



IR 03

Interim Report 2003

INNO-TECH HOLDINGS LIMITED
匯 創 控 股 有 限 公 司*
(incorporated in Bermuda with limited liability)

* For identification purposes only

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 decision to invest only after due and careful consideration. The greater risk profile and other characteristic 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 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 newspaper. 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 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 of Inno-Tech Holdings Limited 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 for the purpose of giving information with regard to Inno-Tech Holdings Limited. The directors of Inno-Tech Holdings Limited, 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 bases and assumption that are fair and reasonable.

HIGHLIGHTS

- Turnover of approximately HK\$14,960,000 for the six months ended 30 September 2003, representing a growth of 13.4% from the corresponding period in 2002.
- Net profit attributable to shareholders amounted to approximately HK\$2,506,000, representing a decrease of 65.3 % as compared to the corresponding period in 2002.

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE THREE MONTHS AND SIX MONTHS ENDED 30 SEPTEMBER 2003

The board of directors (the “Directors”) of Inno-Tech Holdings Limited (the “Company”) (the “Board”) announces that the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the three months and six months ended 30 September 2003 together with the unaudited condensed comparatives for the corresponding periods in 2002 as follows:–

	Notes	Unaudited Three months ended 30 September		Unaudited Six months ended 30 September	
		2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Turnover	2	8,000	10,055	14,960	13,189
Cost of sales		(1,638)	(379)	(3,183)	(1,392)
Gross profit		6,362	9,676	11,777	11,797
Other revenue		20	75	99	105
Marketing and promotion expenses		(1,360)	(418)	(2,826)	(586)
Administrative expenses		(2,846)	(1,673)	(5,574)	(2,570)
Profit from operations		2,176	7,660	3,476	8,746
Finance costs	3	(249)	(76)	(438)	(122)
Profit from ordinary activities before taxation	3	1,927	7,584	3,038	8,624
Taxation	4	(354)	(1,238)	(532)	(1,405)
Profit attributable to shareholders		1,573	6,346	2,506	7,219
Earning per share – basic	8	0.33 cents	2.80 cents	0.52 cents	3.05 cents

CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30 SEPTEMBER 2003

		Unaudited 30 September 2003 <i>HK\$'000</i>	Audited 31 March 2003 <i>HK\$'000</i>
	<i>Notes</i>		
Non-current assets			
Fixed assets	9	6,385	1,967
Intangible assets	10	18,878	14,155
Interest in an associate	11	5	–
		<hr/> 25,268	<hr/> 16,122
Current assets			
Inventories		1,700	1,700
Trade and other receivable	12	31,789	23,216
Pledged deposits	17	20,000	10,000
Cash and cash equivalents		2,349	1,476
		<hr/> 55,838	<hr/> 36,392
Current liabilities			
Short term bank loans and overdrafts	13	24,321	13,753
Accruals and other payables		5,484	4,397
Current portion of obligations under finance leases		2,277	–
Taxation	4	1,469	937
		<hr/> 33,551	<hr/> 19,087
Net current assets		<hr/> 22,287	<hr/> 17,305
Non-current liabilities			
Convertible notes	15	8,000	–
Bank loans	13	3,000	–
Obligations under finance leases		622	–
Deferred tax liability	4	2,163	2,163
		<hr/> 13,785	<hr/> 2,163
		<hr/> 33,770	<hr/> 31,264
Capital and reserves			
Share capital	14	4,800	4,800
Reserves	16	28,970	26,464
		<hr/> 33,770	<hr/> 31,264
		<hr/> 33,770	<hr/> 31,264

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2003

	Unaudited	
	six months ended	
	30 September	30 September
	2003	2002
	HK\$'000	HK\$'000
Net cash (outflow)/inflow from operating activities	(1,702)	5,425
Net cash outflow from returns on investment and servicing of finance	(339)	(17)
Net cash outflow from investing activities	<u>(11,553)</u>	<u>(14,757)</u>
Net cash outflow before financing activities	(13,594)	(9,349)
Net cash inflow from financing activities	<u>2,451</u>	<u>11,387</u>
(Decrease)/increase in cash and cash equivalents	(11,143)	2,038
Cash and cash equivalents at beginning of the period	<u>(522)</u>	<u>(1,647)</u>
Cash and cash equivalents at the end of the period	<u>(11,665)</u>	<u>391</u>

Analysis of cash and cash equivalents

	Unaudited	
	six months ended	
	30 September	30 September
	2003	2002
	HK\$'000	HK\$'000
Cash and cash equivalents in the unaudited condensed consolidated balance sheet	2,349	11,117
Bank overdrafts	<u>(14,014)</u>	<u>(10,726)</u>
Cash and cash equivalents	<u>(11,665)</u>	<u>391</u>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2003

	Unaudited
	HK\$'000
As at 1 April 2003 – total equity	31,264
Profit for the period	<u>2,506</u>
As at 30 September 2003 – total equity	<u>33,770</u>

Notes:

1. Basis of consolidation

The unaudited condensed consolidated results of the Group for the three months and six months ended 30 September 2003 and the corresponding periods in 2002 included the results of the Company and all of its subsidiaries prepared using the merger basis of accounting.

All significant inter-company transactions and balances between group enterprises are eliminated on consolidation.

The unaudited condensed consolidated results of the Group are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) 2.125 “Interim Reporting” issued by the Hong Kong Society of Accountants (“HKSA”), and Chapter 18 of the Listing Rules of the GEM of the Stock Exchange.

The accounting policies and methods of computation used in the preparation of the interim financial statements are in accordance with all applicable SSAPs issued by HKSA and accounting principles generally accepted in Hong Kong and are consistent with those used in the preparation of the Company’s annual report for the year ended 31 March 2003.

Certain comparative figures have been reclassified to conform with the current period’s presentation.

2. Turnover

The Company acts as an investment holding Company and the Group is principally engaged in the design of residential intranet and the provision of e-property management software application consulting and related services. Turnover represents the amount received and receivable for the provision of residential intranet and software application design, development and installation services.

The Group’s turnover and operating profit for the six months ended 30 September 2003 was entirely derived from the design of residential intranet and software application design and development services rendered in Hong Kong to customers based in the PRC. Accordingly, the Directors consider that the analysis by business and geographical segments is not applicable.

3. Profit from ordinary activities before taxation

Profit from ordinary activities before taxation is arrived at after charging:

	Unaudited six months ended	
	30 September 2003	30 September 2002
	HK\$’000	HK\$’000
Finance cost		
Interest on bank advances wholly repayable within five years	438	122
Auditor’s remuneration	250	56
Staff cost	3,130	2,680
Amortization of intangible assets	1,917	369
Depreciation		
Owned assets	295	75
Assets held under finance leases	200	–
Operating lease charges in respect of office premises	312	139
Retirement costs	61	51
Average number of staff	11	10

4. Taxation

Provision for Hong Kong profits tax is calculated at 17.5% (2002: 16%) of the estimated assessable profits arising in Hong Kong for the period.

Deferred taxation

Major components of deferred tax liabilities of the Group are set out below

	Unaudited 30 September 2003 HK\$'000	Audited 31 March 2003 HK\$'000
Tax losses	496	496
Depreciation allowances in excess of related depreciation	(2,659)	(2,659)
	(2,163)	(2,163)

5. Interim dividend

The Directors do not recommend the payment of an interim dividend for the six months ended 30 September 2003 (2002: Nil).

6. Directors' remuneration

Details of the Directors' remuneration are as follows:

	Unaudited Six months ended 30 September 2003 HK\$'000	30 September 2002 HK\$'000
Fees	-	-
Basic salaries, allowances and other benefits	2,070	1,960
Discretionary bonuses	-	-
Retirement benefits	24	27
	2,094	1,987
Number of executive Directors	4	4
Number of independent non-executive Directors	2	2
	6	6

Emoluments of each of the four executive Directors amounted to HK\$486,000, HK\$486,000, HK\$486,000 and HK\$366,000 respectively for the six months period ended 30 September 2003 and approximately HK\$486,000, HK\$486,000, HK\$406,000, and HK\$366,000 for the six months period ended 30 September 2002.

Remunerations paid or payable to the two independent non-executive Directors amounted to approximately HK\$150,000 and HK\$150,000 during the six months period ended 30 September 2003 and 2002 respectively.

The five highest paid individuals during the relevant period are all executive Directors and their emoluments are within the band of HK\$Nil to HK\$1,000,000. During the relevant period, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the Directors have waived or agreed to waive any emoluments during the relevant period.

7. Retirement Benefits

The Group participates in a Mandatory Provident Fund (“MPF”), managed by an independent approved MPF trustee, which provides retirement benefits to all the Group’s employees in Hong Kong. Pursuant to the Mandatory Provident Fund Schemes Ordinance, the minimum requirement of mandatory contributions from employers and each of the employees is calculated at 5% of the employees’ basic salaries.

The Group does not operate any other scheme for retirement benefits provided to the Group’s employees.

8. Earnings per share

The calculation of basic earnings per share is based on the unaudited condensed consolidated profit attributable to shareholders for the three months and six months ended 30 September 2003 of HK\$1,573,000 and HK\$2,506,000 respectively and on the weighted average of 480,000,000 shares and 480,000,000 shares respectively.

The calculation of basic earnings per share for the three months and six months ended 30 September 2002 is based on the unaudited condensed consolidated profit attributable to shareholders for the three months and six months ended 30 September 2002 of HK\$6,346,000 and HK\$7,219,000 respectively and on the weighted average of 226,229,508 shares and 236,010,929 shares respectively.

The diluted earnings per share is not shown as it is not materially different from the basic earnings per share.

9. Fixed assets

	<i>HK\$'000</i>
Cost	
As at 1 April 2003	2,330
Additions	4,913
	<hr/>
As at 30 September 2003	<u>7,243</u>
Accumulated depreciation	
As at 1 April 2003	363
Charge for the period	495
	<hr/>
As at 30 September 2003	<u>858</u>
Net book value	
As at 30 September 2003	<u>6,385</u>
As at 31 March 2003	<u>1,967</u>

Net book value of assets held under finance leases amounted to approximately HK\$4,605,000 (2002: Nil).

10. Intangible assets

	<i>HK\$'000</i>
Computer software	
Cost	
As at 1 April 2003	16,061
Additions	6,640
	<hr/>
As at 30 September 2003	22,701
	<hr/>
Accumulated amortisation	
As at 1 April 2003	1,906
Charge for the period	1,917
	<hr/>
As at 30 September 2003	3,823
	<hr/>
Net book value	
As at 30 September 2003	18,878
	<hr/>
As at 31 March 2003	14,155
	<hr/>

11. Interest in an associate

	Unaudited	Unaudited
	30 September	31 March
	2003	2003
	HK\$'000	HK\$'000
Investment cost	–	–
Advances to an associate	5	–
	<hr/>	<hr/>
	5	–
	<hr/>	<hr/>

The interest in an associate represents the investment in Molecular Diagnosis Limited (“MDL”).

The principal activity of MDL is the distribution and marketing of medical diagnostic kits. The Company owned 50% of issued shares in MDL through its wholly owned subsidiary, Leading Pro Trading Limited.

The results of MDL had not been accounted for under the equity method as the amount involved is immaterial.

12. Trade and other receivables

	Unaudited 30 September 2003 HK\$'000	Audited 31 March 2003 HK\$'000
Trade receivables	12,520	14,048
Prepayments, deposits and other receivables	19,269	9,168
	<u>31,789</u>	<u>23,216</u>

The ageing analysis of the Group's trade receivables as follows:

	Unaudited 30 September 2003 HK\$'000	Audited 31 March 2003 HK\$'000
Current	600	3,000
Aged over 1 month but less than 3 months	9,160	5,263
Aged over 3 months	2,760	5,785
	<u>12,520</u>	<u>14,048</u>

Customers are generally granted with credit terms of three months.

The amount due from a major customer accounted for approximately 30% of the trade receivables.

13. Bank loans and overdrafts

	Unaudited 30 September 2003 HK\$'000	Audited 31 March 2003 HK\$'000
Secured bank overdrafts	14,014	1,998
Short term bank loans		
Secured	10,000	11,000
Unsecured	307	755
	<u>24,321</u>	<u>13,753</u>
Secured long term bank loans	<u>3,000</u>	<u>-</u>

14. Share capital

	Number of shares '000	Amount HK\$'000
Authorized		
Ordinary shares of HK\$0.01 each	10,000,000	100,000
Issued and fully paid		
As at 1 April 2003 and 30 September 2003	480,000	4,800

15. Convertible Notes

	Unaudited 30 September 2003 HK\$'000	Audited 31 March 2003 HK\$'000
Issued	8,000	–

The convertible notes are interest-bearing at 7.5% per annum and due for repayment on 24 September 2006. They carry the rights of conversion into the Company's ordinary shares at the conversion price of HK\$0.20 per share (subject to adjustment in accordance with the terms in the instrument constituting the convertible notes) at any time six months after 24 September 2003 up to (but excluding) the period of three business days ending on 24 September 2006.

During the period ended 30 September 2003, none of the convertible note holders exercised their rights of conversion into the Company's ordinary shares.

16. Reserves

	Share premium HK\$'000	Contributed Surplus HK\$'000	Retained profits HK\$'000	Total HK\$'000
As at 1 April 2003	10,643	5,625	10,196	26,464
Profit for the period	–	–	2,506	2,506
As at 30 September 2003	10,643	5,625	12,702	28,970

17. Pledged deposits

As at 30 September 2003, bank deposits of HK\$20,000,000 (31 March 2003: HK\$10,000,000) were pledged to banks against banking facilities granted to the Group.

18. Commitments

(i) Commitments under operating leases

The Group had total future minimum lease payments under non-cancellable operating leases in respect of office premises as follows:

	Unaudited 30 September 2003 HK\$'000	Audited 31 March 2003 HK\$'000
Within 1 year	498	483
After 1 year within 5 years	82	–
	580	483

(ii) Capital commitments

	Unaudited 30 September 2003 HK\$'000	Audited 31 March 2003 HK\$'000
Contracted for	7,979	11,534

19. Related party transactions

	Unaudited six months ended 30 September 2003 HK\$'000	30 September 2002 HK\$'000
Design fee income	–	810

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Financial Performance

For the three months and six months ended 30 September 2003, turnover of the Group amounted to approximately HK\$8,000,000 and HK\$14,960,000 respectively, as compared to approximately HK\$10,055,000 and HK\$13,189,000 for the corresponding periods last year.

The Company posted a net profit of approximately HK\$1,573,000 and HK\$2,506,000 for the three months and six months under review, as compared to the net profit of approximately HK\$6,346,000 and HK\$7,219,000 for the period of the previous year.

Liquidity and financial resources and gearing ratio

As at 30 September 2003, the net current assets of the Group were at a healthy level of HK\$22,287,000 (31 March 2002: HK\$17,305,000). The current assets, HK\$55,838,000 (31 March 2003: HK\$36,392,000) were cash and cash equivalents.

As at 30 September 2003, bank overdrafts balance amounted to HK\$14,014,000 (31 March 2003: HK\$1,998,000).

The Group's current ratio as at 30 September 2003 was 166%. (31 March 2003: 191%). The Directors are confident that the Group is at a healthy financial position to maintain its daily business operation.

Net debt (i.e. total bank loans obligation under finance leases and convertible notes less cash and cash equivalents and pledged deposits) as at 30 September 2003 was approximately HK\$15,871,000 (31 March 2003 : HK\$2,277,000 and accordingly net debt gearing ratio (i.e. net debt / net assets) as at 30 September 2003 and 31 March 2003 were 47.0% and 7.3% respectively.

Capital structure

On 24 September 2003, the Group had successfully placed HK\$8,000,000 7.5% redeemable convertible notes due on 24 September 2006. Details of convertible notes have been disclosed in the Company's circular to shareholders dated 29 September 2003.

Proceeds from the convertible notes are for acquisition of software business established in the PRC, research and development of services and products in the medical field in the PRC and general working capital of the Group.

In addition, the Group has obtained finances from bank loans of approximately HK\$10,307,000 (2002: HK\$11,755,000) and bank overdrafts amounted to HK\$14,014,000 (2002: HK\$1,998,000).

The bank loans and bank overdrafts are charged at fixed interest rates.

Significant investments and acquisitions

In July 2003, the Group invested in a 50% interests in a new joint venture company, Molecular Diagnosis Limited, which will be engaged in the distribution and marketing of medical diagnostic kits (the “Diagnostic Kits”) in Asia. Hong Kong will be the first market for the distribution of Diagnostic Kits.

The Diagnostic Kits are developed by an American company, Genaco Biomedical Product Inc. (“GEP”), using the Luminex xMAP technology platform which can detect up to 10 viruses (including SARS virus) in one assay.

Charges on the Group’s assets

Details of charges on the Group’s assets are set out in note 17 of the interim financial statements.

Contingent liabilities

The Group did not have any material contingent liabilities as at 30 September 2003.

Segmental information

The Group’s turnover and operating profit for the six months ended 30 September 2003 was entirely derived from the design of residential intranet and software application design and development services rendered in Hong Kong to customers based in the PRC. Accordingly, the Directors consider that the analysis by business and geographical segments is not applicable.

Future plans for material investments

The Group plans to invest approximately HK\$7 million in medical equipments and instruments in respect of its business expansion to the medical field in the PRC. The purchases of these assets will be financed by banking facilities and internal resources.

Exposure to fluctuations in exchange rate

During the six months ended 30 September 2003, the majority of the Group’s income and expenses was denominated in Hong Kong dollar while an insignificant portion of expenses was denominated in Renminbi or United States dollar.

Up to 30 September 2003, there were no borrowings denominated in foreign currency. The management of the Company is of the opinion that the Group has insignificant exposure to interest rate risk and foreign exchange risk. As a result, the Group had not used any financial instruments for hedging against fluctuations in interest rate nor foreign exchange for the six months ended 30 September 2003.

Sales and marketing

During the six months ended 30 September 2003, the Group through its partnership with an American company successfully obtained the distribution rights of Diagnostic Kits in Asia (exclude the PRC) from Genaco Biomedical Products Inc. (“GBP”). GBP is an Alabama corporation which is the developer of advanced molecular diagnostic that are based on Luminex xMAP technology platform and the Diagnostic Kits. GBP is an independent third party not connected with any of the Directors, chief executive, substantial shareholders and management shareholders of the Company or any of their respective associates.

Employee information

As at 30 September 2003, the Group has 11 (2002: 10) full time employees in Hong Kong and the PRC with a total staff costs for the six months ended 30 September 2003 of approximately HK\$3,130,000.

Staff remuneration is reviewed by the Group from time to time depending on length of service and performance where warranted. In addition to salaries, the Group provides staff benefits including medical insurance and contributions to staff’s provident fund. Share options and bonuses are also available to employees of the Group at the discretion of the Directors and depending upon the financial performance of the Group.

BUSINESS REVIEW

During the six months ended 30 September 2003, the Group had made steady progress in its principal business, the provision of intranet design for residential communities and e-property management software application consulting services.

The Group launched i-Panel Version 3.0 in March 2003. I-panel Version 3.0 provides interactive functions and can be implemented into different software applications to cater for different needs in various sectors. The design of i-Panel Version 4.0 which will be integrated with additional features supporting wireless LAN, personal digital assistant connection, unified messaging system and remote video monitoring will be finalised in November 2003. Leveraging on the success in developing and marketing the Group’s i-Panel and the interactive functions of i-Panel with different software applications, the Group is capable to expand its market to cater different needs within the community.

The Board announced on 20 June 2003 that the Company has entered into the joint venture agreement (the “JV Agreement”) with Dynamic Media, Proactive Medical Enterprise, Inc and Mr. Wong Yao Sing, Herbert for a proposed establishment of a joint venture company (the “Joint Venture Company”). Pursuant to the JV Agreement, the Joint Venture Company, Molecular Diagnosis Limited (MDL”), has been established in July 2003 and the Company owned 50% of the issued share capital of MDL, through its wholly owned subsidiary Leading Pro Trading Limited.

MDL is engaged and owned the exclusive licence in the distribution and marketing of diagnostic Kits in Asia. One of the diagnostic Kits (the Respiratory Diseases Diagnostic kit, ‘RDD’) is a product recently developed by Genaco Biomedical Product, Inc (“GBP”) based on Luminex xMAP Technology platform which can detect 10 viruses, including SARS virus, in one assay.

The Company is in the process of marketing the RDD kit in Hong Kong market. In order to market the kit successfully, the Company had already cooperated with the Chinese University of Hong Kong which has completed the first round of testing the product. Second round of testing with patient samples has started. The Group has also been informed by the Company's strategic partner GBP, that they had submitted the RDD kit and related documents to the Chinese State Drug and Administration ("SDA") for approval for the kit to be marketed in the PRC. It is expected that the approval of SDA of the PRC will be obtained in forth quarter of year 2003 or in first quarter of year 2004. While waiting the testing results from the Chinese University of Hong Kong, the Company started promoting the kit through its e-property platform and network now, and up to the moment, the Company had received many enquiries in Hong Kong and other Asian countries and is now negotiating business terms with some Malaysia laboratories.

In order to meet the Group's business objective as to explore different market opportunities through the application of existing skillset, technical know-how and the i-Panel, the Group has recently evolved into the provision of integrated hardware and software in medical and other fields in both Hong Kong and the PRC.

In order to secure a medium to long term financing resource and enhance the Group's cash position for its operation and future development, the Group issued HK\$8,000,000 7.5% redeemable convertible notes which had been fully subscribed on 24 September 2003.

PROSPECTS

With signs of global economic recovery after the SARS and the advantages brought out by the "Mainland and Hong Kong Closer Economic Partnership Agreement" (CEPA) signed between Hong Kong and the PRC, Hong Kong should be able to have direct benefits at the manufacturing, professional services and financial sectors. The general outlook for the economy is becoming more positive than the previous quarters in Hong Kong. The spending of IT, medical and education areas from commercial sectors should be picking up gradually in parallel and the Group will continue to operate in the best cost effective mode by expanding the application of its i-Panel to medical and education fields. The management of the Company believes that CEPA has presented favourable conditions for the Company to develop the targeted medical sector and thus will accelerate the pace of the Group's business plan in the PRC in the years ahead. In spite of the expansion of the application of the i-Panel and the Group's integrated hardware and software into the medical sector, the Group will make an effort to further develop its business regarding the provision of software application solutions in the property market in the PRC.

To sustain business growth and development in the next few years, the Group will explore appropriate ways to seek acquisitions, strategic partners, issuing notes as well as banking facilities to take advantages of current low interest rate environment. This will strengthen the Group's operating capital and consolidation of its financing structure.

Besides, the Group expects to set up a representative office in Guangzhou, the PRC in November 2003 to promote the Group's business in the PRC directly.

The Group will continue to capture every opportunity that will facilitate its expansion plan and at the same time closely monitor the development of CEPA issues.

COMPARISON OF THE BUSINESS OBJECTIVES SET OUT IN THE PROSPECTUS WITH ACTUAL BUSINESS PROGRESS

Business objective as stated in the Prospectus (from 1 April 2003 to 30 September 2003)

Data operating centre:

- lease additional rack space of approximately 18 sq.ft. from data centre in Hong Kong to locate the Group's equipment;
- continue to upgrade and purchase additional networking equipment, servers, data storage and back-up devices and server software licenses; and
- pay for the hardware and software maintenance and supporting fee.

i-Panel design and prototyping:

- continue to enhance the design of version 4.0 for i-Panel.

Research and development and software development:

- schedule to launch e-commerce application module;
- continue to upgrade ERP application module;
- continue to seek hardware and network equipment compatible with the Group's e-property management software;
- continue to establish business association with other service or information providers; and

Actual Business Progress (from 1 April 2003 to 30 September 2003)

Data operating centre:

- after reviewing the current usage situation which is still sufficient until end of this year, the Company decided to suspend leasing additional rack space from data centre in Hong Kong to locate the Group's equipment;
- purchased additional web server, mail server, application server and network attached storage; and
- approximately HK\$300,000 had been paid for the hardware and software maintenance and supporting fee.

i-Panel design and prototyping:

- the board design of version 4.0 of i-Panel is expected to be finalised in November 2003 and subsequently the study of the outlook of version 4.0 of i-Panel will be commenced.

Research and development and software development:

- launched e-commerce application module in late September 2003;
- suspended upgrading ERP application module as the Company has forecasted the slowdown of ERP market and the growth of other application module markets such as travel and medical fields;
- unable to identify compatible hardware and network equipment ;
- under a preliminary negotiation with a large scale multi media presentation company as to be the Company's sale agent in the PRC; and

**Business objective as stated in the Prospectus
(from 1 April 2003 to 30 September 2003)**

Research and development and software development:

- modify and enhance the existing applications and products to meet the need of other identified markets.

Sales and marketing:

- continue to seek for suitable information providers to enrich the content of the customers' Residential Intranet;
- identify business partners to promote their services and products through the Residential Intranet;
- focus on the marketing of e-commerce enabling feature of the Group's e-property management software application;
- continue to organise one symposium or promotional event in other major cities in the PRC;
- expected to serve an addition of 40,000 household units in the PRC; and
- continue to explore different market opportunities in the application of the existing skillset, technical know-how and products.

**Actual Business Progress
(from 1 April 2003 to 30 September 2003)**

Research and development and software development:

- modified and enhanced the existing applications and products to meet the needs of medical fields in the PRC and education fields in Hong Kong.

Sales and marketing:

- unable to identify suitable information providers to enrich the content of the customers' Residential Intranet;
- identified business partners in the medical field both in the PRC and US, and established a joint venture company with a US company, PMEI, to market and distribute the Diagnostic Kits in Asia;
- identified home automation products providers through the Residential Intranet;
- focused on both the marketing of e-commerce enabling feature of the Group's e-property management software application and medical management software application through the Group's existing distribution and marketing channels;
- postponed all symposium or promotional event to next year in major cities in the PRC due to the outbreak of SARS;
- finalised the discussion with four property developers in Shanghai, Fujian and Guangdong, the PRC to serve an addition of 40,000 household units; and
- explored the opportunities in the medical software application market in the PRC by using the existing skillset, know-how and network.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The net proceeds from the Company's issue of new shares at the time of listing on the GEM in August 2002, after deduction of related issue expenses, amounted to approximately HK\$18.2 million. Of this amount, approximately HK\$3.10 million has been utilised up to 30 September 2003 and has been applied in accordance with the proposed applications set out in the Company's Prospectus. Details of the use of proceeds from the Company's initial public offerings for the period from 1 April 2003 to 30 September 2003 are set out as follows:

	For the six months ended 30 September 2003			Remarks
	Business plan as stated in the Prospectus	Actual	Variance	
	HK\$ million	HK\$ million	HK\$ million	
Data operating centre	0.50	0.30	(0.2)	No additional rack space and networking equipment were required.
i-Panel design and prototyping	0.50	0.50	–	–
Research and development and software development	1.00	1.40	0.4	Additional capital resources were required for initial modification and enhancement of the Group's existing applications catered for the medical and educational fields.
Sales and marketing	1.10	0.90	(0.2)	Postponed all symposium and promotional events and used the existing distribution and marketing channels to market the Group's e-property management and medical software.
Total	<u>3.10</u>	<u>3.10</u>		

SHARE OPTION SCHEME

(i) Pre-IPO Share Option Scheme

Pursuant to the pre-IPO share option scheme adopted by the Company on 5 July 2003 (the “Pre-IPO Share Option Scheme”), the principal terms of which were set out in the Prospectus, there were 48,000,000 share options granted to the grantees. Details of which are as follows:

	Number of share options outstanding as at 30 September 2003	Exercise price per share	Exercise period
Pre-IPO Share Option Scheme	48,000,000	HK\$0.14	5 July 2002 to 4 July 2012

A total number of 48,000,000 options were granted to the grantees on 5 July 2002 under the Pre-IPO Share Option Scheme. Up to 30 September 2003, no options under the Pre-IPO Share Option Scheme have been exercised.

(ii) Post-IPO Share Option Scheme

Pursuant to written resolution passed at the sole shareholder of the Company on 5 July 2002, the Company conditionally adopted the share option scheme (the “Post-IPO Share Option Scheme”), the principal terms of which are set out in the section head “Share Option Schemes” on Appendix IV of the Prospectus. Up to 30 September 2003, no option has been granted by the Company pursuant to the Post-IPO Share Option Scheme.

INTERESTS OF THE DIRECTORS, SUPERVISORS OR CHIEF EXECUTIVES IN THE SHARE CAPITAL OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 September 2003, the interests (including interests in shares and short positions) of the Directors, supervisors or chief executives in the shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (“SFO”) which were notified to the Company and the Stock Exchange pursuant to: (a) Divisions 7 and 8 of part XV of the SFO (including interests and short positions which each of them is taken or deemed to have taken under such provisions of the SFO); or (b) which were required pursuant to section 352 of the SFO to be entered in the register referred to in that section; or (c) were required, pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange, were as follows:

a. Long positions in Shares

Name of Director	Personal Interests	No. of shares held			Other Interests	Approximate % of holding
		Family Interests	Corporate Interests			
Ms. Wong Yuen Yee (<i>note 1</i>)	–	–	54,493,040	–	11.35%	
Mr. Wong Kwok Sing (<i>note 1</i>)	–	–	54,493,040	–	11.35%	
Mr. Lam Shiu San (<i>note 1</i>)	–	–	12,304,880	–	2.56%	
Ms. Wu Wai Yee (<i>note 2</i>)	–	–	3,600,000	–	0.75%	
Ms. Chow Wai Man (<i>note 3</i>)	912,000	–	–	–	0.19%	

Notes:

- Each of Ms. Wong Yuen Yee, Mr. Wong Kwok Sing and Mr. Lam Shiu San respectively owns such Shares through Multiturn Trading Limited, which is beneficially owned by Ms. Wong Yuen Yee, Mr. Wong Kwok Sing, Mr. Chow Kam Wing and Mr. Lam Shiu San as to 31%, 31%, 31% and 7% respectively.
- Winly Group Ltd. owns 3,600,000 shares and is owned by Ms. Wu Wai Yee, Annis, an independent non-executive Director, and Ms. To Po Yim in equal shares. Each of Ms. Wu Wai Yee, Annis and Ms. To Po Yim is deemed to be interested in 3,600,000 shares, representing approximately 0.75% interests in the Company under the SFO.
- Ms. Chow Wai Man, Grace is an independent non-executive Director.

b. Long positions in underlying shares of equity derivatives

Pursuant to the Pre-IPO Share Option Scheme adopted by the Company on 5 July 2002, certain Directors and senior management of the Company were granted share options to subscribe for shares of the Company, details of which as at 30 September 2003 were as follows:

Name of Directors	Nature of Interest	Number and description of equity derivatives	Number of underlying shares
Ms. Wong Yuen Yee	Personal	Pre-IPO Share Option to subscribe for 4,800,000 shares pursuant to the Pre-IPO Share Option Scheme	4,800,000
Mr. Wong Kwok Sing	Personal		4,800,000
Mr. Wong Yao Wing, Robert	Personal		4,800,000
Mr. Lam Shiu San	Personal		4,800,000

Name of senior management of the Company	Nature of Interest	Number and description of equity derivatives	Number of underlying shares
Mr. Chow Kam Wing	Personal	Pre-IPO Share Option to subscribe for 4,800,000 shares pursuant to the Pre-IPO Share Option Scheme	4,800,000
Ms. Wong Yuen Man, Alice	Personal		4,800,000

No option granted under the Pre-IPO Share Option Scheme was cancelled or lapsed since the date of grant.

c. Short positions in shares

No short positions of Directors and the chief executives in the shares of the Company and its associated corporations were recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.40 of the GEM Listing Rules.

d. *Short positions in underlying shares of equity derivatives*

No short positions of the Directors and the chief executives of the Company in the underlying shares of the equity derivatives of the Company and their associated corporations were recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.40 of the GEM Listing Rules.

Save as disclosed above, as at 30 September 2003, none of the Directors or their associated corporations had any interests or short positions in the shares, underlying shares of the equity derivatives and debentures of the Company or any of its associated corporations, which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or recorded in the register kept by the Company pursuant to Section 352 of the SFO or required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

INTERESTS DISCLOSEABLE UNDER THE SECURITIES AND FUTURE ORDINANCE AND SUBSTANTIAL SHAREHOLDERS

As at 30 September 2003, so far is known to the Directors, the following persons (other than the Directors or chief executive of the Company) had an interest and/or a short position in the shares and/or underlying shares of the equity derivatives of the Company which would fall to be disclosed to the Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of part XV of the SFO and/or required to be entered in the register maintained by the Company pursuant to Section 336 of SFO and/or were directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group.

a. *Long positions in shares*

Name	Number of shares	Percentage of shareholding
Multiturn Trading Limited (<i>Note 1</i>)	175,784,000	36.62%
Rexy Investment Limited (<i>Note 2</i>)	57,600,000	12.00%
Plotio Limited (<i>Note 2</i>)	57,600,000	12.00%
HyComm Wireless Limited (<i>Note 2</i>)	57,600,000	12.00%

Notes:

1. Multiturn Trading Limited is beneficially owned by Ms. Wong Yuen Yee, Mr. Wong Kwok Sing, Mr. Chow Kam Wing and Mr. Lam Shiu San as to 31%, 31%, 31% and 7% respectively.
2. Rexy Investment Limited is a wholly-owned subsidiary of Plotio Limited, which is wholly-owned by HyComm Wireless Limited, a company listed on the main board of the Stock Exchange.

b. Long positions in underlying shares of equity derivatives

Name	Nature of Interest	Number and description of equity derivatives	Number of underlying shares
Multiturn Trading Limited	Corporate	Pre-IPO Share Option to subscribe for 19,200,000 shares pursuant to the Pre-IPO Share Option Scheme	19,200,000

Notes:

1. Multiturn Trading Limited is beneficially owned by Ms. Wong Yuen Yee, Mr. Wong Kwok Sing, Mr. Chow Kam Wing and Mr. Lam Shiu San as to 31%, 31%, 31% and 7% respectively. Pursuant to the Pre-IPO Share Option Scheme, each of them was granted 4,800,000 shares.
2. No option granted under the Pre-IPO Share Option Scheme was cancelled or lapsed since the date of grant.

c. Short positions in shares

No short positions of other persons and substantial shareholders in the shares of the Company were recorded in the register.

d. Short positions in underlying shares of equity derivatives

No short positions of other persons and substantial shareholders in the underlying shares of equity derivatives of the Company were recorded in the register.

Save as disclosed above, as at 30 September 2003, there was no person (other than the Directors or chief executive of the Company) so far as known to any of the Directors, who had any interest or short position in the shares or underlying shares of equity derivatives of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying right to vote in all circumstances at general meetings of any other member of the Group.

PURCHASE, SALES OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 September 2003.

SPONSOR'S INTEREST

As updated and notified by the Company's sponsor, Hantec Capital Limited (the "Sponsor"), as at 30 September 2003, neither the Sponsor, nor any of its respective Directors, employees or associates (as referred to in Note 3 to Rules 6.35 of the GEM Listing Rules) had any interests in any class of securities of the Company or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

Pursuant to the sponsor agreement dated 29 July 2002 entered into between the Company and the Sponsor, the Sponsor is entitled to receive a fee for acting as the Company's retained sponsor for the period from 12 August 2002 to 31 March 2005.

COMPETING INTERESTS

None of the Directors or the management shareholders of the Company or any of their respective associates (as defined in the GEM Listing Rules) had an interest in a business which causes or may cause any significant competition with the business of the Group.

AUDIT COMMITTEE

The Company established an audited committee on 5 July 2002 with the written terms of reference in compliance with rules 5.23, 5.24 and 5.25 of the GEM Listing Rules. The audit committee currently comprises Ms. Wu Wai Yee, Annis and Ms. Chow Wai Man, Grace, who are the independent non-executive Directors. The Group's unaudited results for the six months ended 30 September 2003 have been reviewed by the audit committee, who was of the opinion that such results complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures had been made.

COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES

The Company has complied throughout the period of six months ended 30 September 2003 the minimum standards of good practice concerning the general management responsibilities of the Board as set out in Rules 5.28 to 5.39 of the GEM Listing Rules.

By Order of the Board
Inno-Tech Holdings Limited
Wong Yuen Yee
Chairman

Hong Kong, 11 November 2003