Notes to the Accounts

1 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

The accounts have been prepared in accordance with generally accepted accounting principles in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants. The accounts have been prepared under the historical cost convention as modified by the revaluation of certain investment properties.

(b) Basis of consolidation

(i) The consolidated accounts include accounts of the Company and all its subsidiaries made up to 31st December. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective dates of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill or capital reserve which was not previously charged or recognised in the profit and loss account.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision, if necessary, for any permanent diminution in value. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(ii) Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

(iii) Reserve arising on consolidation represents the excess of fair value ascribed to the separable net assets of subsidiaries over the purchase consideration. Goodwill represents the excess of purchase consideration over the fair value ascribed to the separable net assets of subsidiaries. Reserve or goodwill arising on consolidation is credited to or written off directly to reserves respectively in the year of acquisition.

1 PRINCIPAL ACCOUNTING POLICIES (continued)

(c) Revenue and profit recognition

(i) Revenue and profit from long-term contract works are recognised, when the outcome of contracts can be reasonably foreseen by virtue of being more than 30% completed, based on value of work certified and billed to customers.

The recognition of profit from a long-term contract in advance of completion commences when there is reasonable certainty as to the outcome of the contract. The total estimated profit is apportioned over the period of construction to reflect the progress of the construction. Profit is computed each year as a proportion of the total estimated revenue and profit to completion, being the percentage of revenue certified by qualified architects or engineers to date to the estimated total value of the contract. Provision is made for foreseeable losses as soon as they are anticipated by management.

(ii) Revenue and profit from short-term contracts are recognised on completion of the contracts.

(iii) Revenue from the sale of products is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time of shipment and the title has passed.

(iv) Rental income is recognised on a straight-line basis.

(v) Interest income is recognised on a time proportion basis taking into account the principal amounts outstanding and the interest rates applicable.

1 PRINCIPAL ACCOUNTING POLICIES (continued)

(d) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties held on leases with unexpired periods of greater than 20 years are valued at their open market value based on independent professional valuation at the balance sheet date. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. Increases in valuation are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

Investment properties held on leases with unexpired periods of 20 years or less are depreciated over the remaining portion of the leases.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment properties revaluation reserve to the profit and loss account.

1 PRINCIPAL ACCOUNTING POLICIES (continued)

(e) Other tangible fixed assets

Leasehold land and buildings and other fixed assets are stated at cost less subsequent accumulated depreciation. Cost represents the purchase price of the asset and other costs incurred to bring the asset into its existing use.

Leasehold land and buildings and other fixed assets are depreciated at rates sufficient to write off their cost over the shorter of the unexpired lease term or their expected useful lives on a straight line basis. The principal annual rates are as follows:

Leasehold land and buildings	5%
Furniture and equipment	20% to 33%
Motor vehicles	20%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

The carrying amounts of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. Expected future cash flows have not been discounted in determining the recoverable amount. The amount of the reduction to recoverable amount is charged to the profit and loss account.

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

1 PRINCIPAL ACCOUNTING POLICIES (continued)

(f) Long-term investments

Investment securities and other investments are stated at cost less any provision for diminution in value.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The amount of the reduction is recognised as an expense in the profit and loss account.

(g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on the first-in, first-out basis, comprises purchase costs and expenses incurred in bringing the goods to their present location and condition. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(h) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on a straight-line basis over the lease term.

(i) Contracts work in progress

Contract work in progress is stated at cost plus estimated attributable profits, less provisions for foreseeable losses and progress payments received and receivable.

Cost comprises direct materials, costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads. The estimated attributable profits and provisions for foreseeable losses are recognised on the bases set out in note 1(c)(i).

1 PRINCIPAL ACCOUNTING POLICIES (continued)

(i) Contracts work in progress (continued)

Claims made to clients including variation orders are accounted for only to the extent of the amount which can be reasonably estimated and are likely to be collectible.

Where progress payments received and receivable exceed direct costs incurred to date plus estimated attributable profits less foreseeable losses, the surplus is shown on the balance sheet as progress payments on account.

Where anticipated loss on individual contracts exceeds cost less progress billings received and receivable, the excess amount is included in current liabilities under accounts payable, accrued charges and provisions.

(j) Accounts receivable

Provision is made against accounts receivable to the extent which they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(k) Taxation and deferred taxation

The charge for taxation is based on the result for the year as adjusted for items which are non-assessable or disallowable. Deferred taxation is accounted for at the current taxation rate in respect of timing differences, between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or receivable in the foreseeable future.

1 PRINCIPAL ACCOUNTING POLICIES (continued)

(l) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at the rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The accounts of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Exchange differences arising are dealt with as a movement in reserves.

(m) Retirement benefit costs

The Group's contributions to the defined contribution retirement schemes including the Mandatory Provident Fund scheme set up pursuant to the Mandatory Provident Fund Ordinance are expensed as incurred and reduced by contribution forfeited by those employees who leave the scheme period to vesting fully in the contributions. The assets of the scheme are held separately from those of the Group in an independently administered fund.

(n) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of contracts work in progress. All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

2 REVENUE AND TURNOVER

The Group is principally engaged in (i) contracting activities for installation of fire prevention and fighting systems; (ii) maintenance and servicing of fire prevention and fighting system; and (iii) the trading and sourcing of pipes, fittings and other parts in relation to fire prevention and fighting systems. Revenues recognised during the year are as follows:

	2000	1999
	HK$'000	*HK$'000*
Turnover		
Contracting activities (including installation and maintenance)	**68,631**	116,284
Sale of goods	**1,938**	213
	70,569	116,497
Other revenues		
Interest income	**5,929**	4,534
Rental income	**1,341**	1,038
Other income	**35**	–
	7,305	5,572
Total revenues	**77,874**	122,069

An analysis of the Group's turnover and contributions to loss before taxation for the year by principal activity is as follows:

	Turnover		**Contribution to profit/(loss) before taxation**	
	2000	1999	**2000**	1999
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Contracting	**43,623**	89,559	**(38,236)**	(37,414)
Maintenance and servicing	**25,008**	26,725	**8,041**	14,580
Trading and sourcing	**1,938**	213	**278**	58
	70,569	116,497	**(29,917)**	(22,776)
Rental income			**1,341**	1,038
Net interest income			**5,738**	1,933
Legal and other professional fees			**(11,680)**	(20,300)
Gain on winding up of subsidiaries			**–**	510
Gains on write-back and waiver of payables			**–**	19,915
Unallocated operating expenses			**(24,099)**	(41,165)
			(58,617)	(60,845)

No geographical analysis is provided as all of the consolidated turnover and consolidated trading results of the Group are attributable to the Hong Kong market.

3 OPERATING LOSS

Operating loss is stated after (crediting) and charging the following:

	Group	
	2000	1999
	HK$'000	*HK$'000*
Other (gain) and losses:		
Provision and losses on litigation cases	**41,924**	–
Gain on winding up of subsidiaries	**–**	(510)
Waiver of accounts payable by creditors	**–**	(14,290)
Write-back of payables	**–**	(5,625)
	41,924	(20,425)
Gain on disposal of fixed assets	**37**	–
Staff costs	**14,880**	16,100
Auditors' remuneration		
– current year	**745**	808
– underprovision for the previous year	**–**	38
Legal and other professional fee	**11,680**	20,300
Deprecation of fixed assets	**5,601**	5,309
Loss on disposal of fixed assets	**–**	2,568
Operating lease rental in respect of premises	**333**	2,633
Cost of inventories sold	**1,660**	155
Provision for bad and doubtful debts	**13,161**	4,485
Provision for stock losses	**–**	4,206

4 FINANCE COSTS

	Group	
	2000	1999
	HK$'000	*HK$'000*
Interest expenses on		
– bank loans and overdrafts	**–**	78
– convertible notes wholly repayable within five years	**191**	2,523
	191	2,601

5 TAX CREDIT

(a) The amount of taxation credited to the consolidated profit and loss account represents:

	Group	
	2000	1999
	HK$'000	*HK$'000*
Hong Kong profits tax – overprovision in previous years	**–**	7

No provision for Hong Kong profits tax has been made in the accounts as the companies comprising the Group have no assessable profits for the year.

(b) Taxation in the consolidated balance sheet represents liabilities of the Group in the respect of Hong Kong profits tax and Mainland China income tax as at 31st December 2000.

(c) Deferred taxation

There were no material unprovided deferred tax liabilities at 31st December 2000.

The deferred tax asset in respect of potential tax losses amounting to HK$53,480,000 (1999: HK$123,539,000) has not been recognized in the accounts as it is uncertain whether it will be crystallised in the foreseeable future.

6 LOSS FOR THE YEAR ATTRIBUTABLE TO THE SHAREHOLDERS

Included in the loss for the year attributable to the shareholders is a loss of HK$35,405,000 (1999: 46,637,000) which has been dealt with in the accounts of the Company.

7 LOSS PER SHARE – GROUP

The calculation of basic loss per ordinary share is based on the Group's loss attributable to the shareholders of HK$58,617,000 (1999: HK$60,838,000) and the weighted average number of 3,766,881,354 (1999: 2,714,166,455) ordinary shares in issue during the year.

The exercise of convertible notes and warrants would have anti-dilutive effect on the basic loss per share and accordingly no diluted loss per share for the year is presented.

8 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

	2000	1999
	HK$'000	*HK$'000*
Directors' fee		
Executive directors	**840**	–
Independent non-executive directors	**120**	145
	960	145
For management		
Basic salaries, housing allowances, other allowances and benefits in kind	**3,331**	1,572
Retirement benefits scheme contributions	**43**	–
Compensation for loss of office as director paid by the Company	**80**	–
	4,414	1,717

8 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

(b) The emoluments of directors fell within the following bands:

Emolument bands	**Number of directors**	
HK$	**2000**	1999
Nil – 1,000,000	**15***	9*
1,000,001 – 1,500,000	**–**	1

* *Included 2 (1999: 3) non-executive directors.*

No directors waived emoluments in respect of the years ended 31st December 2000 and 1999.

(c) The five individuals whose emoluments were the highest in the Group for the year included three (1999: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (1999: three) individuals during the year are as follows:

	2000	1999
	HK$'000	*HK$'000*
Basic salaries, housing allowances, other allowances and benefits in kind	**1,586**	1,690

The emoluments fell within the following bands:

Emolument bands	**Number of individuals**	
HK$	**2000**	1999
Nil – 1,000,000	2	3

9 FIXED ASSETS – GROUP

	Land and buildings	Investment properties	Furniture, fixtures and office equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost or valuation					
At 1st January 2000	86,756	–	7,259	3,458	97,473
Additions	–	–	752	600	1,352
Acquisition of subsidiaries	–	72,000	–	–	72,000
Disposals	–	–	(669)	(2,563)	(3,232)
At 31st December 2000	**86,756**	**72,000**	**7,342**	**1,495**	**167,593**
Accumulated depreciation					
At 1st January 2000	6,224	–	4,517	3,174	13,915
Charge for the year	4,382	–	1,000	219	5,601
Disposals	–	–	(668)	(2,006)	(2,674)
At 31st December 2000	**10,606**	**–**	**4,849**	**1,387**	**16,842**
Net book value					
At 31st December 2000	**76,150**	**72,000**	**2,493**	**108**	**150,751**
At 31st December 1999	80,532	–	2,742	284	83,558

The analysis of the cost or valuation at 31st December 2000 of the above assets is as follows:

At cost	86,756	–	7,342	1,495	95,593
At valuation	–	72,000	–	–	72,000
	86,756	72,000	7,342	1,495	167,593

(a) The investment properties were revalued at 31st December 2000 on the basis of their open market value by Prudential Surveyors International Ltd, an independent professional valuer.

9 FIXED ASSETS – GROUP (continued)

(b) The Group's interest in investment properties and land and buildings at their net book values are analysed as follows:

	Group	
	2000	1999
	HK$'000	*HK$'000*
In Hong Kong held on:		
Leases of over 50 years	**72,000**	63,750
Leases of between 10 to 50 years	**66,650**	6,782
In Mainland China, held with land use right certificate for 50 years from July 1992	**9,500**	10,000
	148,150	80,532

(c) At 31st December, the net book value of fixed assets pledged as security for banking facilities granted to the Group amounted to HK$60,435,000 (1999: HK$63,750,000).

10 INVESTMENT IN SUBSIDIARIES

	Company	
	2000	1999
	HK$'000	*HK$'000*
Unlisted shares, at cost	**33,667**	33,667
Amounts due from subsidiaries	**604,927**	543,378
	638,594	577,045
Less: provision for diminution in value of investment and non-recovery of debts	**(504,921)**	(504,921)
	133,673	72,124

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment. Particulars of the principal subsidiaries of the Company are set out in note 26.

11 LONG-TERM INVESTMENTS

	Group	
	2000	1999
	HK$'000	*HK$'000*
Unlisted shares, at cost *(note a)*	**32,508**	32,508
Advances to investee companies	**75,728**	75,728
Receivable from assignment of convertible note *(note b)*	**14,253**	14,253
	122,489	122,489
Less: provision for permanent diminution in value of investment and non-recovery of debts	**(122,489)**	(122,489)
	–	–

Notes:

(a) Included in the unlisted shares balance at 31st December 2000 are certain investments that the Group held more than 20% of the equity interest in the investee companies. The particular of these companies are set out below:

Company name	Place of incorporation	Issued share capital	Interest held 2000	1999
MPS Projects Limited	British Virgin Islands	HK$1,000	**56.25%**	56.25%
MPS Holdings Limited	British Virgin Islands	US$12,000	**41.67%**	41.67%

Investments in the above companies are stated at cost less provision for permanent diminution in value as the Group has no significant influence in the investee companies.

(b) In 1995, the Group acquired a convertible note of face value of HK$16,000,000 issued by Master Wide International Limited ("MWI"), a third party, at a consideration based on the face value of HK$16,000,000. Such investment confers on the holder of the note a right to convert the note at its option into 20% equity shares in MWI subject to the terms and conditions attached thereto.

During the year ended 31st December 1995, the Group assigned all its interest in the abovementioned convertible note to Dayrise Limited, a company incorporated in the British Virgin Islands, for cash at the full face value of the note of HK$16,000,000. The receivable had not been settled according to pre-determined payment schedule, and accordingly full provision was made on this debt by the Group in 1998.

12 CONTRACTS WORK IN PROGRESS

	Group	
	2000	1999
	HK$'000	*HK$'000*
Contract costs incurred plus attributable profits less foreseeable losses to date	**214,962**	174,057
Less: progress payments received and receivable	**(205,081)**	(162,741)
	9,881	11,316

13 INVENTORIES

Inventories represent pipes, fittings and parts for installation and maintenance of fire prevention and fighting systems and domestic fire fighting goods held for resale.

14 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2000	1999	**2000**	1999
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade receivables *(note (a))*	**17,741**	20,295	**–**	–
Retention monies receivable *(note (b))*	**4,534**	6,788	**–**	–
Prepayments and other Receivables	**5,263**	29,037	**107**	293
	27,538	56,120	**107**	293

Notes:

(a) The Group maintains a defined credit policy. At 31st December 2000, the ageing analysis of the Group's trade receivables was as follows:

	2000	1999
	HK$'000	*HK$'000*
Current	**7,903**	39
30-60 days	**565**	1,660
61-90 days	**279**	416
over 90 days	**8,994**	18,180
	17,741	20,295

(b) At 31st December 2000, retention monies receivables amounting to HK$2,460,000 (1999: HK$6,788,000) are receivable after one year from the balance sheet date.

15 TRADE AND OTHER PAYABLES, INCLUDING PROVISIONS

	Group		Company	
	2000	1999	**2000**	1999
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade payables *(note (a))*	**19,124**	25,557	**–**	–
Retention monies payable *(note (b))*	**17,285**	23,386	**–**	–
Accruals, other payables and provision	**62,108**	43,875	**8,507**	757
Convertible notes *(note 19)*	**–**	101	**–**	101
	98,517	92,919	**8,507**	858

Notes:

(a) At 31st December 2000, the ageing analysis of the Group's trade payables was as follows:

	2000	1999
	HK$'000	*HK$'000*
Current	**5,749**	5,318
30-60 days	**383**	620
61-90 days	**404**	513
over 90 days	**12,588**	19,106
	19,124	25,557

(b) At 31st December 2000 retention monies payable amounting to HK$15,567,000 (1999: HK$23,386,000) are payable after one year from the balance sheet date.

16 SHARE CAPITAL

	Authorised	
	No. of shares	*HK$'000*
Ordinary shares of HK$0.10 each		
At 1st January 1999 and 31st December 1999	**5,000,000,000**	**500,000**
At 1st January 2000	5,000,000,000	500,000
Increase in share capital *(note (a))*	15,000,000,000	1,500,000
At 31st December 2000	**20,000,000,000**	**2,000,000**

	Issued and fully paid	
	No. of shares	*HK$'000*
Ordinary shares of HK$0.10 each		
At 1st January 1999	2,702,537,986	270,254
Conversion of convertible notes	307,623,387	30,762
Exercise of warrants	20,000	–
At 31st December 1999	3,010,163,373	301,016
At 1st January 2000	3,010,163,373	301,016
Issue of shares *(note (b))*	802,200,000	80,220
Exercise of warrants	230,073,200	23,007
At 31st December 2000	**4,042,436,573**	**404,243**

Note:

(a) Pursuant to an ordinary resolution passed on 19th June 2000, the authorised share capital of the Company was increased from 5,000,000,000 shares of HK$0.10 each to 20,000,000,000 shares of HK$0.10 each.

(b) An additional 540,000,000 ordinary shares of HK$0.10 each were issued to certain independent third parties at HK$0.108 per share on 28th March 2000.

Pursuant to a sale and purchase agreement dated 19th June 2000, an additional 262,200,000 ordinary shares of HK$0.10 each were issued at HK$0.10 per share on 31st July 2000 as part of the consideration for the purchase of subsidiaries (note 20(c)).

All new shares issued during the year rank pari passu with the then existing shares in all respects.

17 SHARE OPTION AND WARRANTS

(a) Share option scheme

Pursuant to the Company's share option scheme adopted on 12th June 1992, the Company may grant options to employees (including executive directors) of the Group to subscribe for shares in the Company, subject to a maximum of 10% of the issued share capital of the Company from time to time excluding for this purpose shares issued on exercise of options. The options are exercisable within two years starting from six months after the date of grant. The subscription price will be determined by the directors, and will not be less than the higher of the nominal value of the shares and 80% of the average of the closing prices of the shares quoted on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the five trading days immediately preceding the date of granting the options.

There was no outstanding option during the year and at 31st December 2000.

(b) Warrants

At 31st December 2000, the Company had 294,122,480 (1999: 524,195,680) outstanding warrants exercisable by warrantholders at any time on or before 28th July 2001. The 294,122,480 warrants entitle the holders to subscribe up to HK$29,412,248 in cash for new shares at HK$0.10 per share, subject to adjustment.

18 RESERVES

Group

	Share premium	Reserve on consolidation	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January 1999	252,753	–	(387,841)	(135,088)
Loss for the year	–	–	(60,838)	(60,838)
At 31st December 1999	252,753	–	(448,679)	(195,926)
At 1st January 2000	252,753	–	(448,679)	(195,926)
Issue of shares (net of expenses)	4,320	–	–	4,320
Purchase of subsidiaries *(note 20(c))*	–	3,000	–	3,000
Loss for the year	–	–	(58,617)	(58,617)
At 31st December 2000	**257,073**	**3,000**	**(507,296)**	**(247,223)**

Company

	Share premium	Contributed surplus	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January 1999	252,753	16,714	(404,081)	(134,614)
Loss for the year	–	–	(46,637)	(46,637)
At 31st December 1999	252,753	16,714	(450,718)	(181,251)
At 1st January 2000	252,753	16,714	(450,718)	(181,251)
Issue of shares (net of expenses)	4,320	–	–	4,320
Loss for the year	–	–	(35,405)	(35,405)
At 31st December 2000	**257,073**	**16,714**	**(486,123)**	**(212,336)**

19 CONVERTIBLE NOTES

	Group		Company	
	2000	1999	**2000**	1999
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amount due within 1 year				
8% convertible notes *(note (a))*	**–**	101	**–**	101

Note:

(a) All the 8% Notes were redeemed during the year.

20 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of loss before taxation to net cash outflow from operating activities

	Group	
	2000	1999
	HK$'000	*HK$'000*
Loss before taxation	**(58,617)**	(60,845)
Gain on winding up of subsidiaries	**–**	(510)
Interest income	**(5,929)**	(4,534)
Interest expenses	**191**	2,601
Depreciation of fixed assets	**5,601**	5,309
(Gain)/loss on disposals of fixed assets	**(37)**	2,568
Decrease in inventories	**1,079**	5,109
Decrease in contracts work in progress	**1,435**	32,016
Decrease in trade and other receivables	**28,625**	27,394
Rental received in advance *(note 25(b))*	**20,898**	–
Decrease in trade and other payables, including provisions; and progress payments on account	**(16,139)**	(42,176)
Net cash outflow from operating activities	**(22,893)**	(33,068)

20 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Analysis of changes in financing during the year

	Share capital (including premium)		Convertible notes	
	2000	1999	**2000**	1999
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
At 1st January	**553,769**	523,007	**101**	30,863
Cash inflow/(outflow) from financing	**81,327**	–	**(101)**	–
Other non-cash movements:				
Purchase of subsidiaries *(note 20(c))*	**26,220**	–	**–**	–
Conversion of convertible notes	**–**	30,762	**–**	(30,762)
At 31st December	**661,316**	553,769	**–**	101

(c) Purchase of subsidiaries

	2000
	HK$'000
Net assets acquired	
Investment properties	**72,000**
Net current liabilities	**(70)**
Bank balances and cash	**58**
	71,988
Less: Discount on acquisition	**(3,000)**
	68,988
Satisfied by:	
Issue of shares	**26,220**
Cash	**42,768**
	68,988

The subsidiaries acquired during the year contributed HK$20,898,000 to the Group's net operating cash flows.

20 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(d) **Analysis of the net outflow in respect of the purchase of subsidiaries:**

	2000
	HK$'000
Cash consideration	**42,768**
Bank balances and cash in hand acquired	**(58)**
Net cash outflow in respect of the purchase of subsidiaries	**42,710**

21 CONTINGENT LIABILITIES

(a) As at 31st December 2000, the Group and/or the Company had the following contingent liabilities in respect of guarantees and performance bonds not provided for in the accounts:

(i) At 31st December 2000 cross guarantees totalling HK$25,000,000 (1999: HK$25,000,000) (including guarantees given in respect of performance bonds) had been given by the Company and certain of its subsidiaries in respect of a shared banking facility between the Company and these subsidiaries. The facilities were also secured by a pledge of certain properties of the Group (note 9(c)).

(ii) At 31st December 2000, a performance bond for HK$3,914,000 (1999: HK$3,914,000) had been issued in favour of a customer of the Group without expiry date.

Save as disclosed above in respect of the performance bonds, none of the facilities was utilised by the Group at 31st December 2000.

21 CONTINGENT LIABILITIES (continued)

(b) In addition, the Group had the following material outstanding litigation:

(i) A litigation was commenced by a third party contractor in June 2000 against an overseas subsidiary of the Company claiming, inter alia, damages amounting to approximately $38 million in connection with certain installation contracts carried out by the contractor in the Mainland China for the Group. The directors, having considered the case and sought independent legal advice, are of the opinion that these claims will not have any material impact to the Group and no provision has been made in the accounts in respect of these claims.

(ii) A litigation was commenced by another third party contractor in May 1998 against a subsidiary of the Company, claiming damages amounting to HK$10.7 million in connection with certain installation contracts carried out by the Group in Hong Kong during the year ended 31st December 1998. However, the contractor is under receivership and the case is still pending. The directors, having sought independent legal advice, are of the opinion that it is unlikely the proceedings against the Group will be re-activated and consider the possibility of the loss being remote. Accordingly, no provision has been made in the accounts in respect of the claim.

22 CONTRACTUAL COMMITMENTS

At 31st December 2000, the Group had contractual commitments in the normal course of business of approximately HK$47,527,000 (1999: HK$25,860,000) for installation of fire prevention and fighting systems, and electrical and mechanical engineering systems.

23 COMMITMENTS UNDER OPERATING LEASES

At 31st December 2000, the Group had commitments to make payments in the next twelve months under operating leases in respect of land and buildings which expire as follows:

	2000	1999
	HK$'000	*HK$'000*
In the second to the fifth year inclusive	**471**	–

24 RETIREMENT BENEFIT COSTS

The Group contributes to a defined contribution provident fund which is available to all employees. In accordance with the terms of the provident fund, contributions to the scheme by the Group and the employees are calculated as a percentage of the employees' basic salaries; the unvested benefits of employees forfeited upon termination of employment can be utilised by the Group to reduce future levels of contributions. During the year, the aggregate amount of employer's contribution made by the Group was approximately HK$733,000 (1999: HK$683,000), after deduction of forfeited contribution of approximately HK$12,000 (1999: HK$8,000).

25 RELATED PARTY TRANSACTIONS

During the year, the Group had the following significant transactions with certain directors of the Company and companies related to them:

	2000
	HK$'000
Purchase of subsidiaries *(note (a))*	**68,988**
Lease rental agreement with Tai Sun Limited ("TSL") for a total value of *(note (b))*	**20,898**

Notes:

(a) Pursuant to a sale and purchase agreement dated 19th June 2000, Topper Limited, a wholly-owned subsidiary of the Company, agreed to

(1) purchase from Fastrak International Limited ("FIL"), (a company beneficially owned in equal share by Mr Chan Ting Chuen and Mr Tony Sze Sun Sun, then directors of the Company), the entire issued share capital of Wide Profit Enterprises Limited ("WPE"), a wholly-owned subsidiary of FIL; and

(2) to take an assignment of a loan owing by WPE to FIL at the face value of approximately HK$55,905,000

at a total consideration of approximately HK$68,988,000 which was satisfied by:

	2000
	HK$'000
Cash	**42,768**
Issue of shares	**26,220**
	68,988

The overall effect of the above transactions was the acquisition of net assets, principally comprising of investment properties, amounting to approximately HK$71,988,000 (note 20(c)).

(b) As a condition of the transactions set out in (a) above, TSL (a company beneficially owned by Mr Chan Ting Chuen and Mr Tony Sze Sun Sun) had entered into a 6-year lease rental agreement with a subsidiary of WPE and paid in advance the total rental value of approximately HK$20,898,000 (being the net present value of the aggregate rental of HK$350,000 per month discounted at the rate of 6.5625% per annum). The Group has the right to terminate the lease at any time from 1st August 2001 by refunding the pro-rata undue rental prepaid upon termination.

(c) The transactions set out in (a) and (b) above were approved by shareholders at a Special General Meeting on 25th July 2000. Details of the transactions were set out in a circular dated 8th July 2000 to the shareholders.

Mr Chan Ting Chuen and Mr Tony Sze Sun Sun are interested in the above transactions as they have beneficial interests in FIL and TSL and they are parties to the transactions.

26 PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31st December 2000 are as follows:

Company	Country or place of incorporation/ operation	Issued/ registered share capital	Effective equity interest attributable to the group indirectly	Nature of business
Mansion Fire Engineering Company Limited	Hong Kong	HK$200,000	100%	Installation and maintenance of fire prevention and fighting systems
Wise Engineering Company Limited	Hong Kong	HK$160,500,000	100%	Installation and maintenance of fire prevention and fighting systems
Clinton Engineering Limited	British Virgin Islands/ Mainland China	US$10,000	100%	Installation and maintenance of fire prevention and fighting systems
Mansion Engineering (China) Limited	Samoa/ Mainland China	US$1	100%	Installation and maintenance of fire prevention and fighting systems
Mansion Trading Limited	Hong Kong	HK$10,000	100%	Trading of pipes, fittings and parts and sourcing of materials
Mansion Fire Engineering (H.K.) Company Limited*	Hong Kong	HK$10,000	100%	Property holding
Cornwick Investments Limited*	Hong Kong	HK$2	100%	Property holding
Alion Development Limited *	Hong Kong	HK$10,000	100% *(Note)*	Property holding
Unique Profit Development Limited*	Hong Kong	HK$10,000	100% *(Note)*	Property holding

* Companies not audited by PricewaterhouseCoopers, Hong Kong

Note: subsequent to the balance sheet date, the Group's interests in these subsidiaries were reduced to 60% (note 27).

26 PRINCIPAL SUBSIDIARIES (continued)

Save as stated separately, the above companies' place of operation are the same as their place of incorporation.

The above list includes the subsidiaries which, in the opinion of the directors, materially affect the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

27 SIGNIFICANT POST BALANCE SHEET EVENT

Pursuant to a conditional sale and purchase agreement of 13th Feburary 2001, the Group has agreed to purchase the entire issued share capital of Topfield Industrial Limited for an aggregate consideration of

(a) HK$ 7 million cash;

(b) The issue of 140 million ordinary shares of HK$0.10 each in the Company; and

(c) The transfer of 40% of the issued share capital of a wholly owned subsidiary of the Group and the principal assets of which are leasehold land and buildings in the Maindland China. At 31st December 2000, the net book value of leasehold land and buildings owned by the said subsidiary is HK$9,500,000.

Topfield Industrial Limited and its subsidiaries are engaged in installation and maintenance services for fire protection systems.

28 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 6th April 2001.