

INNOVIS

HOLDINGS LIMITED

華智控股有限公司

(Incorporated in the Cayman Islands with limited liability)



3RD QUARTERLY REPORT 2004



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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.

THIRD QUARTER UNAUDITED RESULTS

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

Unaudited Condensed Consolidated Income Statement

		Nine months ended 30th September, 2004	Nine months ended 30th September, 2003	Three months ended 30th September, 2004	Three months ended 30th September, 2003
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	2	21,046	19,255	6,822	5,785
Cost of sales		<u>(15,896)</u>	<u>(11,731)</u>	<u>(4,430)</u>	<u>(3,658)</u>
Gross profit		5,150	7,524	2,392	2,127
Other income		243	503	–	451
Administrative and other operating expenses		<u>(4,592)</u>	<u>(4,948)</u>	<u>(1,818)</u>	<u>(2,143)</u>
Operating profit		801	3,079	574	435
Finance costs		<u>(118)</u>	<u>(52)</u>	<u>(73)</u>	<u>(11)</u>
Profit before taxation		683	3,027	501	424
Taxation	3	<u>(120)</u>	<u>(534)</u>	<u>(88)</u>	<u>(74)</u>
Profit attributable to shareholders		<u>563</u>	<u>2,493</u>	<u>413</u>	<u>350</u>
Dividend	4	<u>–</u>	<u>(2,000)</u>	<u>–</u>	<u>–</u>
Earnings per share					
– Basic	5	<u>0.15 cents</u>	<u>0.7 cents</u>	<u>0.11 cents</u>	<u>0.1 cents</u>
– Diluted	5	<u>0.15 cents</u>	<u>0.7 cents</u>	<u>0.11 cents</u>	<u>0.1 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 Institute of Certified Public 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

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

Turnover for the period ended 30th September, 2003 and 2004 represented revenue recognised from the provision of IBS solutions and maintenance, the net invoiced value of goods sold and IBS consultancy services. An analysis of the Group's turnover is set out below:

	Nine months ended 30th September, 2004	Nine months ended 30th September, 2003	Three months ended 30th September, 2004	Three months ended 30th September, 2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>
IBS solutions and maintenance and sales of goods	21,046	16,355	6,822	5,785
IBS consultancy services	—	2,900	—	—
	<u>21,046</u>	<u>19,255</u>	<u>6,822</u>	<u>5,785</u>

3. 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.

4. Dividend

For the nine months ended 30th September, 2004, the Board does not recommend the payment of a dividend (2003: Nil).

5. Earnings per share

Earnings per share for the three months and nine months ended 30th September, 2004 and for the corresponding period in 2003 was calculated based on the following figures:

	Nine months ended 30th September, 2004 <i>HK\$'000</i> <i>(unaudited)</i>	Nine months ended 30th September, 2003 <i>HK\$'000</i> <i>(unaudited)</i>	Three months ended 30th September, 2004 <i>HK\$'000</i> <i>(unaudited)</i>	Three months ended 30th September, 2003 <i>HK\$'000</i> <i>(unaudited)</i>
Unaudited consolidated profit attributable to shareholders	563	2,493	413	350
Weighted average number of shares				
– Basic	375,000,000	332,692,308	375,000,000	375,000,000
– Diluted	382,031,250	338,540,449	382,031,250	388,763,298
Earnings per share				
– Basic	0.15 cent	0.7 cent	0.11 cent	0.1 cent
– Diluted	0.15 cent	0.7 cent	0.11 cent	0.1 cent

6. Reserves

There were no transfers to or from reserves of the Group during the nine months ended 30th September, 2004 and 2003.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the nine months ended 30th September, 2004, the Group recorded a turnover of approximately HK\$21.0 million, representing an increase of approximately 9% as compared to approximately HK\$19.3 million for the corresponding period in 2003. The increase in the turnover was mainly attributable to the revenue derived from the sales of electronic equipments.

However, the gross profit margin of the Group for the nine months ended 30th September, 2004 was approximately 24%, lower than the gross profit margin of approximately 39% for the corresponding period in 2003. Profit attributable to shareholders for the nine months ended 30th September, 2004 was approximately HK\$0.6 million, representing a decline of approximately 77% as compared to approximately HK\$2.5 million for the corresponding period in 2003. The lower gross profit margin and the decline in profit attributable to shareholders of the Group was principally due to the absence of contribution from the consultancy services which have relatively higher profit margin.

Business Review

Business development in Hong Kong

Despite signs of economic recovery in Hong Kong, price-cutting in the provision of products and services in the IBS market as a result of fierce competition has confirmed unabated and has had a negative impact on the Group's profitability. Although under such highly competitive market condition, the Group will continue to strive to develop and explore new business opportunities in Hong Kong, including approaching various property management companies in Hong Kong to promote its business of re-engineering of old buildings. As a newly registered contractor of burglar alarm and security system in Hong Kong, the Group will also continue to explore new business opportunities in this field.

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

As part of the Group's strategy of expanding its customer base in the PRC, the Group has leveraged upon the connection of its existing domestic strategic partners to explore the business opportunities of the Group's products and services in the PRC. Meanwhile, the Group is also partnering with other enterprises to tender for projects in business such as transportation smart card applications, parking meters, cable TV digital set-top boxes so as to further expand the range of applications for the intelligent building systems developed by the Group.

The Group is also currently discussing with several property developers in the Yangtze River Delta region to explore the possibilities of introducing these developers as the Group's strategic partners in order to strengthen the Group's business in the region. In addition, the Group is also discussing with a company specialising in the development of embedded hotels in the PRC for the research and development of IBS products and services for the hospitality industry.

Although the Directors consider the PRC as one of its major market in the future, the business development and market penetration of the Group in the PRC are still in its infancy and the Directors do not expect the PRC market to be a significant source of revenue for the Group in the near future.

Business development in Macau

With the current boom in the tourism and hospitality industry in Macau, the Group also anticipates there will be a potential market for IBS products of the Group. The Group is currently discussing with a local property developer on the possibility of cooperating on future projects.

Research and development

In an extension to its continuing research and development of network-based intelligent system for small community, the Group is currently working with relevant companies in the PRC to study the feasibility of developing a build-in entertainment system as an additional value-added component for its network-based intelligent system.

Business Outlook

The Directors considers that the recent recovery in the Hong Kong economy did not immediately stimulate the growth of the construction industry in Hong Kong. Therefore, the Directors expect that the demand for IBS products and services will probably remain stagnating in the near future. The price-cutting strategy adopted recently by IBS competitors also further intensified the competition for the IBS projects in Hong Kong. As a result, the Directors expect the Group's profitability may be subject to further possible downturn during the remainder of this financial year. Nevertheless, the Group is taking appropriate measures to attempt to minimise the possible downturn, and is confident that the decrease will be maintained at an acceptable level.

Confronted with the increasing occurrences of delayed payment, the Group had to be proactive in ensuring recovery of overdue payments by negotiating with individual companies to seek a quick resolution to the matters. As such, the Directors believe it to be prudent to concentrate on soliciting clients with better credit record to minimise the possible bad debt exposure. Despite the problems of delayed payment, the Directors do not believe that there is a need at the current stage to make any bad debt provision. In view of current market condition, the Group has been actively exploring and developing other related business with less exposure to the payment problem.

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

As at 30th September, 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 September, 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 30th September, 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 September, 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 September, 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 nine months ended 30th September, 2004, neither the Company, nor any of its subsidiaries purchased, disposed of or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The Company has established an audit committee ("Audit Committee") in June 2003 with written terms of reference in compliance with Rules 5.23 to 5.25 of the GEM Listing Rules. The Primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group. The Audit Committee comprises all of the three independent non-executive Directors, namely, Mr. Liu Pui Ming, Mr. Koo Cheuk On, Timmie and Mr. Lam Ying Hung, Andy.

By order of the Board
TSANG HON CHUNG
Chairman

Hong Kong, 13th November, 2004

As at the date of this report, the Board comprises Mr. Tsang Hon Chung (executive Director), Mr. Lam Yew Kai (executive Director), Mr. Tsang Hon Ming (executive Director), Ms. Wong Mau Fa (non-executive Director), Mr. Lai Ka Kit (non-executive Director), Mr. Liu Pui Ming (independent non-executive Director) Mr. Lam Ying Hung, Andy (independent non-executive Director) and Mr. Koo Cheuk On, Timmie (independent non-executive Director).