic downturn, and the industry suffered as a whole. However, with the efforts of all staff, the Company still enjoyed profits. Aiming to provide better investments return to the shareholders in the coming year, the Company has formulated corresponding strategies for the future. We will establish our presence in more market segments, for example new regions with potentials, such as Yangtze River Delta and Pearl River Delta. With respect to the technology application, we will upgrade the existing smart cards for wider use in infrastructure, transportation and consumer market, and SMS system will be integrated into building systems. For the clientele, we will promote the cooperation with main contractors and tap into other market segments.

We strongly believe that with the dedicated staff and enhanced management, the operations of the Company will show steady improvement.

Tsang Hon Hung
Chairman

24th March, 2004

Management Discussion and Analysis

FINANCIAL REVIEW

During the year under review, the turnover of the Group, excluding discontinuing operations, was approximately HK\$24.0 million and profit attributable to shareholders was approximately HK\$0.7 million. Compared with 2002, turnover from continuing operations and profit attributable to shareholders decreased by approximately 33.9% and 90.4% respectively. The significant decrease in both turnover and net profit was due to the continuous sluggish Hong Kong economy especially after the outbreak of severe acute respiratory syndrome (the “SAR”) at the first half of year 2003. Although there has been a gradual recovery of the Hong Kong economy towards the end of 2003, the outbreak of the SARs had a lingering effect on the construction industry that continued throughout the second half of 2003 as construction projects were delayed and affected the Group’s existing and planned projects. Moreover, the IBS consultancy services for some of the planned PRC projects had also been delayed. Despite the Directors’ efforts in reducing administrative expenses and other fixed overheads from approximately HK\$10.2 million in 2002 to HK\$7.3 million in 2003, the Group was unable to offset the effect of the substantial fall in the turnover of the Group. This result in the significant decrease in profit attributable to shareholders.

The Group’s gross profit margin of continuing operations was approximately 31.7% in 2003 compared with approximately 40.9% in 2002. During the year under review, the Group subcontracted more contracts to its strategic partner “Inno-Tech Engineering (HK) Limited”. The Directors are of the view that this arrangement can enhance and assure the quality of the Group’s projects to its customers and at the same time enabling flexibility of cost control on the Group’s labour costs in the long run. However, in the short run the outsourcing charges had increased the cost of sales for 2003 and resulted in slight decrease in gross profit margin.

However, in order to strengthen the Group’s competitive strength and to explore more business opportunities in the PRC market, the Group kept the spending of marketing expenses and research and development costs in accordance with the Group’s expansion plan as stated in the prospectus of the Company dated 17th June, 2003 (the “Prospectus”). As a result of the decrease in turnover, the profit attributable to shareholders was approximately HK\$0.7 million with the net profit margin of approximately 2.93% in 2003 as compared with approximately HK\$7.3 million with net profit margin of 9.69% in 2002.

BUSINESS REVIEW

Business Development in the People’s Republic of China (“PRC”)

During the year under review, the Group successfully completed two PRC projects for the IBS consultancy services in Shenzhen and Shanghai signed under the Master Consultancy Contract with Shum Yip Development Company Limited as stated in the Prospectus. Although there are no existing projects at that moment, the management is actively pursuing and tendering for a number of IBS consultancy services projects at major cities in the PRC. The management expects that a number of such projects will be awarded in the coming years.

Apart from the provision of IBS consultancy services, the Group’s other expansion plan into PRC includes the setting up of joint venture with potential partners in order to provide full scope of IBS services to potential clients. After a number of discussion with potential partners and site visits, the management has concluded that the setting up of its wholly foreign-owned company is the most appropriate way at that moment instead of forming joint venture with other PRC partners. The Group has already submitted its application for the setting up of a wholly foreign-owned company to the Jiangmen government.

On the other hand, the management still keeps an open door to identify and discuss with potential partners for the formation of joint venture in the future. If any joint venture is successfully formed, the Group plans to market some of its services and products through this channel.

Business Development in Hong Kong

As stated in the last interim and third quarterly reports, 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 application vetting from the relevant government departments and workshop visits have been taking place with favourable responses. The Group has confidence in obtaining the final approval from the relevant government departments in the very near future and believe that the license will allow the Group to widen its scope of clientele to providing IBS solution to government projects.

Moreover, the Group has targeted the re-engineering of old building with intelligent building management system as a future potential growth area in accordance with the business objectives as set out in the prospectus. During the year under review, the management is pleased to report that several small projects of this nature were awarded and more similar projects were in discussion.

Beside these, the Group is actively exploring new markets in the hotels, hospitals, and government managed public buildings. By leveraging its expertise in the technologies of Smart Card and SMS Messages, the Group is capable of developing new intelligent building solutions specifically to these sectors. Indeed, discussions with potential clients have already commenced.

Research and Development

As stated in the last interim and third quarterly reports, 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 the industry. However, the application was not approved by the relevant government departments. The Group will continue to seek other opportunities of cooperation with local universities and organisations in the future.

In accordance with the objectives as stated in the prospectus, the Group has allocated more resources to its strategic partner “Inno-Tech Engineering (HK) Limited” for research and development activities. Inno-Tech Engineering (HK) Limited is currently developing new intelligent building systems for hotels and hospitals sectors, a new market segment which the Group expects to open up in the foreseeable future.

Pursuant to the letter of intention of cooperation entered into between the South University of Technology in Guangdong Province, the PRC and Innovis China Limited (a wholly owned subsidiary of the Company) on 19th December, 2002, the parties are currently developing prototypes of an affordable home surveillance system for the Hong Kong and PRC markets. Up to this moment, the progress has been encouraging.

BUSINESS OUTLOOK

Despite the continuous sluggish Hong Kong economy and the unforeseen outbreak of SARs epidemic during the first half of year 2003 which delayed many of the Group's existing and planned projects, the economy of Hong Kong has started show a sign of recovery towards the end of 2003 following the release of the "Closer Economic Partnership Agreement" (CEPA) and the release of policies allowing more travellers to Hong Kong from mainland China by the PRC Government. The sign of recovery in the construction industry is seen at the end of 2003 as much of the Group's existing projects has begun to pick up pace. This is further evidenced by the recently favourable figures on the property market released by the Hong Kong government. At the same time, the management will take the opportunity to seek for more business in local market for the coming years.

On the other hand, the Group will also continue to pursue its business objectives as stated in the Prospectus where emphasis and more resources are placed in the PRC market. At the moment, the management is actively pursuing and tendering for a number of IBS consultancy services projects at major cities in the PRC especially for the Pearl River Delta Region. Moreover, the favourable conclusion to the application for the establishment of a wholly foreign-owned company in Jiangmen, the PRC and the cooperation arrangement with strategic partners will allow the Group to provide a full scope of IBS services and products to the potential clients located in both Hong Kong and the PRC in the foreseeable future.

Looking ahead, the recovery of economy at Hong Kong and the expansion plan for the PRC market can provide more business opportunities to the Group. The Directors believe that Year 2004 to be a promising year for the Group.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally financed its operations and investing activities with internally generated cashflows and the balance of the net proceeds from the placing of the Company's shares as disclosed in the Prospectus (the "Placing").

As at 31st December, 2003, the Group had net current assets of approximately HK\$21.6 million, of which approximately HK\$2.3 million and HK\$0.4 million (2002: approximately HK\$0.13 million and HK\$0.53 million) were pledged bank deposits and bank and cash balances respectively. The Directors are confident that the Group's existing financial resources will be sufficient to satisfy its commitments and working capital requirements.

FOREIGN EXCHANGE

Most of the transactions of the Group are denominated in Hong Kong Dollars and Renminbi. As the exchange rates of the Renminbi to Hong Kong Dollars are fairly stable and only minimum amounts of Renminbi are kept in the PRC, the Directors are of view that the exposure to foreign currency exchange risk is limited. Hence, no hedging or other arrangements to reduce the currency risk have been implemented.

CAPITAL STRUCTURE

As at 31st December, 2003, the Group's net assets were financed by internal resources through share capital and reserves. Total equity attributable to shareholders was approximately HK\$22.7 million as at 31st December, 2003, representing an increase of approximately 92% over last year.

MATERIAL ACQUISITIONS/DISPOSAL AND SIGNIFICANT INVESTMENTS

The Group did not have any material acquisition, disposal and significant investments during the year under review.

GEARING RATIO

As at 31st December, 2003, the Group did not have any long term obligations.

CONTINGENT LIABILITIES

As at 31st December, 2003, the Group did not have any significant contingent liabilities (2002: nil).

EMPLOYEE

As at 31st December, 2003, the Group had a total of around 45 (2002: 50) staff based in the PRC and Hong Kong. The Group remunerates its employees based on their performance, experience and the prevailing industry practice.

Use of Proceeds

The net proceeds from issue of new shares under the Placing received by the Company were approximately HK\$12.9 million. During the period between the latest practicable date as defined in the Prospectus (being 12th June, 2003) to 31st December, 2003, the net proceeds for issue of new shares had been applied as follows:

	Planned use of proceeds as stated in the Prospectus (HK\$'000)	Actual use of proceeds (HK\$'000)
Business expansion in Hong Kong		
1. Pursuit of public sector IBS projects and re-engineering projects (<i>Note 1</i>)	195	46.0
2. Merchandising of IBS products	60	30.7
Geographical expansion to PRC		
3. Establishment of joint ventures (<i>Note 2</i>)	1,240	–
4. Tendering for IBS projects	300	21.4
5. Launching IBS products	–	–
Research and development		
6. Development of IBS products (<i>Note 3</i>)	300	634.3
7. Forming strategic alliances	–	–
8. Expansion of in-house team (<i>Note 4</i>)	169	–
Sales and marketing	220	190.0
General working capital	1,272	1,157.7
Total	3,756	2,080.1

Notes:

1. Due to the outbreak of the SARs epidemic from February, to June, 2003 and its lingering effect on the construction industry in the second half of 2003, most of the public sector IBS projects and re-engineering projects were delayed to 2004 and therefore planned proceeds for this purpose also delayed to 2004.
2. To enjoy the advantages of the Closer Economic Partnership Arrangement (CEPA) signed between Hong Kong and Mainland China, the Group continues to pursuit expansion to the PRC through setting up its wholly-owned foreign enterprise or forming joint venture in 2004.
3. The Group spent more in subcontracting the research and development works to its strategic partner, Inno-Tech Engineering (HK) Limited, this arrangement can utilise the resources of the Group more efficiently and obtain better performance.
4. As the Group subcontracted more research and development work to outside party, expansion of in-house team was delayed.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Tsang Hon Chung, aged 42, is an executive Director, the chairman of the Group and a co-founder of the Group. Mr. Derek Tsang co-founded the Group in February, 1990 and is responsible for the overall management, strategic planning and development of the Group. He has over 23 years of experience in the industry of electronics systems, including five years of experience in system design, planning and project management of building intelligence. Mr. Derek Tsang is the Convenor of the China Development and Co-operation Advisory Committee of the Hong Kong Information Technology Industry Council of the Federation of Hong Kong Industries. He is also the Founding Member and Chartered Vice-President of the SMATV Association of Hong Kong Limited and has been active in negotiating for the set-up of the standard of the “In Building Coaxial Cable Distribution System” for Hong Kong to the association. Concurrently Mr. Derek Tsang has served as the President of the Hong Kong Mainland Lions Club since year 2000, is an associate member of Intelligence Building Index of the Asian Institute of Intelligent Buildings and the President of the Dragon Junior Chamber of Commerce in Hong Kong from 1999 to 2000. In the PRC, Mr. Derek Tsang is also a committee member of the Political Consultative Committee Conference (P.C.C.C.) of Yunan in Guangdong Province and Xingan in Guangxi Province. Mr. Derek Tsang holds certificate in electronic engineering, a certificate in satellite communications – technology and applications from the Hong Kong Polytechnic University and a diploma in e-Management for executives from the Hong Kong Productivity Council. In addition, Mr. Derek Tsang also holds certificated issued by the Hong Kong Education Department and the Vocational Training Council for successfully completing training courses on application and guide to the 15th edition of IEE wiring regulations, radio mechanics, television mechanics, electronics, trading with China. Mr. Derek Tsang has also completed the following units: operations management, information technology and the legal environment leading to the joint diploma in management studies sponsored by The Hong Kong Management Association and The Hong Kong Polytechnic University.

Mr. Lam Yew Kai, aged 57, is an executive Director and one of the co-founders of the Group. He has over 20 years of experience in the area of electronics engineering and has been actively involved in the overall management, strategic planning, and training aspect of the Group since its establishment. From 1979 to 1983, Mr. Edmond Lam served as a director of a radio service company which specialised in the provision of the design and installation of professional sound systems, In 1984, Mr. Edmond Lam started his own business in design and installation of professional sound systems which subsequently switched its focus to extra-low voltage systems in late 1980s and shaped a cornerstone for the establishment of the Group’s business. He holds a bachelor’s degree in business administration from the International University of State of Missouri and is a member of the electrical division of Architectural Association of Guangdong, China.

Mr. Tsang Hon Ming, aged 39, is an executive Director. Mr. Tsang is the younger brother of Mr. Tsang Hon Chung, an executive Director. He joined the Group in 1993. Mr. Tsang has more than 10 years of working experience in building materials trading and construction business. He holds a bachelor of arts degree in Chinese Language and Literature from Hong Kong Baptist University. From 1993 to 1997 Mr. Tsang was a director of a building materials trading company in Hong Kong and was a co-founder of Wah Lam Building Limited which was incorporated in 1997. He had redesignated from non-executive director to executive director on 17th October, 2003.

NON-EXECUTIVE DIRECTORS

Ms. Wong Mau Fa, aged 46, is a non-executive Director. Ms. Wong is the wife of Mr. Lam Yew Kai, an executive Director. She joined the Group in 1993 and has participated in the Group's management and are responsible for human resources management and public relations of the Group since then. Ms. Wong was appointed as a non-executive Director in August, 2002.

Mr. Lai Ka Kit, aged 42, is a non-executive Director. Mr. Lai is a registered professional engineer in Hong Kong and a chartered engineer of United Kingdom. He is also a corporate member of the Hong Kong Institution of Engineers and the Chartered Institution of Building Services Engineers. Mr. Lai has over 15 years of experience in building services sector and currently is a director of KKL & Associates which is a private company engaged in providing building consultancy service in Hong Kong. Mr. Lai was appointed as a non-executive Director in January, 2004.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Fong Yick Jin, Eugene, aged 31, is an independent non-executive Director. Mr. Fong is a member of the Society of CPA Australia and the Securities Institute of Australia. He holds a master degree in commerce and a bachelor degree in law. Mr. Fong is currently a director and deputy general manger of Junefair Engineering Co. Ltd., an Independent Third Party and a private company engaged in buildings' electrical services in Hong Kong. He serves as a committee member of the Hong Kong Federation of Electrical and Mechanical Contractors and the Hong Kong Electrical Contractors' Association. Mr. Fong is also a Community Service Director of Rotary Club of Kowloon West. Prior to his existing employment in Hong Kong, Mr. Fong worked as a financial systems accountant in the head office of a listed company on Australia engaging in various businesses ranging from steel, mining to energy. Mr. Fong joined the Group in August, 2002.

Mr. Liu Pui Ming, aged 28, is an independent non-executive Director. Mr. Liu holds a bachelor degree in building services engineering from the Hong Kong Polytechnic University. He is currently a director of Epee Company Limited, a private company which is an Independent Third Party engaged in trading of sport equipment. Mr. Liu has more than six years of project management experience in the building services, electrical service and ELV electronic engineering service. Mr. Liu joined the Group in February, 2003.

SENIOR MANAGEMENT

Mr. Luk Wai Kuen, Patrick, aged 35, is the qualified accountant and company secretary of the Group and is responsible for corporate reporting and company secretarial matters. Mr. Luk is a certified practising accountant of the Society of CPA Australia and an associate member of the Hong Kong Society of Accountants with over 10 years of experience in accounting and financial management in several private trading firms.

Ms. Sung Sau Fan, aged 42, is the human resources and administration manager of the Group and is responsible for overseeing the Group's personnel, payroll and the administrative management functions. Ms. Sung is also responsible for the follow up and collection of trade debtors. Prior to joining the Group in September, 1997, Ms. Sung worked in a privately-owned engineering consultancy firm, Consolidated Consulting Engineers Limited, for several years.

Mr. Siu Ngai Chuen, aged 25, is the research and development manager of the Group and is responsible for managing the research and development team. Mr. Siu joined the Group in September, 1998. He graduated from the Hong Kong Polytechnic University with a higher diploma in Electronic Engineering. Mr. Siu has also acquired qualifications such as Krone – Master Installer Certificate, 5-S Lead Auditor training, ISO9000 Internal Auditor Training and Microsoft Certified System Engineer and is a member of AIIB.

Mr. Ng Kong, aged 27, is the system designer of the research and development team and is responsible for data network design and management. Prior to joining the Group in September, 2000, Mr. Ng was a project engineer responsible for system integration in an information technology company in Hong Kong. He graduated from the Hong Kong Polytechnic University with a higher diploma in electronic engineering. Mr. Ng has also gained the qualification of Cisco Certified Network Associate.

Ms. Yeung Wai Ching, aged 24, is the purchasing manager of the Group and is responsible for the sourcing and purchasing of all electronic components, cables and stores for the Group. Ms. Yeung joined the Group in September, 2000.

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 31st December, 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">• Establish contact and initiate preliminary discussions with reputable property developers and/or their electrical and mechanical subcontractors and seek business opportunities in old building re-engineering projects that involve the installation of IBS.
• Apply for registration as an approved contractor under the "Security Alarm Contractor" category maintained by Architectural Services Department of the Hong Kong government.
• Strengthen the project execution team by recruiting two chartered engineers who are experienced in the public sector and one chartered engineer who is experienced in re-engineering of old buildings.
• Establish specialised project execution team to formulate business plans for public sector IBS projects. | <ul style="list-style-type: none">• The Company has engaged in discussions with several property developers, main contractors and electrical and mechanical subcontractors during the Review Period in pursuit of old building re-engineering projects that involve the installation of IBS. In early 2004, an old-building re-engineering contract under the Hong Kong Housing Society was awarded to the Company by the main contractor of the project.
• 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". The government department performed the inspection in February, 2004 and the results will be announced in May, 2004.
• A registered professional engineer in Hong Kong, who is also a chartered engineer of the United Kingdom and a corporate member of the Hong Kong Institution of Engineers and the Chartered Institution of Building Services Engineers, has joined the Company as the consultant of the project execution team. He is very experienced in building services sector.
• A specialised project execution team has been formed to formulate business plans for government IBS projects. They have approached the government maintenance department and hospitals under the Hospital Authority. |
|---|---|

Business objectives

as set out in the Prospectus

- Conduct market intelligence and tender for public sector IBS projects.
- Formulate detailed business plan to prepare for the launch of “*Pervasive Secure Version 1.0*” in Hong Kong.

Actual business progress

- The Company is a government-registered contractor and in 2003 it bid for around 15 public sector IBS projects.
- 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 to support the launch of “*Pervasive Secure Version 1.0*” in Hong Kong. However, the application has been turned down and thus the cooperation was terminated. The Group is now looking for new strategic partners to work on the plan.

Geographic expansion to the PRC

- Carry out strategic business research to enhance the Group’s understanding in tendering for IBS projects and marketing IBS products in the PRC.
- Establish joint venture in Shenzhen with potential PRC partner which is capable of providing electronic engineering installation works.

- The Group has established a research team dedicated to research and marketing of IBS products in the PRC. The team mainly did research on the IBS markets within the Pearl River Delta (PRD) and Yangtze River Delta (YRD) and regularly made trips to Shanghai, Guangzhou and Jiangmen to enhance the understanding of the IBS markets in these fast growing places.
- In early 2004, the research team made a visit to Beijing and contacted the relevant Beijing government departments to seek for business opportunities in the Olympic project.
- In addition, the Company has also approached the Macau government and submitted information to them for their perusal in order to have more understanding in the tendering process of the IBS projects in Macau and to explore any business opportunities in this region.
- In order to enjoy the benefits offered to Hong Kong companies under the Closer Economic Partnership Arrangement (CEPA), the Group considers it is not suitable to form a joint venture to provide IBS services in the PRC but to established its wholly-owned foreign enterprise. Application for this purpose is processed in Jiangmen.

Business objectives

as set out in the Prospectus

- Identify and negotiate with potential PRC partner in Shanghai which is capable of providing electronic engineering installation works to set up joint venture.
- Formulate detailed business plan to tender for IBS projects in the PRC based on the strategic business research performed in the previous stage.

Actual business progress

- The Group has identified and negotiated with some business partners in the PRC to cooperate in the IBS business in Shanghai. However, the Group will consider other opportunities offered by CEPA.
- The Group has become a listed contractor of several reputable properties developers in the PRC and has attended several related tender interviews. A PRC marketing and tendering manager will be appointed in 2004 to strengthen the tendering and marketing force in the PRC. In early 2004, the Group formulated two detailed business plans to apply smart card systems in the traffic and market sectors in Jiangmen and Guangzhou respectively.
- The Company plans to set up a specialized team to bid for the Olympic projects in Beijing after the initial research stage is finished. Also, the Company may consider employing local people as the project execution team if tenders are awarded.

Research and development

- Identify appropriate software/hardware vendors to collaborate on the development of new IBS applications and the enhancement of current systems and enter into agreement if appropriate.
- Continue the cooperation with Inno-Tech for the development of new IBS solutions and enhancement of existing IBS solutions for on-going and/or future projects.
- In order to concentrate the resources and reduce costs, rather than buying from software/hardware vendor, the company entered into a research and development subcontracting agreement in July, 2003 with Inno-Tech Engineering (H.K.) Ltd. where Inno-Tech will undertake the research and development work on various projects.
- During the Review Period, the Company continued its cooperation with Inno-Tech. Inno-Tech has developed IBS solutions for hotels, hospitals and schools.

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

Actual business progress

- | | |
|---|--|
| <ul style="list-style-type: none"> • Identify and negotiate with appropriate educational institutions in Hong Kong and commence research and development of “<i>Pervasive Secure Version 1.0</i>”. | <ul style="list-style-type: none"> • The Company signed an Memorandum of Understanding with the Hong Kong Polytechnic University to jointly apply for the Innovation and Technology Fund (ITF) sponsored by the HKSAR Government to support the launch of “<i>Pervasive Secure Version 1.0</i>” in Hong Kong. Due to the failure to attain the fund, the cooperation was left aside. The Company is currently seeking for other educational institutions as research and development partner. |
| <ul style="list-style-type: none"> • Discuss detailed plan and identify specific IBS products to be launched in the PRC market with 華南理工大學 (South China University of Technology). | <ul style="list-style-type: none"> • 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. |
| <ul style="list-style-type: none"> • Identify universities and institutions that are experienced in IBS solutions to establish new strategic alliances. | <ul style="list-style-type: none"> • The Group is still searching for suitable institutions to establish new strategic alliances. |
| <ul style="list-style-type: none"> • Strengthen the in-house research and development team by recruiting four system engineers dedicated to the design and development of new IBS applications. | <ul style="list-style-type: none"> • The Company has entered into the research and development subcontracting agreement with Inno-Tech and will delay expansion of its in-house team. |

Sales and marketing

- | | |
|--|--|
| <ul style="list-style-type: none"> • Formulate marketing campaign to promote the benefit and convenience of IBS. | <ul style="list-style-type: none"> • The Company has formulated and implemented several marketing campaigns to promote the application and benefits of IBS in various fields, such as schools, hospitals, traffic, markets, etc. The marketing team did more than 10 demonstrations to different potential business partners, including schools, hospitals, smart card system providers and hotels. |
| <ul style="list-style-type: none"> • Strengthen the sales and marketing team by recruiting experienced marketing professionals who are dedicated to tendering projects in the public sectors and the re-engineering of old buildings. | <ul style="list-style-type: none"> • The Company has identified a proper candidate to take the post of Sales and Marketing Manager. The Manager-to-be is experienced in tendering and marketing IBS projects both in Hong Kong and the PRC. She is to join the Company in year 2004. |

Business objectives

as set out in the Prospectus

- Promote the benefit and convenience of the IBS through hosting of seminars and conferences in Hong Kong.
- Participate in the exhibition named “第五屆中國(深圳)國際住宅與建築科技展覽會”(The Fifth China (Shenzhen) International Residential and Construction Technology Exhibition) to promote the Group’s image.
- Formulate detailed marketing plan to prepare for the launch of “*Pervasive Secure Version 1.0*” in Hong Kong.

Actual business progress

- Hosting of those seminars and conferences has been postponed to year 2004.
- Due to certain hindrance in contacting the exhibition unit, the Company decided to seek for other upcoming IBS exhibitions in Hong Kong or the PRC.
- The Company signed an Memorandum of Understanding with the Hong Kong Polytechnic University to jointly apply for the Innovation and Technology Fund (ITF) sponsored by the HKSAR Government to support the launch of “*Pervasive Secure Version 1.0*” in Hong Kong. Due to the failure to attain the fund, the plan was left aside.

Directors' Report

The directors have pleasure in presenting their annual report together with the audited financial statements for the year ended 31st December, 2003.

PRINCIPAL ACTIVITIES

The principal activity of the Company during the year was investment holding and those of the subsidiaries are set out in note 14 to the financial statements.

RESULTS AND DIVIDEND

The results of the Group for the year ended 31st December, 2003 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 28 to 62.

An special dividend of HK\$6.12 per share, totalling HK\$2,000,000 was paid during the year ended 31st December, 2003 (2002: An interim dividend of HK\$873,000 was declared and paid by way of a distribution-in-specie). The directors do not recommend the payment of any dividend in respect of the year ended 31st December, 2003.

FINANCIAL SUMMARY

The summary of the consolidated results of the Group for each of the four years ended 31st December, 2003 and the assets and liabilities of the Group as at 31st December, 2000, 2001, 2002 and 2003 are set out on page 63.

DONATIONS

During the year, the Group made charitable and other donations of HK\$15,800 (2002: HK\$300).

FIXED ASSETS

The Group purchased fixed assets amounted to approximately HK\$117,000 during the year. Details of movements in fixed assets of the Group during the year are set out in note 13 to the financial statements.

SHARE CAPITAL

Details of movements in share capital of the Company during the year and the reason thereof are set out in note 22 to the financial statements.

RESERVES

Details of movements in reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 33 and note 24 to the financial statements respectively.

DIRECTORS' INTERESTS IN CONTRACTS

Apart from the transactions as disclosed in note 29 to the financial statements, no other contracts of significance to which the Company or its holding company or any of its subsidiaries was a party and in which a director of the Company had a material interest subsisted at the end of the year or at any time during the year.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The directors of the Company who held office during the year and up to the date of this report were:–

Executive directors:

Tsang Hon Chung
Lam Yew Kai
Sung Fung Chin, Stanley (resigned on 17th October, 2003)
Tsang Hon Ming (redesignated from non-executive director to executive director on 17th October, 2003)

Non-executive directors:

Wong Mau Fa
Lai Ka Kit (appointed on 12th January, 2004)

Independent non-executive directors:

Fong Yick Jin, Eugene
Liu Pui Ming (appointed on 19th February, 2003)

In accordance with Article 14(4) of the Company's Articles of Association, all directors for the time being shall retire from office and being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Mr. Tsang Hon Chung and Mr. Lam Yew Kai have entered into service contracts with the Company for a fixed term of three years commencing from 25th June, 2003 and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other.

Mr. Tsang Hon Ming has entered into a service contract with the Company for a fixed term of three years commencing from 17th October, 2003 and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other.

The term of office of each non-executive director is the period up to his or her retirement in accordance with the Company's Articles of Association.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

CONNECTED TRANSACTIONS

The details of the connected party transactions during the year under the Rules Governing the Listing of Securities on the Growth Enterprises Market (the "GEM Listing Rules") are set out in note 29 to the financial statements.

SHARE OPTION SCHEMES

Pursuant to the written resolutions passed by all the shareholders of the Company on 6th June, 2003, the Company adopted the following share option schemes:-

(a) Share Option Scheme

The purpose of the Share Option Scheme is to advance the interests of the Company and its shareholders by enabling the Company to grant options to attract, retain and reward all the directors (whether executive or non-executive and whether independent or not), the employees (whether full-time or part-time), any consultants or advisers of or to any company in the Group (whether on an employment or contractual or honorary basis and whether paid or unpaid ("Eligible Persons")) and to provide to the Eligible Persons a performance incentive for continued and improved services with the Group and by enhancing such persons' contribution to increase profits by encouraging capital contribution and share ownership. The directors may at their discretion, invite any Eligible Persons to take up options to subscribe for shares.

The maximum entitlement for any one participant (including both exercised and outstanding options) in any twelve-month period shall not exceed 1% of the total number of shares in issue.

The period within which the shares must be taken up under the option must not be more than ten years from the date of grant of the option. Upon acceptance of the option, the grantee shall pay HK\$1.00 to the Company as consideration for the grant. The exercise price for shares in respect of any particular option granted under the Share Option Scheme shall be such price as the Board in its absolute discretion may determine save that such price shall not be less than the highest of (i) the closing price per share on GEM as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (ii) the average of the closing prices per share on GEM as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant of the option and (iii) the nominal value of the share.

No option was granted, exercised or lapsed during the year.

SHARE OPTION SCHEMES (Continued)

(b) Pre-IPO Share Option Scheme

The purpose of the Pre-IPO Share Option Scheme is to recognise the past contribution of certain employees of the Group and to provide incentives to them to retain their services and expertise for the long term success of the Group.

The persons qualified under this scheme to accept options are senior management of the Group and have been with the Group for over two years and have contributed to the success of the Group in the past.

Under this scheme, options were granted to the senior management of the Group to subscribe for an aggregate of 18,750,000 shares in the Company at a price of HK\$0.125 per share.

Upon acceptance of an option under this scheme, the grantee must pay HK\$1.00 to the Company as consideration for the grant.

Options granted under the Pre-IPO Share Option Scheme will, in respect of not more than 30% thereof, be exercisable 12 months after 7th June, 2003 ("Date of Grant"); in respect of a further 30% thereof, be exercisable 24 months after the Date of Grant; and in respect of the remaining 40% thereof, be exercisable 36 months after the Date of Grant. No option can be exercised later than ten years from the Date of Grant.

A summary of the movements of the share options granted under the Pre-IPO Share Option Scheme during the year is as follows:-

Grantees	Date of grant	Vesting period	Exercise period	Exercise price	Number of share options				Outstanding as at 31st December, 2003
					Outstanding as at 1st January, 2003	Granted during the year	Exercised during the year	Lapsed during the year	
Senior management of the Group	7th June, 2003	7th June, 2004 to 7th June, 2006 (inclusive)	Maximum 30%: 7th June, 2004 to 6th June, 2013 Further 30%: 7th June, 2005 to 6th June, 2013 Remaining 40%: 7th June, 2006 to 6th June, 2013	HK\$0.125	-	18,750,000	-	-	18,750,000
					-	18,750,000	-	-	18,750,000
					-	18,750,000	-	-	18,750,000

In aggregate, options to subscribe for 18,750,000 shares representing approximately 5% of the issued share capital of the Company as at 31st December, 2003 have been granted under the share option schemes.

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

As at 31st December, 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%

Notes:

- 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.
- Such shares are subject to an option granted under the Pre-IPO Share Option Scheme 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.
- 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.

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

Save as disclosed herein, as at 31st December, 2003, none of the directors has short positions in the shares or underlying shares of equity derivatives of the Company.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save for the options granted under the Pre-IPO Share Option Scheme, at no time during the year was the Company or its holding company or any of its subsidiaries a party to any arrangements to enable the Company's directors, their respective spouse, or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

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 31st December, 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:

- 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.
- 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.
- 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.
- 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.
- 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.

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 (Continued)

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

Name	Type of interests	Number and description of equity derivatives	Number of underlying shares
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 position in the shares or underlying shares of equity derivatives of the Company.

MANAGEMENT SHAREHOLDERS' INTERESTS

Save as disclosed under the sections headed "Directors' and chief executive's interests in the securities of the Company or any associated corporations" and "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" above, as at 31st December, 2003, no other person was individually and/or collectively entitled to exercise or control the exercise of 5% or more of the voting power at general meetings of the Company and was able, as a practical matter, to direct or influence the management of the Company.

COMPETING INTERESTS

None of the directors, the substantial shareholders or the management shareholders (as defined in the GEM Listing Rules) of the Company or their respective associates had any interests in any business which competed, either directly or indirectly, with or might compete with the business of the Group.

MAJOR CUSTOMERS AND SUPPLIERS

Sales to the Group's five largest customers accounted for approximately 78% of the Group's total sales for the year and sales to the largest customer included therein amounted to approximately 22%. Purchases from the Group's five largest suppliers accounted for approximately 60% of the Group's total purchases for the year and purchases from the largest supplier included therein amounted to approximately 18%.

To the best knowledge of the directors, neither the directors, their associates, nor any shareholders, who owned more than 5% of the Company's issued share capital, had any beneficial interest in any of the Group's five largest customers or suppliers during the year.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

SPONSORS' INTERESTS

Pursuant to the agreement dated 13th June, 2003 entered into between the Company and Messrs. 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 31st December, 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.

AUDIT COMMITTEE

The Company has established an 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, namely Mr. Fong Yick Jin, Eugene and Mr. Liu Pui Ming.

Up to the date of approval of these financial statements, the audit committee has held three meetings and has reviewed the half-year and quarterly reports of the Group and the annual accounts for the year ended 31st December, 2003 prior to recommending such accounts to the Board of Directors for approval.

BOARD PRACTICES AND PROCEDURES

In the opinion of the directors, 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 GEM on 25th June, 2003.

AUDITORS

A resolution to re-appoint the retiring auditors, Messrs. PKF, is to be proposed at the forthcoming general meeting.

On behalf of the Board

Tsang Hon Chung

Chairman

Hong Kong, 24th March, 2004

Auditors' Report



AUDITORS' REPORT TO THE SHAREHOLDERS OF INNOVIS HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 28 to 62 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for the preparation of the financial statements which give a true and fair view. In preparing financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31st December, 2003 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PKF

Certified Public Accountants

Hong Kong, 24th March, 2004

Consolidated Income Statement

For the year ended 31st December, 2003

	Note	2003 HK\$'000	2002 HK\$'000
Turnover			
Continuing operations		23,976	36,260
Discontinuing operation	3	–	37,549
	4	23,976	73,809
Cost of sales and services rendered			
Continuing operations		(16,386)	(21,439)
Discontinuing operation	3	–	(33,546)
		(16,386)	(54,985)
Gross profit			
Continuing operations		7,590	14,821
Discontinuing operation	3	–	4,003
		7,590	18,824
Other income		894	134
Administrative and other operating expenses		(7,354)	(10,244)
Operating profit/(loss)			
Continuing operations		1,130	9,157
Discontinuing operation	3	–	(443)
		1,130	8,714
Finance costs		(65)	(98)
Share of loss of an associate – discontinuing operation	3	–	(16)
Profit before taxation	5	1,065	8,600
Taxation	7(a)	(362)	(1,445)
Profit after taxation		703	7,155
Minority interests		–	175
Profit attributable to shareholders	9	703	7,330
Dividend	10	2,000	873
Earnings per share	11		
– Basic		0.21 cent	2.37 cents
– Diluted		0.20 cent	2.30 cents

Consolidated Balance Sheet

As at 31st December, 2003

	Note	2003 HK\$'000	2002 HK\$'000
NON-CURRENT ASSETS			
Fixed assets	13	301	463
Interest in an associate	15	–	–
Retention money receivable		839	1,767
		<u>1,140</u>	<u>2,230</u>
CURRENT ASSETS			
Inventories	16	–	1,231
Amount due from a related company	17	138	52
Amount due from ultimate holding company	17	–	5
Debtors, deposits and prepayments	18	15,952	17,263
Pledged time deposits	19	2,300	131
Time deposits		6,340	–
Cash and bank balances		417	533
		<u>25,147</u>	<u>19,215</u>
DEDUCT:			
CURRENT LIABILITIES			
Unsecured bank overdrafts		–	1,023
Bills payable, unsecured		155	463
Creditors and accruals	21	3,300	6,883
Obligation under finance lease	25	69	60
Tax payable	7(c)	19	1,111
		<u>3,543</u>	<u>9,540</u>
NET CURRENT ASSETS		<u>21,604</u>	<u>9,675</u>
		<u>22,744</u>	<u>11,905</u>
REPRESENTING:–			
SHARE CAPITAL	22	3,750	210
RESERVES	24	18,945	11,570
SHAREHOLDERS' FUNDS		<u>22,695</u>	<u>11,780</u>
NON-CURRENT LIABILITY			
Obligation under finance lease	25	49	125
		<u>22,744</u>	<u>11,905</u>

APPROVED AND AUTHORISED FOR ISSUE BY
THE BOARD OF DIRECTORS ON 24TH MARCH, 2004

TSANG HON CHUNG
DIRECTOR

LAM YEW KAI
DIRECTOR

Balance Sheet

As at 31st December, 2003

	Note	2003 HK\$'000	2002 HK\$'000
NON-CURRENT ASSET			
Interests in subsidiaries	14	<u>8,677</u>	<u>8,677</u>
CURRENT ASSETS			
Amount due from a subsidiary	20	<u>11,355</u>	–
Prepayment		<u>–</u>	12
Cash at bank		<u>5</u>	–
		<u>11,360</u>	<u>12</u>
DEDUCT:			
CURRENT LIABILITIES			
Amount due to a subsidiary	20	<u>–</u>	68
Other payable and accruals		<u>106</u>	–
		<u>106</u>	<u>68</u>
NET CURRENT ASSETS/(LIABILITIES)		<u>11,254</u>	<u>(56)</u>
		<u>19,931</u>	<u>8,621</u>
REPRESENTING:–			
SHARE CAPITAL	22	<u>3,750</u>	210
RESERVES	24	<u>16,181</u>	8,411
SHAREHOLDERS' FUNDS		<u>19,931</u>	<u>8,621</u>

APPROVED AND AUTHORISED FOR ISSUE BY
THE BOARD OF DIRECTORS ON 24TH MARCH, 2004

TSANG HON CHUNG
DIRECTOR

LAM YEW KAI
DIRECTOR

Consolidated Cash Flow Statement

For the year ended 31st December, 2003

	Note	2003 HK\$'000	2002 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		1,065	8,600
Adjustments for:			
Bank deposits pledged for banking facilities		(2,169)	(9)
Share of loss of an associate		–	16
Interest expenses		35	64
Interest income		(10)	(18)
Depreciation		266	328
Loss on disposal of fixed asset		8	–
Bad debts written off		–	31
Provision for doubtful debts		–	3,374
		<hr/>	<hr/>
Operating (loss)/profit before working capital changes		(805)	12,386
Increase in amount due from an associate		–	(155)
Decrease/(increase) in inventories		1,231	(1,231)
(Increase)/decrease in amount due from a related company		(86)	13
Decrease/(increase) in amount due from ultimate holding company		5	(5)
Decrease/(increase) in debtors, deposits and prepayments		2,239	(16,873)
(Decrease)/increase in creditors and accruals		(3,583)	10,855
		<hr/>	<hr/>
Cash (used in)/generated from operations		(999)	4,990
Hong Kong profits tax paid		(1,454)	(574)
Interest received		10	18
Interest paid		(35)	(64)
		<hr/>	<hr/>
NET CASH (USED IN)/FROM OPERATING ACTIVITIES		(2,478)	4,370
		<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
CASH FLOWS FROM INVESTING ACTIVITIES			
Sales proceeds of fixed asset		5	–
Purchase of fixed assets		(117)	(498)
Disposal of a subsidiary	26	–	(9,127)
		<hr/>	<hr/>
NET CASH USED IN INVESTING ACTIVITIES		(112)	(9,625)
		<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>

Consolidated Cash Flow Statement

For the year ended 31st December, 2003

	2003 <i>Note</i> HK\$'000	2002 <i>HK\$'000</i>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from placing of shares	16,500	–
Share issue expenses	(4,288)	–
Principal repayment of obligation under finance lease	(67)	(68)
Decrease in bills payable, secured	–	(830)
(Decrease)/increase in bills payable, unsecured	(308)	463
Decrease in amounts due to directors	–	(28)
Dividend paid	(2,000)	–
	<hr/>	<hr/>
NET CASH FROM/(USED IN) FINANCING ACTIVITIES	9,837	(463)
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	7,247	(5,718)
CASH AND CASH EQUIVALENTS AT 1ST JANUARY	(490)	5,228
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT 31ST DECEMBER,	6,757	(490)
	<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Time deposits	6,340	–
Cash and bank balances	417	533
Unsecured bank overdrafts	–	(1,023)
	<hr/>	<hr/>
	6,757	(490)
	<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2003

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Special reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
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)
At 31st December, 2002	<u>210</u>	<u>–</u>	<u>117</u>	<u>11,453</u>	<u>11,780</u>
At 1st January, 2003	210	–	117	11,453	11,780
Placing of new shares – Note 22(d)	660	–	–	–	660
Premium on placing of new shares – Note 22(d)	–	15,840	–	–	15,840
Capitalisation – Note 22(e)	2,880	(2,880)	–	–	–
Issuing expenses for share placing	–	(4,288)	–	–	(4,288)
Profit for the year	–	–	–	703	703
Dividend – Note 10	–	–	–	(2,000)	(2,000)
At 31st December, 2003	<u>3,750</u>	<u>8,672</u>	<u>117</u>	<u>10,156</u>	<u>22,695</u>

Notes to the Financial Statements

For the year ended 31st December, 2003

1. GROUP REORGANISATION

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 The Growth Enterprise Market ("GEM") operated by the Stock Exchange of Hong Kong Limited (the "Reorganisation"), the Company acquired the entire issued share capital of Innovis Technology Limited (formerly known as "Wah Lam (Electronic Engineering) Limited") ("ITL") 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 ITL and its subsidiaries (the "ITL Group"). Details of the Reorganisation are set out in the prospectus issued by the Company dated 17th June, 2003.

The shares of the Company were listed on GEM on 25th June, 2003.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below:—

(a) Basis of preparation

These financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants ("HKSA") and are prepared under the historical cost convention.

The Group resulting from the Reorganisation as defined in note 1 above is regarded as a continuing entity. Accordingly, the financial statements of the Group have been prepared on a merger accounting basis as if the Company had always been the holding company of the ITL Group in accordance with SSAP 27 "Accounting for group reconstruction".

In the current year, the Group adopted SSAP 12 (revised) "Income Taxes" issued by the HKSA which is effective for accounting periods commencing on or after 1st January, 2003.

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 bases 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.

For the year ended 31st December, 2003

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(b) Basis of consolidation

The Reorganisation has been accounted for using merger accounting by regarding the Company as being the holding company of the Group from the beginning of the earliest period presented.

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31st December, 2003. The results of subsidiaries acquired or disposed of during the year are dealt with in the consolidated income statement from the effective dates of acquisition or up to the effective dates of disposal respectively. All significant intra-group transactions and balances have been eliminated on consolidation.

(c) Discontinuing operation

Discontinuing operation is a component of an enterprise that the enterprise, pursuant to a single plan, is disposing of substantially in its entirety, or disposing of piecemeal, or terminating through abandonment, and that represents a separate major line of business or geographical area of operations and that can be distinguished operationally and for financial reporting purposes. The information of the discontinuing operation is set out in note 3.

(d) Revenue recognition

(i) Revenue from provision of intelligent building system solutions and building contracting services

The Group enters into contracts with customers whereby the values of the sale of the electronic equipment/building materials and the provision of intelligent building system solutions/building contracting services are bundled together in one contract. Revenue from such contracts is recognised when the services are rendered.

(ii) Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have been transferred to the buyer.

(iii) Consultancy fee income

Consultancy fee income is recognised when the services are rendered.

(iv) Maintenance service income

Income from maintenance services is recognised on a straight-line basis over the terms of the respective contracts.

(v) Interest income

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)**(e) Fixed assets and depreciation**

Fixed assets are stated at cost less aggregate depreciation and impairment loss. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the assets have been put into operation, such as repairs and maintenance, is charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset.

The carrying amounts of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. When such a decline has occurred, their carrying amounts are reduced to their recoverable amounts. In determining the recoverable amounts of assets, expected future cash flows are discounted to their present values.

Depreciation is calculated to write off the cost of fixed assets over their estimated useful lives on a straight-line basis at the following annual rates:–

Computers	– 30%
Furniture and equipment	– 20%
Leasehold improvements	– 20%
Motor vehicle	– 30%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as own assets or where shorter, the terms of the relevant leases.

Gain or loss arising from the retirement or disposal of an asset is determined as the difference between the estimated net sale proceeds and the carrying amount of the asset and is recognised in the income statement at the date of retirement or disposal.

(f) Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is determined on a weighted average basis and includes all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

For the year ended 31st December, 2003

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(g) Leases

Leases are classified as finance leases whenever the terms of the leases transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are capitalised at their fair value at the date of acquisition or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as obligations under finance leases. Finance charges, which represent the difference between the total leasing commitments and the recorded value of the assets acquired, are charged to the income statement over the terms of the relevant leases so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the periods of the relevant leases.

(h) Subsidiaries

A subsidiary is an enterprise over which the Company has control either directly or indirectly. Control is the power to govern the financial and operating policies of a company so as to obtain benefits from its activities.

Investments in subsidiaries are stated in the Company's balance sheet at cost less any identified impairment loss. Income from subsidiaries is recognised in the Company's financial statements when the Company's right to receive the dividends is established.

(i) Associate

An associate is one in which the Company is in a position to exercise significant influence including participation in financial and operating policy decisions.

Interest in an associate is stated in the consolidated balance sheet at the Group's share of the net assets other than goodwill as recorded in the financial statements of the associate less any identified impairment loss. The results of associate are taken into account to the extent of post-acquisition profits less losses attributable to the Group.

(j) Impairment

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(k) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

(l) Employee benefits

Salaries, annual bonuses, annual leave entitlements and the cost to the company of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the company.

Obligations for contributions to defined contribution retirement plans, including contributions payable under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in the income statement as incurred.

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(m) Research and development costs

Research and development costs comprise all costs which are directly attributable to research and development activities or which can be allocated on a reasonable basis to such activities. As no research and development costs satisfy the criteria for the recognition of such costs as an asset during the year, such costs are therefore recognised as an expense in the period in which they are incurred.

For the year ended 31st December, 2003

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(n) Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary difference can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(o) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the market exchange rates ruling at the balance sheet date. Differences on foreign currency translation are dealt with in the income statement.

(p) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(q) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before inter-segment balances and inter-segment transactions are eliminated as part of the consolidation.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise obligation under finance lease, tax payable, other revenue and financing expenses.

(r) Cash equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the year ended 31st December, 2003

3. DISCONTINUING OPERATION

On 30th June, 2002, an interim dividend of HK\$873,166 was declared by ITL with respect to the year ended 31st December, 2002. On the same date, such dividend was satisfied by the distribution-in-specie of ITL's entire shareholdings in Wah Lam Building Materials Limited ("WLBM"), a 60% owned subsidiary, to the shareholders of ITL in proportion to their respective shareholdings. WLBM was engaged in the building contracting operation and held an equity interest of 25% in Guangzhou Han Yao Building Materials Limited.

The results of the building contracting operation for the six months ended 30th June, 2002, which have been included in the consolidated financial statements, were as follows:-

	Year ended 31st December, 2003 HK\$'000	Period from 1st January, 2002 to 30th June, 2002 HK\$'000
Turnover	-	37,549
Cost of sales and services rendered	-	(33,546)
	<hr/>	<hr/>
Gross profit	-	4,003
Other income	-	24
Administrative and other operating expenses	-	(4,470)
	<hr/>	<hr/>
Operating loss	-	(443)
Finance costs	-	(5)
Share of loss of an associate	-	(16)
	<hr/>	<hr/>
Loss before taxation	-	(464)
Taxation	-	-
	<hr/>	<hr/>
Loss after taxation	-	(464)
Minority interests	-	175
	<hr/>	<hr/>
Loss attributable to shareholders	-	(289)
	<hr/> <hr/>	<hr/> <hr/>

For the year ended 31st December, 2003

3. DISCONTINUING OPERATION (Continued)

The carrying amounts of the assets and liabilities of WLBM at respective balance sheet date were as follows:-

	At 31st December, 2003 HK\$'000	At 30th June, 2002 HK\$'000
Total assets	-	28,467
Total liabilities	-	(27,012)
Net assets	-	1,455

The net cash flows attributable to the building contracting operation for the six months ended 30th June, 2002 were as follows:-

	Year ended 31st December, 2003 HK\$'000	Period from 1st January, 2002 to 30th June, 2002 HK\$'000
Operating activities	-	7,603
Investing activities	-	(150)
Financing activities	-	(812)
Net cash inflow	-	6,641

4. TURNOVER AND REVENUE

The Company is principally engaged in investment holding and the principal activities of the subsidiaries are set out in note 14 to the financial statements.

Turnover represents revenue recognised in respect of IBS solutions, building contracting and consultancy services rendered and the net invoiced value of goods sold. An analysis of the Group's turnover and other major revenue is set out below:-

	2003 HK\$'000	2002 HK\$'000
IBS solutions, building contracting services and sales of goods	20,726	70,459
Consultancy fee income	3,250	3,350
Turnover	23,976	73,809
Interest income	10	18
Total revenue	23,986	73,827

Notes to the Financial Statements

For the year ended 31st December, 2003

5. PROFIT BEFORE TAXATION

	2003 HK\$'000	2002 HK\$'000
Profit before taxation is arrived at after charging/ (crediting):-		
Auditors' remuneration	220	50
Cost of materials used	4,653	32,654
Depreciation		
– own assets	176	238
– asset held under finance lease	90	90
Directors' remuneration – <i>Note 6</i>	1,210	1,102
Other staff costs		
– Salaries and allowances	2,979	4,110
– Pension scheme contributions	128	194
	3,107	4,304
Sales proceeds of fixed asset	(5)	–
Less: Net book value	13	–
Loss on disposal of fixed asset	8	–
Minimum lease payments under operating leases	166	230
Research and development costs	634	444
Bad debts written off	–	31
Provision for doubtful debts	–	3,374
Interest on bank overdrafts and bills wholly repayable within five years	22	51
Finance lease interest	13	13
Recovery of debts previously written off	(607)	(106)
	—————	—————

For the year ended 31st December, 2003

6. DIRECTORS' REMUNERATION AND EMPLOYEES' EMOLUMENTS

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
(a) Directors		
Fees		
– Executive directors	–	–
– Non-executive directors	53	–
– Independent non-executive directors	48	–
	<u>101</u>	<u>–</u>
Other emoluments (executive directors)		
– Basic salaries, allowances and benefits in kind	1,028	839
– Pension scheme contributions	24	24
	<u>1,052</u>	<u>863</u>
Other emoluments (non-executive directors)		
– Basic salaries, allowances and benefits in kind	54	228
– Pension scheme contributions	3	11
	<u>57</u>	<u>239</u>
	<u>1,210</u>	<u>1,102</u>

Four executive directors received individual emoluments of approximately HK\$556,000, HK\$376,000, HK\$120,000 and HK\$Nil respectively for the year ended 31st December, 2003 (HK\$370,000, HK\$376,000, HK\$117,000 and HK\$Nil respectively for the year ended 31st December, 2002). Two non-executive directors (include the one redesignated to executive director during the year) received individual emoluments of approximately HK\$92,000 and HK\$18,000 respectively for the year ended 31st December, 2003 (HK\$113,000 and HK\$126,000 respectively for the year ended 31st December, 2002).

During the year, no other emoluments were paid by the Group to the independent non-executive directors.

The number of directors whose remuneration fell within the following band were:–

	2003	2002
Emoluments		
Nil to HK\$1,000,000	<u>7</u>	<u>7</u>

No directors waived any emoluments during the year.

For the year ended 31st December, 2003

6. DIRECTORS' REMUNERATION AND EMPLOYEES' EMOLUMENTS (Continued)

(b) Five highest paid individuals

Among the five highest paid individuals of the Group, two are directors of the Company and the details of their remuneration have already been disclosed above.

The emoluments and designated band of the remaining three non-director, highest paid employees were as follows:–

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Salaries and allowances	730	551
Pension scheme contributions	19	20
	749	571

The emoluments of the three non-director, highest paid employees fell within the band of nil to HK\$1,000,000.

During the year, no emoluments were paid by the Group to the five highest paid employees, including the directors of the Company, as an inducement to join, or upon joining the Group, or as compensation for loss of office.

7. TAXATION

- (a) Taxation represents provision for Hong Kong profits tax at the rate of 17.5% (2002: 16%) on the respective estimated assessable profits of the companies within the Group operating in Hong Kong for the year.
- (b) The taxation charge for the year can be reconciled to the profit before taxation per the income statement as follows:–

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Profit before taxation	<u>1,065</u>	<u>8,600</u>
Applicable tax rate (%)	<u>17.5</u>	<u>16.0</u>
Tax on profit before taxation, calculated at the applicable tax rate	186	1,376
Tax effect of non-deductible expenses in determining taxable profit	53	42
Tax effect of non-taxable revenue in determining taxable profit	(2)	(121)
Tax effect of capital allowances claimed and prescribed fixed assets written off	(35)	(55)
Tax effect of current year's tax losses not recognised	160	13
Others	<u>–</u>	<u>190</u>
Taxation charge for the year	<u>362</u>	<u>1,445</u>
(c) Taxation in the balance sheet represents:–		
Provision for the year	362	1,445
Provisional profits tax paid	<u>(343)</u>	<u>(334)</u>
Tax payable	<u>19</u>	<u>1,111</u>

Notes to the Financial Statements

For the year ended 31st December, 2003

8. DEFERRED TAXATION

At 31st December, 2003, deferred tax assets have not been recognised in these financial statements as the temporary differences of HK\$92,357 (2002: HK\$19,405) arising in connection with the fixed assets of the company are insignificant.

9. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Profit attributable to shareholders for the year includes a loss of HK\$902,000 (2002: HK\$56,000) which has been dealt with in the financial statements of the Company.

10. DIVIDEND

	2003 HK\$'000	2002 HK\$'000
Interim dividend		
Distribution-in-specie of shares in WLBM – Note 3	–	873
Special dividend – Note	<u>2,000</u>	<u>–</u>
	<u>2,000</u>	<u>873</u>

Note:–

On 30th May, 2003, ITL declared a special dividend in an amount of HK\$2,000,000 to its shareholders in proportion to their respective shareholdings on the register of members of ITL at the close of business on 30th May, 2003 as a return to them for their investments in ITL in prior years.

11. EARNINGS PER SHARE

The calculation of earnings per share for the year is based on the following data:–

	2003 HK\$'000	2002 HK\$'000
Earnings		
Profit attributable to shareholders	<u>703</u>	<u>7,330</u>
Number of shares		
Weighted average number of ordinary shares in issue for the purposes of basic earnings per share	344,260,274	309,000,000
Effect of dilutive potential ordinary shares – share options	<u>14,243,746</u>	<u>9,375,000</u>
Weighted average number of ordinary shares in issue for the purposes of diluted earnings per share	<u>358,504,020</u>	<u>318,375,000</u>

11. EARNINGS PER SHARE (Continued)

The calculation of basic earnings per share for the year ended 31st December, 2003 is based on the Group's profit attributable to shareholders and the weighted average number of 344,260,274 shares (comprising 309,000,000 shares, being 1 share issued on the incorporation of the Company on 8th July, 2002, 20,999,999 shares as the consideration for the acquisition of the entire issued share capital of ITL on 30th August, 2002 and adjusting for the capitalisation issue of 288,000,000 shares as referred to in the prospectus of the Company dated 17th June, 2003 and 35,260,274 shares, being the weighted average number of 66,000,000 shares issued to the placees on 20th June, 2003) in issue during the year ended 31st December, 2003.

Diluted earnings per share for the year ended 31st December, 2003 is based on the Group's profit attributable to shareholders and the weighted average number of 358,504,020 shares in issue during the year. The number of shares used in the calculation comprised 344,260,274 shares referred to in the immediately preceding paragraph and 14,243,746 shares assumed to have been issued at no consideration on the deemed exercise of the options under the Pre-IPO Share Option Scheme based on the fair value per share of HK\$0.52.

The calculation of basic earnings per share for the year ended 31st December, 2002 is based on the Group's profit attributable to shareholders and assuming that a total of 309,000,000 shares had been in issue throughout the year ended 31st December, 2002.

Diluted earnings per share for the year ended 31st December, 2002 is based on the Group's profit attributable to shareholders and the assumption that 318,375,000 shares had been in issue during the year. The number of shares used in the calculation comprised 309,000,000 shares referred to in the immediately preceding paragraph and 9,375,000 shares assumed to have been issued at no consideration on the deemed exercise of the options under the Pre-IPO Share Option Scheme based on the placing price per share of HK\$0.25.

12. RETIREMENT BENEFIT COSTS

Before 30th November, 2000, the Company's subsidiaries operating in Hong Kong did not operate any pension schemes. Since 1st December, 2000, the Group had joined a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all eligible employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with rules of MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The Group's contribution to such scheme for the year ended 31st December, 2003 amounted to HK\$155,000 (2002: HK\$229,000).

Notes to the Financial Statements

For the year ended 31st December, 2003

13. FIXED ASSETS – THE GROUP

	Computers <i>HK\$'000</i>	Furniture and equipment <i>HK\$'000</i>	Leasehold improve- ments <i>HK\$'000</i>	Motor vehicle <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:-					
At 1st January, 2003	295	182	276	324	1,077
Additions	64	53	–	–	117
Disposals	–	–	–	(24)	(24)
At 31st December, 2003	359	235	276	300	1,170
Aggregate depreciation:-					
At 1st January, 2003	167	95	165	187	614
Charge for the year	85	36	51	94	266
Written back on disposals	–	–	–	(11)	(11)
At 31st December, 2003	252	131	216	270	869
Net book value:-					
At 31st December, 2003	107	104	60	30	301
At 31st December, 2002	128	87	111	137	463

As at 31st December, 2003, the net book value of motor vehicle held under finance lease of the Group amounted to HK\$30,000 (2002: HK\$37,000).

14. INTERESTS IN SUBSIDIARIES – THE COMPANY

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Unlisted shares, at cost	8,677	8,677

For the year ended 31st December, 2003

14. INTERESTS IN SUBSIDIARIES – THE COMPANY (Continued)

Details of the subsidiaries as at 31st December, 2003 are as follows:–

Name of subsidiary	Place of incorporation and operation	Attributable equity interest %		Principal activities
		Direct	Indirect	
Innovis (IB) Limited	British Virgin Islands	100	–	Investment holding
ITL	Hong Kong	–	100	Provision of intelligent building system solutions and sales of electronic equipment
Innovis China Limited	British Virgin Islands	–	100	Dormant

15. INTEREST IN AN ASSOCIATE

	2003 HK\$'000	2002 HK\$'000
Share of net assets	–	55
Disposal during the year	–	(55)
	–	–
	<u>–</u>	<u>–</u>

- (a) The equity interest in the associate, which was held directly by WLBM, was disposed of under the dividend arrangement as detailed in note 3.
- (b) Details of the associate are as follows:–

Name of associate	Business structure	Place of establishment and operation	Indirect attributable equity interest %	Principal activity
Guangzhou Han Yao Building Materials Limited	Corporate	People's Republic of China	15	Sales of building materials

16. INVENTORIES

	2003 HK\$'000	2002 HK\$'000
Flat screen videophones	–	1,231
	<u>–</u>	<u>1,231</u>

All inventories were stated at cost.

Notes to the Financial Statements

For the year ended 31st December, 2003

17. AMOUNTS DUE FROM A RELATED COMPANY/ULTIMATE HOLDING COMPANY

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

18. DEBTORS, DEPOSITS AND PREPAYMENTS

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Debtors, deposits and prepayments comprise:-		
Trade debtors	10,589	13,889
Retention money receivable	79	557
Other debtors, deposits and prepayments	5,284	1,452
Prepaid listing expenses	-	1,365
	<u>15,952</u>	<u>17,263</u>

The Group allows its customers credit period of 30 days to 90 days depending on their credit worthiness. The following is an aging analysis of trade debtors:-

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Within 3 months	5,343	11,274
Over 3 months but within 6 months	2,745	1,762
Over 6 months but within 1 year	1,338	1,276
Over 1 year	2,046	518
	<u>11,472</u>	<u>14,830</u>
<i>Less:</i> Provision for doubtful debts	883	941
	<u>10,589</u>	<u>13,889</u>

19. PLEDGED TIME DEPOSITS

The deposits have been pledged to the banks to secure general banking facilities granted to the Group.

20. AMOUNT DUE FROM/(TO) A SUBSIDIARY – THE COMPANY

The amount is interest-free, unsecured and repayable on demand.

For the year ended 31st December, 2003

21. CREDITORS AND ACCRUALS

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Creditors and accruals comprise:–		
Trade creditors	2,152	5,912
Other creditors, accruals and provisions	1,148	971
	3,300	6,883
The following is an aging analysis of trade creditors:–		
Within 3 months	1,922	3,670
Over 3 months but within 6 months	220	626
Over 6 months but within 1 year	4	38
Over 1 year	6	1,578
	2,152	5,912

22. SHARE CAPITAL – THE COMPANY

	<i>Note</i>	<i>Number of shares</i>	<i>HK\$'000</i>
<i>Authorised:–</i>			
Ordinary shares of HK\$0.01 each			
At date of incorporation and 1st January, 2003	<i>(a)</i>	38,000,000	380
Increase in authorised share capital	<i>(c)</i>	9,962,000,000	99,620
At 31st December, 2003		10,000,000,000	100,000
<i>Issued and fully paid:–</i>			
Ordinary shares of HK\$0.01 each			
Issue of share to a subscriber	<i>(a)</i>	1	–
Issue of shares in accordance with the Reorganisation	<i>(b)</i>	20,999,999	210
At 31st December, 2002 and 1st January, 2003		21,000,000	210
Placing of shares	<i>(d)</i>	66,000,000	660
Issue of shares by capitalisation of the share premium account	<i>(e)</i>	288,000,000	2,880
At 31st December, 2003		375,000,000	3,750

For the year ended 31st December, 2003

22. SHARE CAPITAL – THE COMPANY (Continued)

Notes:–

- (a) The Company was incorporated on 8th July, 2002 with an authorised share capital of HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each. One share was allotted and issued at par to a subscriber on 17th July, 2002.
- (b) On 30th August, 2002, pursuant to the Reorganisation, 20,999,999 shares of HK\$0.01 each were allotted and issued, credited as fully paid, as consideration for the acquisition by the Company of the entire issued share capital in ITL.
- (c) Pursuant to the written resolution passed on 6th June, 2003, the authorised share capital of the Company was increased from HK\$380,000 to HK\$100,000,000 by the creation of an additional 9,962,000,000 shares of HK\$0.01 each.
- (d) On 20th June, 2003, 66,000,000 new shares of HK\$0.01 each were issued by way of placing at a premium of HK\$0.24 per share for cash (the “Placing”). The excess of the issue price over the par value of the shares issued upon the Placing amounted to HK\$15,840,000 was credited to the share premium account of the Company.
- (e) On 20th June, 2003, immediately after the Placing, 288,000,000 shares of HK\$0.01 each were allotted and issued at par, credited as fully paid, to the shareholders in proportion to their respective shareholdings on the register of the members of the Company at the close of business on 20th June, 2003 by way of the capitalisation of the share premium available.

23. SHARE OPTION SCHEMES

The Company operates two share option schemes (including one Pre-IPO Share Option Scheme and one Share Option Scheme) adopted on 6th June, 2003 under which the board of directors (the “Board”) are authorised, at their discretion, to invite employees of the Group, including directors of any company in the Group, and other eligible persons, to take up options to subscribe for shares of the Company. For the Pre-IPO Share Option Scheme, the exercise price was determined by the Board to be HK\$0.125. The exercise price of the Share Option Scheme (other than the Pre-IPO Share Option Scheme) shall be determined by the Board in its absolute discretion, but in any event shall not be less than the highest of (i) the closing price per share on GEM as stated in the Stock Exchange’s daily quotations sheet on the date of grant, which must be a business day; and (ii) the average of the closing prices per share on GEM as stated in the Stock Exchange’s daily quotations sheets for the five business days immediately preceding the date of grant of the option and (iii) the nominal value of the share.

Options granted under the Pre-IPO Share Option Scheme will, in respect of not more than 30% thereof, be exercisable 12 months after 7th June, 2003 (“Date of Grant”); in respect of a further 30% thereof, be exercisable 24 months after the Date of Grant; and in respect of the remaining 40% thereof, be exercisable 36 months after the Date of Grant. No option can be exercised later than ten years from the Date of Grant.

The vesting period and exercisable period of the Share Option Scheme are determined by the Board but in any case no option can be exercised later than ten years from the date of grant.

23. SHARE OPTION SCHEMES (Continued)

- (a) A summary of the movements of share options granted under the Company's Pre-IPO Share Option Scheme during the year is as follows:–

Date of grant	Exercise period	Exercise price	Number of share options				Outstanding as at 31st December, 2003
			Outstanding as at 1st January, 2003	Granted during the year	Exercised during the year	Lapsed during the year	
7th June, 2003	Maximum 30%: 7th June, 2004 to 6th June, 2013 Further 30%: 7th June, 2005 to 6th June, 2013 Remaining 40%: 7th June, 2006 to 6th June, 2013	HK\$0.125	–	18,750,000	–	–	18,750,000
			–	18,750,000	–	–	18,750,000
			–	18,750,000	–	–	18,750,000

- (b) As at 31st December, 2003, the number of share options vested was Nil (2002: Nil).
- (c) No share options was exercised or lapsed during the year.

Notes to the Financial Statements

For the year ended 31st December, 2003

24. RESERVES

	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
(a) The Group					
At 1st January, 2002	327	–	–	4,996	5,323
Special reserve arising on the Reorganisation – Note 24(a)(i)	(117)	–	117	–	–
Profit for the year	–	–	–	7,330	7,330
Dividend	–	–	–	(873)	(873)
At 31st December, 2002	<u>210</u>	<u>–</u>	<u>117</u>	<u>11,453</u>	<u>11,780</u>
At 1st January, 2003	210	–	117	11,453	11,780
Placing of new shares – Note 22(d)	660	–	–	–	660
Premium on placing of new shares – Note 22(d)	–	15,840	–	–	15,840
Capitalisation – Note 22(e)	2,880	(2,880)	–	–	–
Issuing expenses for share placing	–	(4,288)	–	–	(4,288)
Profit for the year	–	–	–	703	703
Dividend – Note 10	–	–	–	(2,000)	(2,000)
At 31st December, 2003	<u>3,750</u>	<u>8,672</u>	<u>117</u>	<u>10,156</u>	<u>22,695</u>

Note:–

- (i) The special reserve represents the difference between the nominal value of the ordinary shares issued by the Company and the share capital of a subsidiary acquired pursuant to the Reorganisation.

24. RESERVES (Continued)

	Share premium HK\$'000	Special reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
(b) The Company				
Surplus arising on the Reorganisation – Note 24(b)(i)	8,467	–	–	8,467
Loss for the year	–	–	(56)	(56)
At 31st December, 2002	<u>8,467</u>	<u>–</u>	<u>(56)</u>	<u>8,411</u>
At 1st January, 2003	8,467	–	(56)	8,411
Premium on placing of new shares – Note 22(d)	15,840	–	–	15,840
Capitalisation – Note 22(e)	(2,880)	–	–	(2,880)
Issuing expenses for share placing	(4,288)	–	–	(4,288)
Loss for the year	–	–	(902)	(902)
At 31st December, 2003	<u>17,139</u>	<u>–</u>	<u>(958)</u>	<u>16,181</u>

Notes:–

- (i) The share premium of the Company represents the difference between the nominal value of the ordinary shares issued by the Company and the net asset values of the subsidiaries at the date they were acquired through an exchange of shares pursuant to the Reorganisation. Under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium is distributable to the shareholders of the Company provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company will be able to pay its debts as they fall due in the ordinary course of business.
- (ii) As at 31st December, 2003, in the opinion of the directors, the reserves of the Company available for distribution to shareholders amounted to HK\$16,181,000 (2002: HK\$8,411,000) subject to the restrictions as stated above.

For the year ended 31st December, 2003

25. OBLIGATION UNDER FINANCE LEASE

	Minimum lease payments		Present value of minimum lease payments	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Amounts payable under finance lease				
– Within one year	81	81	69	60
– After one year but within five years	61	142	49	125
	142	223	118	185
Less: Future finance charges	24	38	–	–
Present value of lease obligation	118	185	118	185
<i>Less:</i>				
Amount due for settlement within twelve months (shown under current liabilities)			69	60
Amount due for settlement after twelve months (shown under non-current liabilities)			49	125

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

26. DISPOSAL OF A SUBSIDIARY

	2003 HK\$'000	2002 HK\$'000
Net assets disposed of:–		
Fixed assets	–	262
Interest in an associate	–	55
Debtors, deposits and prepayments	–	16,410
Amount due from an associate	–	155
Amount due from a director	–	323
Pledged time deposit	–	2,135
Cash and bank balances	–	9,127
Unsecured bank loan	–	(324)
Bills payable, secured	–	(2,487)
Creditors, accruals and deposits received	–	(23,692)
Amount due to a director	–	(227)
Amount due to a related company	–	(65)
Tax payable	–	(217)
Minority interests	–	(582)
	<hr/>	<hr/>
The Group's share of net assets	<u>–</u>	<u>873</u>
Satisfied by:–		
Distribution-in-specie of shares in a subsidiary	<u>–</u>	<u>873</u>
Net cash outflow in respect of the disposal is analysed as follows:–		
Cash and bank balances disposed of	<u>–</u>	<u>(9,127)</u>

27. MAJOR NON-CASH TRANSACTIONS**(a) Year ended 31st December, 2003**

- (i) On 17th June, 2003, immediately after the Placing, 288,000,000 shares of HK\$0.01 each were allotted and issued at par, credited as fully paid, to the shareholders in proportion to their respective shareholdings on the register of the members of the Company at the close of business on 20th June, 2003 by way of the capitalisation of the share premium available.

(b) Year ended 31st December, 2002

- (i) On 30th June, 2002, ITL disposed of its entire shareholdings in WLBM and 15% indirect interests in Guangzhou Han Yao Building Materials Limited by way of dividend arrangement as detailed in note 3.
- (ii) On 30th August, 2002, pursuant to the Reorganisation, 20,999,999 shares of HK\$0.01 each were allotted and issued, credited as fully paid, as consideration for the acquisition by the Company of the entire issued share capital in ITL.

For the year ended 31st December, 2003

28. BANKING FACILITIES

As at 31st December, 2003, the Group's banking facilities to the extent of HK\$6,000,000 were secured by:-

- (i) Corporate guarantee put up by the Company; and
- (ii) Time deposits of the Group (Note 19).

29. CONNECTED AND RELATED PARTY TRANSACTIONS

Apart from the transactions as disclosed in notes 17 and 20 to the financial statements, the Group had the following material transactions with its related parties during the year:-

	<i>Note</i>	2003 HK\$'000	2002 <i>HK\$'000</i>
Rental paid by WLBM to two of the directors of the Company	<i>(i)</i>	-	36
Reimbursement of office rentals, utilities and certain administrative expenses from WLBM	<i>(ii)</i>	174	128
Office rentals, utilities and certain administrative expenses paid to WLBM	<i>(iii)</i>	9	-

- (i) The transaction was pre-determined by both parties and discontinued on 30th June, 2002 upon disposal of WLBM by way of distribution-in-specie by ITL.
- (ii) Pursuant to a sharing of expenses agreement dated 25th September, 2002 between ITL and WLBM, ITL agreed to allow WLBM to use about 50% of the total area of the office premises, utilities in the office premises and certain administrative support services with effect from 1st August, 2002. In return, WLBM agreed to pay 50% of the aggregate of the rental expenses, rates, management fee, utilities charges, the salaries and all benefits payments to the receptionist and administrative assistant and any other charges and payments for goods and services for administrative purpose which were paid by ITL for the joint enjoyment and benefits for both ITL and WLBM. Mr. Lam Yew Kai, Mr. Tsang Hon Chung and Mr. Tsang Hon Ming, the directors of the company, are directors and beneficial shareholders of WLBM. Ms. Wong Mau Fa, the director of the company, also has beneficial interests in WLBM.

29. CONNECTED AND RELATED PARTY TRANSACTIONS (Continued)

- (iii) In December, 2003, both WLBM and ITL moved to a new office premises of which the lease was entered into between WLBM and the landlord. Accordingly, WLBM and ITL entered into a new sharing of expenses agreement on 1st December, 2003. WLBM agreed to allow ITL to use about 50% of the total area of the office premises, utilities in the office premises and certain administrative support services with effect from 1st December, 2003. In return, ITL agreed to pay 50% of the aggregate of the rental expenses, rates, management fee, utilities charges, the salaries and all benefits payments to the receptionist and administrative assistant and any other charges and payments for goods and services for administrative purpose which were paid by WLBM for the joint enjoyment and benefits for both WLBM and ITL.

All the post-listing transactions except (i) set out above also constituted connected transactions under the GEM Listing Rules. The directors have reviewed the connected transactions and are of the opinion that these transactions were effected on normal commercial terms and in the ordinary course of the business of the Group.

30. SEGMENT REPORTING

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 segment engages in the provision of IBS solutions and sales of electronic equipment;
- (b) The building contracting segment engages in the provision of building contracting services and sales of building materials;
- (c) The consultancy service segment engages in the provision of consultancy services; and
- (d) Other segment represents the operating segment engaging in the investment holding activities and which does not meet the quantitative threshold for determining reportable segment.

In determining the Group's geographical segments, revenues are attributable to the segments based on the location of the customers, and assets are attributable to the segments based on the location of the assets.

Notes to the Financial Statements

For the year ended 31st December, 2003

30. SEGMENT REPORTING (Continued)

(a) Business segments

The following tables present revenue, profit and certain assets, liabilities and expenditure information for the Group's business segments:–

	IBS		Building contracting		Consultancy service		Others		Inter-segment elimination		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue												
Revenue from external customers	<u>20,726</u>	<u>32,910</u>	<u>-</u>	<u>37,549</u>	<u>3,250</u>	<u>3,350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,976</u>	<u>73,809</u>
Segment results	(2,104)	5,937	-	(467)	2,340	3,163	-	(53)	-	-	236	8,580
Unallocated income											884	116
Interest income	10	18	-	-	-	-	-	-	-	-	10	18
Operating profit											1,130	8,714
Finance costs	(65)	(93)	-	(5)	-	-	-	-	-	-	(65)	(98)
Share of loss of an associate	-	-	-	(16)	-	-	-	-	-	-	-	(16)
Profit before taxation											1,065	8,600
Taxation											(362)	(1,445)
Profit after taxation											703	7,155
Minority interests											-	175
Profit attributable to shareholders											<u>703</u>	<u>7,330</u>
Depreciation for the year	<u>266</u>	<u>264</u>	<u>-</u>	<u>64</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>266</u>	<u>328</u>
Provision for doubtful debts	<u>-</u>	<u>973</u>	<u>-</u>	<u>2,401</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,374</u>
Segment assets	<u>35,291</u>	<u>18,661</u>	<u>-</u>	<u>-</u>	<u>2,380</u>	<u>1,500</u>	<u>5</u>	<u>11</u>	<u>(11,389)</u>	<u>(92)</u>	<u>26,287</u>	<u>20,080</u>
Unallocated assets	<u>-</u>	<u>1,365</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,365</u>
Total assets	<u>35,291</u>	<u>20,026</u>	<u>-</u>	<u>-</u>	<u>2,380</u>	<u>1,500</u>	<u>5</u>	<u>11</u>	<u>(11,389)</u>	<u>(92)</u>	<u>26,287</u>	<u>21,445</u>
Segment liabilities	<u>3,455</u>	<u>8,369</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,389</u>	<u>92</u>	<u>(11,389)</u>	<u>(92)</u>	<u>3,455</u>	<u>8,369</u>
Unallocated liabilities	<u>137</u>	<u>1,296</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>137</u>	<u>1,296</u>
Total liabilities	<u>3,592</u>	<u>9,665</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,389</u>	<u>92</u>	<u>(11,389)</u>	<u>(92)</u>	<u>3,592</u>	<u>9,665</u>
Capital expenditure incurred during the year	<u>117</u>	<u>348</u>	<u>-</u>	<u>150</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>117</u>	<u>498</u>

(b) Geographical segments

The Group operates within one geographical segment because over 90% of its revenue are generated from customers located in Hong Kong. Accordingly, no segment information in respect of the Group's geographical segments is presented.

31. ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company to be China Win Holding International Limited, a company incorporated in the British Virgin Islands.

Financial Summary

ASSETS AND LIABILITIES

	At 31st December,			
	2003 <i>HK\$'000</i> (Audited)	2002 <i>HK\$'000</i> (Audited)	2001 <i>HK\$'000</i> (Audited)	2000 <i>HK\$'000</i> (Audited)
NON-CURRENT ASSETS	<u>1,140</u>	<u>2,230</u>	<u>753</u>	<u>875</u>
CURRENT ASSETS	25,147	19,215	30,436	17,198
DEDUCT:				
CURRENT LIABILITIES	<u>3,543</u>	<u>9,540</u>	<u>24,628</u>	<u>13,867</u>
NET CURRENT ASSETS	<u>21,604</u>	<u>9,675</u>	<u>5,808</u>	<u>3,331</u>
NET ASSETS	<u>22,744</u>	<u>11,905</u>	<u>6,561</u>	<u>4,206</u>

Note:—

The assets and liabilities of the Group as at 31st December, 2000, 2001 and 2002 are extracted from the Prospectus.

RESULTS

	For the year ended 31st December,			
	2003 <i>HK\$'000</i> (Audited)	2002 <i>HK\$'000</i> (Audited)	2001 <i>HK\$'000</i> (Audited)	2000 <i>HK\$'000</i> (Audited)
Turnover				
– Continuing operations	<u>23,976</u>	<u>36,260</u>	<u>19,920</u>	<u>19,396</u>
– Discontinuing operation	<u>–</u>	<u>37,549</u>	<u>56,215</u>	<u>25,961</u>
	<u>23,976</u>	<u>73,809</u>	<u>76,135</u>	<u>45,357</u>
Profit/(loss) for the year				
– Continuing operations	<u>703</u>	<u>7,619</u>	<u>1,032</u>	<u>602</u>
– Discontinuing operation	<u>–</u>	<u>(289)</u>	<u>720</u>	<u>149</u>
	<u>703</u>	<u>7,330</u>	<u>1,752</u>	<u>751</u>

Note:—

The results of the Group for each of the three years ended 31st December, 2002 presented above include the results of the companies currently comprising the Group as if the current group structure had been in existence throughout the said period, or since their respective dates of incorporation/establishment or acquisition where there is a shorter period except for distribution-in-specie of ITL's entire shareholding's in WLBW on 30th June, 2002 pursuant to the Reorganisation as detailed in note 3 to the financial statements which was accounted for by the acquisition method of accounting.