
Business Review
and Outlook

FINANCIAL REVIEW

For the year ended 31st December 2002, the Group's consolidated turnover amounted to HK$66.7 million, representing a decrease of 12.3% against last year's HK$76.0 million. Gross profit reported a rise of 11.1%, amounting to HK$25.8 million, whereas, loss attributable to shareholders was HK$4.0 million, improving by 65.0% as compared to the previous year's figure of HK$11.3 million.

During the year, the Group disposed of the Building services contracting division which resulted a gain of approximately HK$29.4 million.

BUSINESS REVIEW

The Group has consolidated its business divisions according to business nature and operation. The new categories can easily reflect where the profit centers lie and also enable the implementation of more effective cost control measures and lines of reporting.

Fire prevention and suppression division

This division provides the installation and maintenance of fire prevention and suppression system services, specialised fire suppression agents charging and treatment services, manufacturing and trading of fire prevention and suppression systems and equipment. Together with the sales and distribution network of our Shanghai joint-venture company, Mansion Wananda Fire Systems Co., Ltd. ("Mansion Wananda"), which was acquired in January 2002, we strive to grow and expand our operations in Hong Kong and the PRC markets.

The division has performed steadily in the past 12 months. The Group secured 45 projects from various well-known clients, including the Vitasoy Group, Mercedes-Benz Group, Hong Kong Jockey Club, KCRC's Light Rail Division and MTR. The Group also won an MTR Property Management maintenance contract for 106 MTR residential blocks on Hong Kong Island in 2002.

Mansion Wananda has set up sales offices in Chengdu, Wuxi, Guangzhou, Shenzhen, Fuzhou, Xian, Hangzhou, Jinan and Beijing and has recruited a strong marketing team to develop a penetrating sales network covering the major cities in the PRC. The turnover of Mansion Wananda for the year of 2002 was approximately HK$17.8 million, representing 36.7% of this segment. However, as a result of the operating costs associated with the expansion in operating scale and amortisation of goodwill, Mansion Wananda incurred a loss of approximately HK$3.2 million in the year of 2002. The Management expects the extensive sales network and the expanded operating scale will assist and improve the profitability of the Group in the foreseeable future.

Property investment division

The Group has several investment properties in Hong Kong and Guangzhou, PRC and all of them are leased to independent third parties. For the year ended 31st December 2002, the total revenue in this regard amounted to approximately HK$4.8 million.

As mentioned in note 12(d) in the accounts in February 2003, the Group entered into an agreement with the tenant for the purpose of the early termination of the lease agreement and purchase of the office furniture and equipment situated in that property. Pursuant to the agreement, the Group settled the refund of the prepaid rental for the whole lease upon the date of the agreement and the purchase prices of the office furniture and equipment situated in that property by the issuance of 200 million new shares of the Company of HK$0.1 each at par plus HK$1 million of cash.

Building services contracting division

In spite of ongoing efforts by the management to implement stringent cost controls and prudent project selection, the Building services contracting division continued to report a loss of HK$4.9 million. During the year, the Group disposed of all its subsidiaries engaged in the building services contracting activities (which included certain subsidiaries involved in various litigation cases) at a total consideration of HK$2 million to two independent third parties. Gain on disposal of this division was approximately HK$29.4 million.

LIQUIDITY, FINANCIAL RESOURCES, CHARGES ON GROUP ASSETS AND GEARING RATIO

The Group continues to adopt prudent funding and treasury policies. As at 31st December 2002, the Group had cash and bank balances of approximately HK$5.2 million, bank overdrafts of approximately HK$6.6 million and trust receipt loans of approximately HK$1.7 million. The Group has pledged a property with a net book value of HK$55 million as at 31st December 2002 for banking facilities of HK$15 million granted to the Group.

In April 2003, the Group obtained a loan of HK$10 million from a financial institution which loan is secured by certain investment properties of the Group with a total net book value of approximately HK$65 million as at 31st December 2002. The loan is repayable by 120 monthly instalments, maturing in 2013. The bank borrowings are being interest bearing at prevailing market rates.

The Group's gearing ratio, representing the Group's total liabilities divided by the shareholders' funds of the Group, as at 31st December 2002 is 0.26 (2001: 0.48).

SEGMENT INFORMATION

The drop in turnover of the Group was due to the disposal of the Building services contracting division during the year. The decline was partly mitigated by the turnover from Mansion Wananda.

The loss attributable from Fire prevention and suppression division increased because of the rationalization of the operation scales and the expansion of sales network of Mansion Wananda in the PRC. The increase of the loss attributable from Property investment division was mainly due to the drop of property market prices in Hong Kong. Such increased losses were mostly offset by the gain on disposal of the Building services contracting division.

EMPLOYEES OF THE GROUP

The Group has adopted competitive remuneration package for its employees according to their performance. There are also contributions to provident fund schemes, medical subsidies, study and examination leaves offered to all full time staff.

As at 31st December 2002, the total headcount of the Group was 237 (including 180 employees in Mansion Wananda).

CAPITAL REORGANISATION

The Company announced a capital reorganisation proposal on 15th April 2003 and would seek the approval of the shareholders at a special general meeting to be convened on 30th May 2003. The capital reorganisation involves:

(i) a capital reduction of HK$394 million under which the nominal value of the issued shares will be reduced from HK$0.10 each to HK$0.01 each by cancelling HK$0.09 of the paid up capital of each issued share;

(ii) a share premium reduction pursuant to which an amount of approximately HK$257,073,000 standing to the credit of the share premium account of the Company will be reduced;

(iii) a share subdivision under which each of the authorized but unissued shares (including the unissued shares arising from the capital reduction) will be re-designated and subdivided into ten new shares;

(iv) the transfer of the credit arising in the books of the Company from the capital reduction and the share premium reduction which is expected to be in the aggregate amount of HK$651,492,508 to the contributed surplus account of the Company where the directors of the Company will be authorized to apply such surplus in the contributed surplus account to eliminate the accumulated losses of the Company and to apply the balance of the contributed surplus account in accordance with the laws of Bermuda and the bye-laws of the Company; and

(v) an authorised capital reduction under which the authorised capital of the Company will be reduced from HK$2,000,000,000 to HK$750,000,000 by cancelling 125,000,000,000 unissued new shares upon completion of the capital reduction and share subdivision.

The directors consider that the capital reorganisation proposal will improve the capital structure of the Company and will enable the Company to adopt a flexible dividend policy to shareholders.

SUBSEQUENT EVENTS

Save as the events disclosed under the headings of Business Reviews – Property investment division and Liquidity, Financial Resources, Charges on Group Assets and Gearing Ratio, and Capital Reorganisation, in March 2003 Anglo Japan Enterprises Limited acquired a 18.38% equity interest in the Company and has become the Company's controlling shareholder since then. On 14th March 2003, Mr. Michele Matsuda was appointed as Chairman, Chief Executive Officer and Executive Managing Director and Mr. Leung To Kwong, Valiant was appointed as Executive Director of the Company. Mr. Leung is also the Vice President of the New business development division of the Company. The reshuffled Board is committed to improving the Group's profitability and will develop the telecommunication business.

OUTLOOK

In the year ahead, the Group will seize every business opportunity that arises to improve its profitability. Plans are in hand to further strengthen its fire prevention and suppression business, capturing the exponential growth in the PRC resulted from its accession to WTO, the hosting of the 2008 Olympics in Beijing and the 2010 EXPO in Shanghai. Mansion Wananda will utilize its research and production capabilities to develop innovative and sophisticated fire prevention products, distributing them via its widespread network in the market. The joint venture in Shanghai will also offer advanced and quality fire fighting solutions to industrial and commercial communities in the mainland.

In view of the continuing sluggish fire protection industry in the Hong Kong market, the Group will continue to explore other profit-making businesses with minimal capital expenditure, such as the provision of telecommunication services. Targeting the Greater China market, a new telecommunication division is establishing and is planning to provide premier overseas calling services at a competitive price level, further reducing communication costs in the corporate sector. The adequate infrastructural network supply worldwide and the valuable experience of the New management team are providing favorable conditions for this new business division. In future, the New telecommunication division will not only offer overseas calling services, but also value-added intelligent telecommunication solutions.

In its commitment to improve the Group's results, the management will strictly implement prudent cost control measures, streamline redundant business operations and stay alert with the changing business environment and seize every opportunity brought about to enhance its profitability. We look forward to sharing the rewards of the planned business diversification with our shareholders in future.