

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. Basis of preparation and accounting policies

These unaudited consolidated condensed interim accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25, Interim Financial Reporting, issued by the Hong Kong Society of Accountants.

These condensed interim accounts should be read in conjunction with the 2000 annual accounts.

The accounting policies and methods of computation used in the preparation of these condensed interim accounts are consistent with those used in the annual accounts for the year ended 31st December 2000 except that the Group has changed certain of its accounting policies following its adoption of the following SSAPs issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1st January 2001 and are applicable to these condensed interim accounts:

SSAP 14 (revised):	Leases (effective for periods commencing on or after 1st July 2000)
SSAP 26:	Segment reporting
SSAP 30:	Business combinations

The changes to the Group's accounting policies and the effect of adopting these new policies are set out below:

(a) SSAP 26 Segment Reporting

In Note 2 to these condensed interim accounts, the Group has disclosed segment revenue and results as defined under SSAP 26. In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format. Comparative information has been given.

(b) SSAP 30 Business Combinations

Goodwill/Negative goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions occurring on or after 1st January 2001 is included in intangible assets and is amortised using the straight-line method over the estimated period during which future economic benefits are expected to flow to the Group. Goodwill on acquisitions that occurred prior to 1st January 2001 was written off against reserves. The Group has taken advantage of the transitional provisions in SSAP 30 and such goodwill has not been retroactively capitalised and amortised. However any impairment arising on such goodwill is accounted for in accordance with SSAP 31 'Impairment of Assets'.

Goodwill is amortised over five years.

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition. For acquisitions after 1st January 2001, negative goodwill is presented in the same balance sheet classification as goodwill.

1. Basis of preparation and accounting policies *(continued)*

(b) SSAP 30 Business Combinations *(continued)*

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities, that portion of negative goodwill is recognised in the income statement when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the income statement over the remaining weighted average useful life of those assets; negative goodwill in excess of the fair values of those assets is recognised in the income statement immediately. For acquisitions prior to 1 January 2001, negative goodwill was taken directly to reserves on acquisition. The Group has taken advantage of the transitional provisions in SSAP 30 and such negative goodwill will not be restated.

The gain or loss on disposal of an entity includes the unamortised balance of goodwill relating to the entity disposed of or, for pre 1st January 2001 acquisitions, the related goodwill written off against reserves to the extent it has not previously been realised in the profit and loss account.

2. Segment information

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 systems; and (iii) trading and sourcing of pipes, fittings and other parts in relation to fire prevention and fighting systems.

An analysis of the Group's revenue and contributions to profit/(loss) for the period by business segment is as follows:

	Turnover		Contribution	
	Six months ended		to profit/(loss)	
	30th June		Six months ended	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Contracting	20,368	15,233	6,600	(23,763)
Maintenance and servicing	7,125	6,588	1,672	2,828
Trading and sourcing	455	1,590	224	105
	27,948	23,411	8,496	(20,830)
Rental income			2,387	–
Net interest income			1,594	3,144
Unallocated costs			(15,135)	(16,967)
Operating loss			(2,658)	(34,653)
Finance costs			–	(37)
Loss before taxation			(2,658)	(34,690)
Taxation			(284)	–
Loss for the period			(2,942)	(34,690)

No geographical analysis is provided as over 90% of the consolidated turnover and consolidated trading results of the Groups are attributable to the Hong Kong market.

3. Loss before taxation

Loss for the period is stated after crediting/charging the following:

	Unaudited	
	Six months ended 30th June	
	2001	2000
	HK\$'000	HK\$'000
<i>Crediting</i>		
Gain on disposal of properties	1,322	–
Gain on disposal of fixed assets	–	145
Write-back of payables	2,463	793
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<i>Charging</i>		
Loss on disposal of fixed assets	48	–
Amortisation of goodwill	958	–
Depreciation of fixed assets	2,575	2,438
Provision for loss on litigation cases	–	27,382
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4. Taxation

The taxation charge for the period represents the provision for People's Republic of China income tax at 33% on the estimated assessable income of the Group for the period.

5. Dividend

The Directors do not recommend the payment of an interim dividend (2000: Nil).

6. Loss per share

The calculation of basic loss per ordinary share is based on the Group's loss attributable to shareholders of HK\$2,942,000 (2000: HK\$34,690,000) and the weighted average number of 4,132,161,965 (2000: 3,491,179,000) ordinary shares in issue during the six months ended 30th June 2001.

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

7. Intangible asset

	Goodwill
	HK\$'000
Six months ended 30th June 2001	
Opening net book value	–
Acquisition of subsidiaries (note 13)	14,378
Amortisation charge	(958)
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Closing net book value	13,420
At 30th June 2001	
Cost	14,378
Accumulated amortisation	(958)
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Net book value	13,420
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8. Trade receivables

The Group maintains a defined credit policy. The ageing analysis of trade receivables is as follows:

	Unaudited 30th June 2001 HK\$'000	Audited 31st December 2000 HK\$'000
0 – 30 days	6,693	7,903
31 – 60 days	2,044	565
61 – 90 days	527	279
Over 90 days	3,275	8,994
	12,539	17,741

9. Trade payables

The ageing analysis of trade payables is as follows:

	Unaudited 30th June 2001 HK\$'000	Audited 31st December 2000 HK\$'000
0 – 30 days	5,448	5,749
31 – 60 days	294	383
61 – 90 days	728	404
Over 90 days	18,696	12,588
	25,166	19,124

10. Provisions

This represents provision for loss on litigation cases.

11. Share Capital

	No. of shares	Authorised HK\$'000
Ordinary shares of HK\$0.10 each		
At 1st January 2000	5,000,000,000	500,000
Increase in share capital	15,000,000,000	1,500,000
At 31st December 2000	20,000,000,000	2,000,000
At 1st January 2001 and 30th June 2001	20,000,000,000	2,000,000

11. Share Capital (continued)

	Issued and fully paid	
	No. of shares	HK\$'000
Ordinary shares of HK\$0.10 each		
At 1st January 2000	3,010,163,373	301,016
Issue of shares	802,200,000	80,220
Exercise of warrants	230,073,200	23,007
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At 31st December 2000	4,042,436,573	404,243
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At 1st January 2001	4,042,436,573	404,243
Issue of shares (note)	140,000,000	14,000
Exercise of warrants	2,400	–
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At 30th June 2001	4,182,438,973	418,243

Note: 140,000,000 ordinary shares of HK\$0.10 each were issued at HK\$0.10 per share on 6th March 2001 as part of the consideration for the acquisition of a subsidiary (note 13).

12. Reserves

	Share premium HK\$'000	Negative goodwill HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
As 1st January 2000	252,753	–	(448,679)	(195,926)
Issue of shares (net of expenses)	4,320	–	–	4,320
Purchase of subsidiaries	–	3,000	–	3,000
Loss for the year	–	–	(58,617)	(58,617)
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As 31st December 2000	257,073	3,000	(507,296)	(247,223)
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As 1st January 2001	257,073	3,000	(507,296)	(247,223)
Loss for the period	–	–	(2,942)	(2,942)
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As 30th June 2001	257,073	3,000	(510,238)	(250,165)

13. Acquisition

On 6th March 2001, the Group acquired all the share capital of Topfield Industrial Limited which is engaged in the installation, maintenance and trading of fire protection systems. The consideration was settled by (i) HK\$7 million cash, (ii) the issue of 140 million fully-paid ordinary shares of HK\$0.1 each in the Company, and (iii) 40% of the issued share capital of a wholly-owned subsidiary of the Group. The fair value of the net identifiable assets acquired was approximately HK\$6.6 million. The resulting goodwill of HK\$14.3 million is amortised on a straight-line basis over 5 years. The acquired business contributed turnover of HK\$3.9 million and profit before taxation of HK\$1.1 million to the Group for the period from 6th March 2001 to 30th June 2001.

13. Acquisition (continued)

The asset and liabilities arising from the acquisition are as follows:

	HK\$'000
Fixed assets	1,652
Net current assets	4,970
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Fair value of net assets	6,622
Goodwill (note 7)	14,378
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Total purchase consideration	21,000
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There were no other significant changes in the composition of the Group during the first half-year of 2001.

14. Contingent liabilities

There were no material changes in the Group's contingent liabilities since last annual balance sheet date as at 31st December 2000.

15. Contractual commitments

At 30th June 2001, the Group had contractual commitments in the normal course of business of approximately HK\$45,986,000 (at 31st December 2000: HK\$47,527,000) for installation of fire prevention and fighting systems, and electrical and mechanical engineering systems.

16. Commitments under operating leases

At 30th June 2001, the Group had total future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings which expire as follows:

	30th June 2001 HK\$'000	Restated 31st December 2000 HK\$'000
Within one year	263	–
In the second to fifth year inclusive	2,760	849
After the fifth year	–	–
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	3,023	849
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