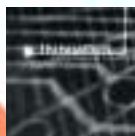


INNOVIS HOLDINGS LIMITED



Interim 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.**

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

## HIGHLIGHTS

- For the six months ended 30th June, 2005, turnover was approximately HK\$8.3 million as compared to HK\$14.2 million for the corresponding period in 2004.
- For the six months ended 30th June, 2005, gross profit margin was approximately 22.3% as compared to 19.4% for the corresponding period in 2004.
- For the six months ended 30th June, 2005, loss attributable to shareholders was approximately HK\$276,000 as contrast with profit of HK\$150,000 for the corresponding period in 2004.
- The board of Directors (the “Board”) does not recommend the payment of an interim dividend for the six months ended 30th June, 2005.

## INTERIM RESULTS

The Board is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the three months and six months ended 30th June, 2005, together with the comparative unaudited figures for the corresponding periods in 2004 as follows:–

### CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	Six months ended 30th June,		Three months ended 30th June,	
		2005 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited)
Turnover	2	8,327	14,224	3,847	9,058
Cost of sales		(6,470)	(11,466)	(2,113)	(7,638)
Gross profit		1,857	2,758	1,734	1,420
Other income		76	243	42	35
Administrative and other operating expenses		(2,117)	(2,774)	(1,251)	(1,300)
Operating (loss)/profit		(184)	227	525	155
Finance costs		(92)	(45)	(51)	(35)
(Loss)/Profit before taxation	4	(276)	182	474	120
Taxation	5	–	(32)	–	(8)
(Loss)/Profit attributable to shareholders		(276)	150	474	112
Dividend	6	–	–	–	–
(Loss)/Earnings per share					
– Basic	7	(0.07) cent	0.04 cent	0.13 cent	0.03 cent
– Diluted		N/A	0.04 cent	0.13 cent	0.03 cent

**CONDENSED CONSOLIDATED BALANCE SHEET**

	Note	As at 30th June, 2005 HK\$'000 (Unaudited)	As at 31st December, 2004 HK\$'000 (Audited)
<b>Non-Current Assets</b>			
Fixed assets	8	465	534
Guaranteed funds		999	999
Held-to-maturity debt securities		49	49
Retention money receivable		—	1,266
		<u>1,513</u>	<u>2,848</u>
<b>Current Assets</b>			
Held-to-maturity debt securities		300	300
Amount due from ultimate holding company	9	4	4
Debtors, deposits and prepayments	10	22,846	21,558
Tax recoverable		482	359
Pledged time deposits		1,016	1,011
Time deposits		631	131
Cash and bank balances		367	4,439
		<u>25,646</u>	<u>27,802</u>
<b>Current Liabilities</b>			
Bills payable, unsecured		—	340
Creditors and accruals	11	2,222	4,121
Bank overdrafts		378	—
Secured bank loan		2,083	2,500
Obligation under finance lease	12	—	45
Amount due to a related company	9	37	96
		<u>4,720</u>	<u>7,102</u>
<b>Net Current Assets</b>		<u>20,926</u>	<u>20,700</u>
<b>Total Assets less Current Liabilities</b>		<u>22,439</u>	<u>23,548</u>
<b>Representing:—</b>			
<b>Share Capital</b>	13	3,750	3,750
<b>Reserves</b>		<u>18,689</u>	<u>18,965</u>
<b>Shareholders' Funds</b>		<u>22,439</u>	<u>22,715</u>
<b>Non-Current Liabilities</b>			
Secured bank loan		—	833
		<u>22,439</u>	<u>23,548</u>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended	
	30th June,	
	2005	2004
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash outflow from operating activities	<b>(2,621)</b>	(6,503)
Net cash outflow from investing activities	<b>(38)</b>	(1,398)
Net cash (outflow)/inflow from financing activities	<b>(913)</b>	6,349
Decrease in cash and cash equivalents	<b>(3,572)</b>	(1,552)
Cash and cash equivalents at the beginning of the period	<b>4,570</b>	6,757
Cash and cash equivalents at the end of the period	<b>998</b>	5,205
Analysis of the balances of cash and cash equivalents		
Time deposits	<b>631</b>	—
Cash and bank balances	<b>367</b>	5,205
	<b>998</b>	5,205

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30TH JUNE, 2005

	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>
As at 1st January, 2004	3,750	8,672	117	10,156	22,695
Profit for the year	–	–	–	20	20
As at 31st December, 2004 (Audited)	<u>3,750</u>	<u>8,672</u>	<u>117</u>	<u>10,176</u>	<u>22,715</u>
As at 1st January, 2005	3,750	8,672	117	10,176	22,715
Loss for the period	–	–	–	(276)	(276)
As at 30th June, 2005 (Unaudited)	<u>3,750</u>	<u>8,672</u>	<u>117</u>	<u>9,900</u>	<u>22,439</u>

## **NOTES TO ACCOUNTS:**

### **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 interim results has not been audited by the Company’s auditors but has been reviewed by the Company’s audit committee.





## 2. Turnover and revenue

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

Turnover for the period ended 30th June, 2004 and 2005 represented revenue recognised in respect of IBS solutions, building contracting and consultancy services rendered and the net invoiced value of goods sold. An analysis of the Group's turnover and other major revenue is set out below:-

	Six months ended 30th June,		Three months ended 30th June,	
	2005 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited)
Turnover:				
IBS solutions, building contracting services and sales of goods	8,327	14,224	3,847	9,058
Interest income	6	-	6	-
Total revenue	<u>8,333</u>	<u>14,224</u>	<u>3,853</u>	<u>9,058</u>

### 3. Segmental information

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

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

	Six months ended 30th June,		Three months ended 30th June,	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
<b>Segment revenue</b>				
IBS solutions, building contracting services and sales of goods	<u>8,327</u>	<u>14,224</u>	<u>3,847</u>	<u>9,058</u>
<b>Segment results</b>				
IBS solutions, building contracting services and sales of goods	<u>1,857</u>	<u>2,758</u>	<u>1,734</u>	<u>1,420</u>

#### 4. (Loss)/Profit before taxation

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

	Six months ended 30th June,		Three months ended 30th June,	
	2005 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited)
Auditors' remuneration	24	-	24	-
Cost of materials used	3,960	7,194	985	3,598
Depreciation	107	168	107	84
Staff costs	1,116	1,756	667	970
Minimum lease payments under operating leases	54	41	54	20
Research and development costs	300	1,196	170	1,191
Interest expenses on borrowings	61	38	30	38
Finance lease interest	9	7	7	3
	<u>9</u>	<u>7</u>	<u>7</u>	<u>3</u>

#### 5. Taxation

Taxation represents the provision for Hong Kong profits tax at 17.5% (2004: 17.5%) on the estimated assessable profits for the period presented.

#### 6. Dividend

For the six months ended 30th June, 2005, the Board does not recommend the payment of an interim dividend.

## 7. (Loss)/Earnings per share

(Loss)/Earnings per share are calculated based on the following figures:–

	Six months ended 30th June,		Three months ended 30th June,	
	2005 <i>HK\$'000</i> (Unaudited)	2004 <i>HK\$'000</i> (Unaudited)	2005 <i>HK\$'000</i> (Unaudited)	2004 <i>HK\$'000</i> (Unaudited)
The Group's consolidated (loss)/profit attributable to shareholders	<u>(276)</u>	<u>150</u>	<u>474</u>	<u>112</u>
Weighted average number of shares				
– Basic	<u>375,000,000</u>	<u>375,000,000</u>	<u>375,000,000</u>	<u>375,000,000</u>
– Diluted	<u>375,000,000</u>	<u>384,770,115</u>	<u>375,000,000</u>	<u>384,770,695</u>
(Loss)/Earnings per share				
– Basic	<u>(0.07) cent</u>	<u>0.04 cent</u>	<u>0.13 cent</u>	<u>0.03 cent</u>
– Diluted	<u>N/A</u>	<u>0.04 cent</u>	<u>0.13 cent</u>	<u>0.03 cent</u>

**8. Fixed assets**

	Computers <i>HK\$'000</i>	Furniture & equipment <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Cost:</b>					
At 1st January, 2005	363	255	504	300	1,422
Additions	34	4	-	-	38
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 30th June, 2005	397	259	504	300	1,460
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>Aggregate depreciation:</b>					
At 1st January, 2005	322	165	101	300	888
Charge for the period	39	17	51	-	107
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 30th June, 2005	361	182	152	300	995
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>Net book value:</b>					
At 30th June, 2005 (Unaudited)	36	77	352	-	465
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December, 2004 (Audited)	41	90	403	-	534
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

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

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

## 10. Debtors, deposits and prepayments

	<b>As at 30th June, 2005 HK\$'000 (Unaudited)</b>	As at 31st December, 2004 HK\$'000 (Audited)
Debtors, deposits and prepayments comprise:-		
Trade debtors	16,363	16,841
Retention money receivable	1,508	322
Other debtors, deposits and prepayments	<u>4,975</u>	<u>4,395</u>
	<u><b>22,846</b></u>	<u><b>21,558</b></u>

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

	<b>As at 30th June, 2005 HK\$'000 (Unaudited)</b>	As at 31st December, 2004 HK\$'000 (Audited)
Within 3 months	5,463	8,892
Over 3 months but within 6 months	1,062	1,300
Over 6 months but within 1 year	6,588	5,822
Over 1 year	<u>3,250</u>	<u>1,175</u>
	<b>16,363</b>	17,189
Less: Provision for doubtful debts	<u>–</u>	<u>348</u>
	<u><b>16,363</b></u>	<u><b>16,841</b></u>

**11. Creditors and accruals**

	<b>As at 30th June, 2005 HK\$'000 (Unaudited)</b>	<b>As at 31st December, 2004 HK\$'000 (Audited)</b>
Creditors and accruals comprise:-		
Trade creditors	1,616	2,505
Other creditors, accruals and provisions	<u>606</u>	<u>1,616</u>
	<u><b>2,222</b></u>	<u><b>4,121</b></u>

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

	<b>As at 30th June, 2005 HK\$'000 (Unaudited)</b>	<b>As at 31st December, 2004 HK\$'000 (Audited)</b>
Within 3 months	342	1,687
Over 3 months but within 6 months	121	377
Over 6 months but within 1 year	834	441
Over 1 year	<u>319</u>	<u>-</u>
	<u><b>1,616</b></u>	<u><b>2,505</b></u>

## 12. Obligation under finance lease

	Minimum lease payments		Present Value of minimum lease payments	
	As at 30th June, 2005 <i>HK\$'000</i> (Unaudited)	As at 31st December, 2004 <i>HK\$'000</i> (Audited)	As at 30th June, 2005 <i>HK\$'000</i> (Unaudited)	As at 31st December, 2004 <i>HK\$'000</i> (Audited)
Amounts payable under finance lease				
– Within one year	-	54	-	45
– After one year but within five years	-	-	-	-
	-	54	-	45
Less: Future finance charges	-	9	-	-
Present value of lease obligation	-	45	-	45

The lease, with term of four years and on a fixed repayment basis, was completely repaid during the period.

## 13. Share capital

	<i>HK\$'000</i>
<i>Authorised:</i>	
As at 31st December, 2004	
– 10,000,000,000 ordinary shares of HK\$0.01 each (Audited)	100,000
As at 30th June, 2005	
– 10,000,000,000 ordinary shares of HK\$0.01 each (Unaudited)	<u>100,000</u>
<i>Issued and fully paid:</i>	
As at 31st December, 2004	
– 375,000,000 ordinary shares of HK\$0.01 each (Audited)	3,750
As at 30th June, 2005	
– 375,000,000 ordinary shares of HK\$0.01 each (Unaudited)	<u>3,750</u>



## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **FINANCIAL REVIEW**

#### *TURNOVER AND PROFIT*

For the six months ended 30th June 2005, turnover was approximately HK\$8.3 million, representing a decrease of approximately 41.5% as compared with that for the corresponding period in 2004. Loss attributable to shareholders was approximately HK\$276,000 as contrast with profit of approximately HK\$150,000 for the corresponding period in 2004.

The decrease in profit attributable of shareholders of approximately HK\$426,000 was due to fierce competition in IBS industry which led to continuous decline in gross profit margin of projects as a result of price-cutting strategies adopted by IBS competitors. Despite management's effort in reducing the administrative and other operating expenses, the Group failed to offset the decrease in gross profit and resulted in decrease in profit attributable to shareholders and ended up with loss to shareholders.

#### *FOREIGN EXCHANGE EXPOSURE*

Since all operating revenue and expenses of the Group are denominated in Hong Kong dollars, the Group does not have any foreign exchange exposure for the six months ended 30th June, 2005.

#### *LIQUIDITY AND FINANCIAL RESOURCES*

As at 30th June, 2005, shareholders' funds of the Group amounted to approximately HK\$22.4 million. Current assets amounted to approximately HK\$25.6 million, of which approximately HK\$1,016,000 and HK\$998,000 were pledged bank deposits and cash and bank balances respectively. The Group's current liabilities amounted to approximately HK\$4.7 million which mainly comprised its trade payables, accruals, bank overdrafts and bank loan. Taken into consideration of its current financial resources, the Group shall have adequate capital for its continual operation and development.

#### *PLEDGE OF ASSETS*

As at 30th June, 2005, bank deposits of HK\$1,016,000 have been pledged to the banks to secure general banking facilities granted to the group.

#### *CONTINGENT LIABILITIES*

As at 30th June, 2005, the Group did not have any significant contingent liabilities.

## *GEARING RATIO*

As at 30th June, 2005, the total assets of the Group was approximately HK\$27.2 million whereas the total liabilities was approximately HK\$4.7 million. The gearing ratio (total liabilities divided by total assets) was approximately 17.4%.

## **BUSINESS REVIEW**

### *BUSINESS DEVELOPMENT IN HONG KONG*

Over the recent years, the Group has constantly suffered from profit setbacks under a persistently dampening construction sector in the territory. To foster a sustainable development, in addition to strengthening existing business, the Company is currently designing an educational-related intelligent system targeted at international schools with stronger spending power, with a vision to establishing a larger market share in these economically synergetic markets.

In addition, the Group has developed intelligent control solutions for air-conditioning systems and lighting systems, which are widely applicable on the existing commercial buildings, schools and car parks, in association with a number of energy-saving system companies.

The Group has recruited additional marketing staff for promoting building contracting business in Hong Kong which provides tailor-made professional solutions, so as to secure the new market.

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

The Group recognizes the importance of enlarging its customer base through developing its business in the PRC market. The Group is actively exploring opportunities of developing its products and services through local strategic partners, and tendering for access monitoring systems, car park monitoring systems and cable television set-top boxes projects as measures to diversify our self-developed IBS solutions further.

The Group is negotiating the possibility of forming strategic partnerships with property developers in the Yangtze River region, which will strengthen our business in the region. Also, the Group actively introduces our products being co-developed with amicable companies, namely air-conditioning systems and lighting system, into the PRC market.

For the development of the PRC market, the Group adheres to conservative philosophy as its long-term development strategy in consequence of higher risk in debt collection in the market.

### *BUSINESS DEVELOPMENT IN MACAU*

Macau market has high potential but the construction industry is still at developing stage. The Group is actively developing the market by approaching our friendly companies there and continues the negotiation of forming partnership with a number of local property developers.

### **RESEARCH AND DEVELOPMENT**

Intelligent housing estates remain the development trend in the PRC, and the Group firmly believes that they will persist. We are carrying out aggressive researches on optical transmission networks, as larger areas of these intelligent housing estates have posed a necessity for high-speed data transmission. Developers can save tunnel costs and increase system scalability with IBS's optical transmission networks.

The Group's internal R&D team and a private company have co-developed a relevant system solution, which is at its final stage, and introduce the solution to mechanical consultants and real estate developers directly.

To minimize system installation costs, the Group has further developed self-assembled IBS as measure to seize more business opportunities. In addition, the Group is aggressively sourcing research results of private research companies in the PRC.

### **BUSINESS OUTLOOK**

The Directors consider that recent signs of recovery in the Hong Kong economy did not have any positive impact on the growth of the building and construction industry in Hong Kong, its growth remained stagnant, as such, the Directors anticipate a continual sluggish demand for both IBS products and services in the immediate future. Moreover, the price-cutting strategies adopted by IBS competitors have resulted in an increasingly difficult environment for the industry. To cope with the challenge, the Group has initiated a series of active promotion measures for the remaining financial year in attempt to strengthen our competitiveness and income generating ability.

Up to now, deferrals in clients payment remain the most serious problem for the Group. Extensive efforts were made to collect the overdue payments, including proactively approaching individual clients for payment arrangement and formulation of client re-organization programme. New potential companies and clients with stronger financial base are actively identified while existing clients with prolonged records of defaulted payments are abandoned. Confronted with the deeply rooted problem of delayed payment for the whole industry, the Group strives to minimize the extent of this problem by adopting the above mentioned measures, and considers that bad debt provisions are not necessary at this stage as some delayed payments are being collected.

Our profit enhancement efforts have not gained proven results and do not offset the existing industrial difficulties. Accordingly, the Group actively extends our IBS products to applications in other similar sectors. To optimize the prevailing operating environment, inter alia, substantial resources were deployed to develop the Logistics Intelligent System solutions. In light of the rapidly growing domestic logistics industry, the combination of intelligent systems and software have enormous potentials for future development by being not the mainstream in the market place.

The Group is actively pursuing a domestic partner for the development of a set of logistics platform software, which is intended to incorporate with the Group's intelligent solutions. Through these efforts, the Group aims at strengthening market competitive edges and thus better profit prospects.

## **EMPLOYEES**

As at 30th June, 2005, the Group continued sub-contracting much of its works during the period in order to control internal costs, resulting in an adjustment in the number of staff in Hong Kong to 15 (30th June, 2004: 20). Remuneration of executive Directors and staff were approximately HK\$745,000 (six months ended 30th June, 2004: HK\$1.5 million). Employees are remunerated based on their performance, experience and industry practices.

The Company has adopted a share option scheme. A summary of the principal terms and conditions of the share option scheme is set out in the section headed "Share Option Scheme" in Appendix V of the Prospectus. As at 30th June, 2005, no option has been granted under such share option scheme.

## **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.

Up to 30th June, 2005, no option was granted, exercised or lapsed pursuant to the Share Option Scheme.

### ***(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. 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.

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 to employees of the Group under the Pre-IPO Share Option Scheme during the period is as follows:–

Grantees	Date of grant	Option period	Vesting period	Exercise price	Number of share options				Outstanding as at 30th June, 2005
					Outstanding as at 1st January, 2005	Granted during the period	Exercised during the period	Lapsed during the period	
Employees of the Group	7th June, 2003	7th June, 2003 to 6th June, 2013 (inclusive)	Maximum 30%: 7th June, 2004 to 6th June, 2013  Further 30%: 7th June, 2005 to 6th June, 2013  Remaining 40%: 7th June, 2006 to 6th June, 2013	HK\$0.125	13,125,000	-	-	-	13,125,000
					13,125,000	-	-	-	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 30th June, 2005 have been granted under the share option schemes.

## COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL PROGRESS

The following is a comparison of the implementation plan of the Group's business objectives as stated in the prospectus of the Company dated 17th June, 2003 (the "Prospectus") and its actual progress. The Directors are of the view that the Group has followed its implementation plan in accordance to that disclosed in the Prospectus. Nevertheless, in order to attain long-term business goals, the Group will review its business objectives and strategies on an on-going basis and make adjustments as necessary.

## **BUSINESS OBJECTIVES AS SET OUT IN THE PROSPECTUS**

### **BUSINESS DEVELOPMENT IN HONG KONG**

- Continue to seek out and tender for public sector IBS projects.
- Continue to establish contact and seek business opportunities in old building re-engineering projects that involve the installation of IBS.
- 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.
- Evaluate the performance of the Group's business in Hong Kong.

## **ACTUAL BUSINESS PROGRESS**

- The Group is tendering for a number of public sector projects. The intelligent handrail system designed for hospital application has been accepted and duly adopted by the Hospital Authority. The Group is negotiating on the contract with the master contractor.
- Some of the old-style building renovation contracts of the Group proceeded as planned. The Group is also negotiating with a company in respect of the application of energy-saving lights in those buildings.
- The Group had made a joint application with the Hong Kong Polytechnic University for the Innovation and Technology Fund (ITF) sponsored by the Hong Kong SAR Government to support the launch of "*Pervasive Secure Version 1.0*" in Hong Kong. However, the application had been turned down and thus the cooperation was terminated. The Group had been identifying new cooperative partners, and believes that new cooperative projects will be identified in the future.
- Sales performance was dampened under difficult period of the construction industry. The Group believes improvement will be made in pace with the economic recovery and increasing popularity of IBS products and services.

## **BUSINESS OBJECTIVES AS SET OUT IN THE PROSPECTUS**

### *GEOGRAPHIC EXPANSION TO THE PRC*

- Continue to register the Shenzhen, Shanghai and Dalian joint ventures as the approved contractors 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 tendering IBS projects in the PRC.
- Establish contact and seek business opportunities in tendering for IBS projects in the PRC.
- Identify and initiate discussions with property developers in the PRC for the application of the Group's IBS product to their existing and upcoming property development projects.
- Formulate the latest business plan for the development of business in the PRC based on the evaluation performed in the previous period.

## **ACTUAL BUSINESS PROGRESS**

- 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 foreign-owned enterprise in Jiangmen set up by the Group is still under the process of registration.
- The Group is tendering for projects with certain licensed domestic companies in Shanghai. It is mutually agreed that the Group will be responsible for the design work when any project is successfully tendered.
- The Group has negotiated with a company in Dalian for possible cooperation. The Group has attempted to incorporate its design into that company's existing systems.
- The Group has completed three product designs and is negotiating with a company in Shenzhen in respect of its appointment as the Group's agent to apply to the relevant domestic authorities for product qualification certificates and future production licenses for those products.



## **BUSINESS OBJECTIVES AS SET OUT IN THE PROSPECTUS**

### **RESEARCH AND DEVELOPMENT**

- Commence the development of the upgraded version of the Group's IBS product "Pervasive Secure Version 2.0".
- Identify new IBS solutions/products to be launched in the PRC market with 華南理工大學 (South China University of Technology).
- 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.
- Evaluate the performance of the Group's in-house research and development capabilities to ensure its position in the market.
- 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.

## **ACTUAL BUSINESS PROGRESS**

- The system co-developed by the Group and the PRC university has reached the final stage. The Group is now identifying an agent to assist the promotion for the system.
- Among those systems co-developed by the Group and its cooperative partners, the Group is in negotiation with a PRC company to be the agent for 3 of the systems and help the Group to register its products.
- The Group's cooperation with InnoTech ceased to be effective from mid 2004, and came into cooperation with another software company in developing project software and is now approaching the final stage. This system, which is traditionally applied to the building's engineering section, has made a breakthrough for applying to the ancillary logistic platform.
- The Group considers that the development performance of the existing strategic alliance is acceptable. As some of the systems are in the stage of identifying agents for registration process, there is no need to find new strategic alliance.
- The Group's engineering staff has constantly attended the training courses organized by the factories and universities, the knowledge they gained has greatly enhanced the technology research power of the Group.
- The Group is studying for suitable software and hardware suppliers for catering its future development needs.

**BUSINESS OBJECTIVES  
AS SET OUT IN THE  
PROSPECTUS**

*SALES AND MARKETING*

- Continue to promote the benefit and convenience of the IBS through hosting of seminars and conferences in Hong Kong and the PRC.
- Continue the marketing campaign to promote the Group's IBS product "Pervasive Secure Version 1.0" in Hong Kong.
- Continue the marketing campaign to promote the Group's IBS product in the PRC.

**ACTUAL BUSINESS  
PROGRESS**

- The Group has formulated a series of IBS solutions, including a recent addition of a large number of education related software, which has handed over to various developer for grasping business opportunities.
- The Group develops intelligent control solutions for air-conditioning systems and lighting systems, that are applicable to existing buildings, schools and car parks.
- The promotion plans formulated by the Group's marketing team has implemented in the PRC aggressively, including making detailed introduction to relevant developers in Shanghai, Shenzhen, Chengdu and Guangzhou, etc.

**BUSINESS OBJECTIVES  
AS SET OUT IN THE  
PROSPECTUS****SALES AND MARKETING**

- Participate in the exhibition “大連國際智能樓宇材料設施及技術展覽會” (Dalian International Intelligent Building Materials and Technology Exhibition) in Dalian.

- Formulate detailed marketing plan to prepare for the launch of the Group’s upgraded IBS product “*Pervasive Secure Version 2.0*”.

**ACTUAL BUSINESS  
PROGRESS**

- The Group has launched a product introduction meeting in Jiangmen and Macau, and have gained many discussion opportunities through these introduction meetings, and some of them are in the stage of arranging second discussion. Accordingly, the Group will keep arranging similar introduction meetings instead of participating in exhibitions.
- As the Group has gained many discussion opportunities through introduction meetings, and some of them are in the stage of arranging second discussion, the Group considers that the current promotion strategy is very suitable for the promotion of the Group’s products and therefore, the Group will keep organizing introduction meetings as a strategy of exploring business opportunities.

## USE OF PROCEEDS

The net proceeds from the issue of new shares pursuant to the listing on 25th June, 2003 received by the Company were approximately HK\$12.9 million. During the period from the latest practicable date as defined in the Prospectus (being 12th June, 2003) to 30th June, 2005, 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>
<b>Business expansion in Hong Kong</b>		
– Pursuit of public sector IBS projects and re-engineering projects	748	581
– Merchandising of IBS products	363	111
<b>Geographical expansion to the PRC</b>		
– Establishment of joint ventures	3,500	3,320
– Tendering for IBS projects	1,670	732
– Launching IBS products	220	371
<b>Research and development</b>		
– Development of IBS products	915	762
– Forming strategic alliances	360	1,270
– Expansion of in-house team	830	237
<b>Sales and marketing</b>	1,067	822
<b>General working capital</b>	1,972	2,578
<b>Total</b>	<u>11,645</u>	<u>10,784</u>

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

As at 30th June, 2005, the interests or short positions of the Directors and the chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 under the Laws of Hong Kong) ("SFO"), which will have to be notified to the Company and the Stock Exchange pursuant to Division 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 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:—

### (A) LONG POSITIONS IN THE ORDINARY SHARES OF HK\$0.01 EACH AND UNDERLYING SHARES OF EQUITY DERIVATIVES OF THE COMPANY

Name of Directors	Type of interests	Number of securities	Approximate percentage of shareholding
Mr. Lam Yew Kai ("Edmond Lam")	Interest of a controlled corporation	211,229,000 shares (Note 1)	56.33%
Mr. Tsang Hon Chung ("Derek Tsang")	Interest of a controlled corporation	211,229,000 shares (Note 1)	56.33%
	Family	Option to subscribe for 5,625,000 shares (Note 2)	1.50%
Ms. Wong Mau Fa	Corporation 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 shares	Approximate percentage of shareholding
Mr. Edmond Lam	Interest of a controlled corporation	4,645 shares (Note 4)	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**

Save as disclosed herein, as at 30th June, 2005, none of the Directors or chief executives of the Company has short positions in the shares, 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 30th June, 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 (Note)	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 30th June, 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.

### **COMPLIANCE ADVISER'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 compliance adviser during the period between 25th June, 2003 to 31st December, 2005.

As at 30th June, 2005, neither MasterLink, its directors, employees or their respective associates has any interest in the Company's securities nor has any rights to subscribe for or to nominate persons to subscribe for securities of the Company.

### **CORPORATE GOVERNANCE**

Save and except the following deviations from the code provisions (except code provision C.2 on internal control and the relevant disclosure requirements of which the implementation date is for accounting period commencing on or after 1st July, 2005) set out in the Code on Corporate Governance Practices as contained in Appendix 15 to the GEM Listing Rules (the "CCGP"), the

Company had, during the six months ended 30th June, 2005, complied with the CCGP:

<b>Code provisions set out in the CCGP</b>	<b>Reason for deviations</b>
A.2 The Chairman and chief executive officer of the Company were performed by the same individual	The Company is still searching for suitable candidates to fulfill the responsibilities of the separate roles
B1 Remuneration committee has not yet been set up by the Company	The Company is now in the progress of forming its remuneration committee and drafting its term of reference

The Board was also in the progress of assessing the effect of the implementation of the CCGP on the Company's operation. Save as disclosed, the Company has met the code provisions (except code provision C.2 on internal control and the relevant disclosure requirements of which the implementation date is for accounting period commencing on or after 1st July, 2005) set out in the CCGP throughout the six months ended 30th June, 2005.

## **CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all directors of the Company, all Directors confirm that they complied with such code of conduct throughout the six months ended 30th June, 2005.

## **PURCHASE, DISPOSAL OR REDEMPTION OF SECURITIES**

During the six months ended 30th June, 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 six months ended 30th June, 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 and requirements and that adequate disclosures have been made.

By order of the Board  
**INNOVIS HOLDINGS LIMITED**  
**TSANG HON CHUNG**  
*Chairman*

Hong Kong, 12th August, 2005

*As at the date of this report, the Board comprises Mr. Tsang Hon Chung (executive director), Mr. Lam Yew Kai (executive director), Mr. Tsang Hon Ming (executive director), Ms. Wong Mau Fa (non-executive director), Mr. 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).*