

INTERIM DIVIDEND

The Directors do not recommend the payment of any interim dividend in respect of the Period (2001: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

In the first half of 2002, the continuing growth of the PRC economy provided a favourable operating environment for the Group. The Group generated a turnover of approximately HK\$107.8 million, representing a significant increase of approximately 42.4% or HK\$32.1 million as compared to the corresponding period of last year. Net profit from ordinary activities attributable to shareholders increased by approximately 41.7% to approximately HK\$22.0 million as compared to the corresponding period of last year. The basic earnings per share for the Period was HK7.2 cents. When compared to the corresponding period of last year, the basic earnings per share also increased by approximately 41.2%. This remarkable growth consolidated the Group's position as one of leading advisory and management service providers for the IB Projects in the PRC, especially in Shanghai.

The Group's excellent results were mainly attributable to the Group's broad and reputable customer base, sound marketing strategies, effective and innovative products, proven research and development capabilities, experienced management team in intelligent technologies, strict quality and cost control.

The principal activities of the Group are the provision of advisory and management services for the IB Projects in the PRC and trading of intelligent building equipment, software and accessories during the Period. Over 90% of the Group's turnover was generated from the provision of advisory and management services for the IB Projects in the PRC. As intelligent buildings are the trend of the 21st century in the PRC, which is strongly supported by the PRC government in its "tenth five-year plan", demand for intelligent buildings increases on a steady pace. With this great potential business opportunities, the Group, as one of the pioneer of intelligent building services provider in the PRC, focuses its resources and devotes itself in the intelligent buildings industry, thus achieving such high growth in the Group's turnover during the Period.

The Group's overall gross profit margin was approximately 35.4% for the Period, representing a slight improvement from that of the corresponding period of last year of approximately 34.1%. This improvement was mainly attributable to the Group's adoption of bulk purchase strategy for intelligent building equipment, software and accessories which enabled the Group to purchase such equipment, software and accessories at competitive prices.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Realising the rapid advancement and the importance of sophisticated technologies in this intelligent building field, the Group had already invested approximately HK\$10 million in the research and development of new and innovative products to meet the tremendous demand for intelligent buildings in the PRC during the Period. This expenditure was capitalised as intangible assets.

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.

Web Camera, another new product, is under its final stage of development and is expected to be launched at early 2003. Web Camera is able to capture, collect and transmit pictures with high resolutions. It is designed for occupants of an intelligent building or an Intelligent Home Community to monitor the occupants' units remotely. It is also able to be used in security and/or monitoring systems to monitor various conditions such as traffic conditions, facilities video on demand, remote patient services in hospitals, remote education, online speech and real-time transmission of sports games.

The Group is very active in research and development of sophisticated intelligent technologies because it is able to provide the Group with a platform to build a sustainable and high business growth; thus, enhancing the Group's market share and its leading position in the intelligent building sector in the PRC in this new millennium.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Liquidity and financial resources

The Group maintains its good financial position with cash and bank balances of approximately HK\$60.8 million (31 December 2001: HK\$9.7 million) as at 30 June 2002. The cash and bank balances increased significantly by approximately HK\$51.1 million was mainly attributable to the net proceeds from the Company's share offer on 28 June 2002 and profits from operations during the Period.

At 30 June 2002, the Group had total assets of approximately HK\$196.0 million, which were financed by current liabilities and shareholders' equity of approximately HK\$66.7 million and HK\$129.3 million, respectively. The Group had no bank borrowings, no assets pledged and no interest expenses incurred during the Period.

At 30 June 2002, the Group's current ratio, being a ratio of current assets to current liabilities, was approximately 2.3 (31 December 2001: 1.3) and the Group's gearing ratio, being a ratio of total liabilities to total assets, was approximately 0.34 (31 December 2001: 0.53).

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 Period, the Group did not engage in any hedging activities.

Employees

At 30 June 2002, the Group has a total of 103 staff 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.

On 6 June 2002, the Group adopted a share option scheme which has become effective on 26 June 2002. The scheme will be effective for a period of 10 years from 26 June 2002. Pursuant to the rules of the share option scheme, the Group could make an offer to any eligible participants including employees to subscribe for shares at the subscription price. At the date of this interim report, no options have been granted. Further details of the share option scheme are disclosed in paragraph headed "Share option scheme".

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Prospects

The Directors believe that the demand for the Group's products and services will remain strong in the PRC, its principal market, for the remaining half of the financial year and beyond.

In the 20th century and early 21st century, the Open Door Policy of the PRC does grow to stimulate its overall economy and income of its people; thus, raising general living standards in the PRC. Furthermore, the Ministry of Science and Technology of the PRC places strong emphasis on the development of information and automation in this new millennium. All of these attributes create favourable market conditions for intelligent buildings in the PRC.

With the PRC's entry into the World Trade Organisation and the hosting of the Olympic Games in 2008, the influx of multinational companies to the PRC, especially its major city, Shanghai, is at accelerating pace. These multinational companies do demand not only more advanced intelligent buildings for their offices, sales points, factories as well as living apartments for their executives and staff, but also modern infrastructure to meet their needs. These further compound the demand for intelligent buildings in the PRC in this century. As a result, the potential growth of the intelligent building industry in the PRC is tremendous.

To further enhance the Group's market penetration and its leading position in the intelligent building industry in the PRC, the Group will implement the following strategies:

- (i) To provide more comprehensive services to our clients by expanding existing sales team from recruiting additional high-calibre staff and providing more in-house trainings; and setting up sales offices in other major cities in the PRC like Beijing, Nanjing, Chongqing, Xi'an and Hangzhou;
- (ii) To establish business alliances with leading property developers to secure the IB Projects from them;
- (iii) To promote the Group's image via participation in exhibitions and seminars about intelligent buildings and intelligent technologies, placing advertisements and publishing articles in industry magazines;

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

- (iv) To diversify more into Intelligent Home Community projects and also apply the concept of intelligent buildings to certain infrastructure projects;
- (v) To continue its research and development efforts to upgrade its existing products and to develop future products including Trend BMS 2000 version 1.0, Trend PMS and Web Camera;
- (vi) To expand applications and solutions for intelligent technologies in the PRC in order to meet the Group's long-term goal to become a major provider of applications and solutions for intelligent technologies; and
- (vii) To form strategic alliances with reputable universities and institutes to further enhance its research and development capabilities.

To conclude, the Board is optimistic that the market share and prospects of the Group will continue to grow at a rapid pace.

Utilisation of net proceeds from the new issue

In connection with the listing of the Company's shares on the Stock Exchange on 28 June 2002, the Group raised approximately HK\$57.4 million, net of related expenses, from the issue of 101 million new ordinary shares of HK\$0.75 each of the Company via placing and public offering.

Approximately HK\$33.1 million net proceeds from the Company's share offer was placed in a licensed bank in Hong Kong as at 30 June 2002. The remaining net proceeds of approximately HK\$24.3 million was still in the custody of our underwriters, CEF Capital Limited and GC Capital Limited as at 30 June 2002, and was wholly received on 5 July 2002.

At 30 June 2002, all the net proceeds from the share offer have not yet been utilised.