

## 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 accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). They have been prepared under the historical cost convention as modified by the revaluation of certain investment properties.

In the current year, the Group adopted the following Statements of Standard Accounting Practice ("SSAPs") issued by the HKSA which are effective for accounting periods commencing on or after 1 January 2001 and are applicable to these accounts:

|                   |  |
|-------------------|--|
| SSAP 14 (revised) | : Leases (effective for periods commencing on or after 1 July 2000)                |
| SSAP 26           | : Segment reporting  |
| SSAP 28           | : Provisions, contingent liabilities and contingent assets                         |
| SSAP 29           | : Intangible assets  |
| SSAP 30           | : Business combinations  |
| SSAP 31           | : Impairment of assets   |
| SSAP 32           | : Consolidated financial statements and accounting for investments in subsidiaries |

The effect of adopting these new standards is set out in the accounting policies below.

#### (b) Consolidation

The consolidated accounts include accounts of the Company and its subsidiaries made up to 31st December. Subsidiaries are those entities in which the Group controls the composition of the board of directors, controls more than half the voting power or holds more than half of the issued capital, or has the power to govern the financial and operating policies so that the Group obtains benefits from these activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date 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.

## NOTES TO THE ACCOUNTS

**1 PRINCIPAL ACCOUNTING POLICIES (Continued)****(b) Consolidation (Continued)**

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 unamortised goodwill/negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account and any related accumulated foreign currency transaction reserve.

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

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

**(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 when the goods are delivered to customers 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.

## NOTES TO THE ACCOUNTS

1 PRINCIPAL ACCOUNTING POLICIES (*Continued*)

## (d) Fixed assets

(i) *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. The valuations are incorporated in the annual accounts. 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.

(ii) *Other tangible fixed assets*

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

Leasehold land and buildings are depreciated over the period of the lease while other fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses over 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.

## NOTES TO THE ACCOUNTS

### 1 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

#### (d) Fixed assets *(Continued)*

##### (iii) *Impairment and gain or loss on sale*

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in other tangible fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease. Subsequent reversal of impairment losses is credited to the profit and loss account up to the amount previously debited.

The gain or loss on disposal of a fixed asset other than investment properties 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. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserves.

#### (e) Intangibles

##### (i) *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/joint venture/associated company 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 its estimated useful life of 5 to 10 years. Goodwill on acquisitions that occurred prior to 1st January 2001 was written off against reserves. The Group has taken advantage of the transitional provision 1(a) in SSAP 30 and goodwill previously written off against reserves has not been restated. However any impairment arising on such goodwill is accounted for in accordance with SSAP 31.

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition.

## NOTES TO THE ACCOUNTS

**1 PRINCIPAL ACCOUNTING POLICIES (Continued)****(e) Intangibles (Continued)****(i) Goodwill/negative goodwill (Continued)**

For acquisitions prior to 1st 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 has not been restated. For acquisitions after 1st January 2001, negative goodwill is presented in the same balance sheet classification as goodwill. 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, the 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.

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.

**(ii) Impairment of intangible assets**

Where an indication of impairment exists, the carrying amount of any intangible asset, including goodwill previously written off against reserves, is assessed and written down immediately to its recoverable amount.

**(f) Long-term investments**

Investment securities are stated at cost less any provision for impairment losses.

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 impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

## NOTES TO THE ACCOUNTS

### 1 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

#### (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 conditions. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

#### (h) Operating lease

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease period.

#### (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).

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 provisions.

## NOTES TO THE ACCOUNTS

### 1 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

#### (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) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and bank overdrafts.

#### (l) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

#### (m) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When an inflow is virtually certain, an asset is recognised.

## NOTES TO THE ACCOUNTS

**1 PRINCIPAL ACCOUNTING POLICIES (Continued)****(n) 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.

**(o) 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.

**(p) Retirement benefit costs**

The Group's contributions to the defined contribution retirement scheme 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.

**(q) 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.



## NOTES TO THE ACCOUNTS

**1 PRINCIPAL ACCOUNTING POLICIES (Continued)****(r) Segment reporting**

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 segment as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, fixed assets, inventories, receivables and operating cash, and mainly exclude investments in securities and investment properties. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to intangible assets (note 9) and fixed assets (note 10), including additions resulting from acquisitions through purchases of subsidiaries (note 21(c)).

In respect of geographical segment reporting, turnover is based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.

**2 TURNOVER REVENUE AND 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) 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:

|                        | <b>2001<br/>HK\$'000</b> | 2000<br>HK\$'000 |
|------------------------|--------------------------|------------------|
| Turnover               |                          |                  |
| Contracting activities | <b>69,894</b>            | 68,631           |
| Sale of goods          | <b>1,768</b>             | 1,938            |
|                        | <b>71,662</b>            | 70,569           |
| Other revenues         |                          |                  |
| Interest income        | <b>2,063</b>             | 5,929            |
| Rental income          | <b>4,311</b>             | 1,341            |
| Other income           | <b>–</b>                 | 35               |
|                        | <b>6,374</b>             | 7,305            |
| Total revenues         | <b>78,036</b>            | 77,874           |

## NOTES TO THE ACCOUNTS

### 2 TURNOVER REVENUE AND SEGMENT INFORMATION (*Continued*)

#### Primary reporting format – business segments

The Group is organised into three main business segments:

- Contracting – installation of fire prevention and fighting systems
- Maintenance and servicing – maintenance and servicing of fire prevention and fighting systems.
- Trading and sourcing – trading and sourcing of pipes, fittings and other parts in relation to fire prevention and fighting systems.

Other operations of the Group mainly comprise properties investment and holding.

#### Secondary reporting format – geographical segments

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

## NOTES TO THE ACCOUNTS

**2 TURNOVER REVENUE AND SEGMENT INFORMATION (Continued)****Primary reporting format – business segment**

|   | <b>Contracting<br/>2001<br/>HK\$'000</b> | <b>Maintenance<br/>and<br/>servicing<br/>2001<br/>HK\$'000</b> | <b>Trading<br/>and<br/>sourcing<br/>2001<br/>HK\$'000</b> | <b>Property<br/>investment<br/>2001<br/>HK\$'000</b> | <b>Group<br/>2001<br/>HK\$'000</b> |
|---|--|--|---|--|------------------------------------|
| Turnover  | <b>34,123</b>                            | <b>35,771</b>  | <b>1,768</b>  | <b>–</b>   | <b>71,662</b>                      |
| Segment results                                   | <b>(6,167)</b>                           | <b>3,350</b>   | <b>(308)</b>  | <b>311</b>   | <b>(2,814)</b>                     |
| Interest income                                   |  |  |   |  | <b>2,063</b>                       |
| Unallocated costs                                 |  |  |   |  | <b>(10,149)</b>                    |
| Operating loss                                    |  |  |   |  | <b>(10,900)</b>                    |
| Finance costs                                     |  |  |   |  | <b>(1)</b>                         |
| Loss before taxation                              |  |  |   |  | <b>(10,901)</b>                    |
| Taxation  |  |  |   |  | <b>(403)</b>                       |
| Loss attributable to shareholders                 |  |  |   |  | <b>(11,304)</b>                    |
| Segment assets                                    | <b>17,081</b>                            | <b>22,538</b>  | <b>6,252</b>  | <b>83,196</b>  | <b>129,067</b>                     |
| Unallocated assets                                |  |  |   |  | <b>107,063</b>                     |
| Total assets                                      |  |  |   |  | <b>236,130</b>                     |
| Segment liabilities                               | <b>(28,677)</b>                          | <b>(16,373)</b>  | <b>(2,679)</b>  | <b>(16,635)</b>                                      | <b>(64,364)</b>                    |
| Unallocated liabilities                           |  |  |   |  | <b>(12,050)</b>                    |
| Total liabilities                                 |  |  |   |  | <b>(76,414)</b>                    |
| Segment capital expenditure ("Capex")             | <b>(461)</b>                             | <b>(5,297)</b>   | <b>(1,457)</b>  | <b>(486)</b>   | <b>(7,701)</b>                     |
| Unallocated Capex                                 |  |  |   |  | <b>(700)</b>                       |
| Segment depreciation                              | <b>(732)</b>                             | <b>(1,077)</b>   | <b>(478)</b>  | <b>–</b>   | <b>(2,287)</b>                     |
| Unallocated depreciation                          |  |  |   |  | <b>(3,791)</b>                     |
| Amortisation charge                               |  |  |   |  | <b>(2,466)</b>                     |
| Reversal of impairment loss on land and buildings |  |  |   |  | <b>4,629</b>                       |

## NOTES TO THE ACCOUNTS

## 2 TURNOVER REVENUE AND SEGMENT INFORMATION (Continued)

|                                   | Contracting<br>2000<br>HK\$'000 | Maintenance<br>and<br>servicing<br>2000<br>HK\$'000 | Trading<br>and<br>Sourcing<br>2000<br>HK\$'000 | Property<br>Investment<br>2000<br>HK\$'000 | Group<br>2000<br>HK\$'000 |
|-----------------------------------|---------------------------------|---|--|--|---------------------------|
| Turnover                          | 43,623                          | 25,008  | 1,938  | –  | 70,569                    |
| Segment results                   | (53,604)                        | (522)   | (1,115)  | 676  | (54,565)                  |
| Interest income                   |                                 |   |  |  | 5,929                     |
| Unallocated costs                 |                                 |   |  |  | (9,790)                   |
| Operating loss                    |                                 |   |  |  | (58,426)                  |
| Finance costs                     |                                 |   |  |  | (191)                     |
| Loss before taxation              |                                 |   |  |  | (58,617)                  |
| Taxation                          |                                 |   |  |  | –                         |
| Loss attributable to shareholders |                                 |   |  |  | (58,617)                  |
| Segment assets                    | 7,842                           | 16,932  | 1,206  | 72,000                                     | 97,980                    |
| Unallocated assets                |                                 |   |  |  | 165,338                   |
| Total assets                      |                                 |   |  |  | 263,318                   |
| Segment liabilities               | (33,766)                        | (18,430)  | –  | (19,656)                                   | (71,852)                  |
| Unallocated liabilities           |                                 |   |  |  | (34,446)                  |
| Total liabilities                 |                                 |   |  |  | (106,298)                 |
| Segment Capital                   |                                 |   |  |  |                           |
| Expenditure ("Capex")             | (768)                           | (148)   | (8)  | (68,988)                                   | (69,912)                  |
| Unallocated Capex                 |                                 |   |  |  | (429)                     |
| Depreciation                      | (795)                           | (232)   | (104)  | –  | (1,131)                   |
| Unallocated Depreciation          |                                 |   |  |  | (4,470)                   |

## NOTES TO THE ACCOUNTS

**3 OPERATING LOSS**

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

|   | <b>Group</b>    |          |
|---|-----------------|----------|
|   | <b>2001</b>     | 2000     |
|   | <b>HK\$'000</b> | HK\$'000 |
| Other gain/(losses)   |                 |          |
| Write-back of/(provision for) losses on litigation cases    | <b>3,752</b>    | (41,924) |
| Reversal of impairment losses on land and buildings         | <b>4,629</b>    | —        |
| Deficit on revaluation of investment properties             | <b>(4,000)</b>  | —        |
|   | <b>4,381</b>    | (41,924) |
| Cost of inventories sold                                    | <b>(864)</b>    | (1,660)  |
| Decrease/(increase) in provision for bad and doubtful debts | <b>1,875</b>    | (13,161) |
| Staff costs (excluding directors' emoluments)               | <b>(17,823)</b> | (14,880) |
| Auditors' remuneration                                      | <b>(885)</b>    | (745)    |
| Legal and other professional fee                            | <b>(6,464)</b>  | (11,680) |
| Depreciation of fixed assets                                | <b>(6,078)</b>  | (5,601)  |
| Amortisation of goodwill                                    | <b>(2,466)</b>  | —        |
| Operating lease rental in respect of premises               | <b>(1,616)</b>  | (333)    |
| Gain on disposal of fixed assets                            | <b>1,467</b>    | 37       |

**4 FINANCE COSTS**

|  | <b>Group</b>    |          |
|--|-----------------|----------|
|  | <b>2001</b>     | 2000     |
|  | <b>HK\$'000</b> | HK\$'000 |
| Interest expenses on                                   |                 |          |
| — trust receipt loans                                  | <b>1</b>        | —        |
| — convertible notes wholly repayable within five years | <b>—</b>        | 191      |
|  | <b>1</b>        | 191      |

## NOTES TO THE ACCOUNTS

### 5 TAXATION

- (a) No provision has been made in the accounts for Hong Kong profit tax as the companies comprising the Group have no assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged to the consolidated profit and loss account represents:

|                       | <b>2001<br/>HK\$'000</b> | 2000<br>HK\$'000 |
|-----------------------|--------------------------|------------------|
| Hong Kong profits tax | —                        | —                |
| Overseas taxation     | <b>403</b>               | —                |
|                       | <b>403</b>               | —                |

- (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 2001.
- (c) Deferred taxation

There were no material unprovided deferred tax liabilities at 31st December 2001.

No provision has been made in the accounts as it is uncertain whether the deferred tax asset amounting to HK\$96,289,000 (2000: HK\$53,480,000) in respect of potential tax losses 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\$44,439,000 (2000: 35,405,000) which has been dealt with in the accounts of the Company.

## NOTES TO THE ACCOUNTS

**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\$11,304,000 (2000: HK\$58,617,000) and the weighted average number of 4,157,507,087 (2000: 3,766,881,354) ordinary shares in issue during the year.

The exercise of share options and warrants would have an 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:

|   | <b>2001<br/>HK\$'000</b> | 2000<br>HK\$'000 |
|---|--------------------------|------------------|
| Directors'  |                          |                  |
| Executive directors   | <b>120</b>               | 840              |
| Independent non-executive directors                                       | <b>125</b>               | 120              |
|   | <b>245</b>               | 960              |
| For management  |                          |                  |
| Basic salaries, housing allowances, other allowances and benefits in kind | <b>5,432</b>             | 3,331            |
| Retirement benefits scheme contributions                                  | <b>141</b>               | 43               |
| Compensation for loss of office as director paid by the Company           | <b>—</b>                 | 80               |
|   | <b>5,818</b>             | 4,414            |

The Company has share options entitling its holders to subscribe for ordinary shares of HK\$0.10 each in the Company at HK\$0.10 per share. During the year, there were 350,000,000 options granted to the directors (2000: Nil) of which no option (2000: Nil) had been exercised by the directors during the year. Details of the Share Options of the Company are set out in note 19 to the accounts.

## NOTES TO THE ACCOUNTS

## 8 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

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

| Emolument bands<br>HK\$ | Number of directors |      |
|-------------------------|---------------------|------|
|                         | 2001                | 2000 |
| Nil – 1,000,000         | 8*                  | 15*  |
| 1,500,001 – 2,000,000   | 2                   | —    |

\* Included 4 (2000: 2) non-executive directors.

No directors waived emoluments in respect of the years ended 31st December 2001 and 2000.

(c) The five individuals whose emoluments were the highest in the Group for the year included four (2000: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2000: two) individuals during the year are as follows:

|   | 2001<br>HK\$'000 | 2000<br>HK\$'000 |
|---|------------------|------------------|
| Basic salaries, housing allowances, other allowances and benefits in kind | 884              | 1,586            |

The emoluments fell within the following bands:

| Emolument bands<br>HK\$ | Number of individuals |      |
|-------------------------|-----------------------|------|
|                         | 2001                  | 2000 |
| Nil – 1,000,000         | 1                     | 2    |



## NOTES TO THE ACCOUNTS

## 9 INTANGIBLE ASSETS

**Goodwill**

HK\$'000

|   |         |
|---|---------|
| Year ended 31st December 2001             |         |
| At 1st January 2001                       | —       |
| Acquisition of subsidiaries (Note 21 (c)) | 14,680  |
| Amortisation charge (Note 3)              | (2,466) |
| At 31st December 2001                     | 12,214  |
| At 31st December 2001                     |         |
| Cost                                      | 14,680  |
| Accumulated amortisation                  | (2,466) |
| Net book amount                           | 12,214  |

## NOTES TO THE ACCOUNTS

### 10 FIXED ASSETS – GROUP

|  | Land and<br>buildings<br>HK\$'000 | Investment<br>properties<br>HK\$'000 | Furniture,<br>fixtures<br>and office<br>equipment<br>HK\$'000 | Motor<br>vehicles<br>HK\$'000 | Total<br>HK\$'000 |
|--|-----------------------------------|--------------------------------------|---|-------------------------------|-------------------|
| Cost or valuation  |                                   |                                      |   |                               |                   |
| At 1st January 2001  | 86,756                            | 72,000                               | 7,342   | 1,495                         | 167,593           |
| Additions  | –                                 | 486                                  | 4,901   | 145                           | 5,532             |
| Acquisition of subsidiaries  | –                                 | –                                    | 1,297   | 355                           | 1,652             |
| Reversal of impairment losses  | 4,629                             | –                                    | –   | –                             | 4,629             |
| Transfer   | (14,629)                          | 14,629                               | –   | –                             | –                 |
| Revaluation  | –                                 | (4,500)                              | –   | –                             | (4,500)           |
| Disposals  | (2,573)                           | –                                    | (261)   | (355)                         | (3,189)           |
| <b>At 31st December 2001</b>   | <b>74,183</b>                     | <b>82,615</b>                        | <b>13,279</b>   | <b>1,640</b>                  | <b>171,717</b>    |
| Accumulated depreciation   |                                   |                                      |   |                               |                   |
| At 1st January 2001  | 10,606                            | –                                    | 4,849   | 1,387                         | 16,842            |
| Charge for the year  | 3,477                             | –                                    | 2,445   | 156                           | 6,078             |
| Transfer   | (500)                             | 500                                  | –   | –                             | –                 |
| Revaluation  | –                                 | (500)                                | –   | –                             | (500)             |
| Disposals  | (345)                             | –                                    | (215)   | –                             | (560)             |
| <b>At 31st December 2001</b>   | <b>13,238</b>                     | <b>–</b>                             | <b>7,079</b>  | <b>1,543</b>                  | <b>21,860</b>     |
| Net book value   |                                   |                                      |   |                               |                   |
| <b>At 31st December 2001</b>   | <b>60,945</b>                     | <b>82,615</b>                        | <b>6,200</b>  | <b>97</b>                     | <b>149,857</b>    |
| At 31st December 2000  | 76,150                            | 72,000                               | 2,493   | 108                           | 150,751           |
| The analysis of the cost or valuation at 31st December 2001 of the above assets is as follows: |                                   |                                      |   |                               |                   |
| At cost  | 74,183                            | –                                    | 13,279  | 1,640                         | 89,102            |
| At valuation   | –                                 | 82,615                               | –   | –                             | 82,615            |
|  | 74,183                            | 82,615                               | 13,279  | 1,640                         | 171,717           |

## NOTES TO THE ACCOUNTS

**10 FIXED ASSETS - GROUP (Continued)**

- (a) The investment properties were revalued at 31st December 2001 on the basis of their open market value by Prudential Surveyors International Ltd and Lawson David & Sung Surveyors Ltd, an independent professional valuers. The net deficit on revaluation arisen amounting to HK\$4,000,000 was charged to the consolidated profit and loss account.
- (b) The Group's interests in investment properties and land and buildings at their net book values are analysed as follows:

|   | Group            |                  |
|---|------------------|------------------|
|   | 2001<br>HK\$'000 | 2000<br>HK\$'000 |
| In Hong Kong held on:   |                  |                  |
| Leases of over 50 years   | <b>68,000</b>    | 72,000           |
| Leases of between 10 to 50 years  | <b>61,431</b>    | 66,650           |
| In Mainland China, held with land use right of 50 years<br>from July 1992 | <b>14,129</b>    | 9,500            |
|   | <b>143,560</b>   | 148,150          |

- (c) At 31st December, the net book value of fixed assets pledged as security for banking facilities granted to the Group amounted to HK\$56,950,000 (2000: HK\$60,435,000).

## NOTES TO THE ACCOUNTS

### 11 INVESTMENT IN SUBSIDIARIES

|  | Company          |                  |
|--|------------------|------------------|
|  | 2001<br>HK\$'000 | 2000<br>HK\$'000 |
| Unlisted shares, at cost   | <b>45,167</b>    | 33,667           |
| Amounts due from subsidiaries  | <b>658,984</b>   | 604,927          |
|  | <b>704,151</b>   | 638,594          |
| Less: provision for diminution in value of investment and<br>non-recovery of debts | <b>(543,007)</b> | (504,921)        |
|  | <b>161,144</b>   | 133,673          |

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.

## NOTES TO THE ACCOUNTS

## 12 LONG TERM INVESTMENTS

|   | Group            |                  |
|---|------------------|------------------|
|   | 2001<br>HK\$'000 | 2000<br>HK\$'000 |
| Unlisted shares, at cost  | —                | 32,508           |
| Advances to investee companies  | —                | 75,728           |
| Receivable from Dayrise Limited on assignment of convertible note issued by Master Wide International Limited | —                | 14,253           |
|   | —                | 122,489          |
| <i>Less:</i> provision for permanent diminution in value of investment and non-recovery of debts              | —                | (122,489)        |
|   | —                | —                |

During the year, the Group wrote off its long-term investments, comprising shares in two former associated companies, MPS Projects Limited and MPS Holdings Limited, advances to the investee companies and a receivable from Dayrise Limited, and the related provision.

## 13 CONTRACTS WORK IN PROGRESS

|   | Group            |                  |
|---|------------------|------------------|
|   | 2001<br>HK\$'000 | 2000<br>HK\$'000 |
| Contract costs incurred plus attributable profits less foreseeable losses to date | <b>152,184</b>   | 214,962          |
| <i>Less:</i> progress payments received and receivable                            | <b>(144,930)</b> | (205,081)        |
|   | <b>7,254</b>     | 9,881            |

## NOTES TO THE ACCOUNTS

### 14 INVENTORIES

Inventories at 31st December 2001 represent pipes, fittings and parts for installation and maintenance of fire prevention and fighting systems and domestic fire fighting goods held for resale and are carried at cost.

### 15 TRADE AND OTHER RECEIVABLES

|                                      | Group            |                  | Company          |                  |
|--------------------------------------|------------------|------------------|------------------|------------------|
|                                      | 2001<br>HK\$'000 | 2000<br>HK\$'000 | 2001<br>HK\$'000 | 2000<br>HK\$'000 |
| Trade receivables (note a)           | <b>23,274</b>    | 17,741           | —                | —                |
| Retention monies receivable (note b) | <b>2,132</b>     | 4,534            | —                | —                |
| Prepayments and other receivables    | <b>4,602</b>     | 5,263            | <b>164</b>       | 107              |
|                                      | <b>30,008</b>    | 27,538           | <b>164</b>       | 107              |

Notes:

- (a) The Group maintains a defined credit policy. At 31st December 2001, the ageing analysis of the Group's trade receivables was as follows:

|              | 2001<br>HK\$'000 | 2000<br>HK\$'000 |
|--------------|------------------|------------------|
| 0-30 days    | <b>9,195</b>     | 7,903            |
| 31-60 days   | <b>2,915</b>     | 565              |
| 61-90 days   | <b>547</b>       | 279              |
| over 90 days | <b>10,617</b>    | 8,994            |
|              | <b>23,274</b>    | 17,741           |

- (b) At 31st December 2001, retention monies receivables amounting to HK\$1,903,000 (2000: HK\$2,460,000) are receivable after one year from the balance sheet date.

## NOTES TO THE ACCOUNTS

## 16 TRADE AND OTHER PAYABLES

|                                   | Group            |                  | Company          |                  |
|-----------------------------------|------------------|------------------|------------------|------------------|
|                                   | 2001<br>HK\$'000 | 2000<br>HK\$'000 | 2001<br>HK\$'000 | 2000<br>HK\$'000 |
| Trade payables (note a)           | <b>18,263</b>    | 19,124           | —                | —                |
| Retention monies payable (note b) | <b>16,693</b>    | 17,285           | —                | —                |
| Accruals, other payables          | <b>27,622</b>    | 38,335           | <b>448</b>       | 8,507            |
|                                   | <b>62,578</b>    | 74,744           | <b>448</b>       | 8,507            |

Notes:

- (a) At 31st December 2001, the ageing analysis of the Group's trade payables was as follows:

|              | 2001<br>HK\$'000 | 2000<br>HK\$'000 |
|--------------|------------------|------------------|
| 0-30 days    | <b>8,866</b>     | 5,749            |
| 31-60 days   | <b>800</b>       | 383              |
| 61-90 days   | <b>734</b>       | 404              |
| over 90 days | <b>7,863</b>     | 12,588           |
|              | <b>18,263</b>    | 19,124           |

- (b) At 31st December 2001 retention monies payable amounting to HK\$11,570,000 (2000: HK\$15,567,000) are payable after one year from the balance sheet date.

## NOTES TO THE ACCOUNTS

### 17 PROVISIONS

|                          | HK\$'000 |
|--------------------------|----------|
| At 1st January 2001      | 23,773   |
| Provision written back   | (3,752)  |
| Less: Amount utilised    | (17,451) |
| As at 31st December 2001 | 2,570    |

Provision at 31st December 2001 represents the Group's exposure in an outstanding litigation against the Group's performance guarantee granted in 1997 for contract undertaken by a former associated company of the Group. The directors, having sought independent legal advice, are of the opinion that the maximum exposure to the Group (including legal costs) will amount to approximately HK\$2.57 million. Accordingly, overprovision in prior year in connection with that outstanding litigation has been written back to the profit and loss account.



## NOTES TO THE ACCOUNTS

## 18 SHARE CAPITAL

|                                  | Authorised     |           |
|----------------------------------|----------------|-----------|
|                                  | No. of shares  | HK\$'000  |
| Ordinary shares of HK\$0.10 each |                |           |
| At 31st December 2000 and 2001   | 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 2000              | 3,010,163,373         | 301,016        |
| Issue of shares                  | 802,200,000           | 80,220         |
| Exercise of warrants             | 230,073,200           | 23,007         |
| At 31st December 2000            | 4,042,436,573         | 404,243        |
| At 1st January 2001              | 4,042,436,573         | 404,243        |
| Issue of shares (note (a))       | 140,000,000           | 14,000         |
| Exercise of warrants             | 2,400                 | —              |
| <b>At 31st December 2001</b>     | <b>4,182,438,973</b>  | <b>418,243</b> |

Note:

- (a) 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 purchase of subsidiaries (note 21(c)).

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

## NOTES TO THE ACCOUNTS

### 19 SHARE OPTION AND WARRANTS

#### (a) Share option scheme

The Company adopted a new share option scheme on 18th May 2001 and cancelled the former scheme adopted on 12th June 1992. Pursuant to the new shares option scheme, 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 and before 17th May 2011. 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.

Movements of share options during the year are as follows:

| Date of grant   | Exercise price<br>HK\$ | Options granted<br>during the year<br>and outstanding<br>at 31st December 2001 |
|-----------------|------------------------|--|
|                 |                        | '000   |
| 2nd August 2001 | 0.10                   | 377,060  |

#### (b) Warrants

At 1st January 2001, the Company had 294,122,480 outstanding warrants exercisable by warrant holders at any time on or before 28th July 2001. During the year, 2,400 warrants were exercised. All remaining warrants lapsed and there was no outstanding warrant at 31st December 2001.

## NOTES TO THE ACCOUNTS

## 20 RESERVES

## Group

|                                   | Share<br>premium<br>HK\$'000 | Reserve on<br>consolidation<br>HK\$'000 | Accumulated<br>losses<br>HK\$'000 | Total<br>HK\$'000 |
|-----------------------------------|------------------------------|---|-----------------------------------|-------------------|
| At 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)          |
| At 31st December 2000             | 257,073                      | 3,000                                   | (507,296)                         | (247,223)         |
| At 1st January 2001               | 257,073                      | 3,000                                   | (507,296)                         | (247,223)         |
| Loss for the year                 | —                            | —                                       | (11,304)                          | (11,304)          |
| <b>At 31st December 2001</b>      | <b>257,073</b>               | <b>3,000</b>                            | <b>(518,600)</b>                  | <b>(258,527)</b>  |

## Company

|                                   | Share<br>premium<br>HK\$'000 | Contributed<br>surplus<br>HK\$'000 | Accumulated<br>losses<br>HK\$'000 | Total<br>HK\$'000 |
|-----------------------------------|------------------------------|------------------------------------|-----------------------------------|-------------------|
| 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)         |
| At 1st January 2001               | 257,073                      | 16,714                             | (486,123)                         | (212,336)         |
| Loss for the year                 | —                            | —                                  | (44,439)                          | (44,439)          |
| <b>At 31st December 2001</b>      | <b>257,073</b>               | <b>16,714</b>                      | <b>(530,562)</b>                  | <b>(256,775)</b>  |

## NOTES TO THE ACCOUNTS

### 21 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

|  | Group            |                  |
|--|------------------|------------------|
|  | 2001<br>HK\$'000 | 2000<br>HK\$'000 |
| Loss before taxation   | (10,901)         | (58,617)         |
| Interest income  | (2,063)          | (5,929)          |
| Interest expenses  | 1                | 191              |
| Depreciation of fixed assets   | 6,078            | 5,601            |
| Amortisation of goodwill   | 2,466            | —                |
| Gain on disposals of fixed assets  | (1,467)          | (37)             |
| (Increase)/decrease in inventories   | (280)            | 1,079            |
| Decrease in contracts work in progress   | 2,627            | 1,435            |
| Decrease in trade and other receivables  | 2,094            | 28,625           |
| (Decrease)/increase in trade and other payables,<br>provisions, progress payments on account,<br>and trust receipt loans | (35,756)         | 4,759            |
| Net cash outflow from operating activities   | (37,201)         | (22,893)         |

## NOTES TO THE ACCOUNTS

## 21 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

## (b) Analysis of changes in financing during the year

|  | Share capital<br>(including premium) |                  | Convertible notes |                  |
|--|--------------------------------------|------------------|-------------------|------------------|
|  | 2001<br>HK\$'000                     | 2000<br>HK\$'000 | 2001<br>HK\$'000  | 2000<br>HK\$'000 |
| At 1st January                           | <b>661,316</b>                       | 553,769          | —                 | 101              |
| Cash inflow/(outflow)<br>from financing  | —                                    | 81,327           | —                 | (101)            |
| Other non-cash movements:                |                                      |                  |                   |                  |
| Purchase of subsidiaries<br>(note 21(c)) | <b>14,000</b>                        | 26,220           | —                 | —                |
| At 31st December                         | <b>675,316</b>                       | 661,316          | —                 | —                |

## (c) Purchase of subsidiaries

|                                    | 2001<br>HK\$'000 | 2000<br>HK\$'000 |
|------------------------------------|------------------|------------------|
| Net assets acquired                |                  |                  |
| Fixed assets                       | <b>1,652</b>     | 72,000           |
| Net current assets/(liabilities)   | <b>4,267</b>     | (70)             |
| Bank balances and cash             | <b>401</b>       | 58               |
|                                    | <b>6,320</b>     | 71,988           |
| Goodwill/(discount on acquisition) | <b>14,680</b>    | (3,000)          |
|                                    | <b>21,000</b>    | 68,988           |
| Satisfied by:                      |                  |                  |
| Issue of shares                    | <b>14,000</b>    | 26,220           |
| Cash                               | <b>7,000</b>     | 42,768           |
|                                    | <b>21,000</b>    | 68,988           |

# NOTES TO THE ACCOUNTS

## 21 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

### (c) Purchase of subsidiaries *(Continued)*

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\$6.2 million. The resulting goodwill of HK\$14.7 million is recognised and amortised on a straight-line basis over 5 years. The acquired business contributed turnover of HK\$12.2 million and profit before taxation of HK\$1.8 million to the Group for the year.

The subsidiaries acquired during the year contributed approximately HK\$1.6 million inflow to the Group's operating cash flows.

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

|   | 2001<br>HK\$'000 | 2000<br>HK\$'000 |
|---|------------------|------------------|
| Cash consideration  | 7,000            | 42,768           |
| Bank balances and cash in hand acquired                     | (401)            | (58)             |
| Net cash outflow in respect of the purchase of subsidiaries | 6,599            | 42,710           |

## NOTES TO THE ACCOUNTS

**22 CONTINGENT LIABILITIES**

- (a) As at 31st December 2001, 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 2001 cross guarantees totalling HK\$25,000,000 (2000: 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 10(c)).
  - (ii) At 31st December 2001, a performance bond for HK\$2,775,128 (2000: HK\$3,914,000) had been issued in favour of a customer of the Group without expiry date.
- (b) Save as disclosed in note 17, material outstanding litigations against the Group as at 31st December 2001 are as follow:
- (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 \$43 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 have no substance 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.

## NOTES TO THE ACCOUNTS

### 23 COMMITMENTS

- (a) At 31st December 2001, the Group had contractual commitments in the normal course of business of approximately HK\$34,102,000 (2000: HK\$47,527,000) for installation of fire prevention and fighting systems, and electrical and mechanical engineering systems.
- (b) On 16th November 2001, the Group entered into a memorandum of understanding with certain third parties for the setting up of a joint venture in the PRC ("MOU"). Pursuant to the MOU, the Group agreed to invest up to RMB 36.28 million (equivalent to HK\$34.1 million). Subsequent to the year end, the Group entered into various agreements pursuant to the MOU, details of which are set out in note 27(a) to the accounts

### 24 COMMITMENTS UNDER OPERATING LEASES

At 31st December 2001, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

|   | 2001<br>HK\$'000 | 2000<br>restated<br>HK\$'000 |
|---|------------------|------------------------------|
| Not later than one year                           | 527              | 471                          |
| Later than one year and not later than five years | 42               | 342                          |
| Later than five years                             | 569              | —                            |
|   | 1,138            | 813                          |

Comparative figures for operating leases commitments are restated to conform with the requirement of the revised SSAP14.



## NOTES TO THE ACCOUNTS

**25 RETIREMENT BENEFIT SCHEME**

The Group contributes to defined contribution provident funds, including the scheme set up pursuant to the Hong Kong Mandatory Provident Fund Ordinance ("MPF Scheme"), which are available to all employees. In accordance with the terms of the provident funds, contributions to the schemes by the Group and the employees are calculated as a percentage of the employees' basic salaries. For the MPF Scheme, both the employees and the employer are required to contribute 5% of the employees' monthly salaries up to a maximum of HK\$1,000 ("mandatory contribution") and employees can choose to make additional contributions. The employees are entitled to 100% of the employer's mandatory contributions upon their retirement age of 65 years old, death or total incapacity. For non-MPF Scheme, 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\$1,074,000 (2000: HK\$733,000), after deduction of forfeited contribution of approximately HK\$141,000 (2000: HK\$12,000).

**26 PRINCIPAL SUBSIDIARIES**

Details of the Company's principal subsidiaries at 31st December 2001 are as follows:

| <b>Company</b>                                 | <b>Country<br/>or place of<br/>incorporation/<br/>operation</b> | <b>Issued/<br/>registered<br/>share capital</b> | <b>Effective<br/>equity interest<br/>attributable to the<br/>group indirectly</b> | <b>Nature of business</b>   |
|--|---|---|---|---|
| Mansion Fire<br>Engineering<br>Company Limited | Hong Kong   | HK\$200,000                                     | 100%  | Installation and<br>maintenance of<br>fire prevention and<br>fighting systems |
| Wise Engineering<br>Company Limited            | Hong Kong   | HK\$160,500,000                                 | 100%  | Installation and<br>maintenance of fire<br>prevention and<br>fighting systems |
| Clinton Engineering<br>Limited                 | British Virgin<br>Islands ("BVI")/<br>Mainland<br>China         | US\$10,000                                      | 100%  | Installation and<br>maintenance of fire<br>prevention and<br>fighting systems |

## NOTES TO THE ACCOUNTS

## 26 PRINCIPAL SUBSIDIARIES (Continued)

| Company  | Country<br>or place of<br>incorporation/<br>operation | Issued/<br>registered<br>share capital | Effective<br>equity interest<br>attributable to the<br>group indirectly | Nature of business  |
|--|---|--|---|---|
| Mansion Engineering<br>(China) Limited             | Samoa/<br>Mainland<br>China                           | US\$1                                  | 100%  | Installation and<br>maintenance of fire<br>prevention and<br>fighting systems |
| Mansion Trading Limited                            | Hong Kong   | HK\$10,000                             | 100%  | Trading of fire prevention<br>equipment and parts                             |
| Mansion Fire Engineering<br>(H.K.) Company Limited | Hong Kong   | HK\$10,000                             | 100%  | Property holding  |
| Cornwick Investments<br>Limited                    | Hong Kong   | HK\$2                                  | 100%  | Property holding  |
| Alion Development<br>Limited                       | Hong Kong   | HK\$10,000                             | 60%   | Property holding in PRC   |
| Unique Profit<br>Development Limited               | Hong Kong   | HK\$10,000                             | 60%   | Property holding in PRC   |
| Wiseful Engineering<br>(BVI) Limited               | BVI   | US\$1                                  | 100%  | Investment holding  |
| Wiseful Engineering<br>Group Limited               | Hong Kong   | HK\$2                                  | 100%  | Installation and<br>maintenance of<br>fire prevention and<br>fighting systems |

## NOTES TO THE ACCOUNTS

## 26 PRINCIPAL SUBSIDIARIES (Continued)

| Company                                     | Country<br>or place of<br>incorporation/<br>operation | Issued/<br>registered<br>share capital | Effective<br>equity interest<br>attributable to the<br>group indirectly | Nature of business  |
|---|---|--|---|---|
| Mansion Fire<br>Services Company<br>Limited | Hong Kong   | HK\$2                                  | 100%  | Installation and<br>maintenance of<br>fire prevention and<br>fighting systems |
| Mansion International<br>Trading Limited    | Hong Kong   | HK\$2                                  | 100%  | Trading of fire prevention<br>equipment and parts                             |
| Merito Technical<br>Services Limited        | Hong Kong   | HK\$1,000,000                          | 100%  | Trading and maintenance of<br>fire prevention<br>equipment                    |
| QM Systems<br>Limited                       | Hong Kong   | HK\$300,000                            | 100%  | Trading of fire prevention<br>equipment                                       |
| Topfield Industrial<br>Limited              | BVI   | US\$100                                | 100%  | Investment holding  |
| Sai Chak Company<br>Limited                 | Hong Kong   | HK\$100,000                            | 100%  | Property holding  |

Save as stated separately, the above companies' places of operation are the same as their respective places 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.

## NOTES TO THE ACCOUNTS

### 27 SIGNIFICANT SUBSEQUENT EVENTS

- (a) On 11th January 2002, the Group entered into joint venture and warranty agreements (the "Agreements") with certain third parties for the formation of a joint venture in PRC. The joint venture will be engaged in, inter alia, manufacturing and sales of industrial fire prevention systems and equipment in the PRC.

In return for a 51% interest in the joint venture, the Group agreed to inject RMB9.18 million (equivalent to HK\$8.56 million) into the joint venture. In addition, the Group agreed to pay RMB10.5 million (equivalent to HK\$9.89 million) in cash and HK\$15.6 million (subject to adjustment) in shares for warranties on, inter alia, the assets injected by the joint venture partner and a warranty as to the indication of the initial net profit of the joint venture.

Details of the above transaction have been disclosed in the public announcement published on 14th January 2002.

- (b) On 31st January 2002, the Group disposed of Wiseful Engineering (BVI) Limited ("WEB"), a wholly-owned subsidiary of the Company engaging in the maintenance of fire prevention and fighting system, and at the date of the disposal WEB had a net consolidated liabilities of approximately HK\$3 million. WEB was disposed at a nominal consideration of US\$1 to a manager of Wiseful Engineering Group Limited ("Wiseful"), a wholly-owned subsidiary of WEB, and in return the Group received guarantees from the manager and two directors of Wiseful for the full repayment of the amount due by Wiseful to the Group amounting to approximately HK\$5.9 million at 31st December 2001. The financial effect of the disposal will be reflected in the accounts for the year ending 31st December, 2002.

### 28 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 8th April 2002.