



MANAGEMENT

DISCUSSION AND ANALYSIS



“ The understanding and support of our staff and investors are pivotal in the Company’s Development ”



■ FINANCIAL REVIEW

The Group's audited turnover and net profit from ordinary activities attributable to shareholders for the year ended 31 December 2002 were approximately HK\$212.4 million and HK\$43.4 million respectively, representing an increase of approximately 2.3% and 6.1% respectively as compared to last year. Over 90% of the Group's turnover was generated from the provision of advisory and management services for the Intelligent Building ("IB") Projects in the PRC. The Group's overall gross profit margin was approximately 34.5% for the year under review, similar to that of last year. Increase in net profit from ordinary activities attributable to shareholders this year was mainly due to the Group's strict cost control strategy.

The basic earnings per share of the Group for the year was HK12.2 cents, decreased by approximately 9.6% as compared with previous year (2001: HK13.5 cents). This decrease was mainly attributable to the increase of ordinary shares of the Company from the its successfully Share Offer in Hong Kong at 28 June 2002.

■ GROUP'S INTELLIGENT PRODUCTS

As intelligent building are the trend of the 21 century in the PRC, which is strongly supported by the PRC government in its "tenth five-year plan", the Group was actively to invest in the research and development of new and innovative products to meet the enormous demand for intelligent buildings in the PRC during the year under review. These projects include:

Trend PMS 2000 version 1.0

Trend PMS 2000 version 1.0 ("Trend PMS") was successfully developed and officially launched in July 2002. Trend PMS, an Intelligent Home Community property management system, enables property managers to provide composite communication and information services to occupants and to manage the properties efficiently through an automated communal property management system. This new system enables the Group to extend its advisory and management services for the IB Projects to customers in the residential sector. This new product was wholly financed with the Group's internally generated resources.

In January 2003, the Group bundled the TREND BMS and TREND PMS into one large system, TREND IBMS 2002, according to the market response and client's needs. TREND IBMS 2002 can be applied into all kinds of IB projects in all commercial buildings, residential communities, factories and the like. At present, TREND IBMS 2002 had already been applied into several IB projects and the Group received excellent comments on them from our customers.

Simultaneously, TREND IBMS 2002 had already been accredited several awards, including 指定為科技部"國家火炬計劃項目"、建設部"科技成果認定"、信息產業部"科技成果認定"、建設部"國家康居示范工程"指定產品。

Web Camera

Web Camera, another new product, was under its final stage of development in 2002. During the second half of 2002, the Group realized there was another new technique that could further upgrade Web Camera's function. Therefore, the Group decided to utilize this one of the most advanced MPEG4 compress technique in Web Camera. Now, Web Camera, with the most sophisticated MPEG4 compress technique, can capture, collect and transmit mass pictures with high resolutions on real time. It is designed for occupants of an intelligent building or an Intelligent Home Community to monitor the occupants' units or public area in local or remote site. It can also be used in bank, military, hospital, remote education, sports games, government, traffic, ports, docks, etc for security and surveillance of digital, networking and intelligent multi-media. In March 2003, the Web Camera had successfully been launched.

Intelligent Video Surveillance System (IVSS)

During the second half of 2002, the Group adopted the core techniques of the Web Camera to innovate a new system namely IVSS. This Intelligent Video Surveillance System includes ViBox and ViCasting. Therefore, the Group rename ViBox as Trend ViBox for hardware and Trend ViCasting for software. Trend ViBox and Trend ViCasting are two new series of Web Camera. They had been launched in March 2003.

Trend ViBox, with the most advanced MPEG4 compress technique and process technique of the Web Camera, possesses built-in Linux operational system. Therefore, it can support local mass hardware storage. Trend ViBox is really an independent digital, networking, intelligent multimedia stream server. It can be modified into suitable products to meet different surveillance market segments.

Trend ViCasting, a comprehensive and complicated software system, put multi-media technologies into practical. It can transmit, show, save and search digitalized pictures via intranet and internet transmission. It works with other hardwares to form different products and application. At present, Trend ViCasting and Trend ViBox is a perfect combination to be Multi-Media Streaming Server.

As at the report date, the Group receives positive response from market on Web Camera and Multi-Media Streaming Server.

■ SALES NETWORK

With PRC's overall sustainable positive economic growth, its entry into the World Trade Organization, and the hosting of the 2008 Olympic Games in Beijing, the Group foresees there will be tremendous market opportunities in the IB industry in PRC, especially in Shanghai and Beijing. Therefore, the Group decided to take aggressive business strategies to commercialize its products, bringing positive returns to its shareholders. In November 2002, the Group had entered a contract with a property developer to purchase a more advanced office with high-tech showroom (please refer to note 17 of the financial statements for details). This purchase was wholly financed by the Group's internal resources. The gross floor area of this office is approximately 1,905 square meters. It is situated in a newly multi-media commercial building in Shanghai. Its showroom not only can house more salesmen, but also enable the Group's salesmen to demonstrate our products to our clients in details in a simple and comfortable way. In future, this office will be the headquarter of the Group's sales points all over PRC cities. The Group deeply believes the sales in future will increase a lot with this advanced and comfortable office.

In October 2002, the Group simultaneously set up two sales offices in other PRC cities to expand its sales network. One is in Beijing and the other one is in Nanjing. Beijing sales office is responsible for sales in North China while the Nanjing sales office is responsible for sales in Jiangsu Province. The establishment of these two sales offices was financed with some of the IPO proceeds, as set out at the "Utilisation of net proceeds from the new issue" in this Management Discussion & Analysis.

The Group confidently believes that our smart sales team, the fluent market operation and the greatest market opportunities in PRC will bring fruitful contribution to the Group in 2003.

■ LIQUIDITY AND FINANCIAL RESOURCES

The Group maintains its good financial position with cash and bank balances of approximately HK\$76.4 million (2001: HK\$9.7 million) as at 31 December 2002. The cash and bank balances increased significantly by approximately HK\$66.7 million, which was mainly attributable to the net proceeds from the Company's share offer on 28 June 2002 and profits from operations during the year under review.

At 31 December 2002, the Group had total assets of approximately HK\$221.8 million, which were financed by current liabilities and shareholders' equity of approximately HK\$71.1 million and HK\$150.7 million, respectively.

At 31 December 2002, the Group's current ratio, being a ratio of current assets to current liabilities, was approximately 2.0 (2001: 1.3) and the Group's gearing ratio, being a ratio of total liabilities to total assets, was approximately 0.32 (2001: 0.53). To the report date, the Group did not have any bank borrowing or long term debts.

The Directors believe that the Group has a healthy financial position and has sufficient resources to satisfy its present requirements.

■ THE CAPITAL STRUCTURE, FUNDING AND TREASURY POLICIES OF THE GROUP

Other than 101,000,000 shares of the Company, which had been issued under the Share Offer (as per Prospectus dated 18 June 2002), the Group has no other type of capital instruments. The Group intends to finance its operation with its internal resources and the net proceeds from the New Issue (as defined in the Prospectus dated 18 June 2002).

■ RISK OF CURRENCY FLUCTUATION

The Group's business transactions are mainly denominated in Renminbi and United States dollars. The Directors consider that the Group has no significant exposure to foreign exchange fluctuations in view of the stability of Renminbi and United States dollars. During the year under review, the Group did not engage in any hedging activities.

The Group continued to adopt a prudent policy on financial risk management and had no material exposure to fluctuation in exchange rate.

■ DETAILS OF CHARGES ON GROUP ASSETS

During the year under review, the Group had no bank borrowings, no assets pledged and no interest expenses incurred.

■ FUTURE PLANS FOR MATERIAL INVESTMENTS/CAPITAL ASSETS

Except the future plans as disclosed in the paragraph of "Prospects" in the Chairman's Statement and in the paragraph of "Future plans and prospects" in the Prospectus dated 18 June 2002, and the acquisition of Shanghai Offices (as mentioned above in Sales Network), the Group had no other future plans for material investments or capital assets as at 31 December 2002.

■ CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at 31 December 2002 (2001: Nil).

■ EMPLOYEES' REMUNERATION POLICY

At 31 December 2002, the Group has a total of 122 staffs in Hong Kong and the PRC. The Group recognises the importance of human resources to its success. Remuneration of employees is maintained at competitive levels, commensurate with their responsibilities, performance and contribution. Other staff benefits provided by the Group include mandatory provident fund and insurance schemes.

For the year ended 31 December 2002, the Company granted share options on 7 November 2002 to certain eligible participants to acquire a total of 40.4 million ordinary shares of HK\$0.01 each in the capital of the Company at exercise price HK\$0.295 per share. The share options are exercisable from 8 November 2002 to 4 November 2005, both dates inclusive. At the date of this report, all share options remained unexercised. Further details of the Share Option Scheme are set out in note 27 of the financial statements.