

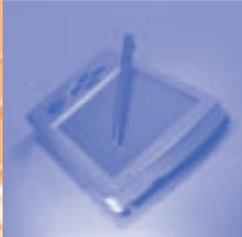
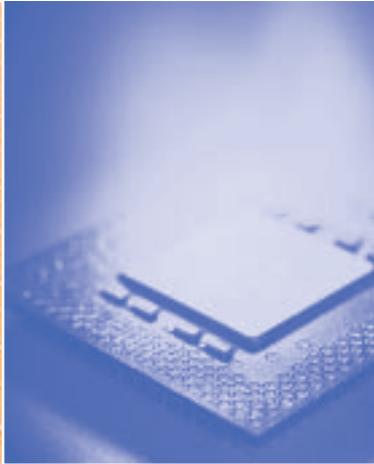


# INNOVIS

HOLDINGS LIMITED

華智控股有限公司

(Incorporated in the Cayman Islands with limited liability)



ANNUAL REPORT

2004

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

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*The Stock Exchange 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 GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The directors of the Company, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: i. the information contained in this report is accurate and complete in all material respects and not misleading; ii. there are no other matters the omission of which would make any statement in this report misleading; and iii. 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.*



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# Corporate Information

## EXECUTIVE DIRECTORS

Mr. Tsang Hon Chung  
Mr. Law Yew Kai  
Mr. Tsang Hon Ming

## NON-EXECUTIVE DIRECTORS

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

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Fong Yick Jin, Eugene  
(resigned on 1st October, 2004)  
Mr. Liu Pui Ming  
Mr. Koo Cheuk On, Timmie  
(appointed on 28th September, 2004)  
Mr. Lam Ying Hung, Andy  
(appointed on 1st October, 2004)

## 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 *CPA, CPA (Aust)*  
(resigned on 10th June, 2004)  
Ms. Chan Fong *ACCA, CPA*  
(appointed on 10th August, 2004  
and resigned on 17th October, 2004)  
Ms. Tsang Ngan Yu *CPA*  
(appointed on 28th October, 2004)

## AUTHORISED REPRESENTATIVES

Mr. Tsang Hon Chung  
Mr. Lam Yew Kai

## COMPLIANCE OFFICER

Mr. Tsang Hon Chung

## MEMBERS OF THE AUDIT COMMITTEE

Mr. Fong Yick Jin, Eugene  
(resigned on 1st October, 2004)  
Mr. Lam Ying Hung, Andy (*Chairman*)  
(appointed on 1st October, 2004)  
Mr. Liu Pui Ming  
Mr. Koo Cheuk On, Timmie  
(appointed on 28th September, 2004)

## CAYMAN ISLANDS REPRESENTATIVE

Conyers Dill & Pearman, Cayman

## COMPLIANCE ADVISER

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

## Directors and Senior Management of the Group

Biographical details of directors of the Company and the senior management of the Group are set out below:

### DIRECTORS

#### EXECUTIVE DIRECTORS

**Mr. Tsang Hon Chung**, aged 43, 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 58, 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.

## Directors and Senior Management of the Group

**Mr. Tsang Hon Ming**, aged 40, 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 47, 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 43, 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. Liu Pui Ming**, aged 29, 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.

**Mr. Lam Ying Hung, Andy**, aged 40, is an associate member of various professional organisations, namely, Hong Kong Institute of Certified Public Accountants, Institute of Chartered Administrator and Secretaries, The Hong Kong Institute of Company Secretaries, Hong Kong Institute of Bankers and Chartered Institute of Bankers. Mr. Lam is also a fellow member of Association of Certified Chartered Accountants. He obtained his master degree of professional accounting from the Hong Kong Polytechnic University. Mr. Lam has over 20 years of experience in accounting, banking and finance sectors and currently is working as a finance director of Viking Logistics Limited, a private company which is engaged in air cargo ground handling in Hong Kong and the PRC. Mr. Lam is also the president of Dragon Junior Chamber, a local chapter affiliated with Junior Chamber International Hong Kong.

## Directors and Senior Management of the Group

**Mr. Koo Cheuk On, Timmie**, aged 33, is a Certified Public Accountant (Practising) in Hong Kong and member of various professional organisations, including Hong Kong Institute of Certified Public Accountants and The Institute of Internal Auditors. Mr. Koo is also a fellow member of The Association of Chartered Certified Accountants. Mr. Koo obtained his bachelor's degree in business administration from the University of Hong Kong and worked in an international audit firm for nearly ten years with profound auditing experience for various locally-listed companies and multinational groups from a wide range of industries. Mr. Koo is the founder and director of the Normsun Group, a private business engaged in the provision of accounting, taxation advisory, company secretarial and management consultancy services.

### SENIOR MANAGEMENT

**Ms. Tsang Ngan Yu**, aged 33, is the qualified accountant and company secretary of the Group and is responsible for corporate reporting and company secretarial matters. Ms. Tsang is an associate member of the Hong Kong Institute of Certified Public Accountants.

**Ms. Sung Sau Fan**, aged 43, 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 27, 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. Cheung Wah Cheuk**, aged 27, is a project manager of the Group. Mr. Cheung is responsible for supervising and co-ordinating projects at a number of sites. Mr. Cheung also acts as a liaison officer between the Group and the sub contractors in all technical aspects in executing a project. Prior to joining the Group in September 1996, Mr. Cheung was a full time student at the Vocational Training Council and graduated with a higher certificate in electronic engineering. In 2000, Mr. Cheung participated in the Hong Kong Youth Skill Competition and Mr. cheung achieved an impressive result of winning the second place in electronic engineering.

## Chairman's Statement

With the joint effort of the Group's management and our staff, the Company was successfully listed on the Hong Kong Stock Exchange on 25th June, 2003. The listing was not only a milestone in the business development of the Company, but also had the positive effect of bringing an upbeat atmosphere to all our staff members.

Succeeded in gaining recognition from the market, the Company has been focusing on diversification of its business with a view to create greater value to our shareholders.

Facing a stagnant Hong Kong construction market in 2004, the Company managed to maintain a stable turnover growth for the year, mainly attributable to the great dedication and support of our staff as well as the various cost control measures implemented by the Company. In order to secure more businesses and achieve business expansion, we have formulated various business plans for the future. These include geographical expansion into other markets like Macau and the Yangtze River Delta. With respect to the technology application, the Company developed a number of new products of various types in past years, some of these technologies will be utilised in areas other than building service. This should further enhance the efficiency towards applications of our developments as well as enrich our business scope. Furthermore, the Company intended to strengthen its intelligent systems trading business. We are in the process of negotiating for dealerships with a number of overseas suppliers which could expose the Company to more business opportunities.

Under the innovative and motivated leadership of our management team, and with our dedicated staff, I am optimistic that the Company's business prospect will be a bright and promising one.

I would like to take this opportunity to thank the management and staff members of the Group for their hard work and valuable contributions to the Group in the past year. I would also like to thank our shareholders for their continuous support to the Group. The Group will do its best for the future.

On behalf of the Board

**Tsang Hon Chung**

*Chairman*

Hong Kong

29th March, 2005

# Management Discussion and Analysis

## FINANCIAL REVIEW

For the year under review, the Group recorded a total turnover of approximately HK\$26,079,000 (2003: HK\$23,976,000). Profit attributable to shareholders was approximately HK\$20,000 (2003: HK\$703,000). Compared with 2003, profit attributable to shareholders decreased by approximately 97%. These decreases were due to the continuous sluggish Hong Kong construction market. While Hong Kong economy was gradually showing signs of recovery at the end of 2004, demand for construction services remained at a low level and the Group's existing and planned projects were affected accordingly. Moreover, the Intelligent Building System consultancy services for some of the planned PRC projects had also been delayed. Despite the directors' efforts in cutting administrative expenses and other fixed overheads from approximately HK\$7,354,000 in 2003 to HK\$5,516,000 in 2004, the Group failed to offset the effect of substantial increase in cost of sales of the Group, resulted in the significant decrease in profit attributable to shareholders.

The Group's gross profit margin of its continued business was approximately 18.6% in 2004 compared with approximately 31.7% in 2003. During the year under review, the Group had outsourced more contracts with its subcontractor as the Directors believed that such arrangement could reduce cost to the Group and bring greater flexibility to its control of labour cost in the long run. However, in the short run the outsourcing charges had increased the cost of sales for 2004 and caused a decrease in gross profit margin.

However, with an aim to strengthen the Group's competitiveness and in order to explore business opportunities in the PRC market, the Group had applied funding to sales and marketing activities in accordance with the its expansion plan as stated in the prospectus of the Company dated 17th June, 2003 (the "Prospectus"). As a result of the increase in cost of sales, profit attributable to shareholders was approximately HK\$20,000 with net profit margin of 0.077% in 2004 as compared with approximately HK\$703,000 with net profit margin of 2.93% in 2003.

## BUSINESS REVIEW

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

The Group is actively seeking for opportunities to expand its business in the PRC which may include establishing joint ventures with joint venture partners to provide a range of Intelligent Building System services to potential clients. After several rounds of discussions with the potential joint venture partner and site visits, the management concluded that the most appropriate manner of conducting the business was to set up a wholly foreign-owned enterprise, instead of establishing a sino-foreign joint venture company with other PRC partners. The Group has submitted its application for the setting up of a wholly foreign-owned enterprise to municipal government of Jiangmen.

On the other hand, the management will keep the door open for possible joint venture with potential partners and may lead to further identification and negotiation process. Should any proposed joint venture materialises, the Group intends to market some of its services and products through such channel.

# Management Discussion and Analysis

## Business Development in Hong Kong

As stated in the last interim and third quarterly reports, the Group had gained approval from the government to become an authorised specialist contractor in Hong Kong under the category of “Burglar Alarm and Security Installation”. The Group has submitted tenders for various governmental projects. It is confident that the license will allow the Group to widen its client base by providing Intelligent Building System solution to government projects.

Moreover, the Group had targeted the re-engineering of old buildings with intelligent building management systems as a future potential growth area in accordance with the business objectives as set out in the Prospectus. The management is pleased to report that, during the year under review, several small projects of this nature were awarded and the Group had also participated in a bigger project developed by Hong Kong Housing Society.

In addition to the abovementioned, the Group is actively exploring new markets in sectors like hotels, hospitals and government managed public housings. Leveraging on its expertise in technologies of smart card and SMS massaging, the Group is capable of developing new customised intelligent building solutions catering for these sectors. Indeed, negotiations with potential clients have already commenced.

## Research and Development

In accordance with the objectives stated in the Prospectus, the Group had signed a memorandum of understanding with the Hong Kong Polytechnic University to jointly apply for funding from the Innovation and Technology Fund sponsored by the Hong Kong SAR Government. The application was unsuccessful and hence the Group could not implement the related research and development project. Alternatively, the Group has turned to study other possible development projects in cooperation with certain business entities in developing other commercialised software and hardware products of intelligent systems; among them the research and development of an intelligent system for coal mine operation, as well as an energy-saving and intelligent service system for air-conditioners.

Studies of possible cooperation as mentioned above had commenced, with the parties involved to conduct in-depth feasibility studies for such cooperation. It is hoped that the parties involved could form a strategic partnership to jointly explore related business opportunities.

In addition to actively developing Intelligent Building System solutions, the research and development of the Company also involves study on the application of such technologies to other business segments, thereby enhancing the cost effectiveness of our research and development. The Company is in preliminary stage of its study on applying the digital imaging technology in the Intelligent Building System into hairdressing business. By building up a digital network of hair styles with this technology, new concepts of hairdressers could be coordinated through network. The Group is seeking to enhance features of such technology of which development had been completed, with a view to create greater business opportunity to the Group, and is optimistic to its results.

# Management Discussion and Analysis

## BUSINESS OUTLOOK

The continued weakness of Hong Kong construction industry had resulted in fierce competition within the market, and the business of the Company was affected as a consequence. However, thanks to a considerable amount of outstanding contracts entered into at earlier times, and certain new contracts secured during the year, turnover of the Company remained acceptable. Nevertheless, due to intense competition in the industry, our profit margin for the year had been adversely affected. In order to stay competitive, the Group had increased its marketing effort to boost its business on the one hand, and had negotiated with suppliers for working more closely and for reducing materials cost on the other hand. In addition to more stringent control on materials cost, the Group has also strived to improve its cost efficiency of human resources. Employment of some employees had been shifted to under subcontractors in order to reduce labour cost.

Furthermore, the Group will also continue to pursue its business objectives set out in the Prospectus where emphasis and more resources will be placed in the PRC market. In the mean time, the management is actively pursuing and tendering for a number of Intelligent Building System consultancy services projects at major cities in the PRC especially for the Pearl River Delta Region. Moreover, favourable conclusion to the application for the establishment of a wholly foreign-owned enterprise in Jiangmen, the PRC, and the cooperation arrangement with strategic partners, will allow the Group to provide a full scope of Intelligent Building System services and products to the potential clients located in both Hong Kong and the PRC in the near future.

Looking ahead, the expansion plan in the PRC market should bring tremendous opportunities to the Group. The Directors believe that the Group will achieve satisfactory results in 2005.

## LIQUIDITY AND FINANCIAL RESOURCES

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

As at 31st December, 2004, the Group had net current assets of approximately HK\$20,700,000 of which approximately HK\$1,011,000 and HK\$4,439,000 (2003: approximately HK\$2,300,000 and HK\$417,000) were pledged bank deposits and cash and bank balance respectively. The Directors are confident that the Group's existing financial resources will be sufficient to satisfy its commitments and working capital requirements.

## EMPLOYEES

As at 31st December, 2004, the Group had a total of around 27 (2003: 45) staff based in PRC and Hong Kong. The Group remunerates its employees based on their performance, experience and the prevailing industry practice.

# Management Discussion and Analysis

## CAPITAL STRUCTURE

As at 31st December, 2004, 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, 2004, representing an increase of approximately 0.1% over last year.

## SIGNIFICANT INVESTMENTS

There were no significant investments held by the Group as at 31st December, 2004.

## CAPITAL COMMITMENT

As at 31st December, 2004, the Group did not have any capital commitment (2003: nil).

## MATERIAL ACQUISITIONS AND DISPOSALS / FUTURE PLANS FOR MATERIAL INVESTMENTS

The Group did not have any material acquisitions, disposals and future plans for material investments during the year under review.

## PLEDGE OF ASSETS OF THE GROUP

As at 31st December, 2004, bank deposits of HK\$1,011,000 have been pledged to the banks to secure general banking facilities granted to the Group.

## CONTINGENT LIABILITIES

At as 31st December, 2004, the Group did not have any significant contingent liabilities (2003: nil).

## GEARING RATIO

As at 31st December, 2004, the Group had a net cash and cash equivalent position of approximately HK\$4,570,000. The Group's gearing ratio as at 31st December, 2004 was 4% (2003: Nil) which was calculated based on the Group's long-term borrowings of approximately HK\$833,000 (2003: Nil) and shareholders funds of approximately HK\$22,715,000 (2003: Nil).

## EXCHANGE RATES

Most of the transactions of the Group are denominated in Hong Kong Dollars and Renminbi. As the exchange rates of Renminbi 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.

## Comparison of Business Objectives with Actual Business Progress

The following is a comparison of the implementation plan of the Group's business objectives for the period from the latest practicable date as defined in the Prospectus (being 12th June, 2003) to 31st December, 2004 (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 make adjustments as necessary.

<b>Business objectives as stated in the Prospectus</b>	<b>Actual business progress as at 31 December, 2004</b>
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### *Business development in Hong Kong*

- |   |   |
|---|---|
| <ul style="list-style-type: none"> <li>- Continue to seek out and tender for public sector IBS projects.</li> </ul>   | <ul style="list-style-type: none"> <li>- The Company had successfully applied and become a government approved specialist contractor under the category of "Burglar Alarm and Security Installation". Relevant government department gave its confirmation to the Company that it had approved such application and the results were announced in May, 2004.</li> </ul>   |
| <ul style="list-style-type: none"> <li>- Continue to establish contact and seek business opportunities in old building re-engineering projects that involve the installation of IBS.</li> </ul> | <ul style="list-style-type: none"> <li>- A specialized project execution team had been formed to formulate business plans for the public sector Intelligent Building System project. It had approached the government maintenance department and hospitals under the Hospital Authority.</li> <li>- The Company had 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 Intelligent Building System. In 2004, the Company was performing the old building re-engineering contract under the Hong Kong Housing Society.</li> </ul> |

## Comparison of Business Objectives with Actual Business Progress

- Formally launch the IBS product “*Pervasive Secure Version 1.0*” in Hong Kong and identify and initiate discussions with reputable property developers for the application of the Group’s IBS product “*Pervasive Secure Version 1.0*” to their existing and upcoming property development projects.
- The Group made a joint application with the Hong Kong Polytechnic University for the Innovation and Technology Fund sponsored by the Hong Kong SAR Government to support the launch of “*Pervasive Secure Version 1.0*” in Hong Kong. However, the application was turned down and thus the cooperation was terminated. The Group had been identifying new strategic partners for launch of new projects.

### *Geographic expansion to the PRC*

- 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.
- In order to capitalise the advantages offered to Hong Kong companies under the Closer Economic Partnership Arrangement (CEPA), the Group considered it was not suitable to form a joint venture to provide Intelligent Building System services in the PRC, instead it was more beneficial to establish a wholly foreign-owned enterprise. In particular, the Group has already set up formal office in Jiangmen after the completion of forming a wholly-owned foreign enterprise. 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.
- 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.

## Comparison of Business Objectives with Actual Business Progress

- Establish joint venture in Shanghai and Dalian with the PRC partner which is licenced and capable of providing electronic engineering installation works.
- The Group had established a research team dedicated to research and marketing of Intelligent Building System products in the PRC. The team mainly did research on the Intelligent Building System markets within the Pearl River Delta and Yangtze River Delta and regularly took trips to Shanghai, Guangzhou and Jiangmen to enhance the understanding of the Intelligent Building System markets in these fast growing regions.
- In mid 2004, the research team paid a visit to Shanghai and contacted the relevant Shanghai government departments to seek for business opportunities in the Shanghai World Expo.
- 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.
- The Group became a listed contractor of several reputable properties developers in the PRC and attended several related tender interviews. A PRC marketing and tendering manager was appointed in 2004 to strengthen the tendering and marketing force in the PRC. In mid 2004, the Group formulated two detailed business plans. One is related to the promotion of the Intelligent Building System in a re-engineering project in Jiangmen and the other is related to the application of Intelligent Building System in the transportation and marketing function for a logistic company in Guangzhou.

## Comparison of Business Objectives with Actual Business Progress

- Establish contact and seek business opportunities in tendering for IBS projects in the PRC.
- Formally launch the Group's IBS products in the PRC.
- Evaluate the performance of the Group's business in the PRC.
- The Group identified two PRC companies as its future business partners and had negotiation as to cooperation in Intelligent Building System business in the PRC. A cooperative alliance would be signed in near future.
- The Company intended to set up a special unit to tender for the World Expo project after initial research stage was finished. Also, the Company might consider employing local people to a project execution team if tenders would be awarded.
- In addition, the Company had approached the Macau government and submitted information to them for their perusal in order to have more understanding in the tendering process of the Intelligent Building System projects in Macau and was in the process of tendering for various projects there.

### *Research and development*

- Identify and negotiate with appropriate partners for the development of the upgraded version of the Group's IBS product "*Pervasive Secure Version 2.0*".
- 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.
- The Group made a joint application with the Hong Kong Polytechnic University for the Innovation and Technology Fund sponsored by the Hong Kong SAR Government to support the launch of "*Pervasive Secure Version 1.0*" in Hong Kong. However, the application was turned down and thus the cooperation was terminated. The Group had been identifying new strategic partners for launch of new projects.
- In order to concentrate resources and reduce costs, instead of purchasing from software/hardware vendors, the Company entered into a memorandum of understanding in research and development cooperation with 光華智能系統及科技有限公司 Bright China Intelligent and Technology Ltd in 2004 pursuant to which would be responsible for research and development of various projects.

## Comparison of Business Objectives with Actual Business Progress

- 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.
- During the Period under Review, the Company continued its cooperation with Inno-Tech. Inno-Tech has developed Intelligent Building System for various hotels, hospitals and schools. The cooperation remained in effect until mid 2004.
- A registered professional engineer in Hong Kong, who was also a chartered engineer of the United Kingdom and a statutory member of the Hong Kong Institution of Engineers and the Chartered Institution of Building Services Engineers, joined the Company as the consultant of the project execution team. He was very experienced in building services sector.

# Comparison of Business Objectives with Actual Business Progress

## *Sales and marketing*

- Commence marketing campaign to promote the Group’s IBS product “*Pervasive Secure Version 1.0*” in Hong Kong.
- Formulated detailed marketing plan to prepare for the launch of the IBS products in the PRC.
- Commence the marketing campaign to promote the Group’s IBS product in the PRC.
- Evaluate the result of the Group’s marketing campaign on the promotion of the Group’s IBS product and fine tune the marketing strategy accordingly.
- 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.
- As the joint application by the Group and Hong Kong Polytechnic University for funding from the Innovation and Technology Fund sponsored by the Hong Kong SAR Government was unsuccessful, and as it was unable to line up with other academic institutions for other cooperation plans, the Group had turned to study the feasibility of developing an intelligent system for coal mine operation with a PRC company, as it believed the business had good potential. The 2 companies were in negotiation for possible cooperative agreement. In addition to the existing Intelligent Building System, the Company had internally reviewed and decided to develop a wider range of intelligent and energy-saving back up systems. In light of this, the Company had engaged 2 engineers whose expertise were environmental-friendly intelligent system for air-conditioners in fixed term, as well as jointly developed these systems with other business entities.
- The Company had been looking for developing the intelligent building business in the Pearl River Delta Region. After several rounds of site visit and discussion, the Company decided to have its first foothold in Jiangmen as its real estate market was in development stage and had great potential. Accordingly, a seminar-cum-exhibition for promoting Intelligent Building System was held in Jiangmen between 31st December, 2004 and 3rd January, 2005 by the Company.

## Comparison of Business Objectives with Actual Business Progress

- 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.
- Continue to promote the benefit and convenience of IBS through hosting of seminars and conferences in Hong Kong and the PRC.
- The Company had formulated and implemented several marketing campaigns to promote the application and benefits of Intelligent Building System in various segments such as schools, hospitals, transportation, etc. The marketing team performed more than 10 demonstrations to various potential business partners included schools, hospitals, smart card system vendors and hotels. The Company had engaged a right candidate to take the post of sales and marketing manager. The new manager was experienced in tendering for and marketing of Intelligent Building System projects both in Hong Kong and the PRC and had joined the Company in 2004.

## 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 Review Period, net proceeds from the issue of new shares were applied as follows:

	<b>Planned use of proceeds as stated in the Prospectus</b> <i>HK\$'000</i>	<b>Actual use of proceeds</b> <i>HK\$'000</i>
Business expansion in Hong Kong		
– Pursuit of public sector IBS projects and re-engineering projects	546	431
– Merchandising of IBS products	255	31
Geographical expansion to the PRC		
– Establishment of joint ventures	2,580	2,440
– Tendering for IBS projects	1,080	32
– Launching IBS products	220	371
Research and development		
– Development IBS products	750	642
– Forming strategic alliances	300	1,170
– Expansion of in-house team	588	157
Sales and Marketing	771	672
General working capital	<u>1,881</u>	<u>2,278</u>
Total	<u><u>8,971</u></u>	<u><u>8,224</u></u>

# Directors' Report

The directors have pleasure in presenting their annual report together with the audited financial statements for the year ended 31st December, 2004.

## PRINCIPAL ACTIVITIES

The principal activity of the Company during the year was investment holding and those of the subsidiaries are set out in note 13 to the financial statements.

## RESULTS AND DIVIDEND

The results of the Group for the year ended 31st December, 2004 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 31 to 62.

The directors do not recommend the payment of any dividend in respect of the year ended 31st December, 2004 (2003: a special dividend of HK\$6.12 per share, totalling HK\$2,000,000 was paid by a subsidiary of the Company).

## FINANCIAL SUMMARY

The summary of the consolidated results of the Group for each of the five years ended 31st December, 2004 and the assets and liabilities of the Group as at 31st December, 2000, 2001, 2002, 2003 and 2004 are set out on pages 63 and 64 respectively.

## DONATIONS

During the year, the Group made charitable and other donations of HK\$17,300 (2003: HK\$15,800).

## FIXED ASSETS

The Group purchased fixed assets amounted to approximately HK\$528,000 during the year. Details of movements in fixed assets of the Group during the year are set out in note 12 to the financial statements.

## SHARE CAPITAL

Details of the share capital of the Company are set out in note 21 to the financial statements.

## RESERVES

Details of movements in reserves of the Group and the Company during the year are set out in note 23 to the financial statements.

## DIRECTORS' INTERESTS IN CONTRACTS

Apart from the transactions as disclosed in note 27 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' Report

## 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  
Tsang Hon Ming

### Non-executive directors:

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

### Independent non-executive directors:

Fong Yick Jin, Eugene – resigned on 1st October, 2004  
Liu Pui Ming  
Koo Cheuk On, Timmie – appointed on 28th September, 2004  
Lam Ying Hung, Andy – appointed on 1st October, 2004

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.

Each of the independent non-executive directors has confirmed his independence to the Company pursuant to Rule 5.09 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM") (the "GEM Listing Rules") for the year ended 31st December, 2004 and the Company considers the independent non-executive directors to be independent.

# Directors' Report

## EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors and the top five highest paid individuals of the Group are set out in note 5 to the financial statements.

## CONNECTED TRANSACTIONS

The details of the connected party transactions during the year under the GEM Listing Rules are set out in note 27 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.

## Directors' Report

### (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 1st January, 2004	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31st December, 2004
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	HK\$0.125	18,750,000	-	-	(5,625,000)	13,125,000
			Further 30%: 7th June, 2005 to 6th June, 2013						
			Remaining 40%: 7th June, 2006 to 6th June, 2013						
					18,750,000	-	-	(5,625,000)	13,125,000

In aggregate, options to subscribe for 13,125,000 shares representing 3.5% of the issued share capital of the Company as at 31st December, 2004 have been granted under the share option schemes.

# Directors' Report

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

As at 31st December, 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 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")	Interest of a controlled corporation	211,229,000 shares ( <i>Note 1</i> )	56.33%
Mr. Tsang Hon Chung ("Derek Tsang")	Interest of a controlled corporation 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%

## Directors' Report

**(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	Type of interests	Number of shares	Approximate percentage of interests
Mr. Edmond Lam	Interest of a controlled corporation	4,645 shares ( <i>Note 4</i> )	46.45%
Mr. Derek Tsang	Beneficial owner	4,641 shares	46.41%
Ms. Wong Mau Fa	Beneficial owner	357 shares	3.57%

*Notes:*

- 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.
- 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.
- 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.
- 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 or any of its associated corporations**

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

# Directors' Report

## 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, 2004, 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 shares	Approximate percentage of interests
China Win ( <i>Note 1</i> )	Beneficial owner	211,229,000 shares	56.33%
Emerging Purity ( <i>Note 2</i> )	Interest of a controlled corporation	211,229,000 shares	56.33%
Ms. Sung Sau Fan ( <i>Note 3</i> )	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.

## Directors' Report

### (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 positions 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, 2004, 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.

# Directors' Report

## MAJOR CUSTOMERS AND SUPPLIERS

Sales to the Group's five largest customers accounted for approximately 83% of the Group's total sales for the year and sales to the largest customer included therein amounted to approximately 27%. Purchases from the Group's five largest suppliers accounted for approximately 30% of the Group's total purchases for the year and purchases from the largest supplier included therein amounted to approximately 8%.

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 MasterLink Securities (Hong Kong) Corporation Limited ("MasterLink") for the purpose 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, 2004, neither MasterLink, its directors, employees or their respective associates (as referred to in note 3 to Rule 6.35 of the GEM Listing Rules) had any interest in any class of securities of the Company or any other company in the Group (including options or rights to subscribe for such securities).

# Directors' Report

## AUDIT COMMITTEE

The Company has established an audit committee on 6th June, 2003 with its written terms of reference being in compliance with Rule 5.28 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 three independent non-executive directors, namely Mr. Liu Pui Ming, Mr. Koo Cheuk On, Timmie and Mr. Lam Ying Hung, Andy.

Up to the date of approval of these financial statements, the audit committee has held three meetings and has reviewed the half-yearly and quarterly reports of the Group and the annual accounts for the year ended 31st December, 2004 prior to recommending such accounts to the Board of Directors for approval.

## COMPLIANCE WITH RULES 5.34 TO 5.45 OF THE GEM LISTING RULES

In the opinion of the directors, the Company has complied with the board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules for the year ended 31st December, 2004.

## COMPLIANCE WITH RULES 5.48 TO 5.67 OF THE GEM LISTING RULES

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules throughout the year ended 31st December, 2004. Having made specific enquiry of all directors, the Company' directors have complied with such code of conduct and the required standard of dealings throughout the year ended 31st December, 2004.

## 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

29th March, 2005

# 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 31 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 Institute of Certified Public 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, 2004 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  
29th March, 2005

# Consolidated Income Statement

For the year ended 31st December, 2004

	<i>Note</i>	<b>2004</b> <b>HK\$'000</b>	2003 <i>HK\$'000</i>
Turnover	3	<b>26,079</b>	23,976
Cost of sales and services rendered		<u><b>(21,228)</b></u>	<u>(16,386)</u>
Gross profit		<b>4,851</b>	7,590
Other income		<b>950</b>	894
Administrative and other operating expenses		<u><b>(5,516)</b></u>	<u>(7,354)</u>
Operating profit		<b>285</b>	1,130
Finance costs		<u><b>(167)</b></u>	<u>(65)</u>
Profit before income tax	4	<b>118</b>	1,065
Income tax expense	6	<u><b>(98)</b></u>	<u>(362)</u>
Profit attributable to shareholders	8	<u><b>20</b></u>	<u>703</u>
Dividend	9	<u><b>–</b></u>	<u>2,000</u>
Earnings per share	10		
– Basic		<u><b>0.01 cent</b></u>	<u>0.21 cent</u>
– Diluted		<u><b>0.01 cent</b></u>	<u>0.20 cent</u>

# Consolidated Balance Sheet

As at 31st December, 2004

	<i>Note</i>	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>			
Fixed assets	12	534	301
Guaranteed funds	14	999	–
Held-to-maturity debt securities	15	49	–
Retention money receivable		<u>1,266</u>	<u>839</u>
		<u>2,848</u>	<u>1,140</u>
<b>CURRENT ASSETS</b>			
Held-to-maturity debt securities	15	300	–
Amount due from a related company	16	–	138
Amount due from ultimate holding company	16	4	–
Debtors, deposits and prepayments	17	21,558	15,952
Tax recoverable		359	–
Pledged time deposits	18	1,011	2,300
Time deposits		131	6,340
Cash and bank balances		<u>4,439</u>	<u>417</u>
		<u>27,802</u>	<u>25,147</u>
<b>DEDUCT:</b>			
<b>CURRENT LIABILITIES</b>			
Bills payable, unsecured		340	155
Creditors and accruals	20	4,121	3,300
Secured bank loan	24	2,500	–
Obligation under finance lease	25	45	69
Amount due to a related company	16	96	–
Tax payable		<u>–</u>	<u>19</u>
		<u>7,102</u>	<u>3,543</u>
<b>NET CURRENT ASSETS</b>		<u>20,700</u>	<u>21,604</u>
		<u>23,548</u>	<u>22,744</u>

# Consolidated Balance Sheet

As at 31st December, 2004

	Note	2004 HK\$'000	2003 HK\$'000
REPRESENTING:–			
SHARE CAPITAL	21	3,750	3,750
RESERVES	23	<u>18,965</u>	<u>18,945</u>
SHAREHOLDERS' FUNDS		<u>22,715</u>	<u>22,695</u>
NON-CURRENT LIABILITIES			
Secured bank loan	24	833	–
Obligation under finance lease	25	<u>–</u>	<u>49</u>
		<u>833</u>	<u>49</u>
		<u>23,548</u>	<u>22,744</u>

APPROVED AND AUTHORISED FOR ISSUE BY  
THE BOARD OF DIRECTORS ON 29TH MARCH, 2005

**Tsang Hon Chung**  
DIRECTOR

**Lam Yew Kai**  
DIRECTOR

# Balance Sheet

As at 31st December, 2004

	<i>Note</i>	<b>2004</b> <b>HK\$'000</b>	2003 <i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>			
Interests in subsidiaries	<i>13</i>	<u>8,677</u>	<u>8,677</u>
<b>CURRENT ASSETS</b>			
Held-to-maturity debt securities	<i>15</i>	<b>300</b>	–
Amount due from a subsidiary	<i>19</i>	<b>10,391</b>	11,355
Prepayments		<b>100</b>	–
Cash at bank		<u>58</u>	<u>5</u>
		<u><b>10,849</b></u>	<u>11,360</u>
<b>DEDUCT:</b>			
<b>CURRENT LIABILITIES</b>			
Other payable and accruals		<u>126</u>	<u>106</u>
		<u><b>126</b></u>	<u>106</u>
<b>NET CURRENT ASSETS</b>			
		<u><b>10,723</b></u>	<u>11,254</u>
		<u><b>19,400</b></u>	<u>19,931</u>
<b>REPRESENTING: –</b>			
SHARE CAPITAL	<i>21</i>	<b>3,750</b>	3,750
RESERVES	<i>23</i>	<u><b>15,650</b></u>	<u>16,181</u>
SHAREHOLDERS' FUNDS		<u><b>19,400</b></u>	<u>19,931</u>

APPROVED AND AUTHORISED FOR ISSUE BY  
THE BOARD OF DIRECTORS ON 29TH MARCH, 2005

**Tsang Hon Chung**  
*DIRECTOR*

**Lam Yew Kai**  
*DIRECTOR*

# Consolidated Statement of Changes in Equity

For the year ended 31st December, 2004

	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 1.1.2003	210	–	117	11,453	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 – <i>Note 9</i>	–	–	–	(2,000)	(2,000)
At 31.12.2003	<u>3,750</u>	<u>8,672</u>	<u>117</u>	<u>10,156</u>	<u>22,695</u>
At 1.1.2004	3,750	8,672	117	10,156	22,695
Profit for the year	–	–	–	20	20
<b>At 31.12.2004</b>	<b><u>3,750</u></b>	<b><u>8,672</u></b>	<b><u>117</u></b>	<b><u>10,176</u></b>	<b><u>22,715</u></b>

# Consolidated Cash Flow Statement

For the year ended 31st December, 2004

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before income tax	118	1,065
Adjustments for:		
Bank deposits pledged for banking facilities	1,289	(2,169)
Interest expenses	135	35
Interest income	(41)	(10)
Depreciation	235	266
Loss on disposal of fixed assets	60	8
Bad debts written off	143	–
Provision for doubtful debts	348	–
	<hr/>	<hr/>
Operating profit/(loss) before working capital changes	2,287	(805)
Decrease in inventories	–	1,231
Decrease/(increase) in amount due from a related company	138	(86)
(Increase)/decrease in amount due from ultimate holding company	(4)	5
(Increase)/decrease in debtors, deposits and prepayments	(6,524)	2,239
Increase/(decrease) in creditors and accruals	821	(3,583)
Increase in amount due to a related company	96	–
	<hr/>	<hr/>
Cash used in operations	(3,186)	(999)
Hong Kong profits tax paid	(476)	(1,454)
Interest received	41	10
Interest paid	(135)	(35)
	<hr/>	<hr/>
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(3,756)</b>	<b>(2,478)</b>
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Sales proceeds of fixed assets	–	5
Purchase of fixed assets	(528)	(117)
Payments for investment in guaranteed funds	(999)	–
Payments for investment in held-to-maturity debt securities	(349)	–
	<hr/>	<hr/>
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(1,876)</b>	<b>(112)</b>
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>

# Consolidated Cash Flow Statement

For the year ended 31st December, 2004

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from placing of shares	–	16,500
Share issue expenses	–	(4,288)
Principal repayment of obligation under finance lease	(73)	(67)
Proceeds from secured bank loan	5,000	–
Repayment of secured bank loan	(1,667)	–
Increase/(decrease) in bills payable, unsecured	185	(308)
Dividend paid	–	(2,000)
	<hr/>	<hr/>
<b>NET CASH FROM FINANCING ACTIVITIES</b>	<b>3,445</b>	9,837
	<hr/>	<hr/>
<b>(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(2,187)</b>	7,247
<b>CASH AND CASH EQUIVALENTS AT 1ST JANUARY</b>	<b>6,757</b>	(490)
	<hr/>	<hr/>
<b>CASH AND CASH EQUIVALENTS AT 31ST DECEMBER</b>	<b>4,570</b>	6,757
	<hr/>	<hr/>
<b>ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Time deposits	131	6,340
Cash and bank balances	4,439	417
	<hr/>	<hr/>
	<b>4,570</b>	6,757
	<hr/>	<hr/>

# Notes to the Financial Statements

*For the year ended 31st December, 2004*

## 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 issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") 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".

### (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.

# Notes to the Financial Statements

For the year ended 31st December, 2004

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (b) Basis of consolidation *(Continued)*

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31st December, 2004. 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) Revenue recognition

#### (i) *Revenue from provision of intelligent building system solutions*

The Group enters into contracts with customers whereby the values of the sale of the electronic equipment and the provision of intelligent building system solutions 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.

### (d) 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.

# Notes to the Financial Statements

For the year ended 31st December, 2004

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (d) Fixed assets and depreciation (Continued)

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.

### (e) Guaranteed fund

Guaranteed fund which is intended to be held until maturity is stated at cost as the amount guaranteed to be returned upon maturity will exceed its cost.

### (f) Held-to-maturity debt securities

Held-to-maturity debt securities are stated in the balance sheet at cost plus or less any discount or premium amortised to date. The discount or premium is amortised over the period to maturity and included as interest income or expense in the income statement. Provision is made when there is a diminution in value other than temporary.

The carrying amounts of individual held-to-maturity debt securities are reviewed at the balance sheet date in order to assess the credit risk and whether the carrying amounts are expected to be recovered. Provisions are made when carrying amounts are not expected to be recovered and are recognised in the income statement as an expense immediately.

# Notes to the Financial Statements

For the year ended 31st December, 2004

## 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) 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.

### (j) 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.

# Notes to the Financial Statements

For the year ended 31st December, 2004

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (j) Provisions and contingent liabilities (Continued)

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.

### (k) 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.

### (l) 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.

### (m) 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.

# Notes to the Financial Statements

For the year ended 31st December, 2004

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (m) Income tax *(Continued)*

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries 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.

### (n) 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.

### (o) 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.

### (p) 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.

# Notes to the Financial Statements

For the year ended 31st December, 2004

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (p) Segment reporting (Continued)

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.

### (q) 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.

### (r) Recently issued accounting standards

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRSs”) which are effective for accounting periods beginning on or after 1st January, 2005.

The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st December, 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

## 3. TURNOVER AND REVENUE

The Company is principally engaged in investment holding and the principal activities of the subsidiaries are set out in note 13 to the financial statements.

Turnover represents revenue recognised in respect of IBS solutions, 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:–

	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
IBS solutions and sales of goods	<b>26,079</b>	20,726
Consultancy fee income	–	3,250
Turnover	<b>26,079</b>	23,976
Interest income	<b>41</b>	10
Total revenue	<b>26,120</b>	23,986

# Notes to the Financial Statements

For the year ended 31st December, 2004

## 4. PROFIT BEFORE INCOME TAX

	2004 HK\$'000	2003 HK\$'000
Profit before income tax is arrived at after charging/(crediting):–		
Auditors' remuneration		
– provision for the year	190	220
– over-provision in previous year	(30)	–
	160	220
Cost of materials used	12,709	4,653
Depreciation		
– own assets	205	176
– asset held under finance lease	30	90
Directors' remuneration – Note 5	1,115	1,210
Other staff costs		
– Salaries and allowances	2,255	2,979
– Pension scheme contributions	101	128
	2,356	3,107
Sales proceeds of fixed assets	–	(5)
Less: Net book value	60	13
Loss on disposal of fixed assets	60	8
Minimum lease payments under operating leases	108	166
Research and development costs	–	634
Interest on bank overdrafts and bills wholly repayable within five years	4	22
Interest on secured bank loan wholly repayable within five years	116	–
Finance lease interest	15	13
Provision for doubtful debts	348	–
Bad debts written off	143	–
Recovery of debts previously written off	(616)	(607)

# Notes to the Financial Statements

For the year ended 31st December, 2004

## 5. DIRECTORS' REMUNERATION AND EMPLOYEES' EMOLUMENTS

	2004 HK\$'000	2003 HK\$'000
(a) Directors		
Fees		
– Executive directors	–	–
– Non-executive directors	35	53
– Independent non-executive directors	81	48
	<u>116</u>	<u>101</u>
Other emoluments (executive directors)		
– Basic salaries, allowances and benefits in kind	947	1,028
– Pension scheme contributions	22	24
	<u>969</u>	<u>1,052</u>
Other emoluments (non-executive directors)		
– Basic salaries, allowances and benefits in kind	30	54
– Pension scheme contributions	–	3
	<u>30</u>	<u>57</u>
	<u>1,115</u>	<u>1,210</u>

Three executive directors received individual emoluments of approximately HK\$686,000, HK\$262,000 and HK\$21,000 respectively for the year ended 31st December, 2004 (2003: HK\$556,000, HK\$376,000, HK\$Nil and HK\$120,000 respectively (include the one resigned during the year)). Two non-executive directors received individual emoluments of approximately HK\$30,000 and HK\$35,000 respectively for the year ended 31st December, 2004 (2003: HK\$92,000 and HK\$18,000 respectively (include the one redesignated to executive director during the year)).

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

# Notes to the Financial Statements

For the year ended 31st December, 2004

## 5. DIRECTORS' REMUNERATION AND EMPLOYEES' EMOLUMENTS (Continued)

### (a) (Continued)

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

	2004	2003
Emoluments		
Nil to HK\$1,000,000	<u>9</u>	<u>7</u>

No directors waived any emoluments during the year.

### (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-directors, highest paid employees were as follows:-

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Salaries and allowances	570	730
Pension scheme contributions	<u>27</u>	<u>19</u>
	<u>597</u>	<u>749</u>

The emoluments of the three non-directors, 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.

## Notes to the Financial Statements

For the year ended 31st December, 2004

### 6. INCOME TAX EXPENSE

Income tax expense represents provision for Hong Kong profits tax at the rate of 17.5% on the respective estimated assessable profits of the companies within the Group operating in Hong Kong for the year.

The income tax expense for the year can be reconciled to the profit before income tax per income statement as follows:–

	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Profit before income tax	<u>118</u>	<u>1,065</u>
Applicable tax rate (%)	<u>17.5</u>	<u>17.5</u>
Tax on profit before income tax, calculated at the applicable tax rate	21	186
Tax effect of non-deductible expenses in determining taxable profit	105	53
Tax effect of non-taxable revenue in determining taxable profit	–	(2)
Tax effect of unrecognised accelerated depreciation allowances	(28)	(35)
Tax effect of current year's tax losses not recognised	<u>–</u>	<u>160</u>
Income tax expense	<u><u>98</u></u>	<u><u>362</u></u>

### 7. DEFERRED TAXATION

As at 31st December, 2004, deferred tax liabilities/(assets) have not been recognised in these financial statements as the taxable temporary differences of HK\$69,000 (2003: deductible temporary differences of HK\$92,000) arising in connection with the fixed assets of the company are insignificant.

# Notes to the Financial Statements

For the year ended 31st December, 2004

## 8. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Profit attributable to shareholders for the year includes a loss of HK\$531,000 (2003: HK\$902,000) which has been dealt with in the financial statements of the Company.

## 9. DIVIDEND

	2004 HK\$'000	2003 HK\$'000
Interim dividend		
Special dividend – <i>Note</i>	–	2,000
	<u>–</u>	<u>2,000</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.

## 10. EARNINGS PER SHARE

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

	2004 HK\$'000	2003 HK\$'000
Earnings		
Profit attributable to shareholders	<u>20</u>	<u>703</u>
Number of shares		
Weighted average number of ordinary shares in issue for the purposes of basic earnings per share	375,000,000	344,260,274
Effect of dilutive potential ordinary shares – share options	<u>6,255,234</u>	<u>14,243,746</u>
Weighted average number of ordinary shares in issue for the purposes of diluted earnings per share	<u>381,255,234</u>	<u>358,504,020</u>

# Notes to the Financial Statements

For the year ended 31st December, 2004

## 10. EARNINGS PER SHARE (Continued)

The calculation of basic earnings per share for the year ended 31st December, 2004 is based on the Group's profit attributable to shareholders and 375,000,000 shares in issue throughout the year ended 31st December, 2004.

Diluted earnings per share for the year ended 31st December, 2004 is based on the Group's profit attributable to shareholders and the assumption that 381,255,234 shares had been in issue during the year. The number of shares used in the calculation comprised 375,000,000 shares referred to in the immediately preceding paragraph and 6,255,234 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\$0.21.

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.

## 11. 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, 2004 amounted to HK\$123,000 (2003: HK\$155,000).

# Notes to the Financial Statements

For the year ended 31st December, 2004

## 12. FIXED ASSETS

	Computers <i>HK\$'000</i>	Furniture and equipment <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Motor vehicle <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost: –					
At 1.1.2004	359	235	276	300	1,170
Additions	4	20	504	–	528
Disposals	–	–	(276)	–	(276)
<b>At 31.12.2004</b>	<b>363</b>	<b>255</b>	<b>504</b>	<b>300</b>	<b>1,422</b>
Aggregate depreciation:–					
At 1.1.2004	252	131	216	270	869
Charge for the year	70	34	101	30	235
Written back on disposals	–	–	(216)	–	(216)
<b>At 31.12.2004</b>	<b>322</b>	<b>165</b>	<b>101</b>	<b>300</b>	<b>888</b>
Net book value:–					
<b>At 31.12.2004</b>	<b>41</b>	<b>90</b>	<b>403</b>	<b>–</b>	<b>534</b>
At 31.12.2003	107	104	60	30	301

As at 31st December, 2004, the net book value of motor vehicle held under finance lease of the Group amounted to HK\$Nil (2003: HK\$30,000).

# Notes to the Financial Statements

For the year ended 31st December, 2004

## 13. INTERESTS IN SUBSIDIARIES – THE COMPANY

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Unlisted shares, at cost	<u>8,677</u>	<u>8,677</u>

Details of the subsidiaries as at 31st December, 2004 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

## 14. GUARANTEED FUNDS

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Unlisted guaranteed funds in Hong Kong, at cost	<u>999</u>	<u>–</u>
Market value	<u>888</u>	<u>–</u>

## 15. HELD-TO-MATURITY DEBT SECURITIES

	The Group		The Company	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Unlisted debt securities in Hong Kong, at amortised cost	<u>349</u>	<u>–</u>	<u>300</u>	<u>–</u>

# Notes to the Financial Statements

For the year ended 31st December, 2004

## 16. AMOUNTS DUE FROM/TO A RELATED COMPANY/ULTIMATE HOLDING COMPANY

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

## 17. DEBTORS, DEPOSITS AND PREPAYMENTS

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Debtors, deposits and prepayments comprise:–		
Trade debtors	16,841	10,589
Retention money receivable	322	79
Other debtors, deposits and prepayments	4,395	5,284
	<u>21,558</u>	<u>15,952</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:–

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Within 3 months	8,892	5,343
Over 3 months but within 6 months	1,300	2,745
Over 6 months but within 1 year	5,822	1,338
Over 1 year	1,175	2,046
	<u>17,189</u>	<u>11,472</u>
Less: Provision for doubtful debts	348	883
	<u>16,841</u>	<u>10,589</u>

## 18. PLEDGED TIME DEPOSITS

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

## 19. AMOUNT DUE FROM A SUBSIDIARY – THE COMPANY

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

## Notes to the Financial Statements

For the year ended 31st December, 2004

### 20. CREDITORS AND ACCRUALS

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Creditors and accruals comprise:–		
Trade creditors	2,505	2,152
Other creditors, accruals and provisions	<u>1,616</u>	<u>1,148</u>
	<u><u>4,121</u></u>	<u><u>3,300</u></u>

The following is an aging analysis of trade creditors:–

Within 3 months	1,687	1,922
Over 3 months but within 6 months	377	220
Over 6 months but within 1 year	441	4
Over 1 year	<u>–</u>	<u>6</u>
	<u><u>2,505</u></u>	<u><u>2,152</u></u>

### 21. SHARE CAPITAL

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Authorised, issued and fully paid:–		
375,000,000 ordinary shares of HK\$0.01 each	<u><u>3,750</u></u>	<u><u>3,750</u></u>

# Notes to the Financial Statements

For the year ended 31st December, 2004

## 22. 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.

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

Date of grant	Exercise period	Exercise price	Number of share options				Outstanding as at 31st December, 2004
			Outstanding as at 1st January, 2004	Granted during the year	Exercised during the year	Lapsed during the year	
7th June, 2003	Maximum 30%: 7th June, 2004 to 6th June, 2013	HK\$0.125	18,750,000	-	-	(5,625,000)	13,125,000
	Further 30%: 7th June, 2005 to 6th June, 2013						
	Remaining 40%: 7th June, 2006 to 6th June, 2013						
			<u>18,750,000</u>	<u>-</u>	<u>-</u>	<u>(5,625,000)</u>	<u>13,125,000</u>

## Notes to the Financial Statements

For the year ended 31st December, 2004

### 22. SHARE OPTION SCHEMES (Continued)

(b) As at 31st December, 2004, the number of share options vested was Nil (2003: Nil).

(c) No share options was granted or exercised during the year.

### 23. RESERVES

	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>
(a) The Group					
At 1.1.2003	210	–	117	11,453	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 – <i>Note 9</i>	–	–	–	(2,000)	(2,000)
At 31.12.2003	<u>3,750</u>	<u>8,672</u>	<u>117</u>	<u>10,156</u>	<u>22,695</u>
At 1.1.2004	3,750	8,672	117	10,156	22,695
Profit for the year	–	–	–	20	20
<b>At 31.12.2004</b>	<b><u>3,750</u></b>	<b><u>8,672</u></b>	<b><u>117</u></b>	<b><u>10,176</u></b>	<b><u>22,715</u></b>

*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.

# Notes to the Financial Statements

For the year ended 31st December, 2004

## 23. RESERVES (Continued)

	Share premium HK\$'000	Special reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
(b) The Company				
At 1.1.2003	8,467	–	(56)	8,411
Premium on placing of new shares	15,840	–	–	15,840
Capitalisation	(2,880)	–	–	(2,880)
Issuing expenses for share placing	(4,288)	–	–	(4,288)
Loss for the year	–	–	(902)	(902)
	<u>17,139</u>	<u>–</u>	<u>(958)</u>	<u>16,181</u>
At 31.12.2003	17,139	–	(958)	16,181
At 1.1.2004	17,139	–	(958)	16,181
Loss for the year	–	–	(531)	(531)
	<u>17,139</u>	<u>–</u>	<u>(1,489)</u>	<u>15,650</u>
<b>At 31.12.2004</b>	<b><u>17,139</u></b>	<b><u>–</u></b>	<b><u>(1,489)</u></b>	<b><u>15,650</u></b>

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, 2004, in the opinion of the directors, the reserves of the Company available for distribution to shareholders amounted to HK\$15,650,000 (2003: HK\$16,181,000) subject to the restrictions as stated above.

## Notes to the Financial Statements

For the year ended 31st December, 2004

### 24. SECURED BANK LOAN

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Principal outstanding	3,333	–
Less: Amount repayable within one year (shown under current liabilities)	<u>2,500</u>	<u>–</u>
Amount repayable after one year but within five years (shown under non-current liabilities)	<u>833</u>	<u>–</u>

### 25. OBLIGATION UNDER FINANCE LEASE

	Minimum lease payments		Present value of minimum lease payments	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Amounts payable under finance lease				
– Within one year	54	81	45	69
– After one year but within five years	–	61	–	49
	<u>54</u>	<u>142</u>	<u>45</u>	<u>118</u>
Less: Future finance charges	<u>9</u>	<u>24</u>	<u>–</u>	<u>–</u>
Present value of lease obligation	<u>45</u>	<u>118</u>	<u>45</u>	<u>118</u>
Less:				
Amount due for settlement within twelve months (shown under current liabilities)			<u>45</u>	<u>69</u>
Amount due for settlement after twelve months (shown under non-current liabilities)			<u>–</u>	<u>49</u>

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

## Notes to the Financial Statements

For the year ended 31st December, 2004

### 26. BANKING FACILITIES

As at 31st December, 2004, the Group's banking facilities to the extent of HK\$9,333,000 were secured by:-

- (i) Corporate guarantee put up by the Company; and
- (ii) Time deposits of the Group (Note 18).

### 27. CONNECTED AND RELATED PARTY TRANSACTIONS

Apart from the transactions as disclosed in notes 16 and 19 to the financial statements, the Group had the following material transactions with its related parties during the year:-

	<i>Note</i>	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Reimbursement of office rentals, utilities and certain administrative expenses from WLBM	<i>(i)</i>	<b>224</b>	174
Office rentals, utilities and certain administrative expenses paid to WLBM	<i>(ii)</i>	<b>458</b>	<b>9</b>

- (i) 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.

# Notes to the Financial Statements

For the year ended 31st December, 2004

## 27. CONNECTED AND RELATED PARTY TRANSACTIONS *(Continued)*

- (ii) In December, 2003, both WLBW and ITL moved to a new office premises of which the lease was entered into between WLBW and the landlord. Accordingly, WLBW and ITL entered into a new sharing of expenses agreement on 1st December, 2003. WLBW 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 WLBW for the joint enjoyment and benefits for both WLBW and ITL.

All transactions 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.

## 28. 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 consultancy service segment engages in the provision of consultancy services; and
- (c) 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, 2004

## 28. SEGMENT REPORTING (Continued)

### (a) Business segments

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

	IBS		Consultancy service		Others		Inter-segment elimination		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	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>26,079</u>	<u>20,726</u>	<u>-</u>	<u>3,250</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,079</u>	<u>23,976</u>
Segment results	(665)	(2,104)	-	2,340	-	-	-	-	(665)	236
Unallocated income									909	884
Interest income	41	10	-	-	-	-	-	-	41	10
Operating profit									285	1,130
Finance costs	(167)	(65)	-	-	-	-	-	-	(167)	(65)
Profit before income tax									118	1,065
Income tax expense									(98)	(362)
Profit attributable to shareholders									<u>20</u>	<u>703</u>
Depreciation for the year	<u>235</u>	<u>266</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>235</u>	<u>266</u>
Provision for doubtful debts	348	-	-	-	-	-	-	-	348	-
Bad debts written off	<u>143</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>143</u>	<u>-</u>
Segment assets	<u>40,626</u>	<u>35,291</u>	<u>-</u>	<u>2,380</u>	<u>659</u>	<u>5</u>	<u>(10,635)</u>	<u>(11,389)</u>	<u>30,650</u>	<u>26,287</u>
Unallocated assets	-	-	-	-	-	-	-	-	-	-
Total assets	<u>40,626</u>	<u>35,291</u>	<u>-</u>	<u>2,380</u>	<u>659</u>	<u>5</u>	<u>(10,635)</u>	<u>(11,389)</u>	<u>30,650</u>	<u>26,287</u>
Segment liabilities	7,890	3,455	-	-	10,635	11,389	(10,635)	(11,389)	7,890	3,455
Unallocated liabilities	<u>45</u>	<u>137</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>45</u>	<u>137</u>
Total liabilities	<u>7,935</u>	<u>3,592</u>	<u>-</u>	<u>-</u>	<u>10,635</u>	<u>11,389</u>	<u>(10,635)</u>	<u>(11,389)</u>	<u>7,935</u>	<u>3,592</u>
Capital expenditure incurred during the year	<u>528</u>	<u>117</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>528</u>	<u>117</u>

# Notes to the Financial Statements

*For the year ended 31st December, 2004*

## **28. SEGMENT REPORTING** *(Continued)*

### **(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.

## **29. 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

## RESULTS

### For the year ended 31st December

	2004	2003	2002	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Audited)</i>
Turnover					
– Continuing operations	<b>26,079</b>	23,976	36,260	19,920	19,396
– Discontinuing operation	–	–	37,549	56,215	25,961
	<b>26,079</b>	23,976	73,809	76,135	45,357
Profit for the year					
– Continuing operations	<b>20</b>	703	7,619	1,032	602
– Discontinuing operation	–	–	(289)	720	149
	<b>20</b>	703	7,330	1,752	751

## Financial Summary

### ASSETS AND LIABILITIES

	At 31st December				
	2004	2003	2002	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Audited)</i>
NON-CURRENT ASSETS	<u>2,848</u>	<u>1,140</u>	<u>2,230</u>	<u>753</u>	<u>875</u>
CURRENT ASSETS	<u>27,802</u>	<u>25,147</u>	<u>19,215</u>	<u>30,436</u>	<u>17,198</u>
DEDUCT:					
CURRENT LIABILITIES	<u>7,102</u>	<u>3,543</u>	<u>9,540</u>	<u>24,628</u>	<u>13,867</u>
NET CURRENT ASSETS	<u>20,700</u>	<u>21,604</u>	<u>9,675</u>	<u>5,808</u>	<u>3,331</u>
NON-CURRENT LIABILITIES	<u>(833)</u>	<u>(49)</u>	<u>(125)</u>	<u>(482)</u>	<u>(358)</u>
MINORITY INTERESTS	<u>–</u>	<u>–</u>	<u>–</u>	<u>(756)</u>	<u>(277)</u>
NET ASSETS	<u>22,715</u>	<u>22,695</u>	<u>11,780</u>	<u>5,323</u>	<u>3,571</u>