

Business Review and Outlook

The Group strives to be the market leader in the fire industry in the Greater China region. Our immediate goal is two-fold. Firstly, we aim to turn around the difficult situation caused by legal disputes, as described in the Chairman's Statement, overhanging the Group in the past years. Most of the legal disputes had either been resolved or set for trial by the Court. Details of the material outstanding litigation are set out in note 21 to the accounts. Secondly, we will formulate and execute new business plans with the objective to improve the overall efficiency of the Group and to build a strong foundation for future growth.

We have redefined the roles of different operating units and reorganized the business structure of the Group under clear and precise management objectives. The business structure has been transformed into three major divisions – contracting; maintenance and servicing; trading and sourcing – each with its unique functions and business strategies. Under the new structure, more effective reporting procedures are implemented and each division is accountable for its own profitability and cost-effectiveness.

CONTRACTING DIVISION

This division focuses on new private and public projects. In the past two years, the operation has been scaled down substantially due to the adverse market environment and the cut-throat competition resulting in very low and in some instances negative returns for contracting works. Total turnover for the contracting division during the year amounted to HK\$43.60 million as compared with HK\$89.50 million in the previous year. Our aim is to revamp the operation with a more dynamic and



Private project-No. 40-42 Yun Ping Road, Causeway Bay

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professional project management team to take on the ever demanding challenges ahead. We will actively seek to restore and broaden our client base as well as expanding our business into other areas of electrical and mechanical works which will improve our competitive edge in tendering for both private and government projects on a package basis.



Public project – Fanling Primary Health Care Centre

MAINTENANCE & SERVICING DIVISION

With the increasing awareness of the public in Hong Kong for fire safety and prevention and the introduction of new legislation requiring a higher standard of fire safety in buildings, new and old, the demand for consistent and reliable maintenance, servicing and improvement works for buildings have increased significantly over the years. We recognize this market trend representing a growth opportunity and have devoted substantial

resources in building up our ability to capture a major share of the market. Total revenue from the maintenance works for the current year amounted to HK\$11.2 million representing an increase of 123% as compared with the previous year. (1999: HK\$5.2 million, which was reported in last year's accounts as part of the turnover for the contracting division.)

There are some hundred prestigious buildings all over Hong Kong currently under our servicing. In addition to carrying out the maintenance and improvement works for the owners, we



Fire Services Sprinkler Control Room

also offer the tenants of these buildings our services and expertise in refurbishment and alternation works. The income generated from these works amounted to HK\$13.8 million during the year. (1999: HK\$21.5 million, which was reported in last year's accounts as part of the turnover for the contracting division.) While we are actively seeking to enlarge our existing client base, we have also set

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up a separate project team focusing to expand the business of installing fire safety and preventive systems in older buildings.



Home Fire Safety Kits

TRADING & SOURCING DIVISION

The trading and sourcing division offers a full range of fire safety products catering to different market requirements. For commercial and industrial clients, we offer a wide selection of fire preventive systems and accessories as well as building materials for project use. For domestic clients, we recognize that it is critical for them to choose the right household equipment to protect their lives and properties from fire and smoke damages. To meet the needs of these household clients we continue to promote our Home Fire Safety Kit, which consists of a multi-purpose fire extinguisher, a smoke alarm and a fire blanket.

The contribution from the trading and sourcing division to the Group's total turnover during the year amounted to HK\$1.9 million. This represented a

significant increase from the minor contribution of HK\$0.2 million in the previous year. We have allocated additional resources to expand the trading business and will continue to diversify our product range. Together with the Merito group, we are proud to be the leading supplier of a wide range of environmental friendly fire safety products.

ACQUISITION OF PROPERTY

During the financial year ended 31st December, 2000, the Company acquired a property owning company from Fastrack International Limited, a company owned by previous directors. The acquisition secured a total rental income of approximately HK\$19 million in aggregate for the Group over the next 5 years.

LIQUIDITY AND FINANCIAL RESOURCES

The Group had a net current assets of HK\$6.2 million including a cash and bank balances of HK\$74 million as at 31st December, 2000. The cash and bank balances were mainly denominated either in HK dollars or US dollars. Thus, the Group has minimal exposure to exchange rates fluctuations. In addition, the Group maintained an ordinary banking facilities of HK\$25 million which is secured by guarantees and a pledge of certain properties of the Group. Details of the banking facilities are set out in note 21 to the accounts.

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CAPITAL STRUCTURE

During the year ended 31st December, 2000, the Group had raised approximately HK\$81 million through the private placement of 540 million shares at HK\$0.108 per share and proceeds from the exercise of 230 million warrants by warrant holders. The proceeds had been utilized for (i) the full redemption of HK\$0.1 million of the unsecured 8% convertible notes at par value during the year; (ii) HK\$42.7 million in purchase of subsidiaries; and (iii) improvement of working capital of the Group.

In addition, the Company had issued 262 million shares during the year as part of the consideration for the acquisition of a property interest. Details of which are set out in notes 16 and 20 to the accounts.

As at 31st December, 2000, the Group had no long-term liabilities and the gearing ratio, calculated as the Group's total liabilities divided by shareholders' equity, stood at 0.68 (1999: 0.97).

SUBSEQUENT EVENTS

Following on our public announcement on 14th February, 2001, we are pleased to have completed the acquisition of the Merito group. Merito is a well-known fire engineering company in Hong Kong, which supplies, installs and maintains fire protection systems and is the pioneer in

providing recycling and refilling services for environmental friendly fire suppression substances. After the acquisition, the Group's operation will be strengthened and our client base will be further enhanced.



The work shop at Yuen Long

EMPLOYEES OF THE GROUP

The Group believes that quality employees are crucial to the future development of the Group's business and maintains a defined remuneration policy applying to our employees based on performance. Besides, the Group has an existing share option scheme adopted in 1992. Details of the employee share option scheme are set out in note 17(a) to the accounts.

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Annual Dinner for the year 2000/2001

Our staffs are also encouraged to participate in the Group's on-the-job training. Fee subsidy and study leave are offered by the Group to assist staff in specific external training and development courses.

As at 31st December, 2000, there were 65 staffs under the Group's employment.

OUTLOOK

With the acquisition of the Merito group in March, 2001, we now offers a comprehensive range of services to our clients, including the installation and maintenance services for fire protection systems, fire extinguishers and cylinder maintenance, recycling and refilling of environmental friendly fire suppression substances and the supply of fire safety and preventive products. We are one of the few pioneers in Hong Kong recycling fire suppression substances, which might otherwise be disposed of with harmful consequences to the environment.

The fire industry in Hong Kong faces demanding challenges ahead. On the one hand, the development of new private

and public projects is likely to face a downturn leading to less demand for contracting works. On the other hand, the new government legislation requiring higher fire safety standards for buildings and the increasing public awareness for fire safety are expected to create a huge demand for maintenance and improvement works for the coming years.

For the financial year ending 31st December, 2001, the Group will complete several contracts in progress including the installation works for the New Medical Complex at the University of Hong Kong, Tin Shui Wai Estate and the improvement works to Cheung Wah and Fu Shin Shopping Centre. In addition, the Group has obtained several new contracts including fire services installation works for Ma On Shan Hotel and Tai Po Complex and the plumbing and drainage works for the New Medical Complex at the University of Hong Kong.

With our new business structure and the support of a professional management team, the Group is confident in overcoming future challenges. We will continue to expand and diversify our core business. In anticipation of China entering into the World Trade Organization this year, we expect that some new business will be generated from the China market and have set up a joint venture company to capture this business opportunity. We will also look for new business ventures in Hong Kong and overseas which will add value to the Group.