

INNOVIS

HOLDINGS LIMITED

華智控股有限公司

(Incorporated in the Cayman Islands with limited liability)



BCS
BMS
OAS
Public address system
Emergency call alarm system
Voice network
Smart home system
Data network
Walkie-talkie system
CABD/SMATV system
Fibre optic system
Professional video system
Image car park control system
Estate control system
Security central and remote management system
Nurse call system
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First Quarterly Report 2004

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

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

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

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

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors (the "Directors") of Innovis Holdings Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

FIRST QUARTER UNAUDITED RESULTS

The board of Directors (the "Board") of the Company is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the three months ended 31st March, 2004, together with the comparative unaudited figures for the corresponding period in 2003 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

		Three months ended 31st March, 2004	Three months ended 31st March, 2003
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	2	5,166	8,468
Cost of sales		<u>(3,827)</u>	<u>(4,231)</u>
Gross profit		1,339	4,237
Other income		207	–
Administrative and other operating expenses		<u>(1,474)</u>	<u>(2,100)</u>
Operating profit		72	2,137
Finance costs		<u>(10)</u>	<u>(24)</u>
Profit before taxation		62	2,113
Taxation	3	<u>(24)</u>	<u>(372)</u>
Profit attributable to shareholders		<u>38</u>	<u>1,741</u>
Dividend	4	<u>–</u>	<u>–</u>
Earnings per share – Basic	5	<u>0.01 cents</u>	<u>0.56 cents</u>

Notes:

1. Basis of preparation

The condensed unaudited consolidated financial statements of the Company are prepared in accordance with the accounting principles generally accepted in Hong Kong and accounting standards issued by the Hong Kong Society of Accountants. The accounting policies adopted are consistent with those followed in preparation of the Group's annual financial statements for the year ended 31st December, 2003.

2. Turnover

Turnover for the period ended 31st March, 2004 represents revenue recognized from the provision of Intelligent Building Services (IBS) solutions and maintenance, the net invoiced value of goods sold, and consultancy services. An analysis of the Group's turnover is set out below:

	Three months ended 31st March, 2004 HK\$'000	Three months ended 31st March, 2003 HK\$'000
IBS solutions and maintenance	5,166	6,818
IBS consultancy services	—	1,650
	<u>5,166</u>	<u>8,468</u>

3. Taxation

Taxation represents the provision for Hong Kong profits tax at 17.50% (2003: 17.50%) on the estimated assessable profits for the period presented.

4. Dividend

For the three months ended 31st March, 2004, the Board does not recommend the payment of a dividend (2003: Nil).

5. Earnings per share

Earnings per share are calculated based on the following figures:

	Three months ended 31st March, 2004 HK\$'000	Three months ended 31st March, 2003 HK\$'000
Unaudited consolidated profit attributable to shareholders	<u>38</u>	<u>1,741</u>
Weighted average number of shares	<u>375,000,000</u>	<u>311,187,845</u>

6. Reserves

There were no transfers to or from reserves of the Group during the three months ended 31st March, 2004 and 2003.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the three months ended 31st March, 2004, turnover of the Group was approximately HK\$5.17 million as compared to approximately HK\$8.47 million for the corresponding period in 2003. The decrease in turnover was due to the fact that the Group did not obtain contracts for IBS consultancy services and did not have related revenue for the three months ended 31st March, 2004 as compared to the corresponding period in 2003.

For the three months ended 31st March, 2004, gross profit margin of the Group was approximately 25.92% as compared to approximately 50.03% for the corresponding period in 2003. The decrease of gross profit margin was attributed to the lack of revenue generated from the provision of IBS consultancy services, the gross profit margin of which was generally higher than IBS solution and maintenance services, for the three months ended 31st March, 2004 as mentioned above.

For the three months ended 31st March, 2004, other income of the Group was approximately HK\$206,000 while no such income was recorded for the corresponding period in 2003. The other income was derived from the interest of bank deposits and the recovery of bad debts for the three months ended 31st March, 2004.

For the three months ended 31st March, 2004, administrative and other operating expenses of the Group was approximately HK\$1.47 million as compared to approximately HK\$2.10 million for the corresponding period in 2003. Despite the management's continuous efforts in cost control, the profit attributable to shareholders of the Group recorded HK\$38,000 for the three months ended 31st March, 2004 as compared to HK\$1,741,000 for the corresponding period in 2003. Consequently, net profit margin of the Group was approximately 0.74% for the three months ended 31st March, 2004 as compared to approximately 20.56% for the corresponding period in 2003 due to the lower gross profit margin and the incurrence of some post-listing expenses.

Business Review

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

For the business development in PRC, the Group is now tendering for a number of projects in the mainland and has been in contact with various clients and government organizations in PRC to explore business opportunities in the country. The move allows the Group to expand its future customer base from the current target area from Hong Kong to PRC to increase the Group's profit.

The Group has determined to concentrate on Yangtze River Delta and Pearl River Delta as the focus of its future business development in PRC. More resources have been put into these principal regions and Jiangmen has been chosen as its centre of business development in the Pearl River Delta. The Group has established a foreign enterprise in Jiangmen and is currently negotiating with local technology companies in respect of a campus-wide intelligent building system.

To boost the business opportunities in Yangtze River Delta, the Group has recruited more managerial staff through a mainland human resources agency to seize the opportunities in Shanghai, Beijing and Jiangsu.

Apart from this, the Group is also exploring business opportunities in smart card application for intelligent building system in the Deltas.

The Group currently is under negotiations with certain veterans having business development experience and network in PRC. The move will allow the Group to reinforce the management of businesses across different PRC regions and in line with its entire business progress.

Business Development in Hong Kong

The Group, previously acted as a sub-contractor, has achieved several breakthroughs in signing contracts with major contractors directly, and successfully secured several projects and participated in the management of other mechanical engineering projects. As a result of this, the Group is able to reinforce its Hong Kong business. The Group is now discussing the intelligent control aspect, in particular the area of air-conditioning control, with some mechanical engineering companies, so as to diversify its business scope in the intelligent buildings area.

Business Development in Macau

Given the close proximity between Macau and Hong Kong, the Group has submitted a formal application to relevant governmental bodies in Macau to register as a recognised contractor, in addition to its aggressive expansions in PRC and Hong Kong over the past few months. Not only targeting to participate in the government projects in Macau, but also is the Group discussing a number of projects with certain private developers. The Group is positive and optimistic towards its business prospect in Macau and is sorting out the necessary procedures and possibilities of setting up a local branch. It is expected that the implementation of these development projects will enable the Group tapping into the markets of different geographical areas.

Research and Development

Intelligent housing estates in small community style have been proliferating in PRC for some time. The Group believes it is highly possible that this trend will translate into a principal market in the future. The research on networking system based on optical delivery is currently underway. Since intelligent housing estates usually occupy larger residential areas, developers may reduce the tunnel costs and increase the system scalability with the intelligent building system under research.

Leading by its strategic partner in research and development – INNO-TECH, the Group is working with a private company with relevant design experiences on the development of intelligent system. The blueprint of the system solution has been completed and delivered to mechanical design consultant and real estate developer as a tool of direct promotion.

To minimise the cost of system installation, the Group is actively trying to develop self-assembled mainframe for intelligent building system to boost the business opportunities in intelligent building system implementation. It is also seeking the possibility of purchasing the research result from a private science research company in PRC to strengthen the Group's brand name. With the help of INNO-TECH, its strategic partner in research and development, the Group is progressively seeking potential partners to increase the possibility in commercial production and improve economic efficiency at the same time.

Business Outlook

While the Hong Kong economy is showing signs of recovery, the Directors expected that the number of newly completed buildings in Hong Kong will maintain stable in the near future. The Group will continue to move forward with sizable expansion in Hong Kong and expand its existing customer base by stepping up the manpower of its existing marketing team to secure certain number of projects.

The Group tends to focus its development in Pearl River Delta and Yangtze River Delta in addition to Hong Kong and established a new foreign company in Jiangmen as its business centre in Pearl River Delta. One of its critical missions is to obtain an operation permit of intelligent system to expand from a territory business to a regional business. The Group has recruited marketing staff to focus on exploring business opportunities in smart card application for intelligent building system. In addition to these expansions, the Group is also aggressively capturing the infrastructure intelligent system projects in Pearl River Delta and Yangtze River Delta. A number of tailored-made solutions have been submitted to related clients.

Besides its considerable expansion in PRC and Hong Kong, the Group is also placing more resources in the rapidly developing Macau and submitted its company profile to Macau government. The Group is looking for more business cooperation opportunities with certain private companies. The Group is positive towards the development of new business in Macau with confidence in the future.

Apart from capturing businesses in different regions, the Group is also seeking to conduct scientific research and development on different systems, in particular the proactive development of optical-based intelligent network for housing estates. The Group plans to provide self-branded products with self-assembled mainframes and O.E.M. offerings for business development beyond engineering. The rollout of product-based business will increase the company's future profits.

Looking ahead, the Group is actively securing projects from different regions and 2004 is expected to be a fruitful year for the Group.

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

As at 31st March, 2004, 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 will have to be 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, as referred to in Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

(a) Long positions in the ordinary shares of HK\$0.01 each and underlying shares of equity derivatives of the Company

Name of Directors	Nature of interests	Number of securities	Approximate percentage of shareholding
Mr. Lam Yew Kai ("Edmond Lam")	Interest of a controlled corporation	211,229,000 shares (Note 1)	56.33%
Mr. Tsang Hon Chung ("Derek Tsang")	Interest of a controlled corporation	211,229,000 shares (Note 1)	56.33%
	Family	Option to subscribe for 5,625,000 shares (Note 2)	1.50%

(b) Long positions in the ordinary shares of US\$0.01 each in an associated corporation of the Company, China Win Holding International Ltd. ("China Win")

Name of Directors	Nature of interests	Number of shares	Approximate percentage of shareholding
Edmond Lam	Interest of a controlled corporation	4,645 shares (Note 3)	46.45%
Derek Tsang	Beneficial owner	4,641 shares	46.41%
Ms. Wong Mau Fa	Beneficial owner	357 shares	3.57%

Notes:

1. These shares are legally owned by China Win.

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

2. Such shares are subject to an option granted under the Pre-IPO Share Option Scheme (as defined in the prospectus of the Company dated 17th June, 2003) held by Ms. Sung Sau Fan, the spouse of Mr. Derek Tsang. Accordingly, Mr. Derek Tsang is taken to be interested in these shares pursuant to Part XV of the SFO.
3. These shares are legally owned by Emerging Purity Co., Ltd. ("Emerging Purity"). By virtue of his 100% shareholding interest in Emerging Purity, Mr. Edmond Lam is taken to be interested in all the shares of China Win held by Emerging Purity pursuant to Part XV of the SFO.

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

Save as disclosed herein, as at 31st March, 2004, none of the Directors or chief executives of the Company has short positions in the shares, underlying shares of equity derivatives or debentures of the Company or any of its associated corporations.

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 March, 2004, persons (not being a Director or chief executive of the Company) 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 shares	Approximate percentage of interests
China Win (Note 1)	Beneficial owner	211,229,000 shares	56.33%
Emerging Purity (Note 2)	Interest of a controlled corporation	211,229,000 shares	56.33%
Ms. Sung Sau Fan (Note 3)	Family	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.
- Since Emerging Purity is beneficial owner of 46.45% interest in China Win, Emerging Purity is taken to be interested in the shares held by China Win 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.

Name	Type of interests	Number and description of equity derivatives	Number of underlying shares
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

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

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

COMPETING INTERESTS

As at 31st March, 2004, none of the Directors or management shareholders (as defined in GEM Listing Rules) of the Company or their respective associates had interests in a business which competed or was likely to compete, either directly or indirectly, with the business of the Company.

SPONSOR'S INTERESTS

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

As at 31st March, 2004, neither MasterLink, its directors, employees or their respective associates has any interest in the Company's securities nor has any rights to subscribe for or to nominate persons to subscribe for securities of the Company.

COMPLIANCE OF RULES 5.34 TO 5.45 OF THE GEM LISTING RULES

The Company has complied with Rules 5.34 to 5.45 of the GEM Listing Rules concerning board practices and procedures since the listing of its shares on 25th June, 2003.

PURCHASE, DISPOSAL OR REDEMPTION OF SECURITIES

During the three months ended 31st March, 2004, neither the Company, nor any of its subsidiaries purchased, disposed of or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

As at 31st March, 2004, the audit committee ("Audit Committee") of the Company comprises two independent non-executive Directors. Mr. Fong Yick Jin is the chairman of the Audit Committee. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group.

By order of the Board
TSANG HON CHUNG
Chairman

Hong Kong, 13th May, 2004

As at the date of this report, the executive Directors are Mr. Tsang Hon Chung, Mr. Tsang Hon Ming and Mr. Lam Yew Kai; the non-executive Directors are Ms. Wong Mun Fa and Mr. Lai Ka Kit; and the independent non-executive Directors are Mr. Fong Yick Jin and Mr. Liu Pui Ming.