



INNOVIS HOLDINGS LIMITED



1st Quarterly Report 2005



INNOVIS

HOLDINGS LIMITED

華智控股有限公司

Incorporated in the Cayman Islands with limited liability



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

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

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

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

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

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



FIRST QUARTER UNAUDITED RESULTS

The board of Directors (the “Board”) of the Company is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the three months ended 31st March, 2005, together with the comparative unaudited figures for the corresponding period in 2004 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

		Three months ended 31st March, 2005 <i>HK\$'000</i>	Three months ended 31st March, 2004 <i>HK\$'000</i>
	<i>Notes</i>		
Turnover	2	4,480	5,166
Cost of sales		<u>(4,357)</u>	<u>(3,827)</u>
Gross profit		123	1,339
Other income		34	207
Administrative and other operating expenses		<u>(866)</u>	<u>(1,474)</u>
Operating (loss)/profit		(709)	72
Finance costs		<u>(41)</u>	<u>(10)</u>
(Loss)/Profit before taxation		(750)	62
Taxation	3	<u>–</u>	<u>(24)</u>
(Loss)/Profit attributable to shareholders		<u><u>(750)</u></u>	<u><u>38</u></u>
Dividend	4	<u>–</u>	<u>–</u>
(Loss)/Earnings per share – Basic	5	<u><u>(0.20) cents</u></u>	<u><u>0.01 cents</u></u>

Notes:

1. Basis of preparation

The accounting policies adopted in preparing the unaudited consolidated results are consistent with those followed in the annual financial statements for the year ended 31st December, 2004. The unaudited consolidated results have been prepared under the historical cost convention and in accordance with accounting standards issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of Hong Kong Companies Ordinance and the GEM Listing Rules.

In 2004, the HKICPA issued a number of new and revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (“HKFRS”) which are effective for accounting periods beginning on or after 1st January, 2005. The adoption of these HKFRS has no material impact on the Group’s results of operations and financial position.

The Group’s unaudited consolidated quarterly results has not been audited by the Company’s auditors but has been reviewed by the Company’s audit committee.

2. Turnover

Turnover for the period ended 31st March, 2005 represents revenue recognized from the provision of Intelligent Building Services (IBS) solutions and maintenance, the net invoiced value of goods sold, and consultancy services. An analysis of the Group's turnover is set out below:

	Three months ended 31st March, 2005 HK\$'000 (unaudited)	Three months ended 31st March, 2004 HK\$'000 (unaudited)
IBS solutions and maintenance	4,480	5,166
IBS consultancy services	—	—
	<u>4,480</u>	<u>5,166</u>

3. Taxation

No provision for Hong Kong profits tax has been made in the accounts as the Group does not have any assessable profit for the three months ended 31st March 2005 (2004: 17.5%).

4. Dividend

For the three months ended 31st March, 2005, the Board does not recommend the payment of a dividend (2004: Nil).

5. (Loss)/Earnings per share

Loss per share for the three months ended 31st March, 2005 and earnings per share for the corresponding period in 2004 was calculated based on the following figures:

	Three months ended 31st March, 2005 HK\$'000 (unaudited)	Three months ended 31st March, 2004 HK\$'000 (unaudited)
Unaudited consolidated (loss)/profit attributable to shareholders	<u><u>(750)</u></u>	<u><u>38</u></u>
Weighted average number of shares		
– Basic	375,000,000	375,000,000
– Diluted	375,000,000	388,033,537
(Loss)/Earnings per share		
– Basic	(0.20) cent	0.01 cent
– Diluted	(0.20) cent	0.01 cent

6. Reserves

There were no transfers to or from reserves of the Group other than those reflected in the results, for the three months ended 31st March, 2005 and 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the three months ended 31st March, 2005, the Group recorded a turnover of approximately HK\$4.48 million, representing a decline of approximately 13% as compared to approximately HK\$5.17 million for the corresponding period in 2004.

For the three months ended 31st March, 2005, gross profit margin of the Group was approximately 2.75% as compared to approximately 25.92% for the corresponding period in 2004. The decrease of gross profit margin was attributable to fierce competition amongst players in the market and thus leading to price cutting of projects.

For the three months ended 31st March, 2005, administrative and other operating expenses of the Group was approximately HK\$0.87 million as compared to approximately HK\$1.47 million for the corresponding period in 2004. Despite the management's continuous efforts in cost control, competition led to the loss attributable to shareholders for the three months ended 31st March, 2005 was HK\$750,000 as compared to profit attributable to shareholders of HK\$38,000 for the corresponding period in 2004.

BUSINESS REVIEW

BUSINESS DEVELOPMENT IN THE PEOPLE'S REPUBLIC OF CHINA ("PRC")

As part of the Group's strategy of expanding its customer base in the PRC, the Group has leveraged upon the connection of its existing domestic strategic partners to explore the business opportunities of the Group's products and services in the PRC. Meanwhile, the Group is also negotiating with relevant companies to form possible co-operation in household software and discussing distribution rights in Hong Kong with a company in PRC in respect of a newly developed product so as to further expand the range of applications for the intelligent building systems developed by the Group.

The Group is still currently discussing with several property developers in the Yangtze River Delta region to explore the possibilities of introducing these developers as the Group's strategic partners in order to strengthen the Group's business in the region.

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

BUSINESS DEVELOPMENT IN HONG KONG

Despite signs of economic recovery in Hong Kong, price-cutting in the provision of products and services in the IBS market as a result of fierce competition has confirmed unabated and has had a negative impact on the Group's profitability. Although under such highly competitive market condition, the Group will continue to strive to develop and explore new business opportunities in Hong Kong, including developing retailing software compatible with smart cards, tapping into school computers maintenance market and developing escalator systems with computerized lighting applicable in hospitals.

BUSINESS DEVELOPMENT IN MACAU

With the current boom in the tourism and hospitality industry in Macau, the Group also anticipates there will be a potential market for IBS products of the Group. The Group is currently co-operating with a local engineering company to tender in the relevant industry.

RESEARCH AND DEVELOPMENT

In an extension to its continuing research and development of network-based intelligent system for small community, the Group is still working with relevant companies in the PRC to study the feasibility of developing a build-in entertainment system as an additional value-added component for its network-based intelligent system. In addition, the Group is actively engaged in research and development of the compatibility between smart cards and retailing software and the development of escalator systems with computerized lighting applicable in hospitals.

BUSINESS OUTLOOK

The Directors consider that the recent signs of recovery in the Hong Kong economy did not have positive impact on the growth of the construction industry in Hong Kong and, in particular, the competition between players in the industry is still very fierce, resulting in a continuous decline in gross profit margin of projects. Therefore, the Directors expect that the demand for IBS products and services will probably remain stagnating in the near future. The price-cutting strategy adopted by IBS competitors also further intensified the competition for the IBS projects in Hong Kong. As a result, the Directors expect the Group's profitability may be subject to further possible downturn during the remainder of this financial year. Nevertheless, the Group is taking appropriate measures in an attempt to minimise the possible downturn.

Facing the price-cutting competition, the Group also takes such corresponding measures as cutting down Directors' remunerations and requesting for additional discount from suppliers, to decrease the costs of production of the Company.

Apart from passive cost-cutting solutions, the Group implements positive measures, including the development of retailing software compatible with smart cards, striving for penetration into school computers maintenance market and the development of escalator systems with computerized lighting applicable in hospitals in order to open up new sources of income for the Company.

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

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

As at 31st March, 2005, the interests 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"), as recorded in the register maintained by the Company under Section 352 of the SFO or as required to be notified to the Company and the Stock Exchange in accordance with Rules 5.46 to 5.67 of the GEM Listing Rules were as follows:

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

Name of Directors	Type of interests	Number of securities	Approximate percentage of shareholding
Mr. Lam Yew Kai ("Mr. Edmond Lam")	Interest of a controlled corporation	211,229,000 shares (Note 1)	56.33%
Mr. Tsang Hon Chung ("Mr. Derek Tsang")	Interest of a controlled corporation	211,229,000 shares (Note 1)	56.33%
	Family	Option to subscribe for 5,625,000 shares (Note 2)	1.50%
Ms. Wong Mau Fa	Corporate and family	211,229,000 shares (Note 3)	56.33%

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

Name of Directors	Type of interests	Number of securities	Approximate percentage of shareholding
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:

1. These shares are legally owned by China Win. Since each of Mr. Edmond Lam and Mr. Derek Tsang is interested in more than one-third of the voting rights of China Win, each of them is taken to be interested in all the Company’s shares held by China Win pursuant to Part XV of the SFO.
2. Such shares are subject to an option granted under the Pre-IPO Share Option Scheme (as defined in the prospectus of the Company dated 17th June, 2003) held by Ms. Sung Sau Fan, the spouse of Mr. Derek Tsang. Accordingly, Mr. Derek Tsang is taken to be interested in these shares pursuant to Part XV of the SFO.
3. Ms. Wong Mau Fa, the spouse of Mr. Edmond Lam, is taken to be interested in these shares pursuant to Part XV of the SFO.
4. These shares are legally owned by Emerging Purity Co., Ltd. (“Emerging Purity”). By virtue of his 100% shareholding interest in Emerging Purity, Mr. Edmond Lam is taken to be interested in all the shares of China Win held by Emerging Purity pursuant to Part XV of the SFO.

(c) Short positions in the shares and underlying shares of equity derivatives of the Company or any of its associated corporations

Save as disclosed herein, as at 31st March, 2005, none of the Directors or chief executives of the Company has short positions in the shares or underlying shares of equity derivatives of the Company or any of its associated corporations.

PERSONS WHO HAVE AN INTEREST OR A SHORT POSITION WHICH IS DISCLOSEABLE UNDER DIVISIONS 2 AND 3 OF PART XV OF THE SFO AND SUBSTANTIAL SHAREHOLDING

So far as is known to any Director or chief executive of the Company, as at 31st March, 2005, persons (not being a Director or chief executive of the Company) who have an interest or a short position in the shares or underlying shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO or be interested in, directly or indirectly, 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any member of the Group were as follows:

(a) Long positions in the shares of the Company

Name	Type of interests	Number of shares	Approximate percentage of interests
China Win (Note 1)	Beneficial owner	211,229,000 shares	56.33%
Emerging Purity (Note 2)	Interest of a controlled corporation	211,229,000 shares	56.33%
Ms. Sung Sau Fan (Note 3)	Family	211,229,000 shares	56.33%

Notes:

1. China Win is a company incorporated in the BVI and is beneficially owned by Emerging Purity, Mr. Derek Tsang, Ms. Wong Mau Fa and Mr. Stanley Sung as to 46.45%, 46.41%, 3.57% and 3.57% respectively. Emerging Purity is then 100% beneficially owned by Mr. Edmond Lam.
2. Since Emerging Purity is beneficial owner of 46.45% interest in China Win, Emerging Purity is taken to be interested in the shares held by China Win pursuant to Part XV of the SFO.
3. Ms. Sung Sau Fan is the wife of Mr. Derek Tsang and she is taken to be interested in the shares held by Mr. Derek Tsang pursuant to Part XV of the SFO.

(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.

COMPETING INTERESTS

As at 31st March, 2005, none of the Directors or management shareholders (as defined in GEM Listing Rules) of the Company or their respective associates had interests in a business which competed or was likely to compete, either directly or indirectly, with the business of the Company.

SPONSOR'S INTERESTS

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

As at 31st March, 2005, neither MasterLink, its directors, employees or their respective associates had any interest in any class of securities of the Company or any other companies in the Group (including options or rights to subscribe for such securities) pursuant to Rules 6.36 of the GEM Listing Rules.

COMPLIANCE OF RULES 5.34 TO 5.45 OF THE GEM LISTING RULES

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

PURCHASE, DISPOSAL OR REDEMPTION OF SECURITIES

During the three months ended 31st March, 2005, neither the Company, nor any of its subsidiaries purchased, disposed of or redeemed any of the Company's listed securities.



AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with the GEM Listing Rules. The audit committee provides a link between the Board and the Company's auditors in matter coming within the scope of the Group audit. It also reviews and supervises the financial reporting process and internal control procedures of the Group. The audit committee comprises three independent non-executive directors, namely Mr. Liu Pui Ming, Mr. Lam Ying Hung, Andy and Mr. Koo Cheuk On, Timmie.

The Group's unaudited consolidated results for the three months ended 31st March, 2005 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards.

By order of the Board
TSANG HON CHUNG
Chairman

Hong Kong, 13th May, 2005

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