

The directors present their first report and the audited financial statements of the Company for the period from 14 August 2001 (date of incorporation) to 31 December 2002 and of the Group for the year ended 31 December 2002.

■ GROUP REORGANISATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 14 August 2001 under the Companies Law (Revised) of the Cayman Islands. Pursuant to a reorganisation scheme (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the companies now comprising the Group on 6 June 2002. Further details of the Group Reorganisation, together with details of the subsidiaries acquired pursuant thereto, are set out in notes 1, 18 and 26 to the financial statements, and in the Company's prospectus dated 18 June 2002.

On 28 June 2002, the Company's shares were listed on the Stock Exchange.

■ PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 18 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

■ RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2002 and the state of affairs of the Company and of the Group as at that date are set out in the financial statements on pages 34 to 70.

The directors recommend the payment of a final dividend of HK2.3 cents per ordinary share in respect of the period ended 31 December 2002, to shareholders on the register of members on 27 May 2003. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the capital and reserves section of the balance sheet.

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

The proceeds from the Company's issue of new ordinary shares at the time of its listing on the Stock Exchange on 28 June 2002, after deduction of related issuance expenses, amounted to approximately HK\$57.4 million. These proceeds were partially applied during the period ended 31 December 2002 in accordance with the proposed applications set out in the Company's prospectus dated 18 June 2002, as follows:

- as to approximately HK\$0.3 million for the establishment of sales offices, including the purchase of office equipment, rental for offices and recruitment of staff in major cities in the People's Republic of China (the "PRC") including Beijing and Nanjing;
- as to approximately HK\$0.6 million for promotion and marketing activities including participation in seminars and exhibitions and advertising;
- as to approximately HK\$7.0 million for research and development relating to the application of Intelligent Building solutions to other market segments, including home communities and infrastructure projects;
- as to approximately HK\$9.2 million for research and development relating to the continuous improvement and upgrading of the Group's existing products for Intelligent Buildings with the latest Intelligent Technologies;
- as to approximately HK\$8.0 million for research and development relating to the development of new products and applications for Intelligent Technologies; and
- as to balance of approximately HK\$8.0 million as additional working capital of the Group.

The balance of the proceeds of approximately HK\$24.3 million was placed on short term deposits with banks in Hong Kong and the PRC as at 31 December 2002.

■ SUMMARY FINANCIAL INFORMATION

The following is a summary of the published combined/consolidated results and assets and liabilities of the Group for the years ended 31 December 1999, 2000, 2001 and 2002, prepared on the basis set out in the note below:

Results

	2002 HK\$'000	Year ended 31 December		
		2001 HK\$'000	2000 HK\$'000	1999 HK\$'000
TURNOVER	212,372	207,689	146,026	102,407
PROFIT FROM OPERATING ACTIVITIES BEFORE TAX	60,330	56,634	40,805	26,686
Tax	(16,910)	(15,725)	(8,152)	(4,789)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	43,420	40,909	32,653	21,897

Assets and liabilities

	2002 HK\$'000	At 31 December		
		2001 HK\$'000	2000 HK\$'000	1999 HK\$'000
NON-CURRENT ASSETS	79,436	32,575	22,713	11,101
CURRENT ASSETS	142,411	72,605	52,154	47,740
TOTAL ASSETS	221,847	105,180	74,867	58,841
CURRENT LIABILITIES	(71,135)	(55,356)	(35,952)	(27,594)
	150,712	49,824	38,915	31,247

Note: The summary of the combined results of the Group for the years ended 31 December 1999, 2000 and 2001, and of the assets and liabilities of the Group as at those dates has been extracted from the Company's prospectus dated 18 June 2002. The consolidated results for the year ended 31 December 2002 and of the assets and liabilities of the Group as at that date are set out in the financial statements on pages 34 and 70, respectively. The summary of the combined/consolidated results for the years ended 31 December 1999, 2000 and 2001, and of the assets and liabilities as at 31 December 1999, 2000 and 2001 of the Group includes the results, assets and liabilities of the Company and its subsidiaries as if the current structure of the Group had been in existence throughout the years ended 31 December 1999, 2000, 2001 and 2002, and is presented on the basis set out in note 2 to the financial statements.

■ FIXED ASSETS

Details of movements in the fixed assets of the Group during the year are set out in note 15 to the financial statements.

■ SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the period from 14 August 2001 (date of incorporation) to 31 December 2002, together with the reasons therefor, are set out in notes 26 and 27 to the financial statements.

■ PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

■ PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Other than in connection with the Company's initial public offering and the listing of the Company's shares on the Stock Exchange on 28 June 2002, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period.

■ RESERVES

Details of movements in the reserves of the Company during the period and of the Group during the year are set out in note 28 to the financial statements and in the consolidated statement of changes in equity, respectively.

■ DISTRIBUTABLE RESERVES

At 31 December 2002, the Company's reserves available for distribution calculated in accordance with the Companies Law (Revised) of the Cayman Islands amounted to HK\$135,461,000, of which HK\$9,292,000 has been proposed as a final dividend for the year. This includes the Company's share premium account in the amount of HK\$122,213,000 as at 31 December 2002, which may be distributed, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business. The Company's share premium account may also be distributed in the form of fully paid bonus shares.

■ MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 48% of the Group's total sales for the year and sales to the largest customer included therein amounted to 15%. Purchases from the Group's five largest suppliers accounted for 80% of the Group's total purchases for the year and purchases from the largest supplier included therein amounted to 24%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and suppliers.

■ DIRECTORS

The directors of the Company during the period from 14 August 2001 (date of incorporation) to 31 December 2002 were:

Executive directors

Mr. Xu Peixin	(appointed on 14 August 2001)
Ms. Cai Yajuan	(appointed on 14 August 2001)
Mr. Zhou Yue	(appointed on 14 August 2001)

Independent non-executive directors

Mr. Wang Jia	(appointed on 6 June 2002)
Mr. Cheng Dazhang	(appointed on 6 June 2002)
Mr. Au Kin Wah	(appointed on 6 June 2002)

In accordance with the Company's articles of association, Mr. Zhou Yue will retire by rotation and, being eligible, will offer himself for re-election at the forthcoming annual general meeting.

Each of the independent non-executive directors is appointed for a term of one year.

■ BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 21 to 24 of the annual report.

■ DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service contract with the Company for a term of two years commencing on 1 June 2002, which continues thereafter until terminated by either party giving not less than three months' notice in writing to the other party.

Save as disclosed above, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

■ DIRECTORS' INTERESTS IN CONTRACTS

Other than in connection with the Group Reorganisation in preparation for the Company's initial public offering, no director had a material interest in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

■ DIRECTORS' INTERESTS IN SHARES

At 31 December 2002, the interests of the directors in the share capital of the Company or its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as follows:

Ordinary shares of the Company

Name of director	Number of ordinary shares of HK\$0.01 each held and nature of interest		
	Personal	Family	Corporate
Mr. Xu Peixin (<i>note</i>)	–	–	256,338,000

Note: These ordinary shares are owned by Ultimate Fortune Limited ("Ultimate Fortune"), a company incorporated in the British Virgin Islands. The entire issued share capital of Ultimate Fortune is beneficially owned by Mr. Xu Peixin.

In addition to the above, certain directors have non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

■ DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed in the share option scheme disclosures in note 27 to the financial statements, and other than in connection with the Group Reorganisation in preparation for the Company's initial public offering, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

■ SHARE OPTION SCHEME

Concerning the share options granted during the period to certain employees of the Group as detailed in note 27 to the financial statements, the directors do not consider it appropriate to disclose a theoretical value of the share options granted during the period, because in the absence of a readily market value of the share options on the ordinary shares of the Company, the directors were unable to arrive at an assessment of the value of these share options.

■ SUBSTANTIAL SHAREHOLDERS

At 31 December 2002, the following interests of 10% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance.

Name	Number of ordinary shares held	Percentage of the issued share capital of the Company
Ultimate Fortune	256,338,000	63.45

Save as disclosed above, no person, other than the director of the Company whose interests are set out in the section "Directors' interests in shares" above, had registered an interest in the share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

■ DIRECTORS' INTERESTS IN A COMPETING BUSINESS

No director had interests in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), during the year and up to the date of this report.

■ POST BALANCE SHEET EVENT

Details of the significant post balance sheet event of the Group and the Company are set out in note 33 to the financial statements.

■ CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules, since the listing of the Company's shares on the Stock Exchange on 28 June 2002.

■ AUDIT COMMITTEE

The Company has an audit committee (the "Committee") which was established in accordance with the requirements of the Code, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The Committee comprises the three independent non-executive directors of the Company, Mr. Wang Jia, Mr. Cheng Dazhang and Mr. Au Kin Wah.

■ AUDITORS

Ernst & Young were appointed by the directors as the first auditors of the Company. Ernst & Young will retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the board

Xu Peixin

Chairman

Hong Kong

28 April 2003