

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
BCS
Public address system
Emergency call alarm system
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Voice network
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Interim Report 2004

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

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

HIGHLIGHTS

- For the six months ended 30th June, 2004, turnover was approximately HK\$14.2 million as compared to HK\$13.5 million for the corresponding period in 2003.
- For the six months ended 30th June, 2004, gross profit margin was approximately 19.4%.
- For the six months ended 30th June, 2004, profit attributable to shareholders was approximately HK\$150,000, representing a decrease of approximately 93% as compared to the corresponding period in 2003.
- The board of the Directors (the "Board") does not recommend the payment of interim dividend for the six months ended 30th June, 2004.

INTERIM RESULTS

The Board is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the three months and six months ended 30th June, 2004, together with the comparative unaudited figures for the corresponding periods in 2003 as follows:-

CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	Six months ended 30th June,		Three months ended 30th June,	
		2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)
Turnover	2	14,224	13,470	9,058	5,002
Cost of sales		<u>(11,466)</u>	<u>(8,073)</u>	<u>(7,638)</u>	<u>(3,001)</u>
Gross profit		<u>2,758</u>	<u>5,397</u>	<u>1,420</u>	<u>2,001</u>
Other income		243	52	35	52
Administrative and other operating expenses		<u>(2,774)</u>	<u>(2,805)</u>	<u>(1,300)</u>	<u>(1,442)</u>
Operating profit		<u>227</u>	<u>2,644</u>	<u>155</u>	<u>611</u>
Finance costs		<u>(45)</u>	<u>(41)</u>	<u>(35)</u>	<u>(17)</u>
Profit before taxation	4	182	2,603	120	594
Taxation	5	<u>(32)</u>	<u>(460)</u>	<u>(8)</u>	<u>(104)</u>
Profit after taxation		<u>150</u>	<u>2,143</u>	<u>112</u>	<u>490</u>
Profit attributable to shareholders		<u>150</u>	<u>2,143</u>	<u>112</u>	<u>490</u>
Dividend	6	<u>-</u>	<u>2,000</u>	<u>-</u>	<u>2,000</u>
Earnings per share					
– Basic	7	<u>0.04 cent</u>	<u>0.7 cent</u>	<u>0.03 cent</u>	<u>0.2 cent</u>
– Diluted		<u>0.04 cent</u>	<u>0.7 cent</u>	<u>0.03 cent</u>	<u>0.2 cent</u>

CONDENSED CONSOLIDATED BALANCE SHEET

		As at 30th June, 2004 HK\$'000 (Unaudited)	As at 31st December, 2003 HK\$'000 (Audited)
Non-Current Assets			
Fixed assets	8	656	301
Retention money receivable		1,305	839
Investment securities		1,048	–
		<u>3,009</u>	<u>1,140</u>
Current Assets			
Amount due from ultimate holding company	9	11	–
Amount due from a related company	9	5	138
Trade debtors	10	16,568	10,589
Other debtors, deposits and prepayments		6,159	5,363
Pledged time deposit		2,300	2,300
Cash and bank balances		5,205	6,757
		<u>30,248</u>	<u>25,147</u>
Total Current Assets			
		<u>30,248</u>	<u>25,147</u>
Current Liabilities			
Bills payable, unsecured		2,000	155
Trade creditors	11	3,221	2,152
Other creditors and accruals		473	1,148
Obligation under finance lease	12	68	69
Tax payable		51	19
Current portion of bank loan		2,500	–
		<u>8,313</u>	<u>3,543</u>
Total Current Liabilities			
		<u>8,313</u>	<u>3,543</u>
Net Current Assets		21,935	21,604
		<u>21,935</u>	<u>21,604</u>
Total Assets Less Current Liabilities		24,944	22,744
		<u>24,944</u>	<u>22,744</u>
Representing:-			
Share Capital	13	3,750	3,750
Reserves		19,095	18,945
		<u>19,095</u>	<u>18,945</u>
Shareholders' Funds		22,845	22,695
		<u>22,845</u>	<u>22,695</u>
Non-Current Liabilities			
Obligation under finance lease	14	16	49
Long term portion of bank loan		2,083	–
		<u>2,099</u>	<u>49</u>
		<u>24,944</u>	<u>22,744</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30th June,	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Net cash (outflow)/inflow from operating activities	(6,503)	4,568
Net cash outflow from investing activities	(1,398)	(9)
Net cash inflow from financing activities	<u>6,349</u>	<u>10,035</u>
(Decrease)/increase in cash and cash equivalents	(1,552)	14,594
Cash and cash equivalents at the beginning of the period	<u>6,757</u>	<u>(490)</u>
Cash and cash equivalents at the end of the period	<u>5,205</u>	<u>14,104</u>
Analysis of the balances of cash and cash equivalents		
Cash and bank balances	<u>5,205</u>	<u>14,104</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*For the six months ended 30th June, 2004*

	Share capital HK\$'000	Retained profits HK\$'000	Special reserve HK\$'000	Share premium HK\$'000	Total HK\$'000
As at 1st January, 2003	210	11,453	117	–	11,780
Placing of new shares	660	–	–	–	660
Premium on placing of new shares	–	–	–	15,840	15,840
Capitalisation	2,880	–	–	(2,880)	–
Issuing expenses for share placing	–	–	–	(4,288)	(4,288)
Profit for the year	–	703	–	–	703
Dividend	–	(2,000)	–	–	(2,000)
	<u>–</u>	<u>(2,000)</u>	<u>–</u>	<u>–</u>	<u>(2,000)</u>
As at 31st December, 2003 (Audited)	<u>3,750</u>	<u>10,156</u>	<u>117</u>	<u>8,672</u>	<u>22,695</u>
As at 1st January, 2004	3,750	10,156	117	8,672	22,695
Profit for the period	<u>–</u>	<u>150</u>	<u>–</u>	<u>–</u>	<u>150</u>
As at 30th June, 2004 (Unaudited)	<u>3,750</u>	<u>10,306</u>	<u>117</u>	<u>8,672</u>	<u>22,845</u>

*Notes to accounts:***1. Basis of preparation**

The condensed unaudited consolidated financial statements of the Group 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 and revenue

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

Turnover for the period ended 30th June, 2003 and 2004 represented 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:

	Six months ended 30th June,		Three months ended 30th June,	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
IBS solutions, building contract services and sales of goods	14,224	10,570	9,058	3,752
Consultancy fee income	–	2,900	–	1,250
Turnover	14,224	13,470	9,058	5,002
Interest income	–	1	–	1
Total revenue	14,224	13,471	9,058	5,003

3. Segmental information

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

- (a) The IBS solutions, building contracting services and sale of goods segment engages in the provision of IBS design, supply and installation, IBS maintenance and sales of electronic equipment; and

- (b) The consultancy fee income segment engages in the provision of consultancy services.

	Six months ended 30th June,		Three months ended 30th June,	
	2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)
Segment revenue				
IBS solutions, building contracting services and sale of goods	14,224	10,570	9,058	3,752
Consultancy fee income	–	2,900	–	1,250
	<u>14,224</u>	<u>13,470</u>	<u>9,058</u>	<u>5,002</u>
Segment results				
IBS solutions, building contracting services and sale of goods	2,758	2,787	1,420	976
IBS consultancy fee income	–	2,610	–	1,025
	<u>2,758</u>	<u>5,397</u>	<u>1,420</u>	<u>2,001</u>

4. Profit before taxation

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

	Six months ended 30th June,		Three months ended 30th June,	
	2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)
Auditors' remuneration	–	125	–	62
Cost of materials used	7,194	4,981	3,598	2,714
Depreciation	168	121	84	61
Staff costs	1,756	2,775	970	1,489
Minimum lease payments under operating leases	41	83	20	41
Research and development costs	1,196	249	1,191	121
Interest expenses on borrowings	38	21	38	5
Finance lease interest	7	7	3	3
Provision for doubtful debts written back	–	(51)	–	–
	<u>–</u>	<u>(51)</u>	<u>–</u>	<u>–</u>

5. Taxation

Taxation represents the provision for Hong Kong profits tax at 17.5% (2003: 17.5%) on the estimated assessable profits for the period presented.

6. Dividend

For the six months ended 30th June, 2004, the Board does not recommend the payment of an interim dividend.

On 30th May, 2003, Innovis Technology Limited, a wholly-owned subsidiary of the Company, declared a special dividend in an amount of HK\$2 million to its then shareholders which was paid on 19th June, 2003, details of which were disclosed in the Prospectus (as defined below).

7. Earnings per share

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

	Six months ended 30th June,		Three months ended 30th June,	
	2004	2003	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
The Group's consolidated profit attributable to shareholders	150	2,143	112	490
Weighted average number of shares				
– Basic	375,000,000	311,187,845	375,000,000	313,351,648
– Diluted	384,770,115	320,562,845	384,770,695	322,726,648
Earnings per share				
– Basic	0.04 cent	0.7 cent	0.03 cent	0.2 cent
– Diluted	0.04 cent	0.7 cent	0.03 cent	0.2 cent

8. Fixed assets

	Computers <i>HK\$'000</i>	Furniture & equipment <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:					
At 1st January, 2004	359	235	276	300	1,170
Additions	–	19	504	–	523
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 30th June, 2004	359	254	780	300	1,693
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Aggregate depreciation:					
At 1st January, 2004	252	131	216	270	869
Charge for the period	54	24	60	30	168
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 30th June, 2004	306	155	276	300	1,037
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net book value:					
At 30th June, 2004 (Unaudited)	53	99	504	–	656
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December, 2003 (Audited)	107	104	60	30	301
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

9. Amount due from ultimate holding company/a related company

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

10. Trade debtors

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

	As at 30th June, 2004 <i>HK\$'000</i> (Unaudited)	As at 31st December, 2003 <i>HK\$'000</i> (Audited)
Within 3 months	11,295	7,846
Over 3 months but within 6 months	2,289	984
Over 6 months but within 1 year	2,145	1,759
Over 1 year	839	–
	<hr/>	<hr/>
	16,568	10,589
	<hr/>	<hr/>

11. Trade creditors

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

	As at 30th June, 2004	As at 31st December, 2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Within 3 months	2,457	1,922
Over 3 months but within 6 months	724	220
Over 6 months but within 1 year	40	4
Over 1 year	0	6
	<u>3,221</u>	<u>2,152</u>

12. Obligation under finance lease

	Minimum lease payments		Present value of minimum lease payments	
	As at 30th June, 2004	As at 31st December, 2003	As at 30th June, 2004	As at 31st December, 2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)	(Unaudited)	(Audited)
Amounts payable under finance lease				
– Within one year	81	81	68	69
– After one year but within five years	20	61	16	49
	<u>101</u>	<u>142</u>	<u>84</u>	<u>118</u>
Less: Future finance charges	17	24	–	–
Present value of lease obligation	<u>84</u>	<u>118</u>	<u>84</u>	<u>118</u>

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

13. Share capital

HK\$'000

Authorised:

As at 31st December, 2003

– 10,000,000,000 ordinary shares of HK\$0.01 each (Audited)

100,000

As at 30th June, 2004

– 10,000,000,000 ordinary shares of HK\$0.01 each (Unaudited)

100,000

Issued and fully paid:

As at 31st December, 2003

– 375,000,000 ordinary shares of HK\$0.01 each (Audited)

3,750

As at 30th June, 2004

– 375,000,000 ordinary shares of HK\$0.01 each (Unaudited)

3,750

MANAGEMENT DISCUSSION AND ANALYSIS**Financial Review***Turnover and profit*

For the six months ended 30th June, 2004, turnover was approximately HK\$14.2 million, representing an increase of approximately 5.6% as compared to the corresponding period in 2003. Profit attributable to shareholders was approximately HK\$150,000, while basic earnings per share was 0.04 cent.

For the six months ended 30th June, 2004, turnover recorded an increase from the corresponding period last year, while profit attributable to shareholders decreased by approximately HK\$1.99 million or 93% as compared to the corresponding period in 2003. The increase in turnover and the decrease in profit were mainly due to the Company's adoption of a lower margin strategy so as to maintain competitiveness in view of the declining trend in profit margin of the engineering industry in Hong Kong and China. Despite of the continuous efforts of the management in cost control, administrative and other operating expenses for the six months ended 30th June, 2004 still recorded approximately HK\$2.8 million (2003: HK\$2.8 million) and it led to the decrease in profit attributable to shareholders.

For the six months ended 30th June, 2004, gross profit margin was approximately 19.4% compared to approximately 40% of the corresponding period in 2003. The decrease was attributable to the increased cost in both materials and labour. Similarly, net profit margin for the same period was approximately 1.1% as compared to 15.9% of the corresponding period in 2003 due to the Company's adoption of a lower margin strategy which resulted in a decline in profit margin.

Foreign exchange exposure

Since all operating revenue and expenses of the Group are denominated in Hong Kong dollars, the Group does not face any foreign exchange exposure for the six months ended 30th June, 2004.

Liquidity and financial resources

As at 30th June, 2004, shareholders' funds of the Group amounted to approximately HK\$22.8 million. Current assets amounted to approximately HK\$30.2 million, of which approximately HK\$5.2 million was cash and bank deposits. The Group's current liabilities amounted to approximately HK\$8.3 million which mainly comprised its trade payables, accruals, tax payable and bank loan. Taken into consideration of its current financial resources, the Group shall have adequate capital for its continual operation and development.

Pledge of assets and contingent liabilities

As at 30th June, 2004, the Group did not have any substantial pledge of assets and contingent liabilities.

Gearing ratio

As at 30th June, 2004, the total assets of the Group was approximately HK\$33.3 million whereas the total liabilities was approximately HK\$10.4 million. The gearing ratio (total liabilities divided by total assets) was approximately 31.2%.

Business Review*Business development in Hong Kong*

In order to fortify its business development in Hong Kong, the Group has made a breakthrough from its previous role as a secondary sub-contractor to directly entering into contracts with main contractors, and has successfully secured several projects and participated in the management of other mechanical engineering projects. Moreover, the Group has successfully finalised discussions with a mechanical engineering company in relation to the intelligent control system for air-conditioning control, extended its business into the area of air-conditioning for intelligent buildings. The Group has recently registered as an approved contractor of burglar alarm and security systems in the Hong Kong, and the Group will continue to actively explore businesses in the public sector.

The Group's R&D team is currently developing a network-based intelligent system for small community with a network developer.

The Group's marketing team has approached various property management companies in Hong Kong to promote its business of re-engineering of old buildings, and has been in discussion with several large mechanical engineering companies in Hong Kong on new projects for the first time.

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

The Group anticipates to enhance its earnings from business in the PRC by extending its customer base to PRC customers, rather than focusing on Hong Kong customers. At present, the Group has approached various customers and government authorities in the PRC so as to expand its businesses and explore business opportunities in the PRC.

In order to boost its development in the Yangtze River Delta region, the Group has engaged management experts on business development through a human resources company in the PRC to seize the opportunities in Shanghai, Beijing and Jiangsu. In addition, to cater for the Group's overall business development in the PRC and to consolidate the management of businesses from various regions, the Group's management in charge of the PRC business department is currently approaching relevant parties through its network, so as to strengthen its business in the PRC.

As major regions for its business development, the Group will invest more resources in the Yangtze River Delta and Pearl River Delta regions. In particular, the Group has already set up formal office in Jiangmen after the completion of forming a wholly-owned foreign enterprise ("WFOE"). The Group is currently negotiating with local technology companies in Jiangmen on the joint development of IBS for academic institutions and several state-developed projects. Moreover, the Group is exploring opportunities in smart card application for IBS in the Deltas.

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 the PRC and Hong Kong over the past few months. Not only targeting to participate in government projects in Macau, the Group is also 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 to tap into the markets in different geographical areas.

Research and Development

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

The Group's internal R&D strategic team is working with a private company with relevant design experiences on the development of a relevant 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 costs of system installation, the Group is actively trying to develop self-assembly mainframe for intelligent building system to boost business opportunities in the implementation of intelligent building system. It is also seeking the possibility of purchasing the research result from a private science research company in the PRC to strengthen the Group's brand name. With the help of its R&D strategic team, the Group is progressively seeking potential partners to increase the possibility in commercial production and improve economic efficiency at the same time.

Business Outlook

The Directors expect that the Group will benefit from the recovery of the Hong Kong economy. The number of newly completed buildings in Hong Kong will maintain stable in the near future, enabling the Group to continue to move forward with sizable expansions in Hong Kong and expand its existing customer base to secure a reasonable number of projects.

In addition to Hong Kong, the Group continues to focus its development in the Pearl River Delta and Yangtze River Delta regions. It has established a new WOFE in Jiangmen and obtained an operation permit of intelligent system to expand from a regional business to a nationwide business. The Group has recruited marketing staff to focus on exploring business opportunities in smart card applications for intelligent building system. In addition to these expansions, the Group is also aggressively capturing infrastructure intelligent system projects in the Pearl River Delta and Yangtze River Delta regions so as to provide tailored-made solutions for its clients.

The Group is also placing more resources in the rapidly developing Macau market and has submitted its company profile to relevant authorities in Macau. The Group is looking for more business cooperation opportunities with several private companies. The Group is confident about the development of new businesses in Macau.

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-assembly mainframes and O.E.M. products to build up its brandname beyond engineering works so as to increase the Group'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.

EMPLOYEES

As at 30th June, 2004, in order to control internal costs, the Group sub-contracted much of its works in the year so as to cut costs, resulting in an adjustment in the number of staff in Hong Kong for the year to 20. Remuneration expenses of executive Directors and staff were approximately HK\$1.5 million. Employees are remunerated based on their performance and market practices.

The Company has adopted a share option scheme. A summary of the principal terms and conditions of the share option scheme is set out in the section headed "Share Option Scheme" in Appendix V of the Prospectus. As at 30th June, 2004, no option has been granted under such share option scheme.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL PROGRESS

The following is a comparison of the implementation plan of the Group's business objectives as stated in the prospectus of the Company dated 17th June, 2003 (the "Prospectus") and its actual progress. The Directors are of the view that the Group has followed its implementation plan in accordance to that 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 make 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"> – Continue to seek out and tender for public sector IBS projects. | <ul style="list-style-type: none"> – The Group has duly registered in June 2004 as a government approved specialist contractor under the category of "Burglar Alarm and Security Installation" of the HKSAR Government. |
| <ul style="list-style-type: none"> – Continue to establish contact and seek business opportunities in old building re-engineering projects that involve the installation of IBS. | <ul style="list-style-type: none"> – The Group has approached several property developers and electrical and mechanical subcontractors and has successfully secured an old building re-engineering project involving installation of IBS. |
| <ul style="list-style-type: none"> – Formally launch the IBS product "<i>Pervasive Secure Version 1.0</i>" in Hong Kong. | <ul style="list-style-type: none"> – 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 "<i>Pervasive Secure Version 1.0</i>" 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. |

Business objectives as set out in the Prospectus

Actual business progress

Geographic expansion to the PRC

- | | |
|--|---|
| <ul style="list-style-type: none"> - Register the Shenzhen joint venture as an approved contractor of grade A and grade B tender agents approved by the State Economic and Trade Commission (國家經濟貿易委員會) for the preparation of tendering IBS projects in the PRC. | <ul style="list-style-type: none"> - 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. Instead, the Group has established its wholly-owned foreign enterprise in Jiangmen for this purpose. |
| <ul style="list-style-type: none"> - Establish joint venture in Shanghai with the PRC partner which is licenced and capable of providing electronic engineering installation works. | <ul style="list-style-type: none"> - 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. |
| <ul style="list-style-type: none"> - Identify and negotiate with potential PRC partner in Dalian which is licenced and capable of providing electronic engineering installation works to set up joint venture. | <ul style="list-style-type: none"> - The Group's staff made several visits to the PRC to conduct market research and to consult with various professionals to enhance the understanding of the tendering processes for IBS projects. |
| <ul style="list-style-type: none"> - Formulate detailed business plan to prepare for the launch of IBS products in the PRC based on the strategic business research performed in the previous stage. | <ul style="list-style-type: none"> - The Group has established a Chinese ID smart card reader business and promotion plan, and has agreed to sign a memorandum of understanding with the manufacturer for the distribution right in Hong Kong, Macau and the PRC. |

Business objectives as set out in the Prospectus

Research and development

- Commence the joint development of the IBS products to be launched in the PRC market with 華南理工大學 (South China University of Technology).
- Register intellectual property rights of the Group's IBS product in the PRC when appropriate.
- Continue to 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 InnoTech for the development of new IBS solutions and enhancement of existing IBS solutions for on-going and/or future projects.
- Continue to identify and/or commence negotiation with universities and institutions that are experienced in IBS solutions to establish new strategic alliances.
- Identify any appropriate training course for the Group's research and development staff to enhance their capabilities.

Actual business progress

- The Group is currently working with the University on developing prototypes of an affordable home surveillance system for the Hong Kong and the PRC market.
- Three software and two hardware vendors in Hong Kong have been identified respectively for the development of new IBS applications.
- The Group is working with a software house to establish project softwares ongoingly and expecting to capture more market share in IBS application.
- The Group's has engaged InnoTech for the development of LAN-based network system with smart card technologies.
- The Group is still searching for suitable institutions to establish new strategic alliances.
- The Group has entered into the research and development subcontracting agreement with Inno-Tech and will delay expansion of its in-house team.

Business objectives as set out in the Prospectus

- Acquire advanced and updated equipment and software for the design and development of IBS solutions.

Sales and marketing

- Commence marketing campaign to promote the Group's IBS product "Pervasive Secure Version 1.0" in Hong Kong.
- Formulate detailed marketing plan to prepare for the launch of the IBS products in the PRC.
- Participate in the exhibition "IBEX: The 17th International Building Exposition" in Hong Kong to promote the Group's image and the newly launched IBS product.
- Participate in the exhibition "第五屆國際城市與建築智能技術應用展覽會" (The Fifth International Cities and Building Intelligence Technology Application Exhibition) in Shanghai.
- Evaluate the effectiveness of the seminars and conferences hosted by the Group on the promotion of the Group's image and fine tune the marketing strategy accordingly.

Actual business progress

- A set of software development tools were equipped for the design purpose of optical based intelligent system for low raised buildings.
- The Group originally aimed to 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.
- The Group's marketing team has formulated an overall marketing plan to promote the benefit and convenience of IBS, but the plan has yet to be finalised.
- As the Group considers the markets in the PRC and Macau representing greater potential, the Group held an introduction meeting in Jiangmen and Macau to promote the Company's image and its IBS products.
- There was no exhibition participated recently. Instead, the Company held some demonstration meetings and directly promoted its IBS products to the clients.
- The Group held an introduction meeting and some demonstration meetings. Some promotion materials were also prepared to send to the potential clients to promote the Group. These were believed to be successful in the long run.

USE OF PROCEEDS

The net proceeds from the issue of new shares pursuant to the listing on 25th June, 2003 received by the Company were approximately HK\$12.9 million. During the period from the latest practicable date as defined in the Prospectus (being 12th June, 2003) to 30th June, 2004, net proceeds from the issue of new shares were applied as follows:

	Planned use of proceeds as stated in the Prospectus <i>(HK\$'000)</i>	Actual use of proceeds <i>(HK\$'000)</i>
Business expansion in Hong Kong		
– Pursuit of public sector IBS projects and re-engineering projects	379	371
– Merchandising of IBS products	165	31
Geographical expansion to the PRC		
– Establishment of joint ventures	2,360	2,380
– Tendering for IBS projects	690	32
– Launching IBS products	110	371
Research and development		
– Development of IBS products	525	634
– Forming strategic alliances	120	1,170
– Expansion of in-house team	381	157
Sales and marketing	537	668
General working capital	1,675	1,697
Total	<u>6,942</u>	<u>7,511</u>

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

As at 30th June, 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%
Ms. Wong Mau Fa	Corporate and family	211,229,000 shares (Note 3)	56.33%

(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 4)	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. Ms. Wong Mau Fa, the spouse of Mr. Edmond Lam, is taken to be interested in these shares pursuant to Part XV of the SFO.
4. These shares 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 30th June, 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:

1. China Win is a company incorporated in the BVI and is beneficially owned by Emerging Purity, Mr. Derek Tsang, Ms. Wong Mau Fa and Mr. Stanley Sung as to 46.45%, 46.41%, 3.57% and 3.57% respectively. Emerging Purity is then 100% beneficially owned by Mr. Edmond Lam.
2. 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.
3. 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 30th June, 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 30th June, 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 six months ended 30th June, 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 30th June, 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, 14th August, 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 Mau Fa and Mr. Lai Ka Kit; and the independent non-executive Directors are Mr. Fong Yick Jin and Mr. Liu Pui Ming.