CFE

中國消防企業集團有限公司
CHINA FIRE SAFETY ENTERPRISE GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code：445

ANNUAL REPORT 2012

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS
Jiang Xiong, Chairman
Jiang Qing
Zhang Hai Yan
Wang De Feng
Weng Xiu Xia
Hu Yong

INDEPENDENT NON-EXECUTIVE DIRECTORS
Loke Yu
Heng Ja Wei
Sun Guo Li

COMPLIANCE OFFICER
Jiang Qing

QUALIFIED ACCOUNTANT
Li Ching Wah, AHKICPA

COMPANY SECRETARY
Li Ching Wah, AHKICPA

AUTHORIZED REPRESENTATIVES
Jiang Qing
Li Ching Wah, AHKICPA

MEMBERS OF AUDIT COMMITTEE
Loke Yu
Heng Ja Wei
Sun Guo Li

MEMBERS OF REMUNERATION COMMITTEE
Loke Yu
Heng Ja Wei
Jiang Qing

MEMBERS OF NOMINATION COMMITTEE
Heng Ja Wei
Loke Yu
Sun Guo Li

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STOCK EXCHANGE LISTING
The Stock Exchange of Hong Kong Limited

STOCK CODE
445

CHAIRMAN'S STATEMENT

This year, we see the Group's revenue dropped and loss recurred. Among the business segments of the Group, installation has been contributing the largest portion (almost 50%) to the Group's revenue. At the same time, it is highly vulnerable to the changes in the macro environment. Since customers of the installation segment are majority residential and commercial properties developers, any change in policies or in the macro economic environment that could have influential effect to the real estate market would also affect the whole installation industry. Facing such a changeable environment and competitive market, our management considered that occupying a large market share and leading the market is the key to survive the instabilities. Being an industry leader, we would enjoy the best return whenever the market condition turned favourable. By taking advantage of the Group's strong financial position, we adopted aggressive measures to secure the largest amount of contracts possible, including agreed to advance labour and material costs on behalf of the developers. As a result, not only the installation business generated the Group a good portion of revenue but the largest part of the accounts receivable balances. With the macro economic controls on the real estate market getting intensified, funding pressure on the property developers became more and more acute and we were also affected in the chain reaction. Having recognized the severity of the issue, we have been more skeptical in bidding projects, tightened further costs advancement and putting extra effort on debt collection. Although some long age receivables, including some aged over 4 years, were recovered during the year, the overall rate of recovery is still not satisfactory. To my disappointment, more allowance for bad and doubtful debts are required this year.

In the coming years, we will target on installation projects contracted by financially strong customers like state-owned enterprises. Therefore, focus will be switched from residential and commercial properties to the industrial sector. We will give up the old radical market enlargement strategies but take financial safety as our first priority. We aim to strengthen ourselves to maintain as the top fire engines and equipment manufacturer in the country. For this, more resources will be channeled to the development of new models of fire engines and fire equipment, and to strengthen our sales and distribution network. After years of development, our fire engines manufacturing business has built up a strong reputation and solid customer base. Sales have been growing steadily since the segment was established. We have also transformed ourselves from a single-product-enterprise (simple, low-end emergency lightings) into an enterprise offering a wide range of products: from a tiny sprinkler to an advanced, sophisticated intelligent auto-aiming fire extinguishing systems. Our "Chuan Xiao" brand has been publicized as the "Well-known Trademark" by The State Administration for Industry and Commerce, indicating the wide recognition of our products in China.

CHAIRMAN'S STATEMENT

During the year, there is a substantial change in the Company's shareholdings. United Technologies Corporation (UTC), the Company's then second largest shareholder, has sold all the equity interests it held in the Company. I would like to thank UTC and its staff for their support in the past few years, though I feel sorry that our cooperation ended without much achievement. Our new partner is an experienced investor who operates numerous groups in diversified industries and is familiar with the business systems in China. Leveraging on his experience and expertise, in addition to enhancing our core businesses, we will consider diversifying into other high-potential industries such as medical supplies and others related to people's livelihood. With the rising living standard and extended average life expectancy of people in China, the demand for advanced medical supplies or services is enormous and promising. However, medical supply is in shortage relative to the huge demand and such imbalance brings abundant opportunities. Looking ahead, we will carry out detail studies to investigate into the investment possibilities, especially those which can match and cater for government policies.

In all circumstances, the Board and the management will dedicate ourselves to work in the best interests of the shareholders. For this, I will continue to count on the support and dedication of my fellow directors and our staff.

Jiang Xiong
Chairman

25 March 2013

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the year ended 31 December 2012, turnover of the Group decreased 10% to RMB1,004 million. Loss for the year decreased 42% to RMB22 million. An impairment loss on investments in associates amounted to RMB4 million was made during the year.

Installation of fire prevention and fighting systems

Revenue from installation of fire prevention and fighting systems for the year decreased 14% to RMB472 million. Operating loss was RMB15 million (2011: RMB8 million).

Contracts of a total sum of RMB365 million were secured during the year, an amount significantly less than that made last year. Among the RMB649 million installation contracts signed up last year, a few sizable contracts from two customers, China Wanda Group and Foxconn Group, have already made up 34% of the total sum for 2011. In the absence of such large projects and the reduction in contracts obtained as a result of the Group tightened the practice of advancing costs on behalf of developers, revenue for the year dropped substantially.

In addition to the drop in revenue, additional allowance for bad and doubtful debts made because of the aging trade receivables has led to the increase in operating loss for the year.

Production and sale of fire engines

Revenue from production and sales of fire engines for the year increased 7% to RMB344 million. Operating profit was RMB21 million (2011: RMB: 10.5 million).

Other than the increase in revenue, cost saved because of the cost control measures instituted was the main reason for the significant profit increase. Wastage was reduced as a by-product of certain product reengineering for enhancing production capability and products performance. Such costs saved plus the reversal of some allowance for obsolete stocks made in the past have inflated the operating profit for the year.

Revenue of the Group's fire engines manufacturing business has increased steadily over the past few years. Recurring orders from old customers constitutes a large part of the sales every year, indicating the Group's high reputation among customers. To keep its competitive edge, besides maintaining high quality, the Group endeavors to enrich its product category. Abundant resources are put to make available products with different functions, appearances, and specifications for selection such that the distinctive needs of customers are fulfilled and a solid customer base is built.

Production and sale of fire prevention and fighting equipment

Revenue from production and sales of fire prevention and fire fighting equipment for the year decreased 4% to RMB170 million. Operating profits was RMB5 million (2011: RMB11 million). Included in the segment's expenses, there was a fair value loss on investment properties amounted to RMB2 million (2011: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

The Group sold all the equity interests it held in a subsidiary engaged in the manufacturing and sale of central power control systems for emergency lightings. The disposal was the main reason for the drop in the segment's revenue for the year in spite of the growth in sale of the Group's fire equipment. The Group considered that the competition would soon lower the profit margin of the main products of the disposed subsidiary due to the low market entry barrier. Therefore, it was considered a good time to realize the profits earned by selling the investment. More resources will then be channeled to develop other high-end products and to strengthen the Group's sales network to compensate for the sales lost.

Provision of maintenance services

Revenue from the provision of fire prevention and fighting system maintenance services for the year decreased 15% to RMB12 million. Operating profit was RMB11 million (2011: loss of RMB33,000).

Revenue dropped because the two year contract with Foxconn International Holdings Ltd for its several plants in Shenzhen expired in October 2012. Renewal agreement is still under negotiation. With the recovery of certain long outstanding trade receivables, a reversal of allowance for bad and doubtful debts amounted to RMB9.7 million was recorded and made up the majority part of the segment's operating profit for the year.

Trading of fire engines, fire prevention and fighting and rescue equipment

The business segment secured no order for the year and because of problems in a supplier's production schedule, the three trucks that originally scheduled to be shipped in 2012 was postponed, as a result, the trading section generated no revenue for the year. As remarked in the annual report last year, the issues that a major supplier being put under receivership and the change in procurement strategies of a major customer have exposed the Group's trading business to significant uncertainties. Since the Group does not expect improvement in the foreseeable future, the trading business will be restructured in 2013 so that resources could be more efficiently used.

Operation of a guest house

The guest house generated the Group revenue of RMB5 million for the year since trial run commenced in May 2012. Occupancy was affected by both the low publicity at the initial running stage and the nuisances brought by the entrance constructions of the underground railway nearby. Besides, higher expenditure on consumables and miscellaneous items at the early operating period was recorded. A loss of RMB8 million was thus resulted. With the prime location of the guest house, the Group expects that it will turnaround when the railway construction works completed.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESOURCES, LIQUIDITY, CONTINGENT LIABILITIES AND PLEDGE OF ASSETS

As at 31 December 2012, the Group had bank and cash balances amounting to approximately RMB208 million (2011: RMB157 million) of which RMB8 million (2011: RMB7 million) was pledged for bid bond guarantee issued, performance guarantee, and guarantee for letter of credit issued. Outstanding balances of bank borrowings as at the year end date were RMB96 million (2011: RMB100 million) representing short term bank loans borrowed by two of the Company's subsidiaries in Sichuan and a jointly controlled entity in Shanghai.

As at 31 December 2012, current assets and current liabilities of the Group were approximately RMB1,434 million (2011: RMB1,365 million) and RMB566 million (2011: RMB493 million) respectively. The current ratio was approximately 2.5 times (2011: 2.8 times). Gearing ratio (interest bearing debt/total equity) at end of the year was 7.7% (2011: 7.9%).

Renminbi is the functional currency and adopted as the reporting currency by the Group. The majority of the Group's assets, liabilities, sales and purchases are primarily denominated in Renminbi and Hong Kong dollar. The Group uses forward foreign currency exchange contracts to minimize exposure to exchange rate volatility arising from receivables and payables involving currencies other than Renminbi and Hong Kong dollar. There was no forward foreign currency exchange contract outstanding at 31 December 2012.

The Group guaranteed the repayment of a banking facility amounted to RMB20,000,000 granted by a bank to a jointly controlled entity in Shanghai. The outstanding loan balance drawn under the facility at 31 December 2012 was RMB11,659,000, 49% of which (i.e. RMB5,713,000) to be born by the other venturer of the jointly controlled entity according to its shareholding became contingent liabilities to Group when considering the guarantee issued by the Group. The directors do not consider it probable that a claim will be made against the Group under the guarantee.

Save as disclosed, the Group has no material contingent liabilities or pledge of assets for the year ended 31 December 2012.

INVESTMENTS, DISPOSALS AND CAPITAL COMMITMENTS

Disposal

The Group sold all the equity interests it held in Beijing City Chongzheng Huasheng Emergency Appliances System Co., Ltd. ("Chongzheng Huasheng") at a consideration of RMB9 million during the year and brought the Group a gain of RMB1.2 million. Chongzheng Huasheng was engaged in the manufacturing and sale of central power control systems for emergency lightings. The Group foresees the profit margin of the products of Chongzheng Huasheng will soon be lowered by new market entrances because of the low entry barrier. The disposal allowed the Group to realize the profits earned before market condition deteriorates.

MANAGEMENT DISCUSSION AND ANALYSIS

Capital commitments

As at 31 December 2012, the Group has capital commitment of approximately RMB23 million (2011: RMB27 million) which was mainly related to the investment amount committed to the local government of the county where the Sichuan factory is located.

Save as disclosed herein, the Group has no other material capital commitments, investments, acquisitions or disposals as at 31 December 2012.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2012, the Group had approximately 1,021 full-time employees (2011: 975). Staff costs, excluding directors' remuneration for the year was RMB53 million (2011: RMB49 million). The increase in number of staff was the combined effect of staff employed for the guest house which opened during the year, and the disposal of Chongzheng Huasheng. Staff costs increased corresponded to the change in number of staff and the general pay rise. All full-time employees are entitled to medical contributions, provident funds and retirement plans. The Group provides a series of comprehensive in-house and on-the-job training to staff to keep their technical skills and standards up to date for quality services and to enhance work safety.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive directors

Mr. JIANG Xiong, aged 45, is the Chairman of the Board of the Company. He is responsible for the strategic planning and the overall development of the Group and joined the Group in January 1994. He has over 15 years of experience in the fire services and maintenance industry in the PRC. In April 1996, he was awarded the title "Fuzhou Outstanding Entrepreneur" (福州市優秀私營企業家). In May 1996, Mr. Jiang was awarded one of the "Ten Most Outstanding Youths in Fuzhou" and in November 1997 he was appointed as "member of the Ninth Standing Committee of Fuzhou City People's Political Consultative Conference" (中國人民政治協商會議第九屆福建省福州市常務委員會委員). In May 1999, he was given the award of "Fujian Outstanding Entrepreneur" (福建省優秀青年企業家). In November 2001, he was also appointed as Vice Secretary-General of Fire Committee of International Police Foundation (世界警察基金會消防行業委員會副秘書長), a non-profit organisation for the promotion of police goodwill and development of police science. Mr. Jiang is a qualified engineer in the PRC and obtained the qualification of senior economist from the Human Resources Office of Fujian Provincial Government (福建省人事廳) in January 2004.

Mr. JIANG Qing, aged 48, is an executive director and the Chief Executive Officer of the Company. He joined the Group in April 1995 and has over 15 years of experience in the building construction industry and fire prevention and fighting systems installation. Prior to joining the Group in April 1995, Mr. Jiang was an assistant executive of Fujian Construction and Development Limited (福建省建設發展總公司), a company engaged in property development, from February 1993 to April 1995 and he was mainly responsible for the management and administration for construction projects. Mr. Jiang received the professional certificate from Fujian Technical Institute of Construction (福建建築高等專科學校) in September 2000 and is a qualified engineer in the PRC and obtained the qualification of senior economist from the Human Resources Office of Fujian Provincial Government (福建省人事廳) in January 2004. Mr. Jiang was elected the Chairman of the Construction Industry Association and its branch for fire safety industry in 2006. He is responsible for the corporate management and overall operation of the Group. He is the elder brother of Mr. Jiang Xiong.

Ms. ZHANG Hai Yan, aged 40, is an executive director of the Company. Ms. Zhang joined the Group in 2004 and is responsible for overseeing acquisitions and other development projects of the Group. Ms. Zhang is a graduate of the Jianghan Petroleum Institute and was elected the Deputy Secretary General and executive of the Fujian Young Entrepreneur Association in 2005.

Mr. WANG De Feng, aged 44, is an executive director of the Company. He is a graduate of the Second Mechanical Engineering Department of the Chongqing University. Mr. Wang joined the Group in 2005. He is a vice president of the Group responsible for overseeing the Group's production and sales of fire engines and fire protection equipment.

DIRECTORS AND SENIOR MANAGEMENT

Ms. WENG Xiu Xia, aged 43, is an executive director of the Company. Ms. Weng joined the Group in 1998 and is a vice president of the Group responsible for overseeing the Group's installation and maintenance service on fire safety systems. She has 20 years experience in project design and management since she graduated from the Faculty of Civil Engineering of the university of Fuzhou in 1992. She was awarded "Grade I project manager" by the Ministry of Construction in 2004 and was elected executives of the Construction Industry Association and its branch for fire safety industry in 2006. Ms. Weng was awarded "Outstanding Manager" by the Construction Office of Fujian Province in 2007.

Mr. HU Yong, aged 44, is an executive director of the Company. He is the General Manager and Chief Engineer of Sichuan Morita Fire Safety Appliances Co., Ltd. ("Sichuan Morita"), the Company's fire engines and equipment manufacturing subsidiary. Mr. Hu graduated from the Xihua University (formerly known as Sichuan Institute of Technology), specializing in hydraulic mechanics. Upon graduation, he joined Sichuan Morita as a product designer. He has been working for Sichuan Morita for 20 years and was promoted to the Chief Engineer and then to the General Manager. He has extensive experience in product technology and design, production operations, and administration and management of the company.

Independent non-executive directors

Dr. Loke Yu alias Loke Hoi Lam, aged 63, was appointed an independent non-executive director of the Company on 1 August 2006. He is the Chairman of the audit committee and remuneration committee of the Company. Dr. Loke has over 35 years of experience in accounting and auditing for private and public companies, financial consultancy and corporate management. He holds a Master of Business Administration degree from University Teknology Malaysia and a Doctor of Business Administration degree from University of South Australia. He is a Fellow of The Institute of Chartered Accountants in England and Wales; Hong Kong Institute of Certified Public Accountants and The Hong Kong Institute of Directors. He is also an Associate member of The Hong Kong Institute of Chartered Secretaries.

Dr. Loke is currently the company secretary of Minth Group Limited. He also serves as an independent non-executive director of Chiho-Tiande Group Limited, Matrix Holdings Limited, Scud Group Limited, Sino Distillery Group Limited, Tianjin Development Holdings Limited, Vodone Limited, Winfair Investment Company Limited and Zhong An Real Estate Limited, companies listed on The Stock Exchange of Hong Kong Limited.

DIRECTORS AND SENIOR MANAGEMENT

Mr. HENG Ja Wei, aged 35, was appointed an independent non-executive director of the Company on 4 March 2009. He is the Chairman of the nomination committee of the Company. Mr. Heng is the Managing Partner of Morison Heng, Certified Public Accountants. Mr. Heng holds a Master of Science degree of the Imperial College, University of London. He is a member of The Association of Chartered Certified Accountants and a member of The Hong Kong Institute of Certified Public Accountants. Mr. Heng is also an independent non-executive director of Lee & Man Chemical Company Limited, Lee & Man Handbags Holding Limited and Matrix Holdings Limited, companies listed on The Stock Exchange of Hong Kong Limited.

Ms. Sun Guo Li, aged 57, was appointed an independent non-executive director of the Company on 30 August 2011. She is the vice-president of the Sichuan Fire Protection Association. Ms. Sun is a graduate of the Communist Party School, specializing Economics and Management. She has over 20 years experience of working in and managing fire brigades and was the Deputy Commander of the Sichuan Fire Brigades at the time she retired.

SENIOR MANAGEMENT

Ms. ZHANG Yu Rong, aged 50, is the Financial Controller of Sichuan Morita. Ms. Zhang graduated from the Sichuan Radio TV University (四川廣播電視大學), with an emphasis in finance and accounting. Ms. Zhang was awarded "Qualified Senior Accountant" by the Human Resources Office of the Sichuan Provincial Government (四川省人事廳) in 2000. Upon graduation, she joined Sichuan Morita, and has been working in the accounting unit for over 20 years. She was promoted to the Financial Controller in 2005. She has extensive experience in the finance, taxation, accounting, and management of the company.

Ms. LIAO Hong, aged 45, is the General Manager of Allied Best (China) Fire Safety Appliances Manufacturing Co., Ltd., a subsidiary of the Company. Ms Liao is a graduate of the Chongqing University, specializing in Mechanical Engineering. Ms Liao joined Sichuan Morita upon graduation in 1989 and had served the enterprise as a quality control officer and then sales manager, before she resigned in 2005. Ms. Liao has extensive experience in the sales and production of fire safety equipment. She joined the Group again in 2007.

Mr. REN Long, aged 50, the General Manager of Chuanxiao Fire Engineering Company Limited, a subsidiary of the Company. He has worked in the fire safety engineering and project implementation and administration for over 20 years. Mr. Ren has extensive experience in the administration of numerous large-scaled fire safety projects.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

Throughout the year ended 31 December 2012, the Company has complied with the code provisions set out in the Code on Corporate Governance Practices set out in Appendix 14 of the Listing Rules, except for the following:

1. Only two board meetings were held during the year.

2. There were no fixed terms of appointment for the non-executive directors.

3. According to the articles of association, no director holding office as chairman and/or managing director shall be subject to retirement by rotation.

The details of such deviation have been disclosed in the relevant paragraphs below.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules. Having made specific enquiry of all directors, all directors confirmed they have complied with the required standard set out in the required standard of dealings and the code of conduct regarding securities transactions by directors adopted by the Company.

BOARD OF DIRECTORS

The Board, as at the date of this report, is composed of six executive directors and three independent non-executive directors. Name of the directors are set out in the table below. Mr. Jiang Xiong (Chairman) and Mr. Jiang Qing (Chief Executive Officer) are brothers.

There were two Board meetings held during the year which, besides the approval of the Company's interim and annual reports, were mainly related to strategic decisions. Day to day operational decisions were delegated to the management team of the Company. Other than in Board meetings, members of the Board are communicated regularly to discuss the performance of the Group. The Board is in the opinion that these communications allow the Board members to have a thorough understanding of the Group to exercise effective leadership and supervision of the Group, though the number of Board meetings held was less than the four as stated in the code provision.

CORPORATE GOVERNANCE REPORT

Attendance of each director is set out below:

Name of directors	No. of meetings attended
Executive directors	
Mr. Jiang Xiong *(Chairman)*	2/2
Mr. Jiang Qing *(Chief Executive Officer)*	2/2
Ms. Zhang Hai Yan	2/2
Mr. Wang De Feng	2/2
Ms. Weng Xiu Xia	2/2
Mr. Hu Yong	1/2
Independent non-executive directors	
Dr. Loke Yu	2/2
Mr. Heng Ja Wei	2/2
Ms. Sun Guo Li	2/2
Non-executive directors	
Mr. Jean-Charles Thoumire	2/2*
Mr. Oon Wee Chin	1/2*

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

* Mr. Jean-Charles Thoumire and Mr. Oon Wee Chin resigned with effect from 21 December 2012. They were appointed to sit on the Board as representatives of United Technologies Far East Limited ("UTFE") and thus resign upon UTFE's disposal of the shares of the Company.

CORPORATE GOVERNANCE REPORT

CONTINUOUS PROFESSIONAL DEVELOPMENT

To ensure that their contributions to the board are informed and relevant, the directors have done the following to develop and refresh their knowledge and skill:

Executive directors	
Mr. Jiang Xiong *(Chairman)*	Study relevant materials
Mr. Jiang Qing *(Chief Executive Officer)*	Study relevant materials
Ms. Zhang Hai Yan	Study relevant materials
Mr. Wang De Feng	Study relevant materials
Ms. Weng Xiu Xia	Study relevant materials
Mr. Hu Yong	Study relevant materials
Independent non-executive directors	
Dr. Loke Yu	Attend courses and trainings
Mr. Heng Ja Wei	Attend courses and trainings
Ms. Sun Guo Li	Study relevant materials

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Jiang Xiong is the Chairman of the Board and Mr. Jiang Qing is the Chief Executive Officer of the Company. The Chairman is responsible for leading the Board in formulating strategic plans for the Group while the Chief Executive Officers oversees the Group's daily operations and execution of Board decisions.

According to the articles of association, no director holding office as chairman and/or managing director shall be subject to retirement by rotation. This is not in strict compliance with the code provision of the Code on Corporate Governance Practice which requires every director (including those appointed for a specific term) to be subject to retirement by rotation at least once every three years.

NON-EXECUTIVE DIRECTORS

There were no fixed terms of appointment for the non-executive directors but they are subject to retirement by rotation according to the Company's articles of association. Under the Company's articles of association, one third of the directors for the time being (or if their number is not a multiple of three, then the number nearest to but not greater than one third) will retire from office by rotation at each annual general meeting in accordance with the provisions of the articles of association. The Board is of the opinion that this serves the same objectives of the relevant provision.

CORPORATE GOVERNANCE REPORT

REMUNERATION OF DIRECTORS

The remuneration committee comprises Dr. Loke Yu *(Chairman)* and Mr. Heng Ja Wei, both are independent non-executive directors of the Company, and Mr. Jiang Qing who is an executive director and the Chief Executive Officer of the Company. The primary duties of the committee are to formulate policy and structure of remuneration of directors and senior management of the Group and to provide advice and recommendations thereon to the Board. During the year, the remuneration committee held one meeting, in which all members were present, to review remuneration packages of the executive directors and senior management.

NOMINATION OF DIRECTORS

The nomination committee comprises Mr. Heng Ja Wei *(Chairman)*, Dr. Loke Yu and Ms. Sun Guo Li, all are independent non-executive director of the Company. The primary duties of the committee are to review the structure, size and composition of the Board, identify individuals suitably qualified to become Board members, and to make recommendation to the Board thereon. New director(s) is expected to have expertise in relevant area to make contribution to the Company and to have sufficient time to participate in the decision making process of the Company. Under the Company's articles of association, one third of the directors for the time being (or if their number is not a multiple of three, then the number nearest to but not greater than one third) will retire from office by rotation at each annual general meeting in accordance with the provisions of the articles of association. During the year, the nomination committee held one meeting in which all members were present.

AUDIT COMMITTEE

The audit committee comprises three independent non-executive directors, Dr. Loke Yu, Mr. Heng Ja Wei and Ms. Sun Guo Li. The primary duties of the audit committee are to review the Company's annual report and accounts and half-yearly reports and to provide advice and comments thereon to the Board. The audit committee is also responsible for reviewing and supervising the financial reporting process and internal control procedures of the Group.

CORPORATE GOVERNANCE REPORT

During the year, the audit committee held two meetings to review and comment on the Company's interim and annual financial reports and to meet with the external auditors and participate in the reappointment and assessment of the performance of the external auditors. Attendance of each member of the audit committee is set out below:

Name of members	**No. of meetings attended**
Dr. Loke Yu *(Chairman)*	2/2
Mr. Heng Ja Wei	2/2
Ms. Sun Guo Li	2/2

The Group's results for the year have been reviewed by the audit committee.

CORPORATE GOVERNANCE FUNCTIONS

The full Board is responsible for the corporate governance functions, during the year, it has performed the following:

– develop and review the Company's policies and practices on corporate governance;

– review and monitor training and continuous professional development of directors and senior management;

– review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

– develop, review and monitor the code of conduct to employees and directors; and

– review compliance with the Code of Corporate Governance and disclosure in the Corporate Governance Report.

INTERNAL CONTROL

The Board is responsible for maintaining a sound and effective internal control system. During the year, the Board has reviewed its effectiveness.

AUDITOR'S REMUNERATION

Auditor's remuneration is for audit services provided only. The auditor did not provide any non-audit services to the Group during the year.

CORPORATE GOVERNANCE REPORT

GENERAL MEETING

The Company's annual general meeting was held in June 2012 in Hong Kong. Mr. Jiang Xiong (Chairman), Dr. Loke Yu and Mr. Heng Ja Wai (both are independent non-executive directors) attended the meeting. Other directors were absent as they were occupied by other business matters.

SHAREHOLDERS' RIGHTS

Any one or more shareholders of the Company holding not less than one-tenth of the paid up share capital of the Company carrying the right of voting general meetings of the Company shall have the right to require the Board to call extraordinary general meetings ("EGM"). The shareholder(s) requesting the convening of an EGM should deposit a written requisition to the Board or the Company Secretary, specifying the transaction of business to be dealt with in the EGM. The Board shall convene such meeting within twenty one days form the date the requisition deposited and the EGM shall be held within two months after the deposit of the requisition. The written requisition may be sent to the Board or the Company Secretary by post to the Company's head office or principal place of business in Hong Kong.

A qualified shareholder may nominate a person as candidate for election of director of the Company by sending a written notice giving his intention. Such nomination notice must be lodged at the Company's head office or at its Hong Kong branch share registrar within 7 days from the day after the dispatch of the notice of the general meeting (or such other period, being a period of not less than 7 days, commencing no earlier than the day after the dispatch of the notice of such meeting and ending no later than 7 days prior to the date appointed for such meeting, as may be determined by the Directors from time to time). The nomination notice lodged must be accompanied by:

a. A notice signed by the candidate indicating his/her willingness to be elected in the general meeting.

b. A biographical details of the candidate as set out in Rule13.51(2) of the Listing Rules.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

The directors are responsible for the preparation of the financial statements, which give a true and fair view of the condition of the Group. The auditor is responsible to form an independent opinion, based on the audit, on the financial statements prepared by the directors and reports the opinion solely to the shareholders of the Company.

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements of the Group for the year ended 31 December 2012.

1. PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries, associates and a jointly controlled entity are set out in notes 23, 24 and 25 to the financial statements.

2. RESULTS AND FINANCIAL POSITION

The results of the Group for the year ended 31 December 2012 are set out in the consolidated statement of comprehensive income on page 28.

The state of affairs of the Group at 31 December 2012 are set out in the consolidated statement of financial position on page 29.

3. SHARE CAPITAL

Details of the movements in the share capital of the Company are set out in note 38 to the financial statements.

4. RESERVES

The movements in the reserves of the Group during the year are set out in the consolidated statement of comprehensive income on page 28 and consolidated statement of changes in equity on page 32.

The Company's reserves available for distribution to shareholders as at 31 December 2012 were RMB713,763,000 (2011: RMB717,723,000).

Under the Company Law (Revised) Chapter 22 of Cayman Islands, the share premium and the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of share premium and contributed surplus if:

(a) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

5. DIVIDENDS

The directors do not recommend the payment of any dividend for the year ended 31 December 2012 (2011: Nil).

DIRECTORS' REPORT

6. PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the year are set out in note 18 to the financial statements.

7. DIRECTORS

The directors who held office during the year and up to date of this report were:

Executive Directors

Mr. Jiang Xiong *(Chairman)*
Mr. Jiang Qing
Ms. Zhang Hai Yan
Mr. Wang De Feng
Ms. Weng Xiu Xia
Mr. Hu Yong

Non-executive Directors

Mr. Jean-Charles Thoumire (resigned on 21 December 2012)
Mr. Oon Wee Chin (resigned on 21 December 2012)

Independent Non-executive Directors

Dr. Loke Yu
Mr. Heng Ja Wei
Ms. Sun Guo Li

In accordance with the provisions of the Company's articles of association, Mr. Hu Yong, Ms. Zhang Hai Yan and Dr. Loke Yu retire from office and, being eligible, offer themselves for re-election.

8. DIRECTORS' SERVICE CONTRACTS

No service contract has been entered into between the Company and the directors. The term of office of each of the directors is the period to his/her retirement by rotation in accordance with the Company's articles of association.

DIRECTORS' REPORT

9. DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE COMPANY'S SECURITIES

Save as disclosed below, as of 31 December 2012, none of the directors or chief executives has any interest or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) ("SFO")) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or were required, pursuant to Section 352 of the SFO to be entered in the register required to be kept therein or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), to be notified to the Company and the Stock Exchange.

Long positions in ordinary shares of the Company

Name of director	Capacity and types of interests	Number of issued shares of HK$0.01 each of the Company held	Percentage of issued capital of the Company
Mr. Jiang Xiong ("Mr. Jiang")	Beneficial owner *(Note a)*	981,600,000	63.28% *(Note c)*
	Deemed interest *(Note b & d)*	825,000,000	
Mr. Jiang Qing	Beneficial owner	7,500,000	0.26%

Notes:

(a) Mr. Jiang is beneficially interested in 981,600,000 shares. By virtue of the option agreement (the "Option Agreement") entered into between Mr. Jiang and United Technologies Far East Limited ("UTFE"), a subsidiary of United Technologies Corporation ("UTC"), Mr. Jiang and UTFE are parties to the agreement under Section 317 of the SFO. Under the SFO, Mr. Jiang is deemed to have a long position in the 825,000,000 shares of the Company owned by UTFE.

(b) Mr. Jiang has a short position in the shares to be sold under the Option Agreement. On the other hand, UTFE has a long position in the option shares under the Option Agreement and therefore Mr. Jiang is deemed to have a long position in the option shares in his capacity as a party to the agreement to which Section 317(1)(a) of the SFO applies.

(c) The percentage figure as stated is calculated without taking into account the deemed long position in the shares to be sold under the Option Agreement.

DIRECTORS' REPORT

9. DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE COMPANY'S SECURITIES *(continued)*

(d) UTFE entered into a Sales and Purchase Agreement to sell all the 825,000,000 shares of the Company it held (the "Share Disposal") on 21 December 2012. Upon completion of the Share Disposal in January 2013, the options granted by Mr. Jiang to UTFE lapsed. The deemed long position, by virtue of the Option Agreement, that Mr. Jiang had in the 825,000,000 shares of the Company held by UTFE ceased to exist correspondingly.

Short positions in ordinary shares of the Company

Pursuant to the Option Agreement, Mr. Jiang grants an option (the "Option") to UTFE, which, when exercised, will require Mr. Jiang to sell to UTFE the lower of:

(i) such number of shares of the Company as are required to be sold by Mr. Jiang to UTFE to enable UTFE to beneficially hold, in addition to any other shares of the Company held by UTFE at the relevant time, in aggregate, 51% of the voting rights of the Company immediately following completion of the exercise of the Option under the Option Agreement; and

(ii) all shares of the Company held by Mr. Jiang at the time when UTFE exercises the Option.

Mr. Jiang has a short position in the shares to be sold (as held by UTFE) under the Option Agreement. The short position ceased however, upon the lapse of the options granted by Mr. Jiang to UTFE at the time when the Share Disposal completed in January 2013.

Details of the Option Agreement are set out in the Company's announcement and circular dated 2 February 2005 and 10 March 2005 respectively.

Options to subscribe for ordinary shares in the Company

Grantee	Date of grant	Number of shares issuable under the options granted	Exercisable period	Exercise price HK$	Number of shares issuable under the options outstanding as at 1 January 2012 and 31 December 2012	Percentage of issued share capital of the Company
Mr. Jiang Qing	25 May 2004	20,000,000	25 May 2004 to 24 May 2014	0.44	20,000,000	0.70%

Note: All options granted are vested on the date of acceptance, i.e. 25 May 2004.

Save as disclosed above, no options were granted to, or exercised by, the directors during the year.

DIRECTORS' REPORT

10. DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the directors nor the chief executives, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

11. DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed above, no contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

12. INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 31 December 2012, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of certain directors, the following shareholders had notified the Company of their relevant interests in the issued share capital of the Company.

Long positions in ordinary shares of the Company

Name of shareholder	Capacity and types of interests	Number of issued shares of HK$0.01 each of the Company held	Percentage of issued capital of the Company
UTFE	Beneficial owner	825,000,000	63.28%
	Deemed interest *(Note a)*	981,600,000	*(Note b)*
Otis Elevator Company	Interest of a controlled corporation *(Note c)*	1,806,600,000	63.28%
Carrier Corporation	Interest of a controlled corporation *(Note d)*	1,806,600,000	63.28%
UTC	Interest of a controlled corporation *(Note e)*	1,806,600,000	63.28%
EH Investment Management Ltd	Deemed interest *(Note f)*	825,000,000	28.9%
Mr. Ngan Lek ("Mr Ngan")	Interest of a controlled corporation *(Note f)*	825,000,000	28.9%

DIRECTORS' REPORT

12. INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS *(continued)*

Notes:

(a) By virtue of the Option Agreement, Mr. Jiang and UTFE are parties to the agreement under Section 317 of the SFO. Under the SFO, UTFE is deemed to have a long position in the 981,600,000 shares held by Mr. Jiang.

(b) UTFE has a long position in the shares to be sold under the Option Agreement. Pursuant to the Option Agreement, Mr. Jiang grants the option to UTFE which when exercised, will require Mr. Jiang to sell to UTFE the lower of: (i) such number of shares of the Company as are required to be sold by Mr. Jiang to UTFE to enable UTFE to beneficially hold, in addition to any other shares of the Company held by UTFE at the relevant time, in aggregate, 51% of the voting rights of the Company immediately following completion of the exercise of the option under the Option Agreement; and (ii) all shares of the Company held by Mr. Jiang at the time when UTFE exercises the option. The percentage figure as stated is calculated without taking into account the long position in the shares to be sold under the Option Agreement.

(c) Otis Elevator Company is beneficially interested in 50.9% of the issued share capital of UTFE and is deemed or taken to be interested in the 1,806,600,000 shares in which UTFE has declared an interest for the purpose of the SFO.

(d) Carrier Corporation is beneficially interested in 49.1% of the issued share capital of UTFE and is deemed or taken to be interested in the 1,806,600,000 shares in which UTFE has declared an interest for the purpose of the SFO.

(e) UTC is beneficially interested in the entire share capital of Otis Elevator Company and Carrier Corporation and is deemed or taken to be interested in the 1,806,600,000 shares in which Otis Elevator Company and Carrier Corporation have declared an interest for the purpose of the SFO.

(f) UTFE entered into a Sales and Purchase Agreement (the "S&P Agreement") with EH Investment Management Limited ("EH Investment") on 21 December 2012 to sell all the 825,000,000 shares of the Company it held. Both EH Investment and Mr. Ngan, the owner who beneficially holds 100% of the issued share capital of EH Investment, therefore, have a long position in the shares to be sold under the S&P Agreement. Both EH Investment and Mr. Ngan are independent parties who have no relationship with any directors, senior management, substantial shareholders or controlling shareholder of the Company or their respective associates and is not connected person of the Company.

DIRECTORS' REPORT

12. INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS *(continued)*

Short positions in ordinary shares of the Company

UTFE has a long position in the option shares under the Option Agreement. On the other hand, Mr. Jiang has a short position, and therefore UTFE is deemed to have a short position in the shares to be sold (as held by Mr. Jiang) under the Option Agreement pursuant to Section 317 of the SFO.

UTFE has a short position in the shares of the Company to be sold to EH Investment pursuant to the S&P Agreement.

Other than as disclosed above, the Company has not been notified of any other interests or short position in the issued share capital of the Company as at 31 December 2012.

13. SHARE OPTIONS

Particulars of the Company's share option scheme and details of the options are set out in note 39 to the financial statements.

14. RETIREMENT BENEFIT SCHEMES

The Group complies with the Mandatory Provident Fund Schemes Ordinance in making mandatory contributions for its staff in Hong Kong and to the staff retirement fund for staff in the People's Republic of China.

15. CONNECTED TRANSACTIONS

During the year ended 31 December 2012, the Group had no connected transaction that are required to be disclosed in accordance with Chapter 14A of the Listing Rules.

The related party transactions set out in note 45 to the financial statements do not constitute connected transactions under Chapter 14A of the Listing Rules.

16. PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year ended 31 December 2012, neither the Company nor any of its subsidiaries purchased, cancelled or redeemed any listed securities of the Company.

17. APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

DIRECTORS' REPORT

18. PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on prorata basis to existing shareholders.

19. COMPETING INTERESTS

None of the directors or the management shareholder of the Company and their respective associates (as defined in the Listing Rules) had any interest in a business which competes or may compete with the business of the Group or had any other conflicts of interest, which any such person has or may have with Group.

20. MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2012, the aggregate purchases and turnover attributable to the Group's five largest suppliers and customers were both less than 30% of the Group's purchases and turnover respectively.

21. SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2012.

22. AUDITOR

A resolution to re-appoint the retiring auditor, RSM Nelson Wheeler, will be put at the forthcoming annual general meeting.

On behalf of the Board

Jiang Xiong
CHAIRMAN

25 March 2013

INDEPENDENT AUDITOR'S REPORT

RSM Audit • Tax • Advisory

TO THE SHAREHOLDERS OF
CHINA FIRE SAFETY ENTERPRISE GROUP LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Fire Safety Enterprise Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 28 to 103, which comprise the consolidated and Company statements of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITY *(continued)*

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the Group's results and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

RSM Nelson Wheeler
Certified Public Accountants
Hong Kong

25 March 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	Note	2012 RMB'000	2011 RMB'000
Turnover	6	**1,003,523**	1,119,368
Cost of sales and services		**(894,723)**	(1,016,417)
Gross profit		**108,800**	102,951
Other income	7	**10,661**	9,154
Selling and distribution costs		**(31,366)**	(33,562)
Administrative expenses		**(86,009)**	(79,974)
Share of (losses)/profits of associates		**(1,707)**	726
Other expenses	9	**(4,228)**	(21,184)
Finance costs	10	**(7,509)**	(7,042)
Loss before tax		**(11,358)**	(28,931)
Income tax expense	11	**(10,778)**	(9,557)
Loss for the year	12	**(22,136)**	(38,488)
Other comprehensive income after tax:			
Exchange differences on translating foreign operations		**(33)**	(168)
Exchange differences reclassified to profit or loss on disposal of a subsidiary		**(24)**	–
Other comprehensive income for the year, net of tax		**(57)**	(168)
Total comprehensive income for the year		**(22,193)**	(38,656)
Loss for the year attributable to:			
Owners of the Company	15	**(21,414)**	(41,245)
Non-controlling interests		**(722)**	2,757
		(22,136)	(38,488)
Total comprehensive income for the year attributable to:			
Owners of the Company		**(21,556)**	(41,647)
Non-controlling interests		**(637)**	2,991
		(22,193)	(38,656)
Loss per share (RMB cents)	17		
Basic		**(0.75)**	(1.44)
Diluted		**(0.75)**	(1.44)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	Note	2012 RMB'000	2011 RMB'000
Non-current assets			
Property, plant and equipment	18	**275,637**	288,170
Prepaid land lease payments	19	**33,193**	34,458
Investment properties	20	**38,700**	36,410
Goodwill	21	**16,248**	19,640
Other intangible assets	22	**459**	712
Investments in associates	24	**16,506**	22,441
		380,743	401,831
Current assets			
Inventories	26	**96,629**	108,904
Trade and bills receivables	27	**541,430**	462,314
Amounts due from contract customers	28	**488,600**	548,137
Retention receivables	29	**15,811**	9,643
Prepayments, deposits and other receivables		**81,051**	72,024
Amount due from a jointly controlled entity	33	**–**	4,527
Amounts due from associates	30	**1,629**	2,121
Prepaid land lease payments	19	**739**	752
Pledged bank deposits	31	**7,865**	7,373
Bank and cash balances	31	**200,463**	149,568
		1,434,217	1,365,363
Current liabilities			
Trade and other payables	32	**449,188**	375,017
Amounts due to contract customers	28	**10,628**	5,671
Amount due to a jointly controlled entity	33	**184**	–
Amounts due to non-controlling shareholders	34	**5,964**	4,603
Bank borrowings	35	**95,946**	99,985
Finance lease payables	36	**–**	36
Current tax liabilities		**3,951**	7,971
		565,861	493,283
Net current assets		**868,356**	872,080
Total assets less current liabilities		**1,249,099**	1,273,911

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	Note	2012 RMB'000	2011 RMB'000
Non-current liabilities			
Deferred tax liabilities	37	**2,381**	1,455
NET ASSETS		**1,246,718**	1,272,456
Capital and reserves			
Share capital	38	**30,168**	30,168
Reserves	40	**1,180,286**	1,201,842
Equity attributable to owners of the Company		**1,210,454**	1,232,010
Non-controlling interests		**36,264**	40,446
TOTAL EQUITY		**1,246,718**	1,272,456

Approved by the Board of Directors on 25 March 2013

Jiang Xiong
Director

Jiang Qing
Director

STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	Note	2012 RMB'000	2011 RMB'000
Non-current assets			
Investments in subsidiaries	23	**187,567**	187,567
Current assets			
Prepayments, deposits and other receivables		**39**	37
Amounts due from subsidiaries	23	**518,635**	515,497
Amount due from a jointly controlled entity	33	**–**	9,267
Bank and cash balances	31	**26,708**	24,053
		545,382	548,854
Current liabilities			
Accrued charges	32	**3,361**	2,874
Net current assets		**542,021**	545,980
NET ASSETS		**729,588**	733,547
Capital and reserves			
Share capital	38	**30,168**	30,168
Reserves	40	**699,420**	703,379
TOTAL EQUITY		**729,588**	733,547

Approved by the Board of Directors on 25 March 2013

Jiang Xiong
Director

Jiang Qing
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	Attributable to owners of the Company											
	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000 *(Note 40(c)(i))*	Capital reserve RMB'000 *(Note 40(c)(ii))*	Statutory surplus reserve RMB'000 *(Note 40(c)(iii))*	Statutory public welfare fund RMB'000 *(Note 40(c)(iv))*	Statutory reserve fund RMB'000 *(Note 40(c)(v))*	Exchange reserve RMB'000 *(Note 40(c)(vi))*	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2011	30,168	646,363	(6,692)	57,840	38,053	24,296	82,427	(868)	402,070	1,273,657	26,649	1,300,306
Total comprehensive income for the year	–	–	–	–	–	–	–	(402)	(41,245)	(41,647)	2,991	(38,656)
Capital contribution	–	–	–	–	–	–	–	–	–	–	1,200	1,200
Disposal of subsidiaries *(note 41)*	–	–	–	–	–	–	–	–	–	–	9,606	9,606
Transfer	–	–	–	–	–	1,145	–	–	(1,145)	–	–	–
Changes in equity for the year	–	–	–	–	–	1,145	–	(402)	(42,390)	(41,647)	13,797	(27,850)
At 31 December 2011 and 1 January 2012	30,168	646,363	(6,692)	57,840	38,053	25,441	82,427	(1,270)	359,680	1,232,010	40,446	1,272,456
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(142)**	**(21,414)**	**(21,556)**	**(637)**	**(22,193)**
Disposal of a subsidiary *(note 41)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(3,545)**	**(3,545)**
Transfer	**–**	**–**	**–**	**–**	**–**	**621**	**–**	**–**	**(621)**	**–**	**–**	**–**
Changes in equity for the year	**–**	**–**	**–**	**–**	**–**	**621**	**–**	**(142)**	**(22,035)**	**(21,556)**	**(4,182)**	**(25,738)**
At 31 December 2012	**30,168**	**646,363**	**(6,692)**	**57,840**	**38,053**	**26,062**	**82,427**	**(1,412)**	**337,645**	**1,210,454**	**36,264**	**1,246,718**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	Note	2012 RMB'000	2011 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(11,358)**	(28,931)
Adjustments for:			
Allowance for bad and doubtful debts		**21,087**	6,216
Allowance for obsolete and slow-moving inventories		**395**	195
Amortisation of other intangible assets		**253**	253
Amortisation of prepaid land lease payments		**752**	752
Depreciation of property, plant and equipment		**19,947**	19,000
Fair value loss on investment properties		**1,712**	–
(Gain)/loss on disposal of subsidiaries	41	**(1,221)**	4,985
Impairment loss on goodwill		**–**	12,127
Impairment loss on investments in associates		**4,228**	9,057
Interest expense		**7,509**	7,042
Interest income		**(2,543)**	(1,588)
Loss on disposal of property, plant and equipment		**1,595**	153
Obsolete stock written off		**80**	–
Share of losses/(profits) of associates		**1,707**	(726)
Operating profit before working capital changes		**44,143**	28,535
Decrease/(increase) in inventories		**574**	(13,708)
Increase in trade and bills receivables		**(112,728)**	(200,604)
Decrease/(increase) in amounts due from contract customers		**59,537**	(1,894)
(Increase)/decrease in retention receivables		**(8,271)**	1,263
Increase in prepayments, deposits and other receivables		**(8,003)**	(1,800)
Increase in trade and other payables		**91,715**	101,510
Increase/(decrease) in amounts due to contract customers		**4,957**	(4,593)
Cash generated from/(used in) operations		**71,924**	(91,291)
Interest paid		**(7,509)**	(7,042)
Income tax paid		**(13,306)**	(11,686)
Net cash generated from/(used in) operating activities		**51,109**	(110,019)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	Note	2012 RMB'000	2011 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment		**(9,913)**	(17,273)
(Increase)/decrease in pledged bank deposits		**(492)**	7,486
Interest received		**2,543**	1,588
Repayment of advance/(advance) to associates		**492**	(1,453)
Repayment of advance to a jointly controlled entity		**4,527**	43
Advance from a jointly controlled entity		**184**	–
Disposal of subsidiaries (net of cash and cash equivalent disposed of)	41	**5,039**	(706)
Proceeds from disposal of property, plant and equipment		**221**	9
Net cash generated from/(used in) investing activities		**2,601**	(10,306)
CASH FLOWS FROM FINANCING ACTIVITIES			
Decrease in trust receipt loans		**–**	(5,365)
New bank loans raised		**85,946**	99,985
Repayment of bank loans		**(89,985)**	(90,000)
Capital injection by a non-controlling shareholder		**–**	1,200
Advance from non-controlling shareholders		**1,394**	2,031
Repayment of finance lease payables		**(36)**	(47)
Net cash (used in)/generated from financing activities		**(2,681)**	7,804
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**51,029**	(112,521)
Effect of foreign exchange rate changes		**(134)**	(437)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**149,568**	262,526
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**200,463**	149,568
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Bank and cash balances		**200,463**	149,568

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KYI-1111, Cayman Islands. The principal place of business in the PRC is No. 8 Section I, Xin Hua Road, Chengdu Cross Straits Technological Industry Park, Wenjiang District, Chengdu City, Sichuan Province, the People's Republic of China (the "PRC").

The Company is an investment holding company. The principal activities of its principal subsidiaries, associates and a jointly controlled entity are set out in notes 23, 24 and 25 respectively.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are relevant to its operations and effective for its accounting year beginning on 1 January 2012. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards; and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current year and prior years.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

3. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with the HKFRSs, accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties which is carried at its fair value.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

The preparation of financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires the directors to exercise its judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to these financial statements, are disclosed in note 4 to the financial statements.

The significant accounting policies applied in the preparation of these financial statements are set out below.

(a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has control.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill relating to that subsidiary and any related exchange reserve.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated statement of comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(a) Consolidation *(continued)*

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling shareholders even if this results in the non-controlling interests having a deficit balance.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

In the Company's statement of financial position the investments in subsidiaries are stated at cost less allowance for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(b) Business combination and goodwill

The acquisition method is used to account for the acquisition of a subsidiary in a business combination. The cost of acquisition is measured at the acquisition-date fair value of the assets given, equity instruments issued, liabilities incurred and contingent consideration. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received. Identifiable assets and liabilities of the subsidiary in the acquisition are measured at their acquisition-date fair values.

The excess of the cost of acquisition over the Company's share of the net fair value of the subsidiary's identifiable assets and liabilities is recorded as goodwill. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss as a gain on bargain purchase which is attributed to the Company.

In a business combination achieved in stages, the previously held equity interest in the subsidiary is remeasured at its acquisition-date fair value and the resulting gain or loss is recognised in consolidated profit or loss. The fair value is added to the cost of acquisition to calculate the goodwill.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Business combination and goodwill *(continued)*

If the changes in the value of the previously held equity interest in the subsidiary were recognised in other comprehensive income (for example, available-for-sale investment), the amount that was recognised in other comprehensive income is recognised on the same basis as would be required if the previously held equity interest were disposed of.

Goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is measured at cost less accumulated impairment losses. The method of measuring impairment losses of goodwill is the same as that of other assets as stated in the accounting policy (z) below. Impairment losses of goodwill are recognised in consolidated profit or loss and are not subsequently reversed. Goodwill is allocated to cash-generating units that are expected to benefit from the synergies of the acquisition for the purpose of impairment testing.

The non-controlling interests in the subsidiary are initially measured at the non-controlling shareholders' proportionate share of the net fair value of the subsidiary's identifiable assets and liabilities at the acquisition date.

(c) Associates

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policies of an entity but is not control or joint control over those policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has significant influence.

Investment in an associate is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the associate in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of acquisition over the Group's share of the net fair value of the associate's identifiable assets and liabilities is recorded as goodwill. The goodwill is included in the carrying amount of the investment and is tested for impairment together with the investment at the end of each reporting period when there is objective evidence that the investment is impaired. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Associates *(continued)*

The Group's share of an associate's post-acquisition profits or losses is recognised in consolidated profit or loss, and its share of the post-acquisition movements in reserves is recognised in the consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

The gain or loss on the disposal of an associate that results in a loss of significant influence represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that associate and (ii) the Group's share of the net assets of that associate plus any remaining goodwill relating to that associate and any exchange reserve.

Unrealised profits on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(d) Jointly controlled entity

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control over the economic activity when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the "venturers").

A jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venturer has an interest.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Jointly controlled entity *(continued)*

The Group reports its interest in jointly controlled entity using proportionate consolidation. The Group's share of the assets, liabilities, income and expenses of jointly controlled entity are combined with the equivalent items in the consolidated financial statements on a line-by-line basis. Any goodwill arising on the acquisition of the Group's interest in a jointly controlled entity is accounted for in accordance with the Group's accounting policy for goodwill arising on the acquisition of a subsidiary in a business combination.

The gain or loss on the disposal of a jointly controlled entity that results in a loss of joint control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that jointly controlled entity and (ii) the Group's share of the net assets of that jointly controlled entity plus any remaining goodwill relating to that jointly controlled entity and any related exchange reserve.

Unrealised profits on transactions between the Group and its jointly controlled entity are eliminated to the extent of the Group's interests in the jointly controlled entity. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of jointly controlled entity have been changed where necessary to ensure consistency with the policies adopted by the Group.

(e) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi ("RMB"), which is the Company's presentation currency and the functional currency of the principal operating subsidiaries of the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Foreign currency translation *(continued)*

(ii) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

(iii) Translation on consolidation

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

– Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

– Income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

– All resulting exchange differences are recognised in the exchange reserve.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Foreign currency translation *(continued)*

(iii) Translation on consolidation (continued)

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the exchange reserve. When a foreign operation is sold, such exchange differences are recognised in consolidated profit or loss as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(f) Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes are stated at cost less accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Buildings	Over the term of the lease or 20 – 30 years
Plant and equipment	10% – 33%
Tooling and moulds	10% – 20%
Furniture and fixtures	10% – 33%
Computers	20% – 33%
Motor vehicles	10% – 20%
Leasehold improvements	Over the shorter of the term of the lease or 20%

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Property, plant and equipment *(continued)*

Construction in progress represents buildings under construction and plant and machinery pending installation, and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

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

(g) Investment properties

Investment properties are land and/or buildings held to earn rentals and/or for capital appreciation. An investment property is measured initially at its cost including all direct costs attributable to the property.

After initial recognition, the investment property is stated at its fair value based on valuation by an external independent valuer. Gains or losses arising from changes in fair value of the investment property are recognised in profit or loss for the period in which they arise.

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference between the carrying amount and the fair value of this item at the date of transfer is recognised as a revaluation of property, plant and equipment.

The gain or loss on disposal of an investment property is the difference between the net sales proceeds and the carrying amount of the property, and is recognised in profit or loss.

(h) Leases

The Group as lessee

(i) Operating leases

Leases that do not substantially transfer to the lessees all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Leases *(continued)*

(ii) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. At the commencement of the lease term, a finance lease is capitalised at the lower of the fair value of the leased asset and the present value of the minimum lease payments, each determined at the inception of the lease.

The corresponding liability to the lessor is included in the statement of financial position as finance lease payable. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Assets under finance leases are depreciated the same as owned assets.

The Group as lessor

(i) Operating leases

Leases that do not substantially transfer to the lessees all the risks and rewards of ownership of assets are accounted for as operating leases. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

(i) Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally generated intangible asset is recognised only if all of the following conditions are met:

– An asset is created that can be identified;
– It is probable that the asset created will generate future economic benefits; and
– The development cost of the asset can be measured reliably.

Development costs capitalised include tailor-made software for the provision of online advertising services and costs for developing new models of certain fire prevention and fighting equipment are internally generated intangible assets and are stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis over their estimated useful lives of 5 years. Where no internally generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Technical know-how

Technical know-how which represents techniques acquired for the production of certain fire prevention and fighting equipment is stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis over their estimated useful lives of 9 years.

(k) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

(l) Installation contracts

When the outcome of an installation contract can be estimated reliably, contract costs are recognised as an expense by reference to the stage of completion of the contract at the end of the reporting period. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of an installation contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

Installation contracts in progress at the end of the reporting period are recorded in the statement of financial position at the amount of costs incurred plus recognised profits less recognised losses and progress billings, and are presented in the statement of financial position as "Amounts due from contract customers". When progress billings exceed costs incurred plus recognised profits less recognised losses, the surplus is recorded in the statement of financial position as "Amounts due to contract customers". Progress billings not yet paid by the customer are included in the statement of financial position under "Trade receivables". Amounts received before the related work is performed are included in the statement of financial position under "Receipts in advance".

NOTES TO THE FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

(n) Trade, bills and other receivables

Trade, bills and other receivables (including retention receivables, amount due from a jointly controlled entity, amounts due from associates, pledged bank deposits and bank and cash balances) are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade, bills and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in profit or loss.

Impairment losses are reversed in subsequent periods and recognised in profit or loss when an increase in the receivables' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(o) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

(p) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

(q) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(r) Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at their fair values and are subsequently measured at the higher of:

– the amount of the obligations under the contracts, as determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and

– the amount initially recognised less cumulative amortisation recognised in profit or loss on a straight-line basis over the terms of the guarantee contracts.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(s) Trade and other payables

Trade and other payables (including amounts due to non-controlling shareholders, bank borrowings and finance lease payables) are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(t) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(u) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

Revenues from the sales of goods are recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

Service income is recognised when the services are rendered.

Income from guest house and food and beverage services is recognised when the relevant services are provided.

Interest income is recognised on a time-proportion basis using the effective interest method.

When the outcome of an installation contract can be estimated reliably, revenue from a fixed price installation contracts is recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to the estimated total contract costs for the contract. When the outcome of an installation contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that is probable to be recoverable.

Rental income is recognised on a straight-line basis over the lease term.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(v) Employee benefits

(i) Employee entitlements

Employee entitlements to annual leave and long service payment are recognised when they are accrued to employees. A provision is made for the estimated liability for annual leave and long service payment as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Pension obligations

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Group to the funds.

(iii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(w) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(x) Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and investment in a jointly controlled entity, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(x) Taxation *(continued)*

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model of the Group whose business objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. If the presumption is rebutted, deferred tax for such investment properties are measured based on the expected manner as to how the properties will be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(y) Related parties

A related party is a person or entity that is related to the Group.

(A) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Company or of a parent of the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(y) Related parties *(continued)*

(B) An entity is related to the Group (reporting entity) if any of the following conditions applies:

(i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (A).

(vii) A person identified in (A)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(z) Impairment of assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets except goodwill, investment properties, inventories and receivables to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(z) Impairment of assets *(continued)*

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but to the extend that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(aa) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(ab) Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the financial statements when material.

4. CRITICAL JUDGEMENT AND KEY ESTIMATES

Critical judgement in applying accounting policies

In the process of applying the accounting policies, the directors have made the following judgement that has the most significant effect on the amounts recognised in the financial statements apart from those involving estimations, which are dealt with below.

Legal titles of certain land and buildings

As stated in notes 18 and 19 to the financial statements, the Group is in the process of applying for the property rights certificates and the land use rights in respect of certain leasehold land and buildings. Despite the fact that, the Group has not obtained all the relevant land use rights and property rights certificates, the directors determine to recognise those buildings and prepaid land lease payments as property, plant and equipment and prepaid land lease payments on the grounds that the Group is in substance controlling those land and buildings.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(a) Property, plant and equipment and depreciation

The Group determines the estimated useful lives, residual values and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment. The Group will revise the depreciation charge where useful lives and residual values are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

4. CRITICAL JUDGEMENT AND KEY ESTIMATES *(continued)*

Key sources of estimation uncertainty *(continued)*

(b) Profit recognition of installation contracts

The Group recognises revenue on installation contracts by reference to the stage of completion of the individual contract activity when the outcome of an installation contract can be estimated reliably.

The total budgeted contract cost of each installation contract is estimated by the management. The Group regularly reviews and revises the budget with reference to the progress and anticipated margin of each individual installation contract. Stage of completion is then measured by the proportion that contract costs incurred for work performed to date compare to the estimated total contract costs. In certain circumstances, the percentage of completion is also supported by a certificate from the quantity surveyors or customers.

For applying the percentage of completion method, the Group needs to estimate the gross profit margin of each installation contract, which is determined based on the estimated total installation contract costs and total installation contract sum.

(c) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating unit to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Details of the impairment determination are stated in note 21 to the financial statements.

(d) Fair values of investment properties

The Group appointed an independent professional valuer to assess the fair values of the investment properties. In determining the fair values, the valuer has utilised a method of valuation which involves certain estimates. The directors have exercised their judgement and are satisfied that the method of valuation is reflective of the current market conditions.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

4. CRITICAL JUDGEMENT AND KEY ESTIMATES *(continued)*

Key sources of estimation uncertainty *(continued)*

(e) Impairment loss for bad and doubtful debts

The Group makes impairment loss for bad and doubtful debts based on assessments of the recoverability of the trade and other receivables, including the current creditworthiness and the past collection history of each debtor. Impairment arises where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade and other receivables and doubtful debt expenses in the year in which such estimate has been changed.

(f) Allowance for obsolete and slow-moving inventories

Allowance for obsolete and slow-moving inventories is made based on the ageing and estimated net realisable value of inventories. The assessment of the allowance amount involves judgement and estimates. Where the actual outcome in future is different from the original estimate, such difference will impact the carrying value of inventories and allowance charge/write-back in the period in which such estimate has been changed.

(g) Income taxes

The Group is subject to income taxes in several jurisdictions. Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

5. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign currency risk

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at 31 December 2012 and 31 December 2011 are as follows:

The Group

	Exposure to foreign currencies					
	2012			2011		
	United States dollars RMB'000	**Euro RMB'000**	**Hong Kong dollars RMB'000**	United States dollars RMB'000	Euro RMB'000	Hong Kong dollars RMB'000
Trade and other receivables	**–**	**1,323**	**–**	1,785	6,057	–
Pledged bank deposits and bank and cash balances	**6,123**	**4,856**	**26,180**	6,786	1,975	25,437
Trade and other payables	**(6)**	**(61)**	**–**	(6)	(59)	–
	6,117	**6,118**	**26,180**	8,565	7,973	25,437

The Company

	Exposure to foreign currencies					
	2012			2011		
	United States dollars RMB'000	**Euro RMB'000**	**Hong Kong dollars RMB'000**	United States dollars RMB'000	Euro RMB'000	Hong Kong dollars RMB'000
Bank and cash balances	**–**	**–**	**24,791**	–	–	24,053
	–	**–**	**24,791**	–	–	24,053

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

5. FINANCIAL RISK MANAGEMENT *(continued)*

(a) Foreign currency risk *(continued)*

The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

The following table details the Group's sensitivity to a reasonably possible change of 5% in exchange rate of each foreign currency against RMB while all other variables are held constant. The sensitivity analysis includes only outstanding foreign currency denominated monetary items including both derivatives and non derivatives instruments at the end of the reporting period and adjusts their translation at each end of the reporting period for a 5% change in foreign currency rates.

	2012	2011
	RMB'000	RMB'000
(Decrease)/increase in loss for the year		
– if RMB weakens against foreign currencies		
Hong Kong dollar ("HKD")	**(1,309)**	(1,272)
United States dollar ("USD")	**(306)**	(428)
Euro ("EUR")	**(306)**	(399)
– if RMB strengthens against foreign currencies		
HKD	**1,309**	1,272
USD	**306**	428
EUR	**306**	399

In the management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

5. **FINANCIAL RISK MANAGEMENT** *(continued)*

(b) Credit risk

The Group's credit risk is primarily attributable to its trade and bills receivables, retention receivables, other receivables, amount due from a jointly controlled entity, amounts due from associates and bank and cash balances. The Group's maximum exposure to credit risk in the event that counterparties fail to perform their obligations at 31 December 2012 in relation to each class of recognised financial assets is the carrying amounts of those assets as stated in the consolidated statement of financial position. In order to minimise credit risk, credit limits and credit terms granted to customers should be approved by delegated officers and follow-up action is taken to recover overdue debts. In addition, the directors have reviewed the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors consider that the Group's credit risk is significantly reduced.

The credit risk on bank and cash balances is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Group has no significant concentrations of credit risk on trade and bills receivables, retention receivables and other receivables with exposure spread over a number of counterparties and customers.

(c) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The maturity analysis of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates, or, if floating, based on rates current at the end of the reporting period) is as follows:

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

5. FINANCIAL RISK MANAGEMENT *(continued)*

(c) Liquidity risk *(continued)*

	Less than 1 year
	RMB'000
Group	
At 31 December 2012	
Trade payables	104,842
Accrued charges	245,819
Value added tax, sales tax and other levies	35,475
Other payables	12,285
Amount due to a jointly controlled entity	184
Amounts due to non-controlling shareholders	5,964
Bank borrowings	99,087
Financial guarantee	5,984
At 31 December 2011	
Trade payables	99,770
Accrued charges	198,728
Value added tax, sales tax and other levies	36,231
Other payables	12,942
Amounts due to non-controlling shareholders	4,603
Bank borrowings	103,920
Finance lease payables	37
Company	
At 31 December 2012	
Accrued charges	3,361
At 31 December 2011	
Accrued charges	2,874

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

5. FINANCIAL RISK MANAGEMENT *(continued)*

(d) Interest rate risk

Certain bank borrowings of the Group bear interests at fixed interest rates and therefore are subject to fair value interest rate risks.

The Group's cash flow interest rate risk relates primarily to variable-rate bank borrowings. The Group currently does not have policy on cash flow hedges of interest rate risk. However, management monitors interest rate exposure and will consider hedging significant interest rate risk should the need arise.

The Group's sensitivity to cash flow interest rate risk has been determined based on the exposure to interest rates for the variable-rate bank borrowings at the end of the reporting period and the reasonably possible change taking place at the beginning of each year and held constant throughout the respective year.

	2012	2011
Reasonably possible change in interest rate	**50 basis point**	50 basis point
	RMB'000	RMB'000
Increase/(decrease) in loss for the year		
– as a result of increase in interest rate	**508**	522
– as a result of decrease in interest rate	**(508)**	(522)

(e) Categories of financial instruments

	2012	2011
	RMB'000	RMB'000
Financial assets:		
Loan and receivables (including cash and cash equivalents)	**840,843**	698,490
Financial liabilities:		
Financial liabilities at amortised cost	**500,515**	452,295

(f) Fair value

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

6. TURNOVER

Turnover represents the aggregate of the value of installation contract works carried out, the sale proceeds of goods sold, the income from provision of maintenance services, the income from operation of a guest house and the income from provision of online advertising services during the year less discounts and sales related tax. An analysis is as follows:

	2012	2011
	RMB'000	RMB'000
Revenue from installation contracts	**471,902**	547,338
Sales of goods	**513,931**	554,746
Provision of maintenance services	**12,484**	17,195
Operation of a guest house	**5,187**	–
Provision of online advertising services	**19**	89
	1,003,523	1,119,368

7. OTHER INCOME

	2012	2011
	RMB'000	RMB'000
Interest income	**2,543**	1,588
Rental income	**2,963**	2,762
Gain on disposal of a subsidiary *(note 41)*	**1,221**	–
Sundry income	**3,934**	4,804
	10,661	9,154

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

8. SEGMENT INFORMATION

The Group has six reportable segments as follows:

– installation of fire prevention and fighting systems;
– production and sale of fire engines;
– production and sale of fire prevention and fighting equipment;
– trading of fire engines, fire prevention and fighting and rescue equipment;
– provision of maintenance services; and
– operation of a guest house.

Each reportable segment is a strategic business unit which offers different products and services that require different production techniques and marketing strategies.

The Group's other operating segment refers to the provision of online advertising services, which does not meet any of the quantitative thresholds for determining reportable segments. The information of this other operating segment is included in the "Others" column.

The accounting policies of the operating segments are the same as those described in note 3 to the financial statements. Segment profits or losses do not include interest income, unallocated corporate expenses, impairment loss on investments in associates, share of losses/profits of associates and finance costs. Segment assets do not include investments in associates, amounts due from associates, pledged bank deposits, bank and cash balances and unallocated other receivables. Segment liabilities do not include amounts due to non-controlling shareholders, current and deferred tax liabilities, bank borrowings, finance lease payables and unallocated other payables.

The Group accounts for intersegment sales and transfers as if the sales or transfers were to third parties, i.e. at current market prices.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

8. SEGMENT INFORMATION *(continued)*

Information about reportable segment profit or loss, assets and liabilities:

	Installation of fire prevention and fighting systems	Production and sale of fire engines	Production and sale of fire prevention and fighting equipment	Trading of fire engines, fire prevention and fighting and rescue equipment	Provision of maintenance services	Operation of a guest house	Others	Elimination	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
For the year ended 31 December 2012									
TURNOVER									
External sales	471,902	343,836	170,091	4	12,484	5,187	19	–	1,003,523
Inter-segment sales	–	10	5,097	4	–	–	163	(5,274)	–
Total	471,902	343,846	175,188	8	12,484	5,187	182	(5,274)	1,003,523
RESULTS									
Segment (loss)/profit	(15,476)	20,821	5,216	(3,842)	10,591	(7,912)	(418)		8,980
Interest income									2,543
Impairment loss on investments in associates									(4,228)
Unallocated corporate expenses									(9,437)
Share of losses of associates									(1,707)
Finance costs									(7,509)
Loss before tax									(11,358)
Income tax expense									(10,778)
Loss for the year									(22,136)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

8. SEGMENT INFORMATION *(continued)*

Information about reportable segment profit or loss, assets and liabilities: *(continued)*

	Installation of fire prevention and fighting systems	Production and sale of fire engines	Production and sale of fire prevention and fighting equipment	Trading of fire engines, fire prevention and fighting and rescue equipment	Provision of maintenance services	Operation of a guest house	Others	Elimination	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2012									
ASSETS									
Segment assets	855,652	439,690	217,216	1,618	1,766	30,560	182		1,546,684
Investments in associates									16,506
Amounts due from associates									1,629
Pledged bank deposits									7,865
Bank and cash balances									200,463
Unallocated other receivables									41,813
									1,814,960
LIABILITIES									
Segment liabilities	229,833	120,179	81,187	7,200	1,907	16,022	268		456,596
Amounts due to non-controlling shareholders									5,964
Current tax liabilities									3,951
Bank borrowings									95,946
Deferred tax liabilities									2,381
Unallocated other payables									3,404
									568,242

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

8. SEGMENT INFORMATION *(continued)*

Information about reportable segment profit or loss, assets and liabilities: *(continued)*

	Installation of fire prevention and fighting systems	Production and sale of fire engines	Production and sale of fire prevention and fighting equipment	Trading of fire engines, fire prevention and fighting and rescue equipment	Provision of maintenance services	Operation of a guest house	Others	Elimination	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
OTHER INFORMATION									
Capital expenditure	723	1,799	1,247	37	–	10,166	54		14,026
Depreciation and amortisation	226	12,372	6,325	5	5	1,906	113		20,952
Loss on disposal of property, plant and equipment	503	1,087	5	–	–	–	–		1,595
(Reversal of allowance)/ allowance for obsolete and slow-moving inventories	–	(542)	937	–	–	–	–		395
Obsolete stock written off	–	–	–	80	–	–	–		80
Allowance/(reversal of allowance) for bad and doubtful debts	26,673	2,657	46	1,432	(9,721)	–	–		21,087

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

8. SEGMENT INFORMATION *(continued)*

Information about reportable segment profit or loss, assets and liabilities: *(continued)*

	Installation of fire prevention and fighting systems RMB'000	Production and sale of fire engines RMB'000	Production and sale of fire prevention and fighting equipment RMB'000	Trading of fire engines, fire prevention and fighting and rescue equipment RMB'000	Provision of maintenance services RMB'000	Operation of a guest house RMB'000	Provision of network monitoring system services RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000
For the year ended 31 December 2011										
TURNOVER										
External sales	547,338	320,090	176,606	58,050	14,607	–	2,588	89	–	1,119,368
Inter-segment sales	–	34	9,996	6,876	–	–	–	–	(16,906)	–
Total	547,338	320,124	186,602	64,926	14,607	–	2,588	89	(16,906)	1,119,368
RESULTS										
Segment (loss)/profit	(8,389)	10,497	10,699	(10,296)	(33)	(1,994)	(5,604)	(377)		(5,497)
Interest income										1,588
Impairment loss on investment in an associate										(9,057)
Unallocated corporate expenses										(9,649)
Share of profits of associates										726
Finance costs										(7,042)
Loss before tax										(28,931)
Income tax expense										(9,557)
Loss for the year										(38,488)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

8. SEGMENT INFORMATION *(continued)*

Information about reportable segment profit or loss, assets and liabilities: *(continued)*

	Installation of fire prevention and fighting systems	Production and sale of fire engines	Production and sale of fire prevention and fighting equipment	Trading of fire engines, fire prevention and fighting and rescue equipment	Provision of maintenance services	Operation of a guest house	Provision of network monitoring system services	Others	Elimination	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2011										
ASSETS										
Segment assets	808,727	451,064	255,045	7,192	2,955	21,134	–	414		1,546,531
Investments in associates										22,441
Amounts due from associates										2,121
Pledged bank deposits										7,373
Bank and cash balances										149,568
Unallocated other receivables										39,160
										1,767,194
LIABILITIES										
Segment liabilities	179,930	91,043	87,427	7,264	1,601	10,228	–	214		377,707
Amounts due to non-controlling shareholders										4,603
Current tax liabilities										7,971
Bank borrowings										99,985
Deferred tax liabilities										1,455
Finance lease payables										36
Unallocated other payables										2,981
										494,738

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

8. SEGMENT INFORMATION *(continued)*

Information about reportable segment profit or loss, assets and liabilities: *(continued)*

	Installation of fire prevention and fighting systems RMB'000	Production and sale of fire engines RMB'000	Production and sale of fire prevention and fighting equipment RMB'000	Trading of fire engines, fire prevention and fighting and rescue equipment RMB'000	Provision of maintenance services RMB'000	Operation of a guest house RMB'000	Provision of network monitoring system services RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000
OTHER INFORMATION										
Capital expenditure	1,881	1,478	1,779	–	–	20,978	4	19		26,139
Depreciation and amortisation	373	12,355	6,596	35	44	–	494	108		20,005
Loss on disposal of property, plant and equipment	9	1	4	–	–	–	139	–		153
Loss on disposal of subsidiaries	–	–	–	–	–	–	4,985	–		4,985
Impairment loss on goodwill	–	–	–	12,127	–	–	–	–		12,127
(Reversal of allowance)/allowance for obsolete and slow-moving inventories	–	(719)	914	–	–	–	–	–		195
Allowance/(reversal of allowance) for bad and doubtful debts	1,798	2,589	(826)	1,641	1,014	–	–	–		6,216

Note: The Group sold the controlling interests in a number of subsidiaries engaged in the provision of network monitoring services in 2011. The then strategic business unit does not qualify to be a reportable segment from the date of disposal when the then subsidiaries became associates of the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

8. SEGMENT INFORMATION *(continued)*

Geographical information:

	Revenue		Non-current assets	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
PRC	**1,002,636**	1,118,200	**380,662**	401,825
Others	**887**	1,168	**81**	6
	1,003,523	1,119,368	**380,743**	401,831

In presenting the geographical information, revenue is based on the locations of the customers.

Revenue from major customers:

None of the customers contributed more than 10% of the Group's total revenue for both 2012 and 2011.

9. OTHER EXPENSES

	2012	2011
	RMB'000	RMB'000
Impairment loss on goodwill	–	12,127
Impairment loss on investments in associates	**4,228**	9,057
	4,228	21,184

10. FINANCE COSTS

	2012	2011
	RMB'000	RMB'000
Interest on bank borrowings wholly repayable within five years	**7,314**	6,855
Interest on amount due to a non-controlling shareholder	**194**	184
Finance lease charges	**1**	3
	7,509	7,042

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

11. INCOME TAX EXPENSE

	2012 RMB'000	2011 RMB'000
Current tax – PRC Enterprise Income Tax		
Current year	**9,801**	14,699
Under/(over)-provision in prior years	**51**	(4,399)
	9,852	10,300
Deferred tax *(note 37)*		
Current year	**868**	(1,650)
Under-provision in prior years	**58**	907
	926	(743)
	10,778	9,557

No provision for Hong Kong Profits Tax has been made in the current year as the relevant group entities incurred a loss for both years or utilised the tax losses brought forward.

Income tax on profits arising in the PRC has been provided based on the prevailing tax rates applicable to the respective group entities.

In accordance with the enterprise income tax laws in the PRC, the statutory tax rate for PRC operations is 25% from 1 January 2008. However, certain of the Group's subsidiary and a jointly controlled entity that are currently entitled to exemption and reduction from the PRC statutory income tax rate will continue to enjoy such privileges until the exemption and reduction periods expire, but not beyond 2012. The relevant tax rates for the Group's subsidiaries in the PRC range from 12.5% to 25% (2011: 12.5% to 25%).

The following subsidiary and a jointly controlled entity were granted tax concessions which entitled them to enjoy income tax exemption for two years followed by three years of 50% tax reduction.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

11. INCOME TAX EXPENSE *(continued)*

	Tax privileges started from
Subsidiary	
Allied Best (China) Fire Safety Appliances Manufacturing Co., Ltd.	2008
Jointly-controlled entity	
Shanghai Pudong Special Fire Equipment Co., Ltd.	2007

The reconciliation between the income tax expense and accounting loss at applicable tax rates:

	2012 RMB'000	2011 RMB'000
Loss before tax	**(11,358)**	(28,931)
Tax at the PRC domestic income tax rate of 25% (2011: 25%)	**(2,840)**	(7,233)
Tax effect of income that is not taxable	**(350)**	(25)
Tax effect of expenses that are not deductible	**2,091**	6,831
Tax effect of temporary differences not recognised	**9,635**	12,674
Tax effect of share of losses/(profits) of associates	**427**	(182)
Tax effect attributable to tax concessions	**(3,472)**	(1,359)
Tax effect of tax losses not recognised	**4,409**	2,408
Utilisation of tax losses not previously recognised	**(10)**	(566)
Under/(over)-provision in prior years	**109**	(3,492)
Effect of different tax rates of subsidiaries	**779**	501
Income tax expense	**10,778**	9,557

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

12. LOSS FOR THE YEAR

The Group's loss for the year is stated at after charging/(crediting) the following:

	2012 RMB'000	2011 RMB'000
Allowance for bad and doubtful debts	**21,087**	6,216
Allowance for obsolete and slow-moving inventories (included in administrative expenses)	**395**	195
Amortisation of other intangible assets (included in administrative expenses)	**253**	253
Amortisation of prepaid land lease payments	**752**	752
Auditor's remuneration	**1,423**	1,393
Cost of inventories sold *(note (i))*	**423,828**	455,107
Depreciation of property, plant and equipment	**19,947**	19,000
Fair value loss on investment properties	**1,712**	–
(Gain)/loss on disposal of subsidiaries *(note 41)*	**(1,221)**	4,985
Impairment loss on goodwill	**–**	12,127
Impairment loss on investments in associates	**4,228**	9,057
Loss on disposal of property, plant and equipment	**1,595**	153
Net foreign exchange loss	**1,215**	562
Obsolete stock written off	**80**	–
Operating lease charges in respect of rented premises	**6,396**	4,896
Research and development expenditure *(note (ii))*	**5,553**	2,818
Staff costs including directors' emoluments		
Salaries, bonuses and allowances	**49,327**	45,510
Retirement benefit scheme contributions	**7,693**	6,697
	57,020	52,207

Note: (i) Cost of inventories sold includes staff costs, depreciation of property, plant and equipment, amortisation of prepaid land lease payments and operating lease charges of approximately RMB35,586,000 (2011: RMB34,213,000) which are included in the amounts disclosed separately above.

(ii) Research and development expenditure includes staff costs of approximately RMB3,217,000 (2011: RMB1,903,000) which are included in the amounts disclosed separately above.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

13. DIRECTORS' EMOLUMENTS

	2012					2011				
	Fees	Salaries and other benefits	Discretionary bonus	Retirement benefit scheme contributions	Total	Fees	Salaries and other benefits	Discretionary bonus	Retirement benefit scheme contributions	Total
	RMB'000	RMB'000	RMB'000 *(Note (a))*	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 *(Note (a))*	RMB'000	RMB'000
Executive directors										
Mr. Jiang Xiong	–	1,140	–	–	1,140	–	1,163	–	–	1,163
Mr. Jiang Qing	–	1,013	–	–	1,013	–	1,034	–	–	1,034
Ms. Zhang Hai Yan	146	52	–	13	211	149	54	–	13	216
Mr. Wang De Feng	146	198	–	30	374	149	172	–	22	343
Ms. Weng Xiu Xia	146	78	–	13	237	149	80	–	13	242
Mr. Hu Yong	146	166	–	26	338	149	152	–	22	323
	584	2,647	–	82	3,313	596	2,655	–	70	3,321
Non-executive directors										
Mr. Jean-Charles Thoumire *(note b)*	–	–	–	–	–	–	–	–	–	–
Mr. Oon Wee Chin *(note b)*	–	–	–	–	–	–	–	–	–	–
Ms. Xi Zheng Zheng *(note b)*	–	–	–	–	–	–	–	–	–	–
Mr. Harinath Krishnamurthy *(note b)*	–	–	–	–	–	–	–	–	–	–
	–	–	–	–	–	–	–	–	–	–
Independent non-executive directors										
Dr. Loke Yu	146	–	–	–	146	124	–	–	–	124
Mr. Heng Ja Wei	146	–	–	–	146	124	–	–	–	124
Ms. Sun Guo Li *(note c)*	146	–	–	–	146	41	–	–	–	41
Mr. Sun Jian Guo *(note c)*	–	–	–	–	–	83	–	–	–	83
	438	–	–	–	438	372	–	–	–	372
	1,022	2,647	–	82	3,751	968	2,655	–	70	3,693

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

13. DIRECTORS' EMOLUMENTS *(continued)*

Note: (a) The discretionary bonus is determined on the basis of performance of the Group but in any event the discretionary bonus for all executive directors shall not exceed 10% of the audited consolidated net profit after tax and non-controlling interests but before extraordinary and exceptional items of the Group for that financial year.

(b) Both Mr. Jean-Charles Thoumire and Mr. Oon Wee Chin were appointed on 20 February 2012 to fill the offices vacated by the resignation of Mr. Harinath Kvishnamurthy and Ms. Xi Zheng Zheng, who both resigned on the same day. Mr. Thoumire and Mr. Oon resigned on 21 December 2012.

(c) Ms. Sun Guo Li was appointed on 30 August 2011 to fill the office vacated by the resignation of Mr. Sun Jian Guo on the same day.

During the year, no emoluments were paid by the Group to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office and there was no arrangement under which a director waived or agreed to waive any emoluments.

14. EMPLOYEES' EMOLUMENTS

The five highest paid individuals in the Group during the year included, three (2011: two) directors, whose emoluments are included in the note 13 to the financial statements above. The emoluments of the remaining two (2011: three) individuals are set out below:

	2012	2011
	RMB'000	RMB'000
Salaries and other benefits	**1,844**	2,073
Retirement benefit scheme contributions	**20**	24
	1,864	2,097

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

14. EMPLOYEES' EMOLUMENTS *(continued)*

The emoluments fell within the following bands:

	Number of individuals	
	2012	2011
Nil to HKD500,000 (equivalent to RMB401,300)	**–**	1
HKD500,001 to HKD1,000,000 (equivalent to RMB401,301 to RMB802,600)	**1**	1
HKD1,000,001 to HKD1,500,000 (equivalent to RMB802,601 to RMB1,203,900)	**1**	1
	2	3

15. LOSS FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY

The loss for the year attributable to owners of the Company included a loss of approximately RMB3,959,000 (2011: RMB6,825,000) which has been dealt with in the financial statements of the Company.

16. DIVIDENDS

The directors do not recommend the payment of any dividend for the year ended 31 December 2012 (2011: Nil).

17. LOSS PER SHARE

The calculation of the basic and diluted loss per share is based on the following:

	2012	2011
	RMB'000	RMB'000
Loss for the year attributable to owners of the Company	**21,414**	41,245
	'000	'000
Weighted average number of ordinary shares	**2,855,000**	2,855,000

There were no dilutive potential ordinary shares in relation to the share options as the average market price of the shares for the years ended 31 December 2012 and 2011 were lower than the exercise price of the share options.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

18. PROPERTY, PLANT AND EQUIPMENT

	Group								
	Buildings	Plant and equipment	Tooling and moulds	Furniture and fixtures	Computers	Motor vehicles	Leasehold improvements	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost									
At 1 January 2011	283,995	55,863	36,435	3,683	4,578	12,770	4,663	–	401,987
Additions	1,889	590	–	240	654	1,191	700	20,875	26,139
Disposals	–	(13)	–	(10)	(1)	(929)	–	–	(953)
Disposal of subsidiaries	–	(790)	(23)	(400)	(2,638)	(457)	(1,266)	–	(5,574)
Exchange differences	–	(15)	–	(1)	–	–	(4)	–	(20)
At 31 December 2011 and 1 January 2012	285,884	55,635	36,412	3,512	2,593	12,575	4,093	20,875	421,579
Additions	–	5,277	–	529	494	2,223	255	5,248	14,026
Reclassification	9,668	–	–	–	–	–	11,173	(25,847)	(5,006)
Disposals	(1,296)	(432)	(142)	(173)	(453)	(2,475)	(235)	–	(5,206)
Disposal of a subsidiary	–	(1,086)	–	–	–	–	–	–	(1,086)
At 31 December 2012	294,256	59,394	36,270	3,868	2,634	12,323	15,286	276	424,307
Accumulated depreciation and impairment									
At 1 January 2011	32,408	34,272	36,410	1,572	3,480	7,904	3,768	–	119,814
Charge for the year	13,880	2,616	10	488	504	970	532	–	19,000
Disposals	–	(11)	–	(10)	(1)	(769)	–	–	(791)
Disposal of subsidiaries	–	(703)	(22)	(354)	(2,419)	(292)	(805)	–	(4,595)
Exchange differences	–	(14)	–	(1)	–	–	(4)	–	(19)
At 31 December 2011 and 1 January 2012	46,288	36,160	36,398	1,695	1,564	7,813	3,491	–	133,409
Charge for the year	14,658	3,009	–	513	296	719	752	–	19,947
Reclassification	(1,530)	–	–	–	–	–	–	–	(1,530)
Disposals	–	(412)	(128)	(151)	(400)	(1,235)	(234)	–	(2,560)
Disposal of a subsidiary	–	(596)	–	–	–	–	–	–	(596)
At 31 December 2012	59,416	38,161	36,270	2,057	1,460	7,297	4,009	–	148,670
Carrying amount									
At 31 December 2012	234,840	21,233	–	1,811	1,174	5,026	11,277	276	275,637
At 31 December 2011	239,596	19,475	14	1,817	1,029	4,762	602	20,875	288,170

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

18. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Among the additions to construction in progress during the year, RMB4,113,000 (2011: RMB7,570,000) were accrued to contractors included in other payables.

At 31 December 2012, the Group was in the process of applying for the property rights certificates in respect of buildings with carrying amount of RMB99,086,000 (2011: RMB105,298,000).

19. PREPAID LAND LEASE PAYMENTS

The Group's prepaid land lease payments represent payments for land use rights in the PRC under medium-term leases.

At 31 December 2012, the Group was in the process of applying for the land use rights certificates in respect of land leases with carrying amount of RMB22,352,000 (2011: RMB22,838,000).

20. INVESTMENT PROPERTIES

	Group
	RMB'000
At 1 January 2011, 31 December 2011 and 1 January 2012	36,410
Fair value loss	(1,712)
Reclassified from property, plant and equipment	3,476
Reclassified from prepaid land lease payments	526
At 31 December 2012	38,700

The Group's investment properties were revalued at 31 December 2012 on the open market value basis by reference to market evidence of transaction prices for similar properties by Vigers Appraisal & Consulting Limited, an independent firm of qualified professional valuers.

The Group's investment properties are located in the PRC under medium-term leases.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

21. GOODWILL

	Group
	RMB'000
Cost	
At 1 January 2011	59,713
Eliminated on disposal of subsidiaries	(10,973)
At 31 December 2011 and 1 January 2012	48,740
Eliminated on disposal of a subsidiary	(3,392)
At 31 December 2012	45,348
Accumulated impairment losses	
At 1 January 2011	27,946
Impairment loss recognised in the year	12,127
Disposal of subsidiaries	(10,973)
At 31 December 2011, 1 January 2012 and 31 December 2012	29,100
Carrying amount	
At 31 December 2012	16,248
At 31 December 2011	19,640

NOTES TO THE FINANCIAL STATEMENTS

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21. GOODWILL *(continued)*

For the purposes of impairment testing, goodwill has been allocated to the following cash-generating units ("CGUs"). The carrying amount of goodwill (net of accumulated impairment losses) as at 31 December 2012 and 2011 is allocated as follows:

	2012	2011
	RMB'000	RMB'000
Installation of fire prevention and fighting systems	**8,442**	8,442
Production and sale of fire engines	**7,630**	7,630
Production and sale of fire prevention and fighting equipment	**176**	3,568
	16,248	19,640

The recoverable amounts of the above CGUs were determined based on value in use calculations, which use cash flow projections based on financial budgets approved by management covering a five-year period, and discount rates at 12% (2011: 12% to 13%). The cash flows beyond that five-year period have been extrapolated using a steady annual growth rate at 1% (2011: 1%). This growth rate is based on the forecasts of the relevant industries and does not exceed their average long-term growth rate. Other key assumptions for the value in use calculations included budgeted sales and gross margins and their related cash inflows and outflows patterns, estimated based on the CGUs' historical performance and management's expectation of the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the recoverable amounts of CGUs to fall below their respective carrying amounts.

At 31 December 2011, the Group assessed the recoverable amount of goodwill and determined that goodwill associated with the trading of fire engines, fire prevention and fighting and rescue equipment of RMB12,127,000 was fully impaired. The Group made a full provision for impairment loss of the goodwill because it was uncertain about the future profitability of the trading business as the Group had uncertainties in securing business with a major supplier and a major customer.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

22. OTHER INTANGIBLE ASSETS

	Group		
	Capitalised development costs	**Technical know-how**	**Total**
	RMB'000	RMB'000	RMB'000
Cost			
At 1 January 2011, 31 December 2011, 1 January 2012 and 31 December 2012	620	1,377	1,997
Accumulated amortisation			
At 1 January 2011	420	612	1,032
Charge for the year	100	153	253
At 31 December 2011 and 1 January 2012	520	765	1,285
Charge for the year	100	153	253
At 31 December 2012	620	918	1,538
Carrying amount			
At 31 December 2012	–	459	459
At 31 December 2011	100	612	712

23. INVESTMENTS IN SUBSIDIARIES

	Company	
	2012	2011
	RMB'000	RMB'000
Unlisted investments, at cost	**187,567**	187,567

Except for RMB21,432,000 (2011: RMB20,350,000) due from a subsidiary which bears interest at a fixed rate of 6.68% (2011: 6.68%) per annum, the amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

23. INVESTMENTS IN SUBSIDIARIES *(continued)*

Particulars of the subsidiaries as at 31 December 2012 are as follows:

Name/type of legal entity	Place of incorporation	Issued and paid up capital	Percentage of ownership interest attributable to the Company	Principal activities
Wang Sing Technology Limited/ limited liability company	British Virgin Islands	4,984,359 ordinary shares of USD1 each	100% *(note (i))*	Investment holding
Allied Best Holdings Limited/ limited liability company	British Virgin Islands	1 ordinary share of USD1 each	100%	Investment holding
萃聯（中國）消防設備製造有限公司 Allied Best (China) Fire Safety Appliances Manufacturing Co., Ltd./wholly foreign-owned enterprise	PRC	Registered capital of HKD50,000,000	100%	Production and sale of fire prevention and fighting equipment
成都萃聯商務酒店有限公司 Chengdu Allied Best Hotel Co., Ltd. (formerly known as Chengdu Cuilian Hotel Co., Ltd.)/limited liability enterprise	PRC	Registered capital of RMB3,000,000	60%	Operation of a guest house
川消消防工程有限公司 Chuanxiao Fire Engineering Company Limited/limited liability enterprise	PRC	Registered capital of RMB51,000,000	100%	Provision of fire prevention and fighting system installation services and maintenance services
集保控制設備有限公司 Clusafe Control Equipment Co., Ltd./ wholly foreign-owned enterprise	PRC	Registered capital of HKD120,000,000	100%	Production and sale of fire prevention and fighting equipment

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

23. INVESTMENTS IN SUBSIDIARIES *(continued)*

Name/type of legal entity	Place of incorporation	Issued and paid up capital	Percentage of ownership interest attributable to the Company	Principal activities
福州市萬友消防設備有限公司 Fuzhou Wanyou Fire Equipment Co., Ltd./ wholly foreign-owned enterprise	PRC	Registered capital of HKD20,000,000	100%	Production and sale of fire prevention and fighting equipment
Loyal Asset Investment Holdings Limited/limited liability company	British Virgin Islands	1 ordinary share of USD1 each	100%	Investment holding
四川森田消防裝備製造有限公司 Sichuan Morita Fire Safety Appliances Co., Ltd./sino-foreign equity joint venture	PRC	Registered capital of RMB80,640,000	75%	Production and sale of fire engines and fire prevention and fighting equipment
Tung Shing Trade Development Company Limited/limited liability company	Hong Kong	10,000 ordinary shares of HKD10 each and 10,000 non-voting deferred shares of HKD10 each	51%	Trading of fire engines and fire fighting and rescue equipment
萬友消防工程集團有限公司 Wanyou Fire Engineering Group Company Limited/limited liability enterprise	PRC	Registered capital of RMB50,000,000	100%	Provision of fire prevention and fighting system installation services and maintenance services
四川萬山福特種消防裝備制造有限公司 Sichuan Wan Shan Fu Special Fire Equipment Manufacturing Co., Ltd./limited liability enterprise	PRC	Registered capital of RMB5,000,000	100%	Production and sale of fire prevention and fighting equipment

Note: (i) Shares held directly by the Company.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets or liabilities 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 FINANCIAL STATEMENTS

For the year ended 31 December 2012

24. INVESTMENTS IN ASSOCIATES

	Group	
	2012	2011
	RMB'000	RMB'000
Unlisted investments:		
Share of net assets	**68,865**	70,572
Goodwill	**6,540**	6,540
	75,405	77,112
Impairment losses *(note)*	**(58,899)**	(54,671)
	16,506	22,441

Details of the Group's associates at 31 December 2012 are as follows:

Name/type of legal entity	Place of incorporation	Paid up registered capital	Percentage of ownership interest	Principal activities
北京特威特國際環保科技有限公司 Beijing TWT International Technical Co., Ltd. ("Beijing TWT")/limited liability enterprise	PRC	RMB5,000,000	45%	Production and sale of fire suppression foam
福州華安消防工程技術 有限公司 Fuzhou Huaan Fire Engineering Co., Ltd. ("Fuzhou Huaan")/limited liability enterprise	PRC	RMB10,300,000	40%	Provision of fire prevention and fighting system installation services and maintenance services
Profit Top Global Limited/ limited liability company	British Virgin Islands	USD1,000	49%	Investment holding and development of network based monitoring system for fire prevention and fighting system and operation of remote automatic monitoring centre
上海凱德消防設備有限公司 Shanghai Kidde Fire Fighting Co., Ltd./sino-foreign equity joint venture	PRC	USD1,200,000	30%	Production and sale of fire prevention and fighting equipment
四川神劍消防科技有限公司 Sichuan Shenjian Fire Technology Co., Ltd. ("Sichuan Shenjian")/limited liability enterprise	PRC	RMB5,000,000	40%	Production and sale of fire prevention and fighting equipment

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

24. INVESTMENTS IN ASSOCIATES *(continued)*

Note: Impairment loss for 2012 was made in respect of the following associates as the Group foresees losses from both companies in the future.

(i) Fuzhou Huaan – in addition to the slimming profit margin resulting from the severe competition in the industry, the inflating costs and prolonged period of receivables outstanding have put high pressure on the operation and cash flow of small enterprises engaged in installation business like Fuzhou Huaan. Its business has decreased in quantity and amount of contracts secured, revenue and profit.

(ii) Sichuan Shenjian – future of the enterprise is in doubt because of a shortcoming in its prime product (a patented fire suppression power), which is tailored for the tobacco industry. No turnaround is expected until the shortcoming is remedied or other markets are opened.

Impairment loss for 2011 was made in respect of the investment in Beijing TWT. The business of Beijing TWT remained unsatisfactory since its operation commenced, and the Group did not foresee significant improvement in the foreseeable future.

Summarised financial information in respect of the Group's associates is set out below:

	Group	
	2012	2011
	RMB'000	RMB'000
At 31 December		
Total assets	**230,371**	239,726
Total liabilities	**(77,316)**	(76,812)
Net assets	**153,055**	162,914
Group's share of associates' net assets	**15,723**	17,430
Year ended 31 December		
Total revenue	**39,466**	53,741
Total loss for the year	**(8,968)**	(337)
Group's share of associates' (losses)/profits for the year	**(1,707)**	726

NOTES TO THE FINANCIAL STATEMENTS

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25. INVESTMENT IN A JOINTLY CONTROLLED ENTITY

Details of the jointly controlled entity at 31 December 2012 are as follows:

Name/type of legal entity	Place of incorporation	Paid up registered capital	Percentage of ownership interest	Principal activities
上海普東特種消防裝備有限公司 Shanghai Pudong Special Fire Equipment Co., Ltd./limited liability enterprise	PRC	RMB10,000,000	51%	Production and sale of fire prevention and fighting equipment

Although the Group holds 51% of the registered capital of Shanghai Pudong Special Fire Equipment Co., Ltd., the Group and the other significant shareholder jointly control over Shanghai Pudong Special Fire Equipment Co., Ltd. under a shareholders' agreement.

The following amounts, are included in the consolidated financial statements using the line-by-line reporting format for proportionate consolidation of the jointly controlled entity.

	Group	
	2012	2011
	RMB'000	RMB'000
At 31 December		
Non-current assets	**1,711**	1,959
Current assets	**41,104**	36,649
Current liabilities	**(25,220)**	(20,163)
Net assets	**17,595**	18,445
Year ended 31 December		
Income	**34,296**	39,019
Expenses	**35,145**	38,372

NOTES TO THE FINANCIAL STATEMENTS

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26. INVENTORIES

Inventories represent fire engines and fire prevention and fighting equipment.

	Group	
	2012	2011
	RMB'000	RMB'000
Raw materials	**34,284**	32,496
Work in progress	**37,942**	49,380
Finished goods	**24,403**	27,028
	96,629	108,904

The above inventories are stated at cost.

27. TRADE AND BILLS RECEIVABLES

	Group	
	2012	2011
	RMB'000	RMB'000
Trade and bills receivables	**715,078**	626,163
Less: Allowance for bad and doubtful debts	**(173,648)**	(163,849)
	541,430	462,314

The Group allows an average credit period of 30 days to 180 days to its trade customers. Before accepting any new customer, the Group will internally assess the credit quality of the potential customer and define appropriate credit limits.

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27. TRADE AND BILLS RECEIVABLES *(continued)*

The aging analysis of trade and bills receivables, based on the invoice date, net of allowance for bad and doubtful debts, is as follows:

	Group	
	2012	2011
	RMB'000	RMB'000
0 – 90 days	**150,504**	253,640
91 – 180 days	**142,510**	135,098
181 – 360 days	**134,368**	34,862
Over 360 days	**114,048**	38,714
	541,430	462,314

As of 31 December 2012, trade and bills receivables of RMB344,506,000 (2011: RMB169,554,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The aging analysis of these trade and bills receivables is as follows:

	Group	
	2012	2011
	RMB'000	RMB'000
91 – 180 days	**96,090**	95,978
181 – 360 days	**134,368**	34,862
Over 360 days	**114,048**	38,714
	344,506	169,554

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For the year ended 31 December 2012

27. TRADE AND BILLS RECEIVABLES *(continued)*

Reconciliation of allowance for bad and doubtful debts:

	Group	
	2012	2011
	RMB'000	RMB'000
At 1 January	**163,849**	158,301
Allowance for the year	**21,087**	6,216
Amounts written off	**(3,927)**	–
Disposal of subsidiaries	**(7,231)**	(254)
Exchange differences	**(130)**	(414)
At 31 December	**173,648**	163,849

The management closely monitors the credit quality of the trade and bills receivables and considers the trade and bills receivables that were neither past due nor impaired to be recoverable. Based on the payment pattern of the customers of the Group, trade and bills receivables that were past due but not impaired were generally collectable as there has not been a significant change in credit quality of these customers. Allowance for bad and doubtful debts recognised for 2012 and 2011 were on trade and bills receivables which were either aged over two years or customers which had either been placed under liquidation or in severe financial difficulties. The Group does not hold any collateral over these balances.

28. AMOUNTS DUE FROM/TO CONTRACT CUSTOMERS

	Group	
	2012	2011
	RMB'000	RMB'000
Contract costs incurred plus profits recognised less recognised losses	**1,308,687**	1,319,019
Less: Progress billings	**(830,715)**	(776,553)
	477,972	542,466
Comprising:		
Gross amounts due from contract customers	**488,600**	548,137
Gross amounts due to contract customers	**(10,628)**	(5,671)
	477,972	542,466

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

29. RETENTION RECEIVABLES

Included in the retention receivables is an aggregate amount of RMB8,912,000 (2011: RMB4,288,000) which was due after one year.

30. AMOUNTS DUE FROM ASSOCIATES

The amounts due from associates are unsecured, interest-free and are due for settlement within 12 months.

31. PLEDGED BANK DEPOSITS AND BANK AND CASH BALANCES

Bank balances carry interest ranging from Nil to 1.49% (2011: Nil to 1.49%) per annum.

The pledged bank deposits are mainly to secure banking facilities granted to the Group and carry interest ranging from 0.35% to 0.5% (2011: Nil to 0.5%) per annum.

32. TRADE AND OTHER PAYABLES

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables	**104,842**	99,770	**–**	–
Accrued charges	**245,819**	198,728	**3,361**	2,874
Receipts in advance	**50,767**	27,346	**–**	–
Value added tax, sales tax and other levies	**35,475**	36,231	**–**	–
Other payables	**12,285**	12,942	**–**	–
	449,188	375,017	**3,361**	2,874

The aging analysis of trade payables, based on the date of receipt of goods, is as follows:

	Group	
	2012	2011
	RMB'000	RMB'000
0 – 30 days	**44,899**	37,059
31 – 60 days	**14,908**	21,938
61 – 90 days	**12,800**	11,467
Over 90 days	**32,235**	29,306
	104,842	99,770

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33. AMOUNT DUE FROM/TO A JOINTLY CONTROLLED ENTITY

At 31 December 2012, the amount due to a jointly controlled entity is unsecured, interest-free and repayable on demand.

At 31 December 2011, the amount due from a jointly controlled entity is unsecured, carried fixed interest rate at 6% per annum and was due for settlement within 12 months.

34. AMOUNTS DUE TO NON-CONTROLLING SHAREHOLDERS

The amounts due to non-controlling shareholders are unsecured and repayable on demand. An aggregate amount of RMB2,964,000 (2011: RMB2,803,000) bears interest at a fixed rate of 6.68% (2011: 6.68%) per annum, the remaining amounts are interest-free.

35. BANK BORROWINGS

	Group	
	2012	2011
	RMB'000	RMB'000
Bank loans	**95,946**	99,985
Analysed as:		
Unsecured	**95,946**	99,985

At 31 December 2012 and 2011, the Group's bank borrowings were denominated in functional currencies of the respective group entities and were due for settlement within 12 months (shown under current liabilities).

The bank loans were guaranteed by certain subsidiaries of the Company.

According to a bank loan agreement, the Group was required to comply with certain financial covenants throughout the term life of the bank loans borrowed. The respective loan balance at 31 December 2012 was RMB50,000,000 (2011: RMB45,000,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

35. BANK BORROWINGS *(continued)*

The average interest rates at 31 December are as follows:

	2012	2011
Bank loans	**7.20%**	7.01%

The interest rates for the bank loans outstanding at 31 December 2012 and 2011 were arranged at 110% to 130% of the benchmark interest rate as stipulated by the People's Bank of China and expose the Group to cash flow interest rate risk.

36. FINANCE LEASE PAYABLES

	Group			
	Minimum lease payments		**Present value of minimum lease payments**	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**–**	37	**–**	36
Less: Future finance charges	**–**	(1)	**N/A**	N/A
Present value of lease obligations	**–**	36	**–**	36
Less: Amount due for settlement within 12 months (shown under current liabilities)			**–**	(36)
Amount due for settlement after 12 months			**–**	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

36. FINANCE LEASE PAYABLES *(continued)*

All finance lease payables were settled in 2012. The finance lease payables at 31 December 2011 were related to certain furniture and fixtures leased under a finance lease. The lease term was 5 years and at an effective borrowing rate of 5% per annum.

The Group's finance lease payables at 31 December 2011 were denominated in HKD and were secured by the lessor's title to the leased assets.

37. DEFERRED TAX

The following are the major deferred tax liabilities recognised, and movements thereon:

	Profit recognition of installation contracts RMB'000 *(Note)*
At 1 January 2011	2,198
Credit to the profit or loss for the year	(743)
At 31 December 2011 and 1 January 2012	1,455
Charge to the profit or loss for the year	926
At 31 December 2012	2,381

At 31 December 2012, the Group has unused tax losses of RMB84,456,000 (2011: RMB64,206,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of RMB26,490,000 that will expire from 2013 to 2017 (2011: RMB17,579,000 that will expire from 2012 to 2016). Other tax losses may be carried forward indefinitely.

At the end of the reporting period, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised is RMB214,746,000 (2011: RMB178,996,000). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of reversal of the temporary differences and it is probable that such differences will not be reversed in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

37. DEFERRED TAX *(continued)*

Note: The amount represents the temporary differences arising on the profit recognition of installation contracts between HKFRSs in which revenue and costs of installation contracts are recognised in the consolidated statement of comprehensive income by reference to the stage of completion of the contract activities and the taxable income of the PRC subsidiaries which recognise revenue of installation contracts upon completion.

38. SHARE CAPITAL

	Number of shares	Amount
		HKD'000
Authorised:		
Shares of HKD0.01 (2011: HKD0.01) each		
At 1 January 2011, 31 December 2011,		
1 January 2012 and 31 December 2012	10,000,000,000	100,000
Issued and fully paid:		
Shares of HKD0.01 (2011: HKD0.01) each		
At 1 January 2011, 31 December 2011,		
1 January 2012 and 31 December 2012	2,855,000,000	28,550

	2012	2011
	RMB'000	RMB'000
Shown in the consolidated financial statements as	**30,168**	30,168

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maximise the return to the shareholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, which mainly include the bank borrowings disclosed in note 35 to the financial statements, and equity attributable to owners of the Company, comprising issued share capital and reserves including retained profits.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

38. SHARE CAPITAL *(continued)*

The directors review the capital structure on a regular basis. As part of this review, the directors take into consideration the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends and new share issues as well as the raising of new debts or the repayment of existing debts.

The only externally imposed capital requirement is that for the Group to maintain its listing on the Stock Exchange it has to have a public float of at least 25% of the shares.

39. SHARE OPTION SCHEME

The shareholders of the Company adopted a share option scheme on 29 May 2009 (the "Scheme") in replacement of the old share option scheme, which had been in effect before the Company transferred the listing of its shares from GEM to Main Board of the Stock Exchange on 6 October 2008. Options granted but unexercised under the old share option scheme remained valid and exercisable with their terms of issue. The Scheme shall be valid and effective until the close of business of the Company on the date which falls ten years after the date of adoption, after which period no further options will be granted.

Subject to the condition that the total number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes of the Company must not exceed 30% of the shares of the Company in issue from time to time, the total number of shares in respect of which options may be granted under the Scheme when aggregated with any shares subject to any other schemes must not exceed 10% of the shares of the Company as at the date of adoption of the Scheme, i.e. 285,500,000 shares of the Company, without prior approval of the Company's shareholders. The number of shares in respect of which options may be granted to any individual in aggregate within any 12-month period must not exceed 1% of the shares of the Company in issue, without prior approval of the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in any one year exceeding 0.1% of the Company's shares in issue and having an aggregate value in excess of HKD5,000,000 must be approved by the Company's shareholders.

Options granted must be taken up within 21 days of the date of grant, upon payment of HKD1 per each grant transaction. Options may be exercised at any time from the date of acceptance of the share options to such date as determined by the Board of Directors but in any event not exceeding 10 years. The exercise price is determined by the directors of the Company and will not be less than the highest of the closing price of the Company's shares on the date of grant, the average closing prices of the Company's shares for the five business days immediately preceding the date of grant and the nominal value of the Company's shares.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

39. SHARE OPTION SCHEME *(continued)*

Details of the options granted are as follows:

Grantee	Capacity	Date of grant	No. of shares issuable under the options granted	Exercisable period	Exercise price	Outstanding at 1 January 2011, 31 December 2011, 1 January 2012 and 31 December 2012
					HKD	
Mr. Jiang Qing	Director	25 May 2004	20,000,000	25 May 2004 to 24 May 2014	0.44	20,000,000

Save as disclosed above, there were no options granted, exercised, cancelled or lapsed during the year ended 31 December 2012 (2011: Nil).

40. RESERVES

(a) Group

The amounts of the Group's reserves and movements therein are presented in the consolidated statement of comprehensive income and consolidated statement of changes in equity.

(b) Company

	Share premium	Capital reserve	Exchange reserve	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(Note 40(c) (ii))	*(Note 40(c) (vi))*		
At 1 January 2011	646,363	170,607	(3,342)	(103,424)	710,204
Total comprehensive income for the year	–	–	–	(6,825)	(6,825)
At 31 December 2011 and 1 January 2012	646,363	170,607	(3,342)	(110,249)	703,379
Total comprehensive income for the year	–	–	–	(3,959)	(3,959)
At 31 December 2012	646,363	170,607	(3,342)	(114,208)	699,420

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

40. RESERVES *(continued)*

(c) Nature and purpose of reserves

(i) Special reserve

The special reserve represents the difference between the nominal value of the shares of the acquired subsidiaries and the nominal value of the Company's shares issued for the acquisition under the group reorganisation.

(ii) Capital reserve

The capital reserve represents the share premium arising from the issue of shares of a subsidiary to the investors under the group reorganisation.

(iii) Statutory surplus reserve

Pursuant to the articles of association of the group entities established in the PRC, the relevant group entities are required to appropriate 10% or an amount to be determined by the directors of their respective profits after tax in accordance with the relevant PRC accounting rules and financial regulations before any distribution of dividends to equity holders each year to the statutory surplus reserve until their balances reach 50% of their respective registered capital. In normal circumstances, the statutory surplus reserve shall only be used for making up losses, capitalisation into capital and expansion of their respective production facilities and operations.

(iv) Statutory public welfare fund

Pursuant to the articles of association of the group entities established in the PRC, the relevant group entities are required to appropriate from their respective profits after tax at the rate of 5% to 10% or an amount to be determined by the directors to the statutory public welfare fund. The statutory public welfare fund can only be utilised on capital items for employees' collective welfare. The statutory public welfare fund forms part of the equity and is non-distributable other than upon liquidation.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

40. RESERVES *(continued)*

(c) Nature and purpose of reserves *(continued)*

(v) Statutory reserve fund

In accordance with the Law of the PRC on foreign enterprises, wholly foreign-owned enterprises are required to transfer an amount of not less than 10% of their respective profits after tax to the statutory reserve fund, which may be used for making up prior year losses, if any, and for capitalisation into capital.

(vi) Exchange reserve

Group

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 3(e) to the financial statements.

Company

Exchange reserve of the Company arose from the change of the functional currency of the Company from HKD to RMB in prior year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

41. DISPOSAL OF SUBSIDIARIES

The Group entered into an agreement on 30 May 2012 to dispose of all the 55.44% equity interests it held in Beijing City Chongzheng Huasheng Emergency Appliances System Co., Ltd. ("Chongzheng Huasheng") to certain independent third parties. Chongzheng Huasheng was engaged in the production and sale of fire prevention and fighting equipment. The net assets of Chongzheng Huasheng at the date of disposal were as follows:

	2012 RMB'000
Property, plant and equipment	490
Inventories	11,226
Trade and bills receivables	14,623
Prepayments, deposits and other receivables	2,475
Amount due from a non-controlling shareholder	25
Bank and cash balances	1,261
Trade and other payables	(21,578)
Current tax liabilities	(566)
Net assets disposed of	7,956
Non-controlling interests	(3,545)
Realisation of exchange reserves	(24)
Attributable goodwill	3,392
	7,779
Gain on disposal of a subsidiary	1,221
Total consideration	9,000
Satisfied by:	
Cash consideration received	6,300
Cash consideration receivable	2,700
	9,000
Net cash inflow arising on disposal:	
Cash consideration received	6,300
Bank and cash balances disposed of	(1,261)
	5,039

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

41. DISPOSAL OF SUBSIDIARIES *(continued)*

On 30 September 2011, the Company sold 2% of its equity interests in a 51% subsidiary, Profit Top Global Limited ("Profit Top"), to an independent third party. Profit Top was the intermediate holding company of a number of subsidiaries and associated companies engaging in the development of network based monitoring system for fire prevention and fighting system and operation of remote monitoring centre. Accordingly, Profit Top became an associate of the Group. The combined net assets of Profit Top and its subsidiaries at the date of the disposal were as follows:

	2011 RMB'000
Property, plant and equipment	979
Investments in associates	(799)
Inventories	321
Trade and bills receivables	511
Prepayments, deposits and other receivables	1,373
Amounts due from associated companies	1,218
Amounts due from non-controlling shareholders	12
Bank and cash balances	1,433
Trade and other payables	(4,546)
Amount due to the Group	(11,732)
Amounts due to non-controlling shareholders	(2,379)
Current tax liabilities	(17)
Net liabilities disposed of	(13,626)
Non-controlling interests	9,606
	(4,020)
Direct costs to the disposal	273
Wavier of amount due to the Group	11,732
Fair value of retained investment recognised as interest in associate	–
	7,985
Loss on disposal of subsidiaries *(note)*	(4,985)
Total consideration	3,000
Satisfied by:	
Cash consideration received	1,000
Cash consideration receivable	2,000
Total consideration	3,000
Net cash outflow arising on disposal:	
Cash consideration received	1,000
Cash paid for direct costs	(273)
Bank and cash balances disposed of	(1,433)
	(706)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

41. DISPOSAL OF SUBSIDIARIES *(continued)*

Note: (i) The portion of the loss attributable to recognising the investment retained in the subsidiaries at its fair value is RMB7,409,000.

(ii) Loss on disposal of subsidiaries is recognised in administrative expenses.

42. CAPITAL COMMITMENTS

At 31 December 2012, the Group's capital commitments are as follows:

	2012	2011
	RMB'000	RMB'000
Property, plant and equipment		
Contracted for but not provided for	**22,807**	27,471

The Company had no capital commitment at 31 December 2012 (2011: Nil).

43. OPERATING LEASE COMMITMENTS

As lessee

At 31 December 2012 the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Group		**Company**	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**6,081**	6,308	**759**	382
In the second to fifth year inclusive	**23,878**	22,003	**1,212**	–
After five years	**19,351**	24,665	**–**	–
	49,310	52,976	**1,971**	382

Operating lease payments represent rentals payable by the Group for certain of its premises, offices and staff quarters. Length of the leases ranged from three months to ten years and rentals are fixed over the lease terms and do not include contingent rentals.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

43. OPERATING LEASE COMMITMENTS *(continued)*

As lessor

At 31 December 2012, the future aggregate minimum lease receipts under non-cancellable operating leases are as follows:

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**2,892**	2,791	**–**	–
In the second to fifth year inclusive	**4,072**	2,564	**–**	–
	6,964	5,355	**–**	–

44. RETIREMENT BENEFIT SCHEMES

The group entities operating in the PRC participate in a state-managed retirement benefit plan operated by the government of the PRC. All eligible PRC employees are entitled to an annual pension equal to a fixed portion of their ending basic salaries at their retirement dates. The Group is required to make specific contributions to the retirement schemes at rates ranging from 18% to 22% (2011: 18% to 20%) of the basic salary of its eligible PRC employees and have no further obligation for post-retirement benefits beyond the annual contributions made. Pursuant to these arrangements, the retirement plan contributions paid for the year ended 31 December 2012 amounted to RMB7,619,000 (2011: RMB6,619,000).

In accordance with the relevant mandatory provident fund laws and regulations of Hong Kong, the Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") for all qualifying Hong Kong employees. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent MPF service provider. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the MPF Scheme at rates specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the MPF Scheme. The retirement benefits scheme contributions arising from the MPF Scheme charged to the consolidated statement of comprehensive income represent contributions payable to the funds by the Group at rates specified in the rules of the MPF Scheme. During the year ended 31 December 2012, the Group made to the MPF Scheme contributions amounting to RMB74,000 (2011: RMB78,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

45. RELATED PARTY TRANSACTIONS

(a) In addition to those related party transactions and balances disclosed elsewhere in the financial statements, the Group had the following transactions with its related parties during the year:

	2012	2011
	RMB'000	RMB'000
Finished goods purchased from an associate	**2,040**	130
Finished goods sold to associates	**3,029**	1,550
Interest income on amount due from a jointly controlled entity	**1,417**	–
Interest expenses on amount due to a non-controlling shareholder	**194**	184
Rental income received from associates	**336**	300

(b) The key management personnel are the directors. The details of the remuneration paid to them are set out in note 13 to the financial statements.

46. CONTINGENT LIABILITIES

At 31 December 2012, the Group has issued a guarantee of RMB20,000,000 (2011: Nil) to a bank in respect of a banking facility granted to the jointly controlled entity. The directors do not consider it probable that a claim will be made against the Group under the guarantee. The maximum liability of the Group at the end of the reporting period is the outstanding amount of the bank loan to the jointly controlled entity shared by another venturer at that date of RMB5,713,000 (2011: Nil).

The fair value of the guarantee at date of inception is not material and is not recognised in the financial statements.

Except for the above guarantee, the Group and the Company did not have any significant contingent liabilities at 31 December 2012 (2011: Nil).

47. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 25 March 2013.

FINANCIAL SUMMARY

	For the year ended 31 December				
	2008	2009	2010	2011	**2012**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
RESULTS					
Turnover	1,216,448	1,002,585	908,285	1,119,368	**1,003,523**
Profit/(loss) before tax	114,734	(100,949)	(29,878)	(28,931)	**(11,358)**
Income tax expense	(38,083)	(6,353)	(9,028)	(9,557)	**(10,778)**
Profit/(loss) for the year	76,651	(107,302)	(38,906)	(38,488)	**(22,136)**
Attributable to:					
Owners of the Company	80,433	(105,530)	(39,381)	(41,245)	**(21,414)**
Non-controlling interests	(3,782)	(1,772)	475	2,757	**(722)**
	76,651	(107,302)	(38,906)	(38,488)	**(22,136)**
Earnings/(loss) per share (RMB cents)					
Basic	2.82	(3.70)	(1.38)	(1.44)	**(0.75)**
Diluted	2.82	(3.70)	(1.38)	(1.44)	**(0.75)**

	At 31 December				
	2008	2009	2010	2011	**2012**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
ASSETS AND LIABILITIES					
Total assets	1,897,912	1,696,001	1,694,468	1,767,194	**1,814,960**
Total liabilities	(451,331)	(356,744)	(394,162)	(494,738)	**(568,242)**
	1,446,581	1,339,257	1,300,306	1,272,456	**1,246,718**
Equity attributable to owners of the Company	1,418,967	1,313,394	1,273,657	1,232,010	**1,210,454**
Non-controlling interests	27,614	25,863	26,649	40,446	**36,264**
Total equity	1,446,581	1,339,257	1,300,306	1,272,456	**1,246,718**