



INNO-TECH HOLDINGS LIMITED

匯創控股有限公司\*

(incorporated in Bermuda with limited liability)

INTERIM REPORT  
2004

INNO-TECH

INTELLIGENT  
COMMUNITY  
FOR MODERN  
DAY LIVING

智慧社區  
時尚生活



\* For identification purposes only

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

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*This report, for which the directors of Inno-Tech Holdings Limited (the “Directors”) 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\$29,845,000 for the six months ended 30 September 2004, representing a growth of approximately 99% from the corresponding period in 2003.
- Net profit attributable to shareholders amounted to approximately HK\$2,626,000, representing an increase of approximately 5% as compared to the corresponding period in 2003.

## CONDENSED CONSOLIDATED INCOME STATEMENT

For the three months and six months ended 30 September 2004

The board of 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 2004 together with the unaudited condensed comparatives for the corresponding periods in 2003 are as follows

	Note	Unaudited Three months ended 30 September		Unaudited Six months ended 30 September	
		2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Turnover	2	17,355	8,000	29,845	14,960
Cost of sales		(11,623)	(1,638)	(19,453)	(3,183)
Gross profit		5,732	6,362	10,392	11,777
Other revenue		32	20	39	99
Marketing and promotion expenses		(746)	(1,360)	(1,071)	(2,826)
Administrative expenses		(1,940)	(2,846)	(3,977)	(5,574)
Profit from operations		3,078	2,176	5,383	3,476
Finance costs		(966)	(249)	(1,840)	(438)
Share of losses less profits of associates and a jointly controlled entity		(140)	–	(297)	–
Profit from ordinary activities before taxation	3	1,972	1,927	3,246	3,038
Taxation	4	(369)	(354)	(620)	(532)
Minority interest		1,603	1,573	2,626	2,506
Profit attributable to shareholders		–	–	–	–
		1,603	1,573	2,626	2,506
Earning per share – basic	7	0.32 cents	0.33 cents	0.53 cents	0.52 cents

## CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 September 2004

		Unaudited 30 September 2004 HK\$'000	Audited 31 March 2004 HK\$'000
	<i>Note</i>		
<b>Non-current assets</b>			
Fixed assets	8	4,214	4,592
Intangible assets	8	22,631	18,107
Interest in associates	9	5,798	6,095
Interest in a jointly controlled entity	10	–	–
		<u>32,643</u>	<u>28,794</u>
<b>Current assets</b>			
Inventories	11	18,283	18,377
Trade and other receivables	12	32,764	21,382
Amount due from associates		13	4
Amount due from a jointly controlled entity		–	6
Pledged deposits		40,015	20,170
Cash and cash equivalents		301	12,883
		<u>91,376</u>	<u>72,822</u>
<b>Current liabilities</b>			
Short term bank loans and overdrafts	14	44,194	34,744
Trade and other payables	13	19,692	8,476
Current portion of obligations under finance leases		5,648	6,627
Taxation		1,877	1,257
		<u>71,411</u>	<u>51,104</u>
<b>Net current assets</b>		<u>19,965</u>	<u>21,718</u>
<b>Non-current liabilities</b>			
Convertible bonds	15	8,440	8,220
Bank loans	14	1,500	2,250
Deferred tax liability	4	3,512	3,512
		<u>13,452</u>	<u>13,982</u>
		<u>39,156</u>	<u>36,530</u>
<b>Capital and reserves</b>			
Share capital	16	4,900	4,900
Reserves		34,256	31,630
		<u>39,156</u>	<u>36,530</u>

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2004

	Share Capital HK\$'000	Share premium HK\$'000	Unaudited Contributed surplus HK\$'000	Unaudited Capital redemption reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
As at 1 April 2004	4,900	12,068	5,625	43	13,894	36,530
Profit for the period	-	-	-	-	2,626	2,626
As at 30 September 2004	<b>4,900</b>	<b>12,068</b>	<b>5,625</b>	<b>43</b>	<b>16,520</b>	<b>39,156</b>

	Share Capital HK\$'000	Share Premium HK\$'000	Unaudited Contributed Surplus HK\$'000	Retained Profits HK\$'000	Total HK\$'00
As at 1 April 2003	4,800	10,643	5,625	10,196	31,264
Profit for the period	-	-	-	2,506	2,506
As at 30 September 2003	<b>4,800</b>	<b>10,643</b>	<b>5,625</b>	<b>12,702</b>	<b>31,770</b>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 September 2004

	Unaudited six months ended	
	30 September 2004 <i>HK\$'000</i>	30 September 2003 <i>HK\$'000</i>
Net cash (outflow) / inflow from operating activities	9,044	(1,702)
Net cash used in investing activities	<u>(27,287)</u>	<u>(11,892)</u>
Net cash used in financing activities	<u>6,029</u>	<u>2,451</u>
Decrease in cash and cash equivalent	(12,214)	(11,143)
Cash and cash equivalents at beginning of the period	<u>(10,079)</u>	<u>(522)</u>
Cash and cash equivalents at the end of the period	<u><u>(22,293)</u></u>	<u><u>(11,665)</u></u>
Analysis of cash and cash equivalents		

	Unaudited six months ended	
	30 September 2004 <i>HK\$'000</i>	30 September 2003 <i>HK\$'000</i>
Cash and cash equivalents in the condensed consolidated balance sheet	301	2,349
Bank overdrafts	<u>(22,594)</u>	<u>(14,014)</u>
Cash and cash equivalents	<u><u>(22,293)</u></u>	<u><u>(11,665)</u></u>

Notes:

## 1. Basis of preparation and accounting policies

The unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) No. 25 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (formerly known as the Hong Kong Society of Accountants) and the disclosure requirements of Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”).

The unaudited condensed consolidated financial statement have been reviewed by the audit committee in accordance with rule 5.30 of the GEM Listing Rules.

The Group has applied the same principal accounting policies and methods of computation in the unaudited condensed financial statements as are applied in its annual financial statements for the year ended 31 March 2004. The principal accounting policies adopted are disclosed in the Group’s 2004 Annual Report dated 30 June 2004.

These condensed consolidated financial statements should be read in conjunction with the Group’s 2004 annual report.

## 2. Segment information

The Group is principally engaged in two main business segments

Residential intranet – Provision of residential intranet and software application design, development and installation services.

Home automation – Sale of i-Panel units, home automation and related products.

An analysis of the Group’s revenue and results for the period by business segments is as follows

	<b>Residential Intranet HK\$’000</b>	<b>Home automation HK\$’000</b>	<b>Total HK\$’000</b>
Turnover	<u>10,541</u>	<u>19,304</u>	<u>29,845</u>
Segment results	<u>8,821</u>	<u>912</u>	9,733
Unallocated cost			<u>(4,350)</u>
Profit from operating activities			5,383
Finance cost			(1,840)
Share of losses less profits of associates and a jointly controlled entity		(297)	<u>(297)</u>
Profit before taxation			3,246
Taxation			<u>(620)</u>
Profit attributable to shareholders			<u>2,626</u>

### 3. Profit from ordinary activities before taxation

Profit from ordinary activities before taxation is arrived at after charging

	Unaudited six months ended	
	30 September 2004 HK\$'000	30 September 2003 HK\$'000
Finance cost		
Interest on bank advances wholly repayable within five years	1,052	344
Interest on convertible bond	502	–
Finance charges on obligations under finance lease	268	94
Auditor's remuneration	261	250
Staff cost	2,915	3,130
Amortisation of intangible assets	2,636	1,917
Depreciation		
Owned assets	539	295
Assets held under finance leases	120	200
Operating lease charges in respect of office premises	118	120
Retirement costs	28	61
Average number of staff	12	11

### 4. Taxation

Provision for Hong Kong profits tax is calculated at 17.5% (2003: 17.5%) 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 2004 HK\$'000	Audited 31 March 2003 HK\$'000
Tax losses	–	–
Depreciation allowances in excess of related depreciation	3,512	3,512
	<b>3,512</b>	<b>3,512</b>



- (a) The amount of taxation charged to the unaudited condensed consolidated income statement represent

	<b>Unaudited Six months ended 30 September</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	<b>HK\$'000</b>
Hong Kong profits tax	<b>620</b>	532

- (b) Reconciliation between tax expenses and accounting profit at applicable tax rates

	<b>Unaudited Six months ended 30 September</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	<b>HK\$'000</b>
Profit from ordinary activity before taxation	<b>3,543</b>	3,083
Calculated at a taxation rate of 17.5%	<b>620</b>	532

#### 5. Interim dividend

The Directors do not recommend the payment of an interim dividend for the six months ended 30 September 2004 (2003: Nil).

#### 6. 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.

#### 7. 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 2004 of approximately HK\$1,603,000 and HK\$2,626,000 respectively and on the weighted average of 489,950,000 shares and 489,950,000 shares respectively.

The calculation of basic earnings per share for the three months and six months ended 30 September 2003 is based on the unaudited condensed consolidated profit attributable to shareholders for the three months and six months ended 30 September 2003 of approximately 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 diluted earnings per share is not shown as it is not materially different from the basic earnings per share.

**8. Capital expenditure**

	<b>Intangible assets HK\$'000</b>	<b>Fixed assets HK\$'000</b>
Net book value as at 1 April 2004	<b>18,107</b>	<b>4,592</b>
Additions	<b>7,160</b>	<b>282</b>
Depreciation/Amortisation	<b>(2,636)</b>	<b>(660)</b>
	<hr/>	<hr/>
Net book value as at 30 September 2004	<b>22,631</b>	<b>4,214</b>
	<hr/>	<hr/>

**9. Interest in associates**

	<b>Unaudited 30 September 2004 HK\$'000</b>	<b>Audited 31 March 2004 HK\$'000</b>
Share of net assets	<b>5,798</b>	<b>6,095</b>
	<hr/>	<hr/>

**10. Interest in a jointly controlled entity**

	<b>Unaudited 30 September 2004 HK\$'000</b>	<b>Audited 31 March 2004 HK\$'000</b>
Share of net assets	<b>–</b>	<b>–</b>
	<hr/>	<hr/>

**11. Inventories**

	<b>Unaudited 30 September 2004 HK\$'000</b>	<b>Audited 31 March 2004 HK\$'000</b>
Finished goods	<b>14,497</b>	<b>16,396</b>
Spares and consumables	<b>3,786</b>	<b>1,981</b>
	<hr/>	<hr/>
	<b>18,283</b>	<b>18,377</b>
	<hr/>	<hr/>

## 12. Trade receivables and other receivables

	<b>Unaudited 30 September 2004 HK\$'000</b>	Audited 31 March 2004 HK\$'000
Trade receivables	17,675	7,600
Prepayments, deposits and other receivables	<u>15,089</u>	<u>13,782</u>
	<b><u>32,764</u></b>	<b><u>21,382</u></b>

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

	<b>Unaudited 30 September 2004 HK\$'000</b>	Audited 31 March 2004 HK\$'000
Current	17,515	–
Aged over 1 month but less than 3 months	–	6,120
Aged over 3 months	<u>160</u>	<u>1,480</u>
	<b><u>17,675</u></b>	<b><u>7,600</u></b>

Customers are generally granted with credit terms of 3 months.

## 13. Trade and other payables

	<b>Unaudited 30 September 2004 HK\$'000</b>	Audited 31 March 2004 HK\$'000
Bills payable	7,801	2,432
Accrued expenses and other payables	<u>11,891</u>	<u>6,044</u>
	<b><u>19,692</u></b>	<b><u>8,476</u></b>

#### 14. Bank loans and overdrafts

	<b>Unaudited 30 September 2004 HK\$'000</b>	Audited 31 March 2004 HK\$'000
Secured bank overdrafts	22,594	22,962
Secured bank loans	<u>23,100</u>	<u>14,032</u>
	<b><u>45,694</u></b>	<b><u>36,994</u></b>
	<b>Unaudited 30 September 2004 HK\$'000</b>	Audited 31 March 2004 HK\$'000
Within 1 year or on demand	44,194	34,744
After 1 year but within 2 years	1,500	1,500
After 2 years but within 5 years	<u>-</u>	<u>750</u>
	<b><u>45,694</u></b>	<b><u>36,994</u></b>

#### 15. Convertible Bonds

	<b>Unaudited 30 September 2004 HK\$'000</b>	Audited 31 March 2004 HK\$'000
Balance as at	<u>8,440</u>	<u>8,220</u>

The convertible bonds 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 bonds at any time six months after 24 September 2003 up to the maturity date, 30 September 2006. Unless previously redeemed and cancelled, the bonds will be redeemed at 116.5% of its principal amount on the maturity date. The redemption obligation is accrued over the bond period, and amounted to HK\$440,000 as at 30 September 2004.

During the period ended 30 September 2004, none of the convertible bond holders exercised their rights of conversion into the Company's ordinary shares.

## 16. Share capital

	Number of shares '000	Amount HK\$'000
<b>Authorised</b>		
Ordinary shares of HK\$0.01 each	10,000,000	100,000
<b>Issued and fully paid</b>		
As at 31 March 2004 and 30 September 2004	489,950	4,900

## 17. 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 2004 HK\$'000	Audited 31 March 2004 HK\$'000
Within 1 year	158	378
After 1 year but within 5 years	–	–
	<b>158</b>	<b>378</b>

- (ii) Capital commitments

	Unaudited 30 September 2004 HK\$'000	Audited 31 March 2004 HK\$'000
Contracted for acquisition of equipment	1,886	2,341
Investment in subsidiary	–	7,075
	<b>1,886</b>	<b>9,416</b>

## 18. Approval of the unaudited condensed consolidated financial statements

The unaudited condensed consolidated financial statements were approved by the Board and audit committee on 12 November 2004.

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW

#### Financial Performance

For the three months and six months ended 30 September 2004, turnover of the Group amounted to approximately HK\$17,355,000 and HK\$29,845,000 respectively, as compared to approximately HK\$8,000,000 and HK\$14,960,000 for the corresponding periods of last year.

The Company posted a net profit of approximately HK\$1,603,000 and HK\$2,626,000 for the three months and six months under review, as compared to the net profit of approximately HK\$1,573,000 and HK\$2,506,000 for the corresponding period of last year.

#### Liquidity, financial resources and gearing ratio

As at 30 September 2004, the net current assets of the Group were at a healthy level of approximately HK\$19,965,000 (31 March 2004: HK\$21,718,000). Out of the current assets as at 30 September 2004, approximately HK\$301,000 (31 March 2004: HK\$12,883,000) were cash and cash equivalents.

As at 30 September 2004, bank overdrafts balance amounted to approximately HK\$22,594,000 (31 March 2004: HK\$22,962,000).

The Group's current ratio as at 30 September 2004 was approximately 128% (31 March 2004: 142%). The Directors are confident that the Group is at a healthy financial position to maintain its daily business operation.

Net debt, (that is, total bank loans and convertible bonds less cash and cash equivalents and pledged deposits), as at 30 September 2004 was approximately HK\$13,378,000 (31 March 2004 : HK\$11,941,000) and accordingly net debt gearing ratio (that is, net debt over net assets) as at 30 September 2004 and 31 March 2004 were approximately 34.2% and 32.7% respectively.

#### Capital structure

An analysis of the capital structure of the Group is as follows

	<b>Maturity Profile</b>		
	<b>Due in 1 year</b>	<b>Due in 2-5 years</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank borrowings and overdrafts	44,194	1,500	45,694
Convertible bonds	–	8,000	8,000
	<u>44,194</u>	<u>9,500</u>	<u>53,694</u>

The bank borrowings and overdrafts are charged at floating interest rates.

The convertible bonds are charged at a fixed rate.

All the bank borrowings and overdrafts and convertible bonds are denominated in Hong Kong dollars.

### **Material acquisition, disposals and significant investment**

The Group has no material acquisition nor disposal of subsidiaries and associates during the six months ended 30 September 2004.

### **Details of the charges on Group assets**

As at 30 September 2004, bank deposits of approximately HK\$40,000,000 (31 March 2004: HK\$20,170,000) were pledged against certain banking facilities granted to the Group.

### **Contingent liabilities**

The Group did not have any material contingent liabilities as at 30 September 2004.

### **Segmental information**

The Group sold a new product series, that is sales of i-Panels, home automation equipment and related products in July 2004. During the period ended 30 September 2004, contribution to turnover and profit of the new product series was approximately HK\$19,304,000 and HK\$912,000 respectively. Details of segment information are set out in note 2 of the financial statements.

### **Exposure to fluctuations in exchange rate**

During the six months ended 30 September 2004, the majority of the Group's income and expenses were denominated in Hong Kong dollar while an insignificant portion of expenses were denominated in Renminbi or United States dollar.

Up to 30 September 2004, there were no borrowings denominated in foreign currency. The management of the Company is of the opinion that the Group has insignificant exposure to foreign exchange risk. As a result, the Group had not used any financial instruments for hedging against fluctuations in foreign exchange for the six months ended 30 September 2004.

### **Employee information**

As at 30 September 2004, the Group has 14 ( 2003: 11 ) full time employees in Hong Kong and the PRC with a total staff costs for the six months ended 30 September 2004 of approximately HK\$2,914,000 (2003: 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**

There has been a substantial growth in turnover for the six months ended 30 September 2004. The Group act as a distribution agent of a new product series during the period. It is a well developed home intelligent automation and security control panel system. The system has a wide scope of applications in information technology. It can be used as local area network in various fields, including but not limited to, construction, logistics, education, finance, hospital and hotel. Sales from the new product series has already accounted for approximately 60% of the total turnover. The sales of the new product series leveraged on the same existing clients networks established for the sale of i-Panel.

In addition, the Group has put its focus on new markets namely Beijing, Shanghai, Wuxi, Foshan and Changsha in the PRC. New marketing promotion campaigns were launched in form of on-site product demonstrations and seminars. Some enquires of sales from Beijing has been received up to 30 September 2004.

The Group also engaged in negotiating with a USA medical software provider on the development of the PRC clinical management software in the second half of 2004.

## **PROSPECTS**

Home intelligent automation in China is believed to reach its golden growth tide within these ten years, according to the PRC Government's report on "Year 2000 intelligent home medium class residential project" (2000年小康城鄉住宅科技業工程項目實施方案) and "The Tenth Five Year Plan" (十五計劃), the PRC Government had reinforced the importance in the development of house intelligent project (the "Project") in the PRC and scheduled to invest RMB1.5 billion. In 2003, the PRC Ministry of Construction approved 7 new intelligent communities, and up to present, 30 home intelligent communities were under construction in Beijing. It has been projected that in 2010, 60% of the residential buildings in major cities of the PRC will be installed with home intelligent systems.

In view of the projected turnover of the new product series. The Group has focus and increase resources in the research and development of home intelligent automation system and i-Panel both of which complement each other.

Meanwhile, the Group will continue to explore and develop new products especially in the medical field, the Group will also put resources on research and development of the clinical management software. The Directors believe that the health care reform in the PRC provides comprehensive rooms for market development in medical industry and will certainly brought about the Group with fruitful results.



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

**Business objective as stated in the Prospectus of the Company dated 30 July 2002 (the “Prospectus”)**

**Actual Business Progress**

**(from 1 April 2004 to 30 September 2004)**

**(from 1 April 2004 to 30 September 2004)**

*Sales and marketing:*

*Sales and marketing:*

- |   |   |
|---|---|
| <ul style="list-style-type: none"><li>• Commence to identify and seek for suitable information providers to enrich the content of the customers’ Residential Intranet in other major cities in the PRC;</li><li>• Conduct marketing promotion and campaign to promote the Group’s business in other major cities in the PRC;</li><li>• Continue to organise one symposium or promotional event in other major cities in the PRC; and</li><li>• Organise marketing activities to promote the products and technical know-how to other markets.</li></ul> | <ul style="list-style-type: none"><li>• Still seeking for suitable information providers to enrich the content of customers’ Residential Intranet;</li><li>• Conduct product promotion in Shanghai, Wuxi, Fushan and Changsha, the PRC;</li><li>• Organise exhibition to promote home automation products with enhanced features of i-Panel 4.0 version in Shanghai, the PRC; and</li><li>• Continue to explore the opportunities in home intelligent automation market in the PRC and the opportunities in the medical software application market in the PRC.</li></ul> |
|---|---|

## USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

Details of the use of proceeds from the Company's initial public offerings for the period from 1 April 2004 to 30 September 2004 are set out as follows:

	<b>Business plan as stated in the Prospectus</b> <i>HK\$ million</i>	<b>Actual</b> <i>HK\$ million</i>	<b>Variance</b> <i>HK\$ million</i>
Data operating centre	0	0	0
i-Panel design and prototyping	0	0	0
Research and development and software development	0	0	0
Sales and marketing	0.5	0.5	0
Human resources deployment and office relocation	0	0	0
	<u>0.5</u>	<u>0.5</u>	<u>0</u>
Total	<u>0.5</u>	<u>0.5</u>	<u>0</u>

## SHARE OPTION SCHEME

### (i) Pre-IPO Share Option Scheme

Pursuant to the Pre-IPO Share Option Scheme, the principal terms of which were set out in the prospectus of the Company dated 30 July 2002 (the "Prospectus"), there were 48,000,000 share options granted to the grantees. Details of the pre-IPO share options granted to certain Directors are as follows:

Name of Director	Date of grant	No. of shares granted	Number of shares are exercisable as at 30 Sep 2004	Number of share options outstanding as at 30 Sep 2004	Exercise price per Share	Exercise period
Wong Yuen Yee	5 July 2002	4,800,000	3,600,000	4,800,000	HK\$0.14	5 July 2002 to 4 July 2012
Wong Kwok Sing	5 July 2002	4,800,000	3,600,000	4,800,000	HK\$0.14	5 July 2002 to 4 July 2012
Wong Yao Wing, Robert	5 July 2002	4,800,000	3,600,000	4,800,000	HK\$0.14	5 July 2002 to 4 July 2012
Lam Shiu San	5 July 2002	4,800,000	3,600,000	4,800,000	HK\$0.14	5 July 2002 to 4 July 2012

A total number of 48,000,000 options were granted to the grantees (including staffs and Directors) on 5 July 2002 under the Pre-IPO Share Option Scheme. Up to 30 Sep 2004, no options under the Pre-IPO Share Option Scheme have been exercised.

(ii) **Post-IPO Share Option Scheme**

Pursuant to a written resolution passed at the sole shareholder of the Company on 5 July 2002, the Company conditionally adopted the 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 Sep 2004, there were 47,570,000 share options granted to the grantees and up to 30 Sep 2004, there were 14,250,000 shares under the post-IPO Share Option Scheme have been exercised.

Details of the post-IPO share options granted to certain Directors are as follows:

Name of Director	Date of grant	No. of shares granted	Number of shares are exercisable as at 30 Sep 2004	Number of share options outstanding as at 30 Sep 2004	Exercise price per Share	Exercise period
Wong Yuen Yee	6 Jan 2004	4,757,000	4,757,000	4,757,000	HKS0.11	6 Jan 2004 to 5 Jan 2014
Wong Kwok Sing	6 Jan 2004	4,757,000	4,757,000	4,757,000	HKS0.11	6 Jan 2004 to 5 Jan 2014
Wong Yao Wing, Robert	6 Jan 2004	4,757,000	4,757,000	4,757,000	HKS0.11	6 Jan 2004 to 5 Jan 2014
Lam Shiu San	6 Jan 2004	4,757,000	4,757,000	4,757,000	HKS0.11	6 Jan 2004 to 5 Jan 2014

Save as disclosed under the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme, as at 30 September 2004, neither the Company nor any of its subsidiaries was a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate, and none of the directors and chief executive of the Company or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right.

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

As at 30 September 2004, the interests (including interests in shares and short positions) of the Directors 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 or the SFO to be entered in the register referred to in that section; or (c) were required, pursuant to Rules 5.48 to 5.67 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	Number of ordinary shares held				Approximate % of holding
	Personal Interests	Family Interests	Corporate Interests	Other Interests	
Ms. Wong Yuen Yee ( <i>note 1</i> )	–	–	54,317,256	–	11.09%
Mr. Wong Kwok Sing ( <i>note 1</i> )	–	–	54,317,256	–	11.09%
Mr. Wong Yao Wing, Robert ( <i>note 1</i> )	–	–	54,317,256	–	11.09%
Mr. Lam Shiu San ( <i>note 1</i> )	–	–	12,287,302	–	2.51%
Ms. Wu Wai Yee ( <i>note 2</i> )	–	–	3,600,000	–	0.73%

#### Notes:

- Each of Ms. Wong Yuen Yee, Mr. Wong Kwok Sing, Mr. Wong Yao Wing 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. Wong Yao Wing, Robert, Mr. Lam Shiu San and Mr. Chow Kam Wing as to 30.9%, 30.9%, 30.9%, 6.99% and 0.31% respectively.
- Winly Group Ltd. owns 3,600,000 shares and is beneficially 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 0.73% interests in the Company under the SFO.

**b. Long positions in the underlying shares of equity derivatives**

Pursuant to the Pre-IPO Share Option Scheme and Post-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, details of which as at 30 September 2004 were as follows:

<b>Name of Directors</b>	<b>Nature of Interest</b>	<b>Number and description of equity derivatives</b>	<b>Number of underlying ordinary shares</b>
Ms. Wong Yuen Yee	Personal	Pre-IPO Share Option to subscribe for 48,000,000 Shares in aggregation 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
Ms. Wong Yuen Yee	Personal	Post-IPO Share Option to subscribe for 47,570,000 Shares in aggregation pursuant to the Post-IPO Share Option Scheme	4,757,000
Mr. Wong Kwok Sing	Personal		4,757,000
Mr. Wong Yao Wing, Robert	Personal		4,757,000
Mr. Lam Shiu San	Personal		4,757,000

<b>Name of senior management of the Company</b>	<b>Nature of Interest</b>	<b>Number and description of equity derivatives</b>	<b>Number of underlying ordinary shares</b>
Mr. Chow Kam Wing	Personal	Pre-IPO Share Option to subscribe for 48,000,000 Shares in aggregation pursuant to the Pre-IPO Share Option Scheme	4,800,000
Ms. Wong Yuen Man, Alice	Personal		4,800,000
Ms. Wong Yuen Man, Alice	Personal	Post-IPO Share Option to subscribe for 47,570,000 Shares in aggregation pursuant to the Pre-IPO Share Option Scheme	4,757,000

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

**c. Short positions in shares**

No short positions of the Directors and the chief executives of the Company in the shares 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 Rule 5.40 of the GEM Listing Rules.

*d. Short positions in the 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 2004, none of the Directors or their associates had any interests or short positions in the shares, underlying shares 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 2004, 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 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*

<b>Name</b>	<b>Number of shares</b>	<b>Percentage of shareholding</b>
Multiturn Trading Limited ( <i>Note 1</i> )	175,784,000	35.87%
Rexy Investment Limited ( <i>Note 2</i> )	57,600,000	11.76%
Plotio Limited ( <i>Note 2</i> )	57,600,000	11.76%
HyComm Wireless Limited ( <i>Note 2</i> )	57,600,000	11.76%

*Notes:*

1. Multiturn Trading Limited is beneficially owned by Ms. Wong Yuen Yee, Mr. Wong Kwok Sing, Mr. Wong Yao Wing, Robert, Mr. Lam Shiu San and Mr. Chow Kam Wing as to 30.9%, 30.9%, 30.9%, 6.99% and 0.31% 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 the underlying shares of equity derivatives**

<b>Name</b>	<b>Nature of Interest</b>	<b>Number and description of equity derivatives</b>	<b>Number of underlying ordinary shares</b>
Multiturn Trading Limited	Corporate	Pre-IPO Share Option to subscribe for 48,000,000 shares in aggregation pursuant to the Pre-IPO Share Option Scheme.	24,000,000
Multiturn Trading Limited	Corporate	Post-IPO Share Option to subscribe for 47,570,000 shares in aggregation pursuant to the Post-IPO Share Option Scheme.	19,028,000

*Notes:*

1. Multiturn Trading Limited is beneficially owned by Ms. Wong Yuen Yee, Mr. Wong Kwok Sing, Mr. Wong Yao Wing, Robert, Mr. Lam Shiu San and Mr. Chow Kam Wing as to 30.9%, 30.9%, 30.9%, 6.99% and 0.31% 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 and Post-IPO Share Option Scheme was cancelled or lapsed since the date of the respective grants.

**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 the 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 2004, 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 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 rights to vote in all circumstances at general meetings of any other members of the Group.

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

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the period.

## **SPONSOR'S INTEREST**

As updated and notified by the Company's sponsor, Hantec Capital Limited (the "Sponsor"), as at 30 September 2004, 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 rights 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 or any of their respective associates (as defined in the GEM Listing Rules) of the Company 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 audit committee on 5 July 2002 with the written terms of reference in compliance with rules 5.28, 5.29 and 5.30 of the GEM Listing Rules. The audit committee currently comprises Ms. Wu Wai Yee, Annis, Mr. Wong Tak Leung, Charles and Ho Chui Yin, Liwina who are the independent non-executive Directors. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of the Group. The Group's interim results for the six months ended 30 September 2004 have been reviewed by the audit committee, which is of the opinion that such results comply with the applicable accounting standards of the Stock Exchange and legal requirements and that adequate disclosures have been made.

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

During the six months ended 30 September 2004, the Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less than the required standard of dealings as set out in rules 5.48 to 5.67 of the GEM Listing Rules. The Company has also made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by the Directors.



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

The Company has complied with throughout the period of six months ended 30 September 2004 the minimum standards of good practice concerning the general management responsibilities of the Board as set out in Rules 5.34 to 5.45 of the GEM Listing Rules.

As at the date of this report, the Board comprises:

*Executive Directors:*

Ms. Wong Yuen Yee (*Chairman*)

Mr. Wong Kwok Sing (*Deputy Chairman*)

Mr. Wong Yao Wing, Robert

Mr. Lam Shiu San

*Independent non-executive Directors:*

Mr. Wong Tak Leung, Charles

Ms. Wu Wai Yee, Annis

Ms. Ho Chui Yin, Liwina

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

Hong Kong, 12 November 2004.