1. 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. This was accomplished by the Company acquiring the entire issued share capital of Isuperior Technology Limited ("Isuperior"), the then holding company of the other subsidiaries listed in note 18 to the financial statements, in consideration for the allotment and issue of the Company's shares, credited as fully paid, to the former shareholders of Isuperior. Further details of the Group Reorganisation are set out in note 26 to the financial statements and in the Company's prospectus dated 18 June 2002.

2. BASIS OF PRESENTATION

The Group Reorganisation involved companies under common control. The consolidated financial statements have been prepared using the merger basis of accounting in accordance with Statement of Standard Accounting Practice No. 27 "Accounting for group reconstructions" as a result of the Group Reorganisation. On this basis, the Company has been treated as the holding company of its subsidiaries for the financial years presented rather than from the date of its acquisition of the subsidiaries. Accordingly, the consolidated results of the Group for the years ended 31 December 2002 and 2001 include the results of the Company and its subsidiaries with effect from 1 January 2001 or since their respective dates of incorporation, establishment or acquisition, where this is a shorter period. The comparative consolidated balance sheet as at 31 December 2001 has been prepared on the basis that the existing Group had been in place at that date.

In the opinion of the directors, the consolidated financial statements prepared on the above basis present more fairly the results and the state of affairs of the Group as a whole.

All significant intercompany transactions and balances within the Group have been eliminated in the preparation of the consolidated financial statements.

During the period from 14 August 2001 (date of incorporation) to 31 December 2001, the Company had no transactions and accordingly, no comparative amounts as at 31 December 2001 have been presented for the Company's balance sheet.

3. CORPORATE INFORMATION

The principal place of business of the Company is located at Room 1707, 17th Floor, Harbour Centre, 25 Harbour Road, Wanchai, Hong Kong.

During the year, the Group was involved in: (i) the provision of advisory and management services, and the distribution of hardware and software for intelligent building projects, and (ii) the trading of intellignet building equipment, software and accessories.

In the opinion of the directors, the ultimate holding company is Ultimate Fortune Limited, which is incorporated in the British Virgin Islands (the "BVI").

4. IMPACT OF REVISED AND NEW STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following revised and new SSAPs are effective for the first time for the current year's financial statements:

SSAP 1 (Revised):	Presentation of financial statements
SSAP 11 (Revised):	Foreign currency translation
SSAP 15 (Revised):	Cash flow statements
SSAP 34:	Employee benefits

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of those SSAPs which have had a significant effect on the financial statements are summarised as follows:

SSAP 1 prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision of this SSAP is that a consolidated statement of changes in equity is now presented on page 36 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required and in place of the Group's reserves note.

SSAP 11 (Revised) prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the profit and loss accounts of overseas subsidiaries are now translated into Hong Kong dollars at the weighted average exchange rates for the year, whereas previously they were translated at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements.

4. IMPACT OF REVISED AND NEW STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs") (Continued)

SSAP 15 (Revised) prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. In addition, cash flows from overseas subsidiaries arising during the year are now translated to Hong Kong dollars at the exchange rates at the dates of the transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates at the balance sheet date, and the definition of cash equivalents for the purpose of the consolidated cash flow statement has been revised. Further details of these changes and the restatement of prior year comparative amounts that has resulted from them are included in the accounting policies for "Cash and cash equivalents" and "Foreign currencies" in note 5 and in note 29(a) to the financial statements.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatments for employee benefits. Disclosures are now required in respect of the Company's share option scheme, as detailed in note 27 to the financial statements. These share option scheme disclosures are similar to the disclosures of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") previously included in the Report of the Directors, which are now included in the notes to the financial statements as a consequence of the SSAP.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of 5 years.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate.

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset, less any estimated residual value, over the following estimated useful lives:

Computer equipment and software	5 years
Leasehold improvements, furniture, office equipment and motor vehicles	5 years

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Research and development costs

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products or to improve existing products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs, representing development costs incurred for software and hardware products applicable to intelligent building projects, are stated at cost less any impairment losses and are amortised, using the straight-line basis, over the estimated commercial lives of the underlying products of 5 years, commencing from the date when the products are put into commercial production.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Inventories

Inventories are stated at the lower of cost and net realisable value after allowance for obsolete or slow-moving items. Cost is determined on the first-in, first-out basis. Net realisable value is based on the estimated selling prices less any estimated costs to be incurred to completion and disposal.

Intelligent building contracts

Revenue from intelligent building contracts comprises the agreed contract amount and appropriate amounts from variation orders. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed contract overheads.

When the outcome of an intelligent building contract can be estimated reliably, contract revenue and contract costs associated with the intelligent building contract are recognised as revenue and expenses, respectively, by reference to the stage of completion of the intelligent building contract as at the balance sheet date.

When the outcome of an intelligent building contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are probable of recovery, and contract costs are recognised as an expense in the period in which they are incurred.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences in the recognition of revenue and expenses for tax and for financial reporting purposes, to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from intelligent building contracts, based on the stage of completion of the intelligent building contracts as further explained in the accounting policy for "Intelligent building contracts" above;

(b) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(c) services fee income, when the services have been rendered; and

(d) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiary which operates in Shanghai, the People's Republic of China (the "PRC") are required to participate in a central pension scheme (the "Central Scheme") operated by the local municipal government in Shanghai, the PRC. The subsidiary is required to contribute 22.5% of its payroll to the Cenetral Scheme to fund the retirement benefits. The local municipal government in the PRC undertakes to assume the retirement benefits obligations of all existing and future retired employees of the PRC subsidiary. The only obligation of the subsidiary with respect to the Central Scheme is to meet the required contributions under the Central Scheme. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the Central Scheme.

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options and have no impact on the profit and loss account or balance sheet.

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Prior to the adoption of the revised SSAP 11 and revised SSAP 15 during the year, as explained in note 4 to the financial statements, the profit and loss accounts and the cash flows of overseas subsidiaries were translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements, while the adoption of the revised SSAP 15 has resulted in reclassification of certain prior year comparative amounts of the consolidated cash flow statement, further details of which are included in note 29(a) to the financial statements but no significant effect on the amount of the previously-reported cash flows of the prior year.

6. TURNOVER

Turnover represents an appropriate proportion of contract revenue of intelligent building contracts; the net invoiced value of goods sold, after allowance for returns and trade discounts; and the value of services rendered during the year. All significant intra-Group transactions have been eliminated on consolidation.

7. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (a) on a primary segment reporting basis, by business segment; and (b) on a secondary segment reporting basis, by geographical segment.

(a) Business segments

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

(i) the intelligent building projects (the "IB Projects") segment engages in the provision of advisory and management services, and the distribution of hardware and software for intelligent building projects; and

(ii) the trading of intelligent building equipment, software and accessories segment engages in the trading of equipment, software and accessories.

During the year, over 90% of the Group's revenue, results, assets and liabilities were attributable to the IB Projects segment, therefore no further analysis by business segment is presented.

(b) Geographical segments

During the year, all of the Group's revenue, results, assets and liabilities were attributable to the geographical segment of customers based in the PRC except Hong Kong.

8. PROFIT FROM OPERATING ACTIVITIES BEFORE TAX

The Group's profit from operating activities before tax is arrived at after charging/(crediting):

	NOTES	2002 HK$'000	2001 HK$'000
Cost of inventories sold		**119,161**	118,818
Cost of services rendered		**20,030**	17,286
Depreciation	15	**1,503**	1,453
Research and development costs:			
Deferred expenditure amortised*	16	**3,677**	2,548
Current year expenditure		**1,790**	4,248
Amortisation of goodwill**	16	**53**	26
Minimum lease payments under operating leases on leasehold land and buildings		**1,308**	521
Auditors' remuneration		**830**	1,000
Staff costs (excluding director's remuneration – note 9):			
Wages and salaries		**3,325**	3,947
Retirement benefits scheme contributions		**142**	61
		3,467	4,008
Interest income		**(255)**	(132)

* Approximately HK$2,549,000 and HK$1,128,000 of the amortisation of deferred development costs for the year are included in "Cost of sales" and "Other operating expenses" of the consolidated profit and loss account, respectively.

** The amortisation of goodwill for the year was included in "Other operating expenses" of the consolidated profit and loss account.

9. DIRECTORS' REMUNERATION

Details of the directors' remuneration are as follows:

	Group	
	2002	2001
	HK$'000	HK$'000
Fees:		
Executive directors	**–**	–
Independent non-executive directors	**42**	–
	42	–
Other emoluments:		
Basic salaries, housing benefits, other allowances and benefits in kind	**605**	468
Performance related bonus	**–**	2,000
Retirement benefits scheme contributions	**24**	7
	629	2,475
	671	2,475

Other than the fees payable to the independent non-executive directors, there were no other emoluments payable to the independent non-executive directors during the year (2001: Nil).

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2002	2001
Nil – HK$1,000,000	**6**	4
HK$2,000,001 – HK$2,500,000	**–**	1
	6	5

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

During the year, no emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as compensation for loss of office.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2001: three) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining three (2001: two) non-director, highest paid employees are as follows:

	Group	
	2002	2001
	HK$'000	HK$'000
Basic salaries, housing benefits, other allowances and benefits in kind	**943**	429
Retirement benefits scheme contributions	**21**	5
	964	434

The number of the non-director, highest paid employees whose remuneration fell within the following band is as follows:

	Number of non-director, highest paid employees	
	2002	2001
Nil – HK$1,000,000	**3**	2

During the year, an aggregate of 2,300,000 share options were granted to the three non-director, highest paid employees in respect of their services to the Group, further details of which are set out in note 26 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above non-director, highest paid employees' remuneration disclosures.

11. TAX

	Group	
	2002	2001
	HK$'000	HK$'000
Current year provision:		
Hong Kong	**–**	–
Macau	**3,512**	4,131
Elsewhere in the PRC	**13,398**	11,594
Tax charge for the year	**16,910**	15,725

No provision for Hong Kong profits tax had been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2001: Nil). Taxes on profits assessable elsewhere had been calculated at the applicable rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

No provision for deferred tax had been made as the Group did not have any significant unprovided deferred tax liabilities in respect of the year (2001: Nil).

Macau Complementary Tax had been calculated at the rate of 15.75% (2001: 15.75%) on the estimated assessable profits of Trend Intelligence Technologies Limited ("Trend Intelligence") for the year.

Income tax of the PRC had been calculated at the rate of 33% (2001: 33%) on the deemed profits, which was based on 30% of the recognised income in connection with those intelligent building contracts signed by Shanghai Trend Intelligent Systems Co., Ltd. ("Shanghai Trend"), on behalf of Trend Intelligence, for the year.

According to the Income Tax Law of the PRC, Shanghai Trend is exempted from the income tax of the PRC for two years starting from the first profitable year of its operations, and is entitled to a 50% relief from the income tax of the PRC for the following three years. Upon expiry of the tax relief period, Shanghai Trend will be subject to the income tax rate of 33%. Shanghai Trend has not commenced to generate any assessable profits arising in the PRC since the date of its establishment.

12. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the period from 14 August 2001 (date of incorporation) to 31 December 2002 dealt with in the financial statements of the Company was approximately HK$13,248,000.

13. DIVIDENDS

	2002 HK$'000	2001 HK$'000
Interim	–	30,000
Proposed final – HK2.3 cents per ordinary share	9,292	–
	9,292	30,000

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

The interim dividend declared and paid for the year ended 31 December 2001 were paid by a subsidiary of the Company to its then shareholders prior to the Group Reorganisation, detailed in notes 1 and 26 to the financial statements.

14. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's net profit from ordinary activities attributable to shareholders for the year of HK$43,420,000 (2001: HK$40,909,000) and the weighted average of 355,298,630 (2001: 303,000,000) ordinary shares in issue during the year.

The weighted average number of ordinary shares used to calculate the basic earnings per share for the year ended 31 December 2001 includes the pro forma issued share capital of the Company, comprising 10,000,000 ordinary shares issued nil paid on incorporation of the Company (as subsequently sub-divided), 10,000,000 ordinary shares issued for the acquisition of the entire issued share capital of Isuperior and the capitalisation issue of 283,000,000 ordinary shares, as further detailed in note 26 to the financial statements. The weighted average number of ordinary shares used to calculate the basic earnings per share for the year ended 31 December 2002 also includes the additional 101,000,000 ordinary shares issued upon the listing of the Company's shares on the Stock Exchange on 28 June 2002.

The calculation of diluted earnings per share for the year ended 31 December 2002 is based on the Group's net profit from ordinary activities attributable to shareholders for the year of HK$43,420,000. The number of ordinary shares used in the calculation is the weighted average of 355,298,630 ordinary shares in issue during the year, as used in the basic earnings per share calculation and the weighted average of 902,998 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the year.

There were no potential dilutive ordinary shares in existence for the year ended 31 December 2001 and accordingly, no diluted earnings per share amount has been presented for that year.

15. FIXED ASSETS

Group

	Computer equipment and software	Leasehold improvements, furniture, office equipment and motor vehicles	Total
	HK$'000	HK$'000	HK$'000
Cost:			
At 1 January 2002	8,097	1,962	10,059
Additions	133	62	195
At 31 December 2002	8,230	2,024	10,254
Accumulated depreciation:			
At 1 January 2002	3,480	1,220	4,700
Depreciation provided during the year	1,297	206	1,503
At 31 December 2002	4,777	1,426	6,203
Net book value:			
At 31 December 2002	3,453	598	4,051
At 31 December 2001	4,617	742	5,359

16. INTANGIBLE ASSETS

Group

	Deferred development costs	Goodwill	Total
	HK$'000	HK$'000	HK$'000
Cost:			
At 1 January 2002	30,591	261	30,852
Additions	34,291	–	34,291
At 31 December 2002	64,882	261	65,143
Accumulated amortisation:			
At 1 January 2002	3,610	26	3,636
Amortisation provided during the year	3,677	53	3,730
At 31 December 2002	7,287	79	7,366
Net book value:			
At 31 December 2002	57,595	182	57,777
At 31 December 2001	26,981	235	27,216

17. DEPOSITS FOR PURCHASES OF FIXED ASSETS

Deposits for purchases of fixed assets represent deposits paid for the acquisition of an office premises in Shanghai, the PRC and the related leasehold improvements as at 31 December 2002. Subsequent to the balance sheet date, the Group paid the remaining consideration for the purchase of the office premises and acquired the office premises in Shanghai, the PRC.

18. INVESTMENTS IN SUBSIDIARIES

	Company 2002 HK$'000
Unlisted shares, at cost	**68,785**

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the Company's subsidiaries are as follows:

Name	Place of incorporation/ establishment and operations	Nominal value of paid up share/ registered capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Isuperior Technology Limited	BVI	Ordinary US$4,000	100	–	Investment holding
E-Build Limited	BVI	Ordinary US$1,000	–	100	Intellectual property holding
Shanghai Trend Intelligent Systems Co., Ltd. *(Note)*	PRC except Hong Kong	US$3,000,000	–	100	Trading of intelligent building equipment, software and accessories and provision of technical support services

18. INVESTMENTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ establishment and operations	Nominal value of paid up share/ registered capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Trend Intelligence Technologies Limited	BVI/Macau	Ordinary US$1,000	–	100	Provision of advisory and management services, and distribution of hardware and software for intelligent building projects; and trading of intelligent building equipment, software and accessories
Trend International Limited	Hong Kong	Ordinary HK$100,000	–	100	Provision of administrative and treasury services
Trend Intelligent Technologies Limited	Hong Kong	Ordinary HK$10,000	–	100	Dormant

Note: Shanghai Trend was established in the PRC for an operating period of 13 years commencing from its date of establishment on 9 March 1993. It was wholly acquired by the Group on 24 May 2001 and has become a Sole Foreign Investment Enterprise since then. The registered capital of Shanghai Trend was increased from US$200,000 to US$3,000,000 during the year and was fully paid up as at 31 December 2002.

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Retention monies held by customers for intelligent building contract works included in prepayments, deposits and other receivables amounted to approximately HK$7,819,000 as at 31 December 2002 (2001: HK$3,487,000).

20. INTELLIGENT BUILDING CONTRACTS

Contract costs incurred plus recognised profits amounted to approximately HK$174,543,000 as at 31 December 2002 (2001: HK$202,108,000).

The progress billings for the contract work in progress as at 31 December 2002 amounted to approximately HK$145,068,000 (2001: HK$172,880,000).

The amounts due from contract customers amounted to approximately HK$29,475,000 as at 31 December 2002 (2001: HK$29,877,000).

21. INVENTORIES

	Group	
	2002	2001
	HK$'000	HK$'000
Trading goods	**3,393**	853

No inventories were stated at net realisable value as at 31 December 2002 (2001: Nil).

22. TRADE RECEIVABLES

The Group normally allows credit terms to its established customers ranging from 30 to 90 days. 100% provision is made for outstanding debts aged over 365 days.

An aging analysis of the trade receivables as at the balance sheet date, based on the date of recognition of the sale or the contract revenue, is as follows:

	Group	
	2002	2001
	HK$'000	HK$'000
1 – 30 days	**7,068**	13,430
31 – 60 days	**6,329**	4,396
61 – 90 days	**4,875**	–
	18,272	17,826

23. CASH AND CASH EQUIVALENTS

	Group	
	2002	2001
	HK$'000	HK$'000
Cash and bank balances	**55,254**	9,721
Time deposits	**21,100**	–
Cash and cash equivalents	**76,354**	9,721

24. TRADE PAYABLES

The Group normally obtains credit terms ranging from 30 to 90 days from its suppliers.

An aging analysis of the trade payables as at the balance sheet date, based on the date of the receipt of the goods purchased, is as follows:

	Group	
	2002	2001
	HK$'000	HK$'000
1 – 30 days	**7,537**	8,536
31 – 60 days	**2,289**	920
61 – 90 days	**2,006**	–
	11,832	9,456

25. OTHER PAYABLES AND ACCRUALS

The amounts due to contract customers included in other payables and accruals amounted to nil as at 31 December 2002 (2001: HK$649,000).

Advances received from customers for contract works included in other payables and accruals amounted to nil as at 31 December 2002 (2001: HK$1,408,000).

26. SHARE CAPITAL

	2002 HK$'000
Authorised:	
2,000,000,000 ordinary shares of HK$0.01 each	**20,000**
Issued and fully paid:	
404,000,000 ordinary shares of HK$0.01 each	**4,040**

The movements in share capital during the period from 14 August 2001 (date of incorporation) to 31 December 2002 were as follows:

(i) On incorporation, the authorised share capital of the Company was HK$100,000 divided into 1,000,000 ordinary shares of HK$0.10 each. On 23 August 2001, 1,000,000 ordinary shares were allotted and issued nil paid.

(ii) On 6 June 2002, each of the then issued ordinary shares having a par value of HK$0.10 each in the share capital of the Company, was sub-divided into 10 ordinary shares of HK$0.01 each, and the authorised share capital of the Company was increased to HK$200,000 by the creation of an additional 10,000,000 ordinary shares of HK$0.01 each, ranking pari passu in all respects with the existing share capital of the Company.

(iii) On 6 June 2002, as part of the Group Reorganisation, the Company issued an aggregate of 10,000,000 ordinary shares of HK$0.01 each credited as fully paid as consideration for the acquisition of the entire issued share capital of Isuperior. The excess of the fair value of the ordinary shares of Isuperior, determined on the basis of its consolidated net assets at that date over the nominal value of the Company's ordinary shares issued and credited as fully paid in exchange therefor, amounting to HK$68,685,000, was credited to the Company's share premium account.

(iv) On 6 June 2002, an amount of HK$100,000, being a portion of the amount credited to the share premium account of the Company on the issue of ordinary shares in exchange for the ordinary shares of Isuperior as set out in (iii) above, was applied to pay up, in full at par value, the 10,000,000 sub-divided ordinary shares of HK$0.01 each allotted and issued nil paid on 23 August 2001.

26. SHARE CAPITAL (Continued)

(v) On 6 June 2002, the authorised share capital of the Company was increased to HK$20,000,000 by the creation of an additional 1,980,000,000 ordinary shares of HK$0.01 each, ranking pari passu in all respects with the existing share capital of the Company.

(vi) On 6 June 2002, a total of 283,000,000 ordinary shares of HK$0.01 each were allotted and issued as fully paid at par to the holders of the ordinary shares whose names appeared on the register of members of the Company at that date, in proportion to their respective shareholdings, by way of the capitalisation of the sum of HK$2,830,000 standing to the credit of the share premium account of the Company (the "Capitalisation Issue"), conditional on the share premium account being credited as a result of the new issue of shares to the public as set out in (vii) below.

(vii) On 28 June 2002, 101,000,000 ordinary shares of HK$0.01 each were issued to the public at HK$0.75 each for a total cash consideration, before the related issue expenses, of HK$75,750,000 (the "New Issue").

26. SHARE CAPITAL (Continued)

A summary of the transactions during the year with reference to the above movements in the Company's issued share capital is as follows:

		Number of ordinary shares in issue	Issued share capital HK$'000	Share premium account HK$'000	Total HK$'000
Shares allotted and issued nil paid on incorporation	(i)	1,000,000	–	–	–
Sub-division of each of the Company's shares into 10 shares	(ii)	10,000,000	–	–	–
Shares issued as consideration for the acquisition of the entire issued share capital of Isuperior pursuant to the Group Reorganisation	(iii)	10,000,000	100	68,685	68,785
Application of share premium account to pay up nil paid shares issued on incorporation	(iv)	–	100	(100)	–
Capitalisation Issue credited as fully paid conditional on the share premium account of the Company being credited as a result of the New Issue of shares to the public	(vi)	283,000,000	–	–	–
Pro forma at 31 December 2001		303,000,000	200	68,585	68,785
New Issue of shares on public listing	(vii)	101,000,000	1,010	74,740	75,750
Capitalisation of the share premium account as set out above	(vi)	–	2,830	(2,830)	–
Share issue expenses		–	–	(18,282)	(18,282)
At 31 December 2002		404,000,000	4,040	122,213	126,253

27. SHARE OPTION SCHEME

SSAP 34 was adopted during the year, as explained in note 4 to the financial statements and under the heading "Share option scheme" in note 5 to the financial statements. As a result, the following detailed disclosures relating to the Company's share option scheme are now included in the notes to the financial statements.

The Company operates a share option scheme (the "Option Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Option Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, any person or entity providing research, development or other technological support to the Group, any other person or entity determined by the directors as having contributed or may contribute to the development and growth of the Group. The Option Scheme became effective on 26 June 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Option Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. At 31 December 2002, the number of shares issuable under the share options granted under the Option Scheme was 40,400,000, which represented 10% of the Company's shares in issue as at that date. The maximum number of shares issuable under share options to each eligible participant in the Option Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of the grant of the share options or the expiry date of the Option Scheme, whichever is earlier.

27. SHARE OPTION SCHEME (Continued)

The exercise price of the share options is determinable by the directors, but may not be less than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet on the date of the offer of grant, which must be a trading day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet for the five trading days immediately preceding the date of the offer of the grant; and (iii) the nominal value of the Company's shares.

Share options do not confer rights on the holders to dividends or to vote at shareholder meetings.

The following share options were outstanding under the Option Scheme during the period from 26 June 2002 to 31 December 2002:

	Number of share options								Price of Company's shares ***	
Name or category of participant	At 1 January 2002	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2002	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$	At grant date of options HK$	At exercise date of options HK$
Employees other than executive and independent non-executive directors										
In aggregate	–	40,400,000	–	–	40,400,000	7 November 2002	8 November 2002 to 4 November 2005	0.295	0.280	N/A

* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

** The exercise price of the share options is subject to adjustment in the case of a capitalisation issue, rights issue, sub-division or consolidation of the Company's shares or reduction of the Company's share capital.

*** The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the share options. The price of the Company's shares disclosed as at the date of the exercise of the share options is the weighted average of the Stock Exchange closing prices over all of the exercises of options within the disclosure category.

At 31 December 2002, the Company had 40,400,000 share options outstanding under the Option scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 40,400,000 additional ordinary shares of HK$0.01 each of the Company and additional share capital of HK$404,000 and share premium of HK$11,514,000 (before issue expenses).

28. RESERVES

Group

The amounts of the Group's reserves and the movements therein for the years ended 31 December 2002 and 2001 are presented in the consolidated statement of changes in equity on page 36.

The share premium account of the Group includes: (i) the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the Group Reorganisation over the nominal value of the share capital of the Company issued in exchange therefor; (ii) the premium arising from the Capitalisation Issue of shares of the Company; and (iii) the premium arising from the New Issue of shares of the Company.

Company

	NOTES	**Share premium account** HK$'000	**Retained profits** HK$'000	**Total** HK$'000
Arising on acquisition of Isuperior and applied in payment of 10,000,000 ordinary shares allotted nil paid on incorporation	26	68,585	–	68,585
New Issue of shares	26	74,740	–	74,740
Capitalisation Issue of shares	26	(2,830)	–	(2,830)
Share issue expenses	26	(18,282)	–	(18,282)
Net profit for the period	12	–	13,248	13,248
Proposed final dividend	13	–	(9,292)	(9,292)
At 31 December 2002		122,213	3,956	126,169

The share premium account of the Company represents: (i) the excess of the then combined net assets of the subsidiaries acquired pursuant to the Group Reorganisation as set out in notes 1 and 26 to the financial statements, over the nominal value of the share capital of the Company issued in exchange therefor ; (ii) the premium arising from the Capitalisation Issue of shares of the Company; and (iii) the premium arising from the New Issue of shares of the Company.

In accordance with the Companies Law (Revised) of the Cayman Islands, the share premium account is distributable to the shareholders of the Company 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 and when they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Prior year comparative amounts

SSAP 15 (Revised) was adopted during the year, as detailed in note 4 to the financial statements, which has resulted in a change to the layout of the consolidated cash flow statement. The consolidated cash flow statement is now presented under three headings: cash flows from operating activities, investing activities and financing activities. Previously five headings were used, comprising the three headings listed above, together with cash flows from returns on investments and servicing of finance and from taxes paid. The significant reclassifications resulting from the change in presentation are that interest received is now included in cash flows from operating activities, and dividends paid are now included in cash flows from financing activities. The presentation of the comparative combined cash flow statement for the year ended 31 December 2001 has been changed to accord with the new layout.

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Acquisition of a subsidiary

	2002 HK$'000	2001 HK$'000
Net assets acquired:		
Fixed assets	–	380
Prepayments, deposits and other receivables	–	3,615
Cash and bank balances	–	105
Trade payables	–	(225)
Other payables and accruals	–	(2,576)
	–	1,299
Goodwill on acquisition	–	261
	–	1,560
Satisfied by:		
Cash	–	1,560

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	2002 HK$'000	2001 HK$'000
Cash consideration	–	(1,560)
Cash and bank balances acquired	–	105
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	–	(1,455)

The subsidiary acquired in previous year made no significant contribution to the Group's consolidated cash flows, turnover and net profit from ordinary activities attributable to shareholders for the year ended 31 December 2001.

(c) Major non-cash transaction

The Group Reorganisation involved the acquisition of Isuperior by the issue of ordinary shares of the Company, further details of which are set out in notes 1 and 26 to the financial statements.

30. OPERATING LEASE ARRANGEMENTS

The Group leases certain leasehold land and buildings under operating lease arrangements. The original lease terms for these leasehold land and buildings ranged from 3 months to 2 years.

At 31 December 2002, the Group had total future minimum lease payments under non-cancellable operating leases for leasehold land and buildings falling due as follows:

	Group	
	2002	2001
	HK$'000	HK$'000
Within one year	**960**	663
In the second to fifth years, inclusive	**101**	464
	1,061	1,127

31. COMMITMENTS

In addition to the operating lease commitments detailed in note 30 above, the Group had the following commitments as at the balance sheet date:

	Group	
	2002	2001
	HK$'000	HK$'000
Contracted, but not provided for:		
Leasehold land and buildings	**8,548**	–
Research and development costs	**10,376**	–
	18,924	–

The Company did not have any significant commitments as at 31 December 2002.

32. RELATED PARTY TRANSACTIONS

(i) During the year ended 31 December 2001, the Group had paid sub-contracting fees of HK$2,346,000 to 上海騰達智能系統有限公司 ("Shanghai Trend"). In the opinion of the directors of the Company, the above transactions were carried out in the ordinary course of business of the Group. The terms for the sub-contracting fees were determined in accordance with the relevant agreements entered into between the Group and Shanghai Trend, with terms similar to those with other independent sub-contractors. The directors of the Company have confirmed that the above transactions have continued, but have ceased to be classified as related party transactions of the Group since Shanghai Trend was wholly acquired by the Group on 24 May 2001.

(ii) On 20 January 2001, a conditional agreement was entered into between the Group and the then shareholders of Shanghai Trend, under which the Group agreed to acquire 100% equity interest in Shanghai Trend for a cash consideration of approximately HK$1,560,000. The consideration was determined by reference to the unaudited net asset value of Shanghai Trend. The conditions of the agreement were completely fulfilled and Shanghai Trend was wholly acquired by the Group on 24 May 2001. Mr. Xu Peixin, a director of the Company, was interested in 32% of Shanghai Trend before 24 May 2001.

33. POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, on 28 April 2003, the Company proposed to declare a final dividend of HK2.3 cents per ordinary share to its shareholders whose names appeared on the register of members of the Company on 27 May 2003.

34. COMPARATIVE AMOUNTS

As further explained in note 4 to the financial statements, due to the adoption of certain revised and new SSAPs during the year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 April 2003.