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 2013

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS
Jiang Xiong, Chairman
Jiang Qing
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
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Since the change in the Company's major shareholders in December 2012, some misguided strategies that did not fit in the nation's macro-environment and that posed restrictions to our management have been changed. At the beginning of 2013, our management and the new substantial shareholders have analysed and reviewed the Group's strategies and policies taken in previous years, and discussed about the possible ways to rectify the problems and issues found. We concluded that we should focus on the business stream that our competitive advantages are the strongest, such that the Group's sustainable growth and positive return to our shareholders could be assured. As such, this year, we started a reorganization plan to shake up our Group. The plan involves cutting off those unprofitable non-core business (the guest house operation and the trading business); discarding some of the loss-making associates; and cleaning up non-performing assets. Our move is to get rid of those encumbrances such that all resources and efforts could be channeled to the business that is profitable and with high potential: the manufacturing of fire engines, special vehicles and firefighting equipment.

Since start up in 2004, our fire engine business has progressed steadily as reflected in the growing revenue and improved profitability. We have built our brand "Chuan Xiao" a national well-known trademark. We have been assessed a national advanced and high-tech enterprise and now have over 100 models of fire engines and special vehicles which assist firefighting in different circumstances and environment. Our fire trucks are the only one which passed the first national stress test organized by the state authority. The result indicated not just superb quality, but more importantly, it showed our outperforming reliability. Because of these, we receive recurring orders from fire brigades in different provinces and cities and enterprises in the petrochemical industries across the country. In the upcoming years, we will keep on strengthening our production abilities, product development (include bringing in advanced technologies from overseas) and marketing network. In addition to internal growth, we also seek for external expansion. During the year, we came across a potential acquisition opportunity, the target of which is a company also engaged in the manufacturing and sale of fire trucks, special vehicles, pumps and other firefighting equipment. I believe the two companies will complement each other and will generate a big synergetic effect, whether in terms of marketing, product design and development and production techniques, if we two are merged. Negotiations are ongoing and we are also looking for other opportunities. I expect further announcement will be made soon.

During the process of rectifying the issues caused by the previously misguided strategies, the implementation of the reorganization unavoidably brought us pain. This year, I regret to say that we had the ever biggest financial loss since established. Impairment losses were recognized on assets of the subsidiaries to be disposed of based on the difference between the carrying value of the assets and the exit value. A big allowance for doubtful trade receivables of the installation business was also recorded. The allowance made for the year were largely for receivables from contracts secured during the old days when we aggressively expanded by taking advantage of the rich funds on hand to outbid competitors, but without detail risk analysis and review of customers' reputation and creditability. We have had lots of discussions with the customers in default for possible solutions, but to our disappointment, no satisfactory result in respect of debt settlement arrived. In view of the thin profit margin and harsh operating environment, we have decided to scale down the installation business in Fujian progressively until completely withdrawn from the market. We are also in discussion of selling some of the receivables to certain distress asset management companies in order to avoid further disturbance to the financial results caused by the problematic receivables, and more importantly, to cash the assets for the development of our fire engines business.

I am confident that the reorganization and reforms our Group is going to go through will make our financial performance turnaround. I know the road ahead is not smooth but full of challenges. I am looking forward to work hand in hand with all the staff, my fellow directors, partners and shareholders to unveil a new page of our Group.

Jiang Xiong
Chairman
25 March 2014

BUSINESS REVIEW

For the year ended 31 December 2013, turnover of the Group decreased 14% to RMB837 million. Loss for the year increased to RMB162 million (2012: RMB22 million). Other than the four business segments (as explained below), the decrease in revenue was also driven by the expiry of the maintenance contracts with Foxconn International Holdings Ltd in the fourth quarter of 2012 which brought the Group revenue of approximately RMB10 million last year. Included in the turnover for the year, there were also revenue recognized from trading of the three fire engines backlogged last year amounted to RMB14 million.

Making up a significant part of the loss for the year were certain non-recurring expenses: allowance for doubtful debts arising from the old age trade receivables from the installation business, impairment loss on goodwill associated with the installation business, and impairment loss on the assets of the guest house, which amounted to RMB151 million in total. The accumulation of the old age trade receivables of the installation business has driven up the allowance for doubtful debts. The Group has started a reorganization plan ("Reorganization") aiming to make the operations of the Group turnaround. The Group will concentrate on the development and manufacturing of fire engines, special vehicles and fire prevention and fighting equipment and will chop off other unprofitable non-core business and investments including the trading business, the guest house and certain associates. Subsequent to the year-end date, the Group has signed a number of agreement to sell the equity interests in those non-core business to be discarded and hence, an impairment loss on assets of the guest house base on the difference between the carrying value and the exit value was recognized during the year. Corresponding to the shrinking of the installation business as part of the Reorganisation, the value of the goodwill associated was considered unrecoverable which justified an impairment. Detail reviews are included in the respective segmental analysis below.

Installation of fire prevention and fighting systems

Revenue from installation of fire prevention and fighting systems for the year decreased 11% to RMB422 million. Operating loss was RMB121 million (2012: RMB15 million).

The allowance for doubtful debts made for the year that amounted to RMB118 million was the main reason for the significant increase in operating loss for the year. Business aggressively expanded in the past without cautiously considering the of reputation and financial condition of the customers have led to the accumulation of old age receivables, which called for bigger allowance as the recoverability is increasingly uncertain. Allowance were made on receivables overdue for at least one year and no positive feedback from customers during the process of payment chasing (i.e. recoverability considered not optimistic). Since it was uncertain about the time it would take to recover the receivables and the amount recoverable (as discount was quite possible), allowances were considered required for conservative purpose.

Debt recovering in recent years were getting worse. Payment reminders and legal letters requesting payment had been sent to customers regularly, meetings had also been arranged with customers in default every two to three months to discuss about possible settlement proposals. Unfortunately, most of the effort were found in vain. Reasons for the payment delay were in great variety and could be summarized as follows:

– Customers had financial difficulties;
– Customers complained about quality of works;
– Customers complained about the final project clearance price;
– Customers were charged with criminal offenses (such as taking or paying bribes) and disappeared;
– Customers claimed they had lost the relevant records and took it as an excuse to delay payments;
– Works completed not in accordance with schedule due to accidents happened or other reasons, customers refused to pay as contracted;
– Customers asked for extra works free of charge but refused by the Group; and
– A land developer sold to another developer the properties on which the Group conducted installation works, the new land developer refused to take up the liabilities of the old developer.

Payment chasing actions will be continued until settlement solutions reached with the customers. The Group will also seek other ways to recover the outstanding receivables, including appointing collection agency, selling part of the debts to certain distressed assets management companies at a discount, and taking legal actions.

Also included in the operating loss for the year was an impairment loss on the goodwill associated with the subsidiary in Fuzhou engaged in the installation business, which amounted to RMB8 million. The subsidiary has incurred losses for consecutive years and the Group has planned to shrink its business as part of the Reorganization. It was therefore considered that full impairment on the goodwill was required.

The Group secured new contracts during the year amounting to RMB502 million (2012: RMB365 million), of which over 65% were sourced from the subsidiary in Chengdu serving largely customers in Sichuan and other cities in the southwest region, and surpassed that of the subsidiary in Fuzhou for the first time. Given that the Group has decided to withdraw from the Fujian market progressively, the subsidiary in Chengdu will contribute majority of the segment's business in the future. Recognition of installation revenue is subject to the progress of the underlying projects. Since quite a number of new projects, especially certain large-scale, were still at the early stage of works at year end, revenue was not increased correspondingly with the increased in amount of contracts secured.

Production and sale of fire engines

Revenue from production and sales of fire engines for the year decreased 20% to RMB274 million. Operating profit was RMB14 million (2012: RMB: 21 million).

A number of fire engines were completed awaiting delivery at year end date, should they had all been delivered, an additional revenue of RMB42 million would have been recognized for 2013. The Group commenced capacity enlargement program during the year as the production cap has been reached. Some of the production schedules, however, were unavoidably been affected when the program was carried out and completion of certain sales orders were thus delayed, leading to the decrease in revenue comparing that of last year. With the enlarged production capacity and the orders on hand, the Group is optimistic about the sales in the coming years.

The Group is highly concerned about the product quality, functionality and marketability. Abundant resources are put in product design, new products development and quality control. The Group's fire engines is the only one that passed the first national stress test, in which trucks were required to run 48 hours non-stop, conducted by the conducted by the Fire Equipment Quality Supervision and Inspection Centre (國家消防裝備質量監督檢驗中心). In addition to production strengthening, the Group will also focus on the development of special purpose vehicles which has few domestic supply such as the aerial platforms and airport crash tender, so as to cater for the demand of customers who have tighter budget constraint.

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 13% to RMB119 million. Operating profit for the year was RMB8 million (2012(restated): RMB4 million). Included in the segment's expenses for 2012, there was a non-recurring fair value loss on investment properties amounted to RMB2 million.

Sales of the Group's fire equipment for the year kept stable as compared to that of last year. The decrease in revenue was mainly due to the disposal of a subsidiary engaged in the manufacturing and sale of central power control systems for emergency lightings in July 2012. There was a slight increase in the gross profit ratio arising from changes in sales mix and customer mix and therefore led to the increase in the operating profit despite revenue dropped.

The operating profit for the year had been charged with an impairment loss on goodwill amounted to RMB0.2 million which was associated with a subsidiary engaged in the manufacturing and sale of emergency lightings and fire detection and alarm systems. The production has been ceased since end of 2009 when the market was flooded with low-priced substandard products and the intense competition had driven the profit margin to an unreasonably low level. The Group has no plan to resume the production and hence a full impairment on the goodwill was made.

Operation of a guest house

The operation of the Group's guest house has been subcontracted to a party (the "Subcontractor") independent of the Group since May 2013, given the losses incurred since opening and the short of relevant expertise. Besides the revenue from rooms and food & beverages during the period before subcontracting, there was also a subcontracting income of RMB0.5 million recognized for the year.

Since the guest house opened in May 2012, its room occupancy rate has been lower than expected. The plan of receiving the Group's customers, guests and visitors and capturing their expenditure on accommodations and food and beverages set at the time when the guest house was initially planned did not realize satisfactorily. Because of the Reorganization, the Group decided to sell all the equity interest in the guest house. A valuation on the equity value of the subsidiary concerned was performed by DTZ, an independent professional valuer. The value at 31 December 2013, based on the income approach, was appraised as zero. A sales and purchase agreement was signed with the Subcontractor in March 2014 at a consideration of RMB1 million. An impairment loss of RMB25 million was thus made on the property, plant and equipment at 31 December 2013 with reference to the exit value.

FINANCIAL RESOURCES, LIQUIDITY, CONTINGENT LIABILITIES AND PLEDGE OF ASSETS

Taken into account those included in the assets of disposal group held for sale, the Group's bank and cash balances at 31 December 2013 were approximately RMB171 million (2012(restated): RMB198 million), of which RMB9 million (2012(restated): RMB4 million) was pledged for bid bond guarantee issued, performance guarantee, and guarantee for letter of credit issued. Outstanding balances of the short term bank loans borrowed by two of the Group's subsidiaries in Sichuan as at the year-end date were RMB80 million (2012(restated): RMB90 million).

As at 31 December 2013, the current assets and current liabilities of the Group were approximately RMB1,425 million (2012(restated): RMB1,393 million) and RMB600 million (2012(restated): RMB541 million) respectively. The current ratio was approximately 2.4 times (2012(restated): 2.6 times). Gearing ratio (interest bearing debt/total equity) at end of the year was 7.4% (2012(restated): 7.2%). Included in the current assets for the year are non-current assets of certain subsidiaries to be disposed of in the coming 12 months. The carrying value of the non-current assets concerned at 31 December 2013 was approximately RMB53 million.

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 dollars. 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 dollars. There was no forward foreign currency exchange contract outstanding at 31 December 2013.

Save as disclosed, the Group has no material contingent liabilities or pledge of assets for the year ended 31 December 2013.

INVESTMENTS, DISPOSALS AND CAPITAL COMMITMENTS

Disposal

The Group sold all the equity interests it held in Shanghai Pudong Special Fire Equipment Co., Ltd. ("Shanghai Pudong"), a joint venture, at a consideration of RMB19 million during the year. Shanghai Pudong was engaged in the manufacturing and sale of fire equipment for industrial use. The Group sold the investment because the competitive advantage of Shanghai Pudong was considered significantly impaired when the other shareholder, a state owned enterprise which supplied it all the production technologies, sold its interest in the joint venture during the year. The disposal incurred the Group a loss of RMB1 million.

Capital commitments

As at 31 December 2013, the Group has capital commitment of approximately RMB19 million (2012: RMB23 million) which was mainly related to the investment amount committed to the local government of the county in Sichuan where the Group's factory is located.

Save as disclosed herein, the Group has no other material capital commitments, investments, acquisitions or disposals as at 31 December 2013.

Employees and remuneration policies

As at 31 December 2013, the Group had approximately 807 full-time employees (2012(restated): 913). Staff costs, excluding directors' remuneration for the year was RMB46.7 million (2012(restated): RMB50.5 million). The decrease in number of staff and also the staff costs were mainly due to the hotel subcontracting from May 2013. All costs of the hotel have been born by the subcontractor since then. 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

Executive directors

Mr. JIANG Xiong, aged 46, 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 49, 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.

Mr. WANG De Feng, aged 45, 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.

Ms. WENG Xiu Xia, aged 44, 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 45, 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 64, 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 38 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, The Hong Kong Institute of Directors and 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 the following companies whose shares are listed on the stock Exchange of Hong Kong Limited: Chiho-Tiande Group Limited, China Household Holdings 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.

Mr. HENG Ja Wei, aged 36, 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 the following companies whose shares are listed on the stock Exchange of Hong Kong Limited: Lee & Man Chemical Company Limited, Lee & Man Handbags Holding Limited and Matrix Holdings Limited.

Ms. Sun Guo Li, aged 58, 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 51, 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 46, 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 51, 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 PRACTICES

Throughout the year ended 31 December 2013, 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. There were no fixed terms of appointment for the non-executive directors.

2. 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 five 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 four 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 which allow the Board members to have a more thorough understanding of the Group to exercise effective leadership and supervision of the Group.

Attendance of each director is set out below:

Name of directors	No. of meetings attended
Executive directors	
Mr. Jiang Xiong *(Chairman)*	3/4
Mr. Jiang Qing *(Chief Executive Officer)*	4/4
Mr. Wang De Feng	3/4
Ms. Weng Xiu Xia	3/4
Mr. Hu Yong	3/4
Ms. Zhang Hai Yan *	2/3
Independent non-executive directors	
Dr. Loke Yu	4/4
Mr. Heng Ja Wei	4/4
Ms. Sun Guo Li	2/4

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.

* Ms. Zhang Hai Yan resigned as an executive director of the Company on 17 December 2013. One of the board meetings was held after her resignation.

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
Mr. Wang De Feng	Study relevant materials
Ms. Weng Xiu Xia	Study relevant materials
Mr. Hu Yong	Study relevant materials
Ms. Zhang Hai Yan	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.

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 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.

Remuneration of directors and senior management

Remuneration of the senior management of the Group for the year ended 31 December 2013 by bands is set out below:

	No. of individuals
Nil to RMB1,000,000	3

Details of the directors' remuneration are set out in note 14 to the financial statements.

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 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.

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 direct ors a nd senior management;

– review and monitor the Company's policies and practices on compliance with le gal 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.

It is the responsibilities of the directors of the Company to prepare the financial statements of the Group. The auditor is responsible for expressing an independent opinion on the consolidated financial statements of the Group based on their audit and to report the opinion to the shareholders of the Company.

GENERAL MEETING

The Company's annual general meeting was held in May 2013 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 to propose. 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 Rule 13.51(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.

The directors present their annual report and the audited financial statements of the Group for the year ended 31 December 2013.

1. **PRINCIPAL ACTIVITIES**

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

2. **RESULTS AND FINANCIAL POSITION**

   The results of the Group for the year ended 31 December 2013 are set out in the consolidated statement of profit or loss and other comprehensive income on page 26.

   The state of affairs of the Group at 31 December 2013 are set out in the consolidated statement of financial position on page 27.

3. **SHARE CAPITAL**

   Details of the movements in the share capital of the Company are set out in note 39 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 profit or loss and other comprehensive income on page 26 and consolidated statement of changes in equity on page 30.

   The Company's reserves available for distribution to shareholders as at 31 December 2013 were RMB696,957,000 (2012: RMB702,762,000).

   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 2013 (2012: Nil).

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 19 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
Mr. Wang De Feng
Ms. Weng Xiu Xia
Mr. Hu Yong
Ms. Zhang Hai Yan (resigned on 17 December 2013)

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. Jiang Qing and Ms. Weng Xiu Xia 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.

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

Save as disclosed below, as of 31 December 2013, 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.

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

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	Beneficial owner	981,600,000	34.38%
Mr. Jiang Qing	Beneficial owner	7,500,000	0.26%

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 2013 and 31 December 2013	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.

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 2013, 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
EH Investment Management Ltd	Beneficial owner	618,750,000	21.67%
Mr. Ngan Lek	Interest of a controlled corporation	618,750,000	21.67%
Genius Earn Limited	Beneficial owner	206,250,000	7.22%
Mr. Liu Xiao Lin	Interest of a controlled corporation	206,250,000	7.22%

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 2013.

13. SHARE OPTIONS

Particulars of the Company's share option scheme and details of the options are set out in note 40 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 2013, 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 46 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 2013, 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.

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 2013, 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 2013.

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 2014

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 26 to 109, which comprise the consolidated and Company statements of financial position as at 31 December 2013, and the consolidated statement of profit or loss and other 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.

AUDITOR'S RESPONSIBILITY *(cont'd)*

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.

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 2013, 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 2014

	Note	2013 RMB'000	2012 RMB'000 (Restated)
Turnover	7	**836,812**	969,273
Cost of sales and services		**(745,182)**	(867,103)
Gross profit		**91,630**	102,170
Other income	8	**16,952**	12,035
Selling and distribution costs		**(15,640)**	(28,054)
Administrative expenses		**(191,553)**	(83,509)
Share of losses of associates		**(12,515)**	(1,707)
Other expenses	10	**(34,024)**	(4,228)
Share of profit/(loss) of a joint venture		**1,167**	(849)
Finance costs	11	**(5,466)**	(7,359)
Loss before tax		**(149,449)**	(11,501)
Income tax expense	12	**(12,281)**	(10,635)
Loss for the year	13	**(161,730)**	(22,136)
Other comprehensive income:			
Items that may be reclassified to profit or loss:			
Exchange differences on translating foreign operations		**(40)**	(33)
Exchange differences reclassified to profit or loss on disposal of a subsidiary		**–**	(24)
Other comprehensive income for the year, net of tax		**(40)**	(57)
Total comprehensive income for the year		**(161,770)**	(22,193)
Loss for the year attributable to:			
Owners of the Company	16	**(152,871)**	(21,414)
Non-controlling interests		**(8,859)**	(722)
		(161,730)	(22,136)
Total comprehensive income for the year attributable to:			
Owners of the Company		**(153,138)**	(21,556)
Non-controlling interests		**(8,632)**	(637)
		(161,770)	(22,193)
Loss per share (RMB cents)	18		
Basic		**(5.35)**	(0.75)
Diluted		**(5.35)**	(0.75)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2013

	Note	31 December 2013 RMB'000	31 December 2012 RMB'000 (Restated)	1 January 2012 RMB'000 (Restated)
Non-current assets				
Property, plant and equipment	19	**218,853**	274,385	286,823
Prepaid land lease payments	20	**33,046**	33,193	34,458
Investment properties	21	**–**	38,700	36,410
Goodwill	22	**7,630**	16,248	19,640
Other intangible assets	23	**–**	–	100
Investments in associates	25	**3,209**	16,506	22,441
Investment in a joint venture	26	**–**	17,744	18,593
		262,738	396,776	418,465
Current assets				
Inventories	27	**154,200**	87,094	104,219
Trade and bills receivables	28	**417,921**	527,358	443,369
Amounts due from contract customers	29	**547,310**	488,600	548,137
Retention receivables	30	**8,562**	10,729	5,402
Prepayments, deposits and other receivables		**71,018**	78,691	70,908
Amount due from a joint venture	35	**–**	–	9,238
Amounts due from associates	31	**1,103**	1,629	2,121
Prepaid land lease payments	20	**726**	739	752
Pledged bank deposits	32	**9,325**	4,281	3,949
Bank and cash balances	32	**136,900**	193,992	145,330
		1,347,065	1,393,113	1,333,425
Assets of disposal group held for sale	33	**77,820**	–	–
		1,424,885	1,393,113	1,333,425
Current liabilities				
Trade and other payables	34	**466,392**	429,787	359,618
Amounts due to contract customers	29	**12,559**	10,628	5,671
Amount due to a joint venture	35	**–**	376	–
Amounts due to non-controlling shareholders	36	**–**	5,964	4,603
Bank borrowings	37	**80,000**	90,000	99,985
Finance lease payables		**–**	–	36
Current tax liabilities		**6,780**	3,887	7,918
		565,731	540,642	477,831
Liabilities directly associated with disposal group held for sale	33	**34,104**	–	–
		599,835	540,642	477,831
Net current assets		**825,050**	852,471	855,594
Total assets less current liabilities		**1,087,788**	1,249,247	1,274,059

	Note	31 December 2013 RMB'000	31 December 2012 RMB'000 (Restated)	1 January 2012 RMB'000 (Restated)
Non-current liabilities				
Deferred tax liabilities	38	**2,692**	2,381	1,455
NET ASSETS		**1,085,096**	1,246,866	1,272,604
Capital and reserves				
Share capital	39	**30,168**	30,168	30,168
Reserves	41	**1,027,296**	1,180,434	1,201,990
Equity attributable to owners of the Company		**1,057,464**	1,210,602	1,232,158
Non-controlling interests		**27,632**	36,264	40,446
TOTAL EQUITY		**1,085,096**	1,246,866	1,272,604

Approved by the Board of Directors on 25 March 2014

Jiang Xiong
Director

Jiang Qing
Director

STATEMENT OF FINANCIAL POSITION

At 31 December 2013

	Note	31 December 2013 RMB'000	31 December 2012 RMB'000
Non-current assets			
Investments in subsidiaries	24	**187,567**	187,567
Current assets			
Prepayments, deposits and other receivables		**37**	39
Amounts due from subsidiaries	24	**512,794**	518,635
Bank and cash balances	32	**26,657**	26,708
		539,488	545,382
Current liabilities			
Accrued charges	34	**3,272**	3,361
Net current assets		**536,216**	542,021
NET ASSETS		**723,783**	729,588
Capital and reserves			
Share capital	39	**30,168**	30,168
Reserves	41	**693,615**	699,420
TOTAL EQUITY		**723,783**	729,588

Approved by the Board of Directors on 25 March 2014

Jiang Xiong
Director

Jiang Qing
Director

	Attributable to owners of the Company											
	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000 *(Note 41(c)(i))*	Capital reserve RMB'000 *(Note 41(c)(ii))*	Statutory surplus reserve RMB'000 *(Note 41(c)(iii))*	Statutory public welfare fund RMB'000 *(Note 41(c)(iv))*	Statutory reserve fund RMB'000 *(Note 41(c)(v))*	Exchange reserve RMB'000 *(Note 41(c)(vi))*	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2012, as previously stated	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
Effect of changes in accounting policies (note 2(c))	–	–	–	–	–	–	–	148	–	148	–	148
At 1 January 2012, as restated	30,168	646,363	(6,692)	57,840	38,053	25,441	82,427	(1,122)	359,680	1,232,158	40,446	1,272,604
Total comprehensive income for the year	–	–	–	–	–	–	–	(142)	(21,414)	(21,556)	(637)	(22,193)
Disposal of a subsidiary (note 42)	–	–	–	–	–	–	–	–	–	–	(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, as restated	30,168	646,363	(6,692)	57,840	38,053	26,062	82,427	(1,264)	337,645	1,210,602	36,264	1,246,866
At 1 January 2013, as previously stated	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
Effect of changes in accounting policies (note 2(c))	–	–	–	–	–	–	–	148	–	148	–	148
At 1 January 2013, as restated	30,168	646,363	(6,692)	57,840	38,053	26,062	82,427	(1,264)	337,645	1,210,602	36,264	1,246,866
Total comprehensive income and changes in equity for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(267)**	**(152,871)**	**(153,138)**	**(8,632)**	**(161,770)**
At 31 December 2013	**30,168**	**646,363**	**(6,692)**	**57,840**	**38,053**	**26,062**	**82,427**	**(1,531)**	**184,774**	**1,057,464**	**27,632**	**1,085,096**

	Note	2013 RMB'000	2012 RMB'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(149,449)**	(11,501)
Adjustments for:			
Allowance for bad and doubtful debts		**117,615**	21,087
Allowance for obsolete and slow-moving inventories		**1,745**	395
Amortisation of other intangible assets		**–**	100
Amortisation of prepaid land lease payments		**739**	752
Depreciation of property, plant and equipment		**21,250**	19,592
Fair value loss on investment properties		**–**	1,712
Gain on disposal of a subsidiary	42	**–**	(1,221)
Loss on disposal of a joint venture		**1,123**	–
Impairment loss on goodwill		**8,618**	–
Impairment loss on investments in associates		**782**	4,228
Impairment loss on property, plant and equipment		**24,624**	–
Finance costs		**5,466**	7,359
Interest income		**(11,366)**	(3,917)
Loss on disposal of property, plant and equipment		**66**	1,590
Obsolete stock written off		**249**	80
Share of losses of associates		**12,515**	1,707
Share of (profit)/loss of a joint venture		**(1,167)**	849
Operating profit before working capital changes		**32,810**	42,812
(Increase)/decrease in inventories		**(69,100)**	5,424
Increase in trade and bills receivables		**(6,118)**	(117,601)
(Increase)/decrease in amounts due from contract customers		**(58,710)**	59,537
Decrease/(increase) in retention receivables		**94**	(7,430)
Decrease/(increase) in prepayments, deposits and other receivables		**18,374**	(6,759)
Increase in trade and other payables		**67,531**	87,713
Increase in amounts due to contract customers		**1,931**	4,957
Cash (used in)/generated from operations		**(13,188)**	68,653
Interest paid		**(5,466)**	(7,359)
Income tax paid		**(9,077)**	(13,174)
Net cash (used in)/generated from operating activities		**(27,731)**	48,120

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	Note	2013 RMB'000	2012 RMB'000 (Restated)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment		**(4,170)**	(9,643)
Addition of prepaid land lease payments		**(1,092)**	–
Prepayment for a land lease		**(5,848)**	–
Increase in pledged bank deposits		**(5,044)**	(332)
Interest received		**11,366**	3,917
Repayment of advance to associates		**526**	492
Repayment of advance to a joint venture		**–**	9,238
Advance from a joint venture		**–**	376
Disposal of a subsidiary (net of cash and cash equivalent disposed of)	42	**–**	5,039
Disposal of a joint venture		**9,854**	–
Proceeds from disposal of property, plant and equipment		**10**	216
Net cash generated from investing activities		**5,602**	9,303
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans raised		**80,000**	80,000
Repayment of bank loans		**(90,000)**	(89,985)
Advance from non-controlling shareholders		**201**	1,394
Repayment of finance lease payables		**–**	(36)
Net cash used in financing activities		**(9,799)**	(8,627)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(31,928)**	48,796
Effect of foreign exchange rate changes		**(309)**	(134)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**193,992**	145,330
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**161,755**	193,992
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Bank and cash balances		**136,900**	193,992
Bank and cash balances included in disposal group held for sale		**24,855**	–
		161,755	193,992

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 KY1-1111, Cayman Islands. The principal place of business in the People's Republic of China (the "PRC") is No. 8 Section I, Xin Hua Road, Chengdu Cross Straits Technological Industry Park, Wenjiang District, Chengdu City, Sichuan Province, the PRC.

The Company is an investment holding company. The principal activities of its principal subsidiaries and associates are set out in notes 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 (the 'HKICPA") that are relevant to its operations and effective for its accounting year beginning on 1 January 2013. HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS"); 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, except as stated below.

(a) Amendments to HKAS 1 "Presentation of Financial Statements"

Amendments to HKAS 1 titled Presentation of Items of Other Comprehensive Income introduce new optional terminology for statement of comprehensive income and income statement that has been applied by the Group. Under the amendments to HKAS 1, a statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income and an income statement is renamed as a statement of profit or loss. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(cont'd)*

(a) Amendments to HKAS 1 "Presentation of Financial Statements" *(cont'd)*

The amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the change. Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

(b) HKFRS 10 "Consolidated Financial Statements"

HKFRS 10 "Consolidated Financial Statements" supersedes the requirements relating to consolidated financial statements in HKAS 27 (Revised) "Consolidated and Separate Financial Statements" and Hong Kong (SIC) Interpretation 12 "Consolidation – Special Purpose Entities". HKFRS 10 introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

The Group re-assessed the control conclusion for its investees as at 1 January 2013 and concluded that there is no change in the control conclusion in respect of its investees.

(c) HKFRS 11 "Joint Arrangements"

HKFRS 11 "Joint Arrangements" supersedes HKAS 31 "Interests in Joint Ventures" and Hong Kong (SIC) Interpretation 13 "Jointly Controlled Entities – Non-Monetary Contributions by Venturers". HKFRS 11 defines joint arrangement as an arrangement of which two or more parties have joint control. Joint control is the contractually agreed sharing of control of the arrangement, it exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. A joint arrangement is either a joint operation or a joint venture. HKFRS 11 requires a single method i.e. equity method, to account for interests in joint ventures and thereby eliminating the proportionate consolidation method.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(cont'd)*

(c) HKFRS 11 "Joint Arrangements" *(cont'd)*

Previously, the Group accounted for its interest in a jointly controlled entity using proportionate consolidation method. The jointly-controlled entity was then accounted for as a joint venture using equity method, after adopting the transitional provisions of HKFRS 11 from 1 January 2012. The adoption of HKFRS 11 resulted in changes in the consolidated amounts reported in the financial statements as follows:

	31 December 2012 RMB'000	1 January 2012 RMB'000
Impact on consolidated statement of financial position:		
Increase in investment in a joint venture	17,744	18,593
Decrease in property, plant and equipment	1,252	1,347
Decrease in other intangible assets	459	612
Decrease in inventories	9,535	4,685
Decrease in trade and bills receivables	14,072	18,945
Decrease in retention receivables	5,082	4,241
Decrease in prepayments, deposits and other receivables	2,360	1,116
Increase in amount due from a joint venture	–	4,711
Decrease in pledged bank deposits	3,584	3,424
Decrease in bank and cash balances	6,471	4,238
Decrease in trade and other payables	19,401	15,399
Increase in amount due to a joint venture	192	–
Decrease in bank borrowings	5,946	–
Decrease in current tax liabilities	64	53
Change in exchange reserves	148	148

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(cont'd)*

(c) HKFRS 11 "Joint Arrangements" *(cont'd)*

	31 December 2012 RMB'000
Impact on consolidated statement of profit or loss and other comprehensive income:	
Increase in share of loss of a joint venture	849
Decrease in turnover	34,250
Decrease in cost of sales and services	27,620
Increase in other income	1,374
Decrease in selling and distribution costs	3,312
Decrease in administrative expenses	2,500
Decrease in finance costs	150
Decrease in income tax expense	143

(d) HKFRS 12 "Disclosure of Interests in Other Entities"

HKFRS 12 "Disclosure of Interests in Other Entities" specifies the disclosure requirements for subsidiaries, joint arrangements and associates, and introduces new disclosure requirements for unconsolidated structured entities.

The adoption of HKFRS 12 only affects the disclosures relating to the Group's subsidiaries, associates and joint arrangements in the consolidated financial statements. HKFRS 12 has been applied retrospectively.

(e) HKFRS 13 "Fair Value Measurement"

HKFRS 13 "Fair Value Measurement" establishes a single source of guidance for all fair value measurements required or permitted by HKFRSs. It clarifies the definition of fair value as an exit price, which is defined as a price at which an orderly transaction to sell the asset or transfer the liability would take place between market participants at the measurement date under market conditions, and enhances disclosures about fair value measurements.

The adoption of HKFRS 13 only affects disclosures on fair value measurements in the consolidated financial statements. HKFRS 13 has been applied prospectively.

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 issued by the HKICPA, 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 for the revaluation of investment properties and assets of disposal group held for sale, both of which are carried at their fair value.

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 their judgement 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. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties. A potential voting right is considered only if the holder has the practical ability to exercise that right.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

(a) Consolidation *(cont'd)*

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 accumulated foreign currency translation 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 profit or loss and other 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.

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.

3. **SIGNIFICANT ACCOUNTING POLICIES** *(cont'd)*

(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.

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 (y) 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

(c) Associates

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions 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, including potential voting rights held by other entities, are considered when assessing whether the Group has significant influence. In assessing whether a potential voting right contributes to significant influence, the holder's intention and financial ability to exercise or convert that right is not considered.

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.

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 other comprehensive income is recognised in the consolidated other comprehensive income. 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 carrying amount of the investment at the date of disposal. If an investment in an associate becomes an investment in a joint venture, the Group continues to apply the equity method and does not remeasure the retained interest.

3. **SIGNIFICANT ACCOUNTING POLICIES** *(cont'd)*

(c) **Associates** *(cont'd)*

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) **Joint arrangements**

A joint arrangement is an arrangement of which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Relevant activities are activities that significantly affect the returns of the arrangement. When assessing joint control, the Group considers its potential voting rights as well as potential voting rights held by other parties. A potential voting right is considered only if the holder has the practical ability to exercise that right.

A joint arrangement is either a joint operation or a joint venture. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

In relation to its interest in a joint operation, the Group recognises in its consolidated financial statements, its assets, including its share of any assets held jointly; its liabilities, including its share of any liabilities incurred jointly; its revenue from the sale of its share of the output arising from the joint operation; its share of the revenue from the sale of the output by the joint operation; and its expenses, including its share of any expenses incurred jointly, in accordance with the HKFRSs applicable to the particular assets, liabilities, revenues and expenses.

Investment in a joint venture is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the joint venture 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 joint venture'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.

3. **SIGNIFICANT ACCOUNTING POLICIES** *(cont'd)*

(d) **Joint arrangements** *(cont'd)*

The Group's share of a joint venture's post-acquisition profits or losses is recognised in consolidated profit or loss, and its share of the post-acquisition movements in other comprehensive income is recognised in the consolidated other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in a joint venture equals or exceeds its interest in the joint venture, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture. If the joint venture 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 a joint venture 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 joint venture and (ii) the carrying amount of the investment at the date of disposal. If an investment in a joint venture becomes an investment in an associate, the Group continues to apply the equity method and does not remeasure the retained interest.

Unrealised profits on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interests in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of joint ventures 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

(e) Foreign currency translation *(cont'd)*

(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 for the period (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 other comprehensive income and accumulated in the exchange reserve.

3. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

(e) Foreign currency translation *(cont'd)*

(iii) Translation on consolidation (cont'd)

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 reclassified to 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 appropriate to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal useful lives/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% – 25%
Leasehold improvements	Over the shorter of the term of the lease or 20%

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

3. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

(f) Property, plant and equipment *(cont'd)*

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

(h) Leases *(cont'd)*

The Group as lessor (cont'd)

(i) Operating leases *(cont'd)*

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 that 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.

(j) 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

(k) 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 and bills receivables". Amounts received before the related work is performed are included in the statement of financial position under "Trade and other payables".

(l) 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.

3. **SIGNIFICANT ACCOUNTING POLICIES** *(cont'd)*

(m) Trade, bills and other receivables

Trade, bills and other receivables (including retention receivables, amount due from a joint venture, amounts due from associates) 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.

(n) 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.

(o) 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.

3. **SIGNIFICANT ACCOUNTING POLICIES** *(cont'd)*

(p) **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.

(q) **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.

(r) **Trade and other payables**

Trade and other payables (including amounts due to non-controlling shareholders and amount due to a joint venture) 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.

(s) **Equity instruments**

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

(t) **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.

3. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

(t) Revenue recognition *(cont'd)*

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.

(u) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave 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 at the earlier of the dates when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs and involves the payment of termination benefits.

3. **SIGNIFICANT ACCOUNTING POLICIES** *(cont'd)*

(v) **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.

(w) **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 items that are never taxable or deductible, and it further includes items from previous years that were not deductible or taxable. 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

(w) Taxation *(cont'd)*

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates, and investment in a joint venture, 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

(x) 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.

(B) An entity is related to the Group 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).

3. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

(y) 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.

Recoverable amount is the higher of fair value less costs of disposal 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 extent 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.

(z) 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

(z) Provisions and contingent liabilities *(cont'd)*

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.

(aa) 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.

(ab) Disposal groups held for sale

Disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the disposal groups are available for immediate sale in their present condition. The Group must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Disposal groups held for sale are measured at the lower of the disposal group's carrying amount and fair value less costs to sell.

4. CRITICAL JUDGEMENTS 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 19 and 20 to the financial statements, the Group is in the process of applying for the property rights certificates and the land use rights certificates in respect of certain leasehold land and buildings. Despite the fact that the Group has not obtained all the relevant legal titles, the directors determined to recognise those buildings and prepaid land lease payments as property, plant and equipment and prepaid land lease payments, respectively, on the grounds that the Group is in substance controlling those land and buildings.

4. CRITICAL JUDGEMENT AND KEY ESTIMATES *(cont'd)*

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 of similar nature and functions. 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.

(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 22 to the financial statements.

4. CRITICAL JUDGEMENT AND KEY ESTIMATES *(cont'd)*

Key sources of estimation uncertainty *(cont'd)*

(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.

(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 aging 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.

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 2013 and 31 December 2012 are as follows:

Group

	Exposure to foreign currencies					
	2013			2012		
	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	–
Pledged bank deposits and bank and cash balances	**4,770**	**9,681**	**14,605**	6,123	4,856	26,180
Trade and other payables	**(6)**	**(219)**	**–**	(6)	(61)	–
	4,764	**9,462**	**14,605**	6,117	6,118	26,180

Company

	Exposure to foreign currencies					
	2013			2012		
	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	**–**	**–**	**13,276**	–	–	24,791

5. FINANCIAL RISK MANAGEMENT *(cont'd)*

(a) Foreign currency risk *(cont'd)*

The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group monitors 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.

	2013	2012
	RMB'000	RMB'000
(Decrease)/increase in loss for the year		
– if RMB weakens against foreign currencies		
Hong Kong dollars ("HKD")	**(730)**	(1,309)
United States dollars ("USD")	**(238)**	(306)
Euro ("EUR")	**(473)**	(306)
– if RMB strengthens against foreign currencies		
HKD	**730**	1,309
USD	**238**	306
EUR	**473**	306

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.

5. **FINANCIAL RISK MANAGEMENT** *(cont'd)*

(b) **Credit risk**

The Group's credit risk is primarily attributable to its trade and bills receivables, retention receivables, deposits and other receivables, amounts due from associates, bank and cash balances and pledged bank deposits. The Group's maximum exposure to credit risk in the event that counterparties fail to perform their obligations at 31 December 2013 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 current rates at the end of the reporting period) is as follows:

5. **FINANCIAL RISK MANAGEMENT** *(cont'd)*

(c) **Liquidity risk** *(cont'd)*

	Less than 1 year
	RMB'000
Group	
At 31 December 2013	
Trade payables	104,535
Accrued charges	308,973
Value added tax, sales tax and other levies	25,291
Other payables	9,001
Amounts due to non-controlling shareholders	6,084
Bank borrowings	80,000
At 31 December 2012 (restated)	
Trade payables	91,495
Accrued charges	245,741
Value added tax, sales tax and other levies	34,484
Other payables	12,285
Amount due to a joint venture	376
Amounts due to non-controlling shareholders	5,964
Bank borrowings	90,000
Financial guarantee	5,984
Company	
At 31 December 2013	
Accrued charges	3,272
At 31 December 2012	
Accrued charges	3,361

5. **FINANCIAL RISK MANAGEMENT** *(cont'd)*

(d) **Interest rate risk**

Certain amount due to a non-controlling shareholder of a subsidiary 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 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.

	2013	2012
Reasonably possible change in interest rate	**50 basis points**	50 basis points
	RMB'000	RMB'000 (Restated)
Increase/(decrease) in loss for the year		
– as a result of increase in interest rate	**385**	498
– as a result of decrease in interest rate	**(385)**	(498)

(e) **Categories of financial instruments**

	2013	2012
	RMB'000	RMB'000 (Restated)
Financial assets:		
Loan and receivables (including cash and cash equivalents)	**659,053**	811,109
Financial liabilities:		
Financial liabilities at amortised cost	**533,883**	480,344

(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.

6. FAIR VALUE MEASUREMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

(a) Disclosures of level in fair value hierarchy at 31 December 2013:

	Fair value measurements using:	
	2013	2012
	Level 3	Level 3
Description	**RMB'000**	RMB'000
Recurring fair value measurements:		
Investment properties		
Commercial – PRC	**38,700**	38,700

In accordance with HKFRS 5, investment properties with a fair value of RMB38,700,000 reclassified as assets of disposal group held for sale was stated at fair value. The directors estimated the costs of sale is immaterial.

The highest and best use of the Group's investment properties classified as assets of disposal group held for sale differs from its current use because it is part of the Group's restructure plan to dispose of certain assets of the Group.

6. FAIR VALUE MEASUREMENTS *(cont'd)*

(b) Reconciliation of assets measured at fair value based on level 3:

	2013 Investment properties RMB'000
Description	
At 1 January	**38,700**
Stated at fair value upon transfer to disposal group held for sale	**–**
At 31 December	**38,700**

	2012 Investment properties RMB'000
At 1 January	40,412
Total losses recognised in profit or loss *(note)*	(1,712)
At 31 December	38,700
note: Include losses for assets held at end of reporting period	(1,712)

The total losses recognised in profit or loss included those for assets held at end of reporting period are presented in administrative expenses in the consolidated statement of profit or loss and other comprehensive income.

6. FAIR VALUE MEASUREMENTS *(cont'd)*

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 31 December 2013:

The Group's finance manager is responsible for the fair value measurements of assets and liabilities required for financial reporting purposes. The finance manager reports directly to the Board of Directors for these fair value measurements. Discussions of valuation process and results are held between the finance manager and the Board of Directors at least twice a year.

For level 3 fair value measurements, the Group will normally engage external valuation experts with the recognised professional qualifications and recent experience to perform the valuations.

Level 3 fair value measurements

Description	Valuation technique	Unobservable inputs		Effect on fair value for increase of inputs	Fair value 2013
			RMB		RMB'000
Investment properties	Market comparable approach	Price per square metre	874	Increase	38,700

During the two years, there were no changes in the valuation techniques used.

7. 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:

	2013	2012
	RMB'000	RMB'000
		(Restated)
Revenue from installation contracts	**421,818**	471,902
Sales of goods	**406,815**	479,681
Provision of maintenance services	**4,394**	12,484
Operation of a guest house	**3,775**	5,187
Provision of online advertising services	**10**	19
	836,812	969,273

8. OTHER INCOME

	2013	2012
	RMB'000	RMB'000
		(Restated)
Interest income	**11,366**	3,917
Rental income	**3,203**	2,963
Gain on disposal of a subsidiary *(note 42)*	**–**	1,221
Subcontracting income	**525**	–
Sundry income	**1,858**	3,934
	16,952	12,035

9. SEGMENT INFORMATION

The Group has four 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; 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, trading of fire engines, fire prevention and fighting and rescue equipment, and provision of maintenance services, which do 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 management considered that the grouping of the three types of business, which do not make up a significant part of the Group whether in terms of revenue, profit and loss, assets and liabilities, allows a clearer presentation and analysis of the Group's performance and state of affairs.

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 of associates, share of profit/loss of a joint venture, income tax expense and finance costs. Segment assets do not include investments in associates, investment in a joint venture, amounts due from associates, pledged bank deposits, bank and cash balances and unallocated other receivables. Segment liabilities do not include amount due to a joint venture, current and deferred tax liabilities, bank borrowings and unallocated other payables. Assets of the disposal group held for sale and the liabilities directly associated with disposal group held for sale are also separately disclosed.

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

9. SEGMENT INFORMATION *(cont'd)*

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

	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	Operation of a guest house RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000
For the year ended 31 December 2013							
TURNOVER							
External sales	421,818	273,876	118,715	3,775	18,628	–	836,812
Inter-segment sales	–	–	8,671	–	–	(8,671)	–
Total	421,818	273,876	127,386	3,775	18,628	(8,671)	836,812
RESULTS							
Segment (loss)/profit	(121,319)	13,838	7,837	(32,364)	(1,174)		(133,182)
Interest income							11,366
Impairment loss on investments in associates							(782)
Unallocated corporate expenses							(10,037)
Share of losses of associates							(12,515)
Share of profit of a joint venture							1,167
Finance costs							(5,466)
Loss before tax							(149,449)
Income tax expense							(12,281)
Loss for the year							(161,730)

9. SEGMENT INFORMATION *(cont'd)*

Information about reportable segment profit or loss, assets and liabilities: *(cont'd)*

	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	Operation of a guest house RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000
At 31 December 2013							
ASSETS							
Segment assets	**807,469**	**481,914**	**157,792**	**–**	**1,713**		**1,448,888**
Investments in associates							**3,209**
Amounts due from associates							**1,103**
Pledged bank deposits							**9,325**
Bank and cash balances							**136,900**
Unallocated other receivables							**10,378**
							1,609,803
Assets of disposal group held for sale							77,820
							1,687,623

9. SEGMENT INFORMATION *(cont'd)*

Information about reportable segment profit or loss, assets and liabilities: *(cont'd)*

	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	Operation of a guest house RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000
LIABILITIES							
Segment liabilities	293,384	122,538	56,178	–	3,536		475,636
Current tax liabilities							6,780
Bank borrowings							80,000
Deferred tax liabilities							2,692
Unallocated other payables							3,315
							568,423
Liabilities directly associated with disposal group held for sale							34,104
							602,527
OTHER INFORMATION							
Additions to non-current assets	229	599	4,020	393	21		5,262
Depreciation and amortisation	274	11,806	5,827	4,045	37		21,989
Impairment loss on goodwill	8,442	–	176	–	–		8,618
Impairment loss on property, plant and equipment	–	–	–	24,586	38		24,624
Loss on disposal of property, plant and equipment	28	16	–	–	22		66
Allowance for obsolete and slow-moving inventories	1,745	–	–	–	–		1,745
Obsolete stock written off	–	–	–	249	–		249
Allowance/(reversal of allowance) for bad and doubtful debts	118,469	(1,439)	(2,400)	414	2,571		117,615

9. SEGMENT INFORMATION *(cont'd)*

Information about reportable segment profit or loss, assets and liabilities: *(cont'd)*

	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 (Restated)	Operation of a guest house RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000 (Restated)
For the year ended 31 December 2012							
TURNOVER							
External sales	471,902	343,836	135,841	5,187	12,507	–	969,273
Inter-segment sales	–	10	5,097	–	167	(5,274)	–
Total	471,902	343,846	140,938	5,187	12,674	(5,274)	969,273
RESULTS							
Segment (loss)/profit	(15,476)	20,821	4,398	(7,912)	6,331		8,162
Interest income							3,917
Impairment loss on investments in associates							(4,228)
Unallocated corporate expenses							(9,437)
Share of losses of associates							(1,707)
Share of loss of a joint venture							(849)
Finance costs							(7,359)
Loss before tax							(11,501)
Income tax expense							(10,635)
Loss for the year							(22,136)

9. SEGMENT INFORMATION *(cont'd)*

Information about reportable segment profit or loss, assets and liabilities: *(cont'd)*

	Installation of fire prevention and fighting systems	Production and sale of fire engines	Production and sale of fire prevention and fighting equipment	Operation of a guest house	Others	Elimination	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
			(Restated)				(Restated)
At 31 December 2012							
ASSETS							
Segment assets	855,652	439,690	184,456	30,560	3,566		1,513,924
Investments in associates							16,506
Investment in a joint venture							17,744
Amounts due from associates							1,629
Pledged bank deposits							4,281
Bank and cash balances							193,992
Unallocated other receivables							41,813
							1,789,889

9. SEGMENT INFORMATION *(cont'd)*

Information about reportable segment profit or loss, assets and liabilities: *(cont'd)*

	Installation of fire prevention and fighting systems	Production and sale of fire engines	Production and sale of fire prevention and fighting equipment	Operation of a guest house	Others	Elimination	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
			(Restated)				(Restated)
LIABILITIES							
Segment liabilities	229,833	120,179	61,602	16,022	9,375		437,011
Amounts due to non-controlling shareholders							5,964
Amount due to a joint venture							376
Current tax liabilities							3,887
Bank borrowings							90,000
Deferred tax liabilities							2,381
Unallocated other payables							3,404
							543,023
OTHER INFORMATION							
Additions to non-current assets	723	1,799	977	10,166	91		13,756
Depreciation and amortisation	226	12,372	5,817	1,906	123		20,444
Loss on disposal of property, plant and equipment	503	1,087	–	–	–		1,590
(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	–	(8,289)		21,087

9. SEGMENT INFORMATION *(cont'd)*

Geographical information:

	Revenue		Non-current assets	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(Restated)		(Restated)
PRC	**836,812**	968,386	**262,706**	396,695
Others	**–**	887	**32**	81
	836,812	969,273	**262,738**	396,776

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 2013 and 2012.

10. OTHER EXPENSES

	2013	2012
	RMB'000	RMB'000
Impairment loss on goodwill	**8,618**	–
Impairment loss on investments in associates	**782**	4,228
Impairment loss on property, plant and equipment	**24,624**	–
	34,024	4,228

11. FINANCE COSTS

	2013 RMB'000	2012 RMB'000 (Restated)
Interest on bank borrowings wholly repayable within five years	**5,265**	7,164
Interest on amount due to a non-controlling shareholder	**201**	194
Finance lease charges	**–**	1
	5,466	7,359

12. INCOME TAX EXPENSE

	2013 RMB'000	2012 RMB'000 (Restated)
Current tax – PRC Enterprise Income Tax		
Provision for the year	**11,877**	9,709
Under-provision in prior years	**93**	–
	11,970	9,709
Deferred tax *(note 38)*		
Provision for the year	**360**	868
(Over)/under-provision in prior years	**(49)**	58
	311	926
	12,281	10,635

No provision for Hong Kong Profits Tax has been made for both years as the relevant group entities incurred a loss 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.

12. INCOME TAX EXPENSE *(cont'd)*

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 that was 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. The relevant tax rates for the Group's subsidiaries in the PRC range from 15% to 25% (2012: 12.5% to 25%).

The following subsidiary was granted tax concessions which entitled them to enjoy income tax exemption for two years followed by three years of 50% tax reduction.

	Tax privileges started from
Subsidiary	
Allied Best (China) Fire Safety Appliances Manufacturing Co., Ltd.	2008

The reconciliation between the income tax expense and loss before tax at applicable tax rates is as follows:

	2013 RMB'000	2012 RMB'000 (Restated)
Loss before tax	**(149,449)**	(11,501)
Tax at the PRC domestic income tax rate of 25% (2012: 25%)	**(37,362)**	(2,875)
Tax effect of income that is not taxable	**(278)**	(350)
Tax effect of expenses that are not deductible	**3,167**	1,956
Tax effect of temporary differences not recognised	**44,423**	9,502
Tax effect of share of losses of associates	**2,837**	639
Tax effect attributable to tax concessions	**(5,166)**	(3,472)
Tax effect of tax losses not recognised	**3,896**	4,409
Utilisation of tax losses not previously recognised	**(32)**	(10)
Underprovision in prior years	**44**	58
Effect of different tax rates of subsidiaries	**752**	778
Income tax expense	**12,281**	10,635

13. LOSS FOR THE YEAR

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

	2013 **RMB'000**	2012 RMB'000 (Restated)
Allowance for bad and doubtful debts	**117,615**	21,087
Allowance for obsolete and slow-moving inventories	**1,745**	395
Amortisation of other intangible assets (included in administrative expenses)	**–**	100
Amortisation of prepaid land lease payments	**739**	752
Auditor's remuneration	**1,386**	1,423
Cost of inventories sold *(note (i))*	**332,413**	396,208
Depreciation of property, plant and equipment	**21,250**	19,592
Fair value loss on investment properties	**–**	1,712
Gain on disposal of a subsidiary *(note 42)*	**–**	(1,221)
Impairment loss on goodwill	**8,618**	–
Impairment loss on investments in associates	**782**	4,228
Impairment loss on property, plant and equipment	**24,624**	–
Loss on disposal of a joint venture	**1,123**	–
Loss on disposal of property, plant and equipment	**66**	1,590
Net foreign exchange loss	**113**	1,837
Obsolete stock written off	**249**	80
Operating lease charges in respect of rented premises	**3,097**	5,341
Research and development expenditure *(note (ii))*	**17,922**	4,604
Staff costs including directors' emoluments		
Salaries, bonuses and allowances	**43,266**	46,757
Retirement benefit scheme contributions	**7,276**	7,462
	50,542	54,219

Notes: (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 RMB33,043,000 (2012(restated): RMB33,482,000) which are included in the amounts disclosed separately above.

(ii) Research and development expenditure includes staff costs and depreciation of property, plant and equipment of approximately RMB5,518,000 (2012(restated): RMB2,875,000) which are included in the amounts disclosed separately above.

14. DIRECTORS' EMOLUMENTS

	2013					2012				
	Fees RMB'000	Salaries and other benefits RMB'000	Discretionary bonus RMB'000 *(Note (a))*	Retirement benefit scheme contributions RMB'000	Total RMB'000	Fees RMB'000	Salaries and other benefits RMB'000	Discretionary bonus RMB'000 *(Note (a))*	Retirement benefit scheme contributions RMB'000	Total RMB'000
Executive directors										
Mr. Jiang Xiong	–	1,110	–	–	1,110	–	1,140	–	–	1,140
Mr. Jiang Qing	–	987	–	–	987	–	1,013	–	–	1,013
Mr. Wang De Feng	143	279	–	30	452	146	198	–	30	374
Ms. Weng Xiu Xia	143	78	–	13	234	146	78	–	13	237
Mr. Hu Yong	143	287	–	26	456	146	166	–	26	338
Ms. Zhang Hai Yan *(note b)*	137	8	–	1	146	146	52	–	13	211
	566	2,749	–	70	3,385	584	2,647	–	82	3,313
Non-executive directors										
Mr. Jean-Charles Thoumire *(note c)*	–	–	–	–	–	–	–	–	–	–
Mr. Oon Wee Chin *(note c)*	–	–	–	–	–	–	–	–	–	–
Ms. Xi Zheng Zheng *(note c)*	–	–	–	–	–	–	–	–	–	–
Mr. Harinath Krishnamurthy *(note c)*	–	–	–	–	–	–	–	–	–	–
	–	–	–	–	–	–	–	–	–	–
Independent non-executive directors										
Dr. Loke Yu	143	–	–	–	143	146	–	–	–	146
Mr. Heng Ja Wei	143	–	–	–	143	146	–	–	–	146
Ms. Sun Guo Li	143	–	–	–	143	146	–	–	–	146
	429	–	–	–	429	438	–	–	–	438
	995	2,749	–	70	3,814	1,022	2,647	–	82	3,751

14. DIRECTORS' EMOLUMENTS *(cont'd)*

Notes: (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.

(b) Ms. Zhang Hai Yan resigned on 17 December 2013.

(c) 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.

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.

15. EMPLOYEES' EMOLUMENTS

The five highest paid individuals in the Group during the year included, three (2012: three) directors, whose emoluments are included in the note 14 to the financial statements above. The emoluments of the remaining two (2012: two) individuals are set out below:

	2013	2012
	RMB'000	RMB'000
Salaries and other benefits	**1,806**	1,844
Retirement benefit scheme contributions	**29**	20
	1,835	1,864

15. EMPLOYEES' EMOLUMENTS *(cont'd)*

The emoluments fell within the following bands:

	Number of individuals 2013	2012
Nil to HKD1,000,000 (equivalent to RMB781,250)	**1**	1
HKD1,000,001 to HKD1,500,000 (equivalent to RMB781,251 to RMB1,171,875)	**1**	1
	2	2

During the year, no emoluments were paid by the Group to any of the highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

16. 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 RMB5,805,000 (2012: RMB3,959,000) which has been dealt with in the financial statements of the Company.

17. DIVIDENDS

The directors do not recommend the payment of any dividend for the year ended 31 December 2013 (2012: Nil).

18. LOSS PER SHARE

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

	2013 RMB'000	2012 RMB'000
Loss for the year attributable to owners of the Company	**152,871**	21,414

	'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 2013 and 2012 were lower than the exercise price of the share options.

19. 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
		(Restated)		(Restated)	(Restated)	(Restated)	(Restated)		(Restated)
Cost									
At 1 January 2012	285,884	54,201	36,412	2,842	2,353	11,999	3,578	20,875	418,144
Additions	–	5,067	–	522	441	2,223	255	5,248	13,756
Reclassification	9,668	–	–	–	–	–	11,173	(25,847)	(5,006)
Disposals	(1,296)	(432)	(142)	(160)	(449)	(2,475)	(235)	–	(5,189)
Disposal of a subsidiary	–	(1,086)	–	–	–	–	–	–	(1,086)
At 31 December 2012 and 1 January 2013	294,256	57,750	36,270	3,204	2,345	11,747	14,771	276	420,619
Additions	2,858	510	–	61	208	45	488	–	4,170
Transfer to disposal group held for sale	(29,837)	(36,562)	(36,270)	(526)	(285)	(1,782)	(14,150)	–	(119,412)
Disposals	–	(11)	–	(174)	(191)	(660)	–	–	(1,036)
At 31 December 2013	267,277	21,687	–	2,565	2,077	9,350	1,109	276	304,341
Accumulated depreciation and impairment									
At 1 January 2012	46,288	35,400	36,398	1,197	1,426	7,607	3,005	–	131,321
Charge for the year	14,658	2,912	–	401	261	637	723	–	19,592
Reclassification	(1,530)	–	–	–	–	–	–	–	(1,530)
Disposals	–	(412)	(128)	(145)	(399)	(1,235)	(234)	–	(2,553)
Disposal of a subsidiary	–	(596)	–	–	–	–	–	–	(596)
At 31 December 2012 and 1 January 2013	59,416	37,304	36,270	1,453	1,288	7,009	3,494	–	146,234
Charge for the year	15,402	3,064	–	449	307	623	1,405	–	21,250
Impairment loss	11,874	3,134	–	297	73	32	9,214	–	24,624
Transfer to disposal group held for sale	(19,842)	(33,780)	(36,270)	(517)	(247)	(1,634)	(13,370)	–	(105,660)
Disposals	–	(11)	–	(164)	(171)	(614)	–	–	(960)
At 31 December 2013	66,850	9,711	–	1,518	1,250	5,416	743	–	85,488
Carrying amount									
At 31 December 2013	200,427	11,976	–	1,047	827	3,934	366	276	218,853
At 31 December 2012	234,840	20,446	–	1,751	1,057	4,738	11,277	276	274,385

19. PROPERTY, PLANT AND EQUIPMENT *(cont'd)*

Among the additions to construction in progress for 2012, RMB4,113,000 were accrued to contractors included in other payables.

At 31 December 2013, the Group was in the process of applying for the property rights certificates in respect of buildings with carrying amount of RMB93,839,000 (2012: RMB99,086,000).

20. PREPAID LAND LEASE PAYMENTS

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

At 31 December 2013, the Group was in the process of applying for the land use rights certificates in respect of land leases with carrying amount of RMB21,867,000 (2012: RMB22,352,000).

21. INVESTMENT PROPERTIES

	Group	
	2013	2012
	RMB'000	RMB'000
At 1 January	**38,700**	36,410
Fair value loss	–	(1,712)
Reclassified from property, plant and equipment	–	3,476
Reclassified from prepaid land lease payments	–	526
Transfer to disposal group held for sale	**(38,700)**	–
At 31 December	–	38,700

The Group's investment properties were revalued at 31 December 2013 and 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.

22. GOODWILL

	Group RMB'000
Cost	
At 1 January 2012	48,740
Eliminated on disposal of a subsidiary	(3,392)
At 31 December 2012, 1 January 2013 and 31 December 2013	45,348
Accumulated impairment losses	
At 1 January 2012, 31 December 2012 and 1 January 2013	29,100
Impairment loss recognised in the year	8,618
At 31 December 2013	37,718
Carrying amount	
At 31 December 2013	7,630
At 31 December 2012	16,248

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 2013 and 2012 is allocated as follows:

	2013 RMB'000	2012 RMB'000
Installation of fire prevention and fighting systems	–	8,442
Production and sale of fire engines	**7,630**	7,630
Production and sale of fire prevention and fighting equipment	–	176
	7,630	16,248

22. GOODWILL *(cont'd)*

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 13% (2012: 12%). The cash flows beyond that five-year period have been extrapolated using a steady annual growth rate at 1% (2012: 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.

During the year, the Group reassessed the recoverable amount of the goodwill and determined that impairment on goodwill associated with the installation of fire prevention and fighting systems, and the production and sale of fire prevention and fighting equipment is required.

Encumbered with the long age outstanding receivables, the installation business in Fujian has made losses for consecutive years. The Group has started reducing its operation scale by restricting the number of new projects engaged each year. A full impairment on the goodwill related is thus considered appropriate.

The goodwill associated with the production and sale of fire prevention and fighting equipment was related to a subsidiary engaged in the production and sale of emergency lightings and fire alarm systems. The operation of the subsidiary has been ceased a few years ago and is not expected to be resumed.

23. OTHER INTANGIBLE ASSETS

	Group Capitalised development costs	
	2013	2012
	RMB'000	RMB'000
		(Restated)
Cost		
At 1 January and 31 December	**620**	620
Accumulated amortisation		
At 1 January	**620**	520
Charge for the year	**–**	100
At 31 December	**620**	620
Carrying amount		
At 31 December	**–**	–

24. INVESTMENTS IN SUBSIDIARIES

	Company	
	2013	2012
	RMB'000	RMB'000
Unlisted investments, at cost	**187,567**	187,567

Except for RMB22,717,000 (2012: RMB21,432,000) due from a subsidiary which bears interest at a fixed rate of 6.68% (2012: 6.68%) per annum, the amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

24. INVESTMENTS IN SUBSIDIARIES *(cont'd)*

Particulars of the principal subsidiaries as at 31 December 2013 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	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. ("Allied Best Hotel")/ 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
福建東盟聯合水產品投資管理有限公司(前稱集保控制設備有限公司) Fujian Asean United Aquatic Products Investment Management Co., Ltd. (Formerly known as 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

24. INVESTMENTS IN SUBSIDIARIES *(cont'd)*

Particulars of the principal subsidiaries at 31 December 2013 are as follows: *(cont'd)*

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	100%	Investment holding
四川森田消防裝備製造有限公司 Sichuan Morita Fire Safety Appliances Co., Ltd. ("Sichuan Morita")/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 ("Tung Shing")/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.

24. INVESTMENTS IN SUBSIDIARIES *(cont'd)*

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.

The following table shows information of subsidiaries that have non-controlling interests ("NCI") material to the Group. The summarised financial information represents amounts before inter-company eliminations.

	Allied Best Hotel		Sichuan Morita		Tung Shing	
	2013	2012	**2013**	2012	**2013**	2012
Principal place of business/ Place of incorporation	**PRC**		**PRC**		**Hong Kong**	
% of ownership interest held by NCI	**40%**	40%	**25%**	25%	**49%**	49%
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
At 31 December:						
Non-current assets	**1,000**	29,239	**14,836**	16,651	**–**	31
Current assets	**–**	1,531	**396,905**	372,566	**12,878**	13,347
Current liabilities	**(40,263)**	(37,670)	**(198,505)**	(198,301)	**(31,360)**	(29,276)
Net (liabilities)/assets	**(39,263)**	(6,900)	**213,236**	190,916	**(18,482)**	(15,898)
Accumulated NCI	**(15,705)**	(2,760)	**53,079**	47,499	**(9,056)**	(7,790)
Year ended 31 December:						
Revenue	**3,775**	5,187	**273,876**	343,846	**14,224**	8
(Loss)/profit	**(32,363)**	(7,908)	**22,319**	20,614	**(3,047)**	(5,192)
Total comprehensive income	**(32,363)**	(7,908)	**22,319**	20,614	**(2,584)**	(5,018)
(Loss)/profit allocated to NCI	**(12,945)**	(3,163)	**5,580**	5,153	**(1,493)**	(2,544)
Net cash (used in)/generated from operating activities	**(2,297)**	(1,377)	**(6,970)**	46,145	**1,395**	(85)
Net cash (used in)/generated from investing activities	**(393)**	(10,161)	**(12,335)**	(595)	**(32)**	2,872
Net cash generated from/(used in) financing activities	**2,479**	11,255	**(5,000)**	(5,000)	**72**	(111)
Net (decrease)/increase in cash and cash equivalents	**(211)**	(283)	**(24,305)**	40,550	**1,435**	2,676
Effect of foreign exchange rate changes	**–**	–	**–**	–	**(309)**	(134)
	(211)	(283)	**(24,305)**	40,550	**1,126**	2,542

At 31 December 2013, the bank and cash balances of the Group's subsidiaries in the PRC denominated in Renminbi amounted to RMB119,050,000 (2012: RMB154,754,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

25. INVESTMENTS IN ASSOCIATES

	Group 2013 RMB'000	Group 2012 RMB'000
Unlisted investments:		
Share of net assets	**56,350**	68,865
Goodwill	**6,540**	6,540
	62,890	75,405
Impairment losses *(note)*	**(59,681)**	(58,899)
	3,209	16,506

Note: Impairment loss for 2013 was made in respect of investment in Shanghai Kidde. In view of the market condition and the business environment that Shanghai Kidde is operating, the Group do not expect that it would be profitable in the future to support the carrying value of the goodwill and hence, considered an impairment is required.

Details of the Group's associates at 31 December 2013 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./ 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

25. INVESTMENTS IN ASSOCIATES *(cont'd)*

Name/type of legal entity	Place of incorporation	Paid up registered capital	Percentage of ownership interest	Principal activities
上海凱德消防設備有限公司 Shanghai Kidde Fire Fighting Co., Ltd. ("Shanghai Kidde")/ 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.,/limited liability enterprise	PRC	RMB5,000,000	40%	Production and sale of fire prevention and fighting equipment

The following table shows information of the associate that is material to the Group. The associate is accounted for in the consolidated financial statements using the equity method. The summarised financial information presented is based on the HKFRS financial statements of the associates.

	Fuzhou Huaan	
	2013	2012
Principal place of business/Place of incorporation: PRC		
Principal activities: Provision of the fire prevention and fighting system installation services and maintenance service		
% of ownership interests	**40%**	40%
	RMB'000	RMB'000
At 31 December:		
Non-current assets	**288**	334
Current assets	**11,339**	66,844
Current liabilities	**(15,084)**	(38,043)
Net (liabilities)/assets	**(3,457)**	29,135

25. INVESTMENTS IN ASSOCIATES *(cont'd)*

	Fuzhou Huaan	
	2013	2012
	RMB'000	RMB'000
Group's share of net assets	**–**	11,654
Goodwill	**2,997**	2,997
Impairment loss	**(2,997)**	(2,997)
Group's share of carrying amount of interests	**–**	11,654
Year ended 31 December:		
Revenue	**(29,418)**	14,084
Loss from continuing operations and total comprehensive income	**32,592**	2,863
Loss not recognised by the Group	**3,458**	–

The following table shows, in aggregate the Group's share of the amounts of all individually immaterial associates that are accounted for using the equity method.

	2013	2012
	RMB'000	RMB'000
At 31 December:		
Carrying amounts of interests	**3,209**	4,852
Year ended 31 December:		
Loss from continuing operations	**2,302**	1,875
Total comprehensive income	**2,302**	1,875

At 31 December 2013, the bank and cash balances of the Group's associates in the PRC denominated in Renminbi amounted to RMB7,540,000 (2012: RMB3,778,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

26. INVESTMENT IN A JOINT VENTURE

	Group	
	31 December 2013 RMB'000	31 December 2012 RMB'000 (Restated)
Unlisted investments:		
Share of net assets	**–**	17,744

The Group's equity interest in the joint venture was disposed of in December 2013.

Details of the Group's joint venture disposed of 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. "(Shanghai Pudong")/limited liability enterprise	PRC	RMB10,000,000	51%	Production and sale of fire prevention and fighting equipment

Although the Group held 51% of the registered capital of Shanghai Pudong, the Group and the other shareholder jointly controlled the entity under a shareholders' agreement.

The joint venture was accounted for in the consolidated financial statements using the equity method before its disposal. The summarised financial information presented below is based on the HKFRS financial statements of the joint venture.

26. INVESTMENT IN A JOINT VENTURE *(cont'd)*

	Shanghai Pudong
	2012
Principal place of business/Place of incorporation: PRC	
Principal activities: Production and sales of fire prevention and fighting equipment	
% of ownership interests	51%
	RMB'000
31 December:	
Non-current assets	3,356
Current assets	80,596
Current liabilities	(49,451)
Net assets	34,501
Group's share of net assets	17,596
Exchange reserve	148
	17,744
Cash and cash equivalents included in current assets	19,717
Current financial liabilities (excluding trade and other payables and provisions) included in current liabilities	11,659
Year ended 31 December:	
Revenue	67,157
Depreciation and amortisation	997
Interest income	89
Interest expense	1,358
Income tax expense	281
Loss for the year	1,665
Total comprehensive income	1,665

The joint venture was disposed of in December 2013 at a consideration of RMB19,135,000. A loss of RMB1,123,000 was recognised as a result of the disposal.

27. INVENTORIES

Inventories represent fire engines and fire prevention and fighting equipment.

	Group	
	2013	2012
	RMB'000	RMB'000
		(Restated)
Raw materials	**53,763**	32,529
Work in progress	**44,271**	30,187
Finished goods	**56,166**	24,378
	154,200	87,094

The above inventories are stated at lower of cost and net realizable value.

28. TRADE AND BILLS RECEIVABLES

	Group	
	2013	2012
	RMB'000	RMB'000
		(Restated)
Trade and bills receivables	**706,967**	699,134
Less: Allowance for bad and doubtful debts	**(289,046)**	(171,776)
	417,921	527,358

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.

28. TRADE AND BILLS RECEIVABLES *(cont'd)*

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	
	2013	2012
	RMB'000	RMB'000
		(Restated)
0 – 90 days	**160,797**	142,183
91 – 180 days	**55,133**	140,199
181 – 360 days	**57,279**	132,652
Over 360 days	**144,712**	112,324
	417,921	527,358

As of 31 December 2013, trade and bills receivables of RMB191,333,000 (2012(restated): RMB303,954,000) 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	
	2013	2012
	RMB'000	RMB'000
		(Restated)
91 – 180 days	**17,176**	96,090
181 – 360 days	**57,279**	132,652
Over 360 days	**116,878**	75,212
	191,333	303,954

28. TRADE AND BILLS RECEIVABLES *(cont'd)*

Reconciliation of allowance for bad and doubtful debts:

	Group	
	2013	2012
	RMB'000	RMB'000
		(Restated)
At 1 January	**171,776**	161,977
Allowance for the year	**117,615**	21,087
Amounts written off	**–**	(3,927)
Disposal of a subsidiary	**–**	(7,231)
Exchange differences	**(345)**	(130)
At 31 December	**289,046**	171,776

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 2013 and 2012 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.

29. AMOUNTS DUE FROM/TO CONTRACT CUSTOMERS

	Group	
	2013	2012
	RMB'000	RMB'000
Contract costs incurred plus profits recognised less recognised losses	**1,640,327**	1,308,687
Less: Progress billings	**(1,105,576)**	(830,715)
	534,751	477,972
Comprising:		
Amounts due from contract customers	**547,310**	488,600
Amounts due to contract customers	**(12,559)**	(10,628)
	534,751	477,972

30. RETENTION RECEIVABLES

All retention receivables at 31 December 2013 are due within one year (2012(restated): RMB7,561,000 of the retention receivables was due after one year).

31. AMOUNTS DUE FROM ASSOCIATES

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

32. PLEDGED BANK DEPOSITS AND BANK AND CASH BALANCES

Bank balances carry interest ranging from Nil to 1.35% (2012: Nil to 1.49%) per annum.

The pledged bank deposits are mainly to secure banking facilities granted to the Group and carry interest at 0.35% (2012: 0.35% to 0.5%) per annum.

At 31 December 2013, the bank and cash balances of the Group denominated in Renminbi amounted to RMB119,050,000 (2012: RMB154,754,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

33. DISPOSAL GROUP HELD FOR SALE

Pursuant to the resolution of the Board of Directors of the Company on 30 December 2013, the Group will dispose of all the equity interests it held in certain subsidiaries and associates (the "Disposals"). The subsidiaries to be disposed of are engaged in the production and sale of fire prevention and fighting equipment, trading of fire engines and fire-fighting and rescue equipment, and operation of a guest house. The associates to be disposed of are engaged in the provision of installation and maintenance services to fire prevention and fighting systems, and the provision of network based monitoring services to fire prevention and fighting systems. The total considerations of the Disposals are approximately RMB74 million. Subject to certain conditions precedent, the Disposals are expected to be completed within 12 months after the reporting period.

The assets and liabilities of the subsidiaries to be disposed of have been classified as disposal group held for sale and are presented separately in the consolidated statement of financial position. The Group's interests in the associates to be disposed of has no carrying value as the investments cost has either been fully impaired or written down to zero by the accumulated losses shared.

33. DISPOSAL GROUP HELD FOR SALE *(cont'd)*

The major classes of assets and liabilities comprising the disposal group held for sale at 31 December 2013 are as follows:

	RMB'000
Property, plant and equipment	**13,752**
Investment properties	**38,700**
Prepaid land lease payments	**513**
Bank and cash balances	**24,855**
Investments in associates	**–**
Total assets of disposal group held for sale	**77,820**
Trade and other payables	**(28,020)**
Amounts due to non-controlling shareholders	**(6,084)**
Total for liabilities directly associated with assets of disposal group held for sale	**(34,104)**
Net assets of disposal group	**43,716**

At 31 December 2013, cumulative expense recognised in other comprehensive income relating to the disposal group held for sale amounted to RMB452,000.

34. TRADE AND OTHER PAYABLES

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(Restated)		
Trade payables	**102,006**	91,495	**–**	–
Accrued charges	**292,694**	245,741	**3,272**	3,361
Receipts in advance	**46,539**	45,782	**–**	–
Value added tax, sales tax and other levies	**25,153**	34,484	**–**	–
Other payables	**–**	12,285	**–**	–
	466,392	429,787	**3,272**	3,361

34. TRADE AND OTHER PAYABLES *(cont'd)*

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

	Group	
	2013	2012
	RMB'000	RMB'000
		(Restated)
0 – 30 days	**53,752**	41,885
31 – 60 days	**13,042**	12,120
61 – 90 days	**7,473**	10,590
Over 90 days	**27,739**	26,900
	102,006	91,495

35. AMOUNT DUE FROM/TO A JOINT VENTURE

The amount due from/to a joint venture was unsecured, interest-free and repayable on demand.

36. AMOUNTS DUE TO NON-CONTROLLING SHAREHOLDERS

The amounts due to non-controlling shareholders are unsecured and repayable on demand. An aggregate amount of RMB3,084,000 (2012: RMB2,964,000) bears interest at a fixed rate of 6.68% (2012: 6.68%) per annum, the remaining amounts are interest-free.

37. BANK BORROWINGS

	Group	
	2013	2012
	RMB'000	RMB'000
		(Restated)
Bank loans, unsecured	**80,000**	90,000

At 31 December 2013 and 2012, 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.

37. BANK BORROWINGS *(cont'd)*

The average interest rates at 31 December are as follows:

	2013	2012 (Restated)
Bank loans	**6.79%**	7.20%

The interest rates for the bank loans outstanding at 31 December 2013 were arranged at 110% to 116% (2012: 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.

38. DEFERRED TAX LIABILITIES

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

	Profit recognition of installation contracts RMB'000 (note)
At 1 January 2012	1,455
Charge to the profit or loss for the year	926
At 31 December 2012 and 1 January 2013	2,381
Charge to the profit or loss for the year	**311**
At 31 December 2013	**2,692**

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 profit or loss and other 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.

At 31 December 2013, the Group has unused tax losses of RMB101,700,000 (2012: RMB84,456,000) 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 RMB31,699,000 that will expire from 2014 to 2018 (2012: RMB26,490,000 that will expire from 2013 to 2017). Other tax losses may be carried forward indefinitely.

38. DEFERRED TAX LIABILITIES *(cont'd)*

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 RMB252,716,000 (2012: RMB214,746,000). 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.

39. SHARE CAPITAL

	Number of shares	Amount HKD'000
Authorised:		
Shares of HKD0.01 (2012: HKD0.01) each		
At 1 January 2012, 31 December 2012,		
1 January 2013 and 31 December 2013	**10,000,000,000**	100,000
Issued and fully paid:		
Shares of HKD0.01 (2012: HKD0.01) each		
At 1 January 2012, 31 December 2012,		
1 January 2013 and 31 December 2013	**2,855,000,000**	28,550

	2013 **RMB'000**	2012 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 37 to the financial statements, and equity attributable to owners of the Company, comprising issued share capital and reserves including retained profits.

39. SHARE CAPITAL *(cont'd)*

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 restricted throughout the period.

40. 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.

40. SHARE OPTION SCHEME *(cont'd)*

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.

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 2012, 31 December 2012, 1 January 2013 and 31 December 2013
					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 2013 (2012: Nil).

41. RESERVES

(a) Group

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

41. RESERVES *(cont'd)*

(b) Company

	Share premium RMB'000	**Capital reserve** RMB'000 *(Note (ii))*	**Exchange reserve** RMB'000 *(Note (vi))*	**Accumulated losses** RMB'000	**Total** RMB'000
At 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 and 1 January 2013	646,363	170,607	(3,342)	(114,208)	699,420
Total comprehensive income for the year	–	–	–	(5,805)	(5,805)
At 31 December 2013	646,363	170,607	(3,342)	(120,013)	693,615

(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.

41. RESERVES *(cont'd)*

(c) Nature and purpose of reserves *(cont'd)*

(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.

(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 years.

42. DISPOSAL OF A SUBSIDIARY

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)
Release 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

43. CAPITAL COMMITMENTS

At 31 December 2013, the Group's capital commitments are as follows:

	2013 RMB'000	2012 RMB'000
Property, plant and equipment		
Contracted for but not provided for	**19,306**	22,807

The Company had no capital commitment at 31 December 2013 (2012: Nil).

44. OPERATING LEASE COMMITMENTS

As lessee

At 31 December 2013, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Group		Company	
	2013 **RMB'000**	2012 RMB'000 (Restated)	**2013** **RMB'000**	2012 RMB'000
Within one year	**4,789**	4,531	**739**	759
In the second to fifth year inclusive	**20,816**	19,744	**431**	1,212
After five years	**13,505**	19,351	**–**	–
	39,110	43,626	**1,170**	1,971

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

44. OPERATING LEASE COMMITMENTS *(cont'd)*

As lessor

At 31 December 2013, the total future minimum lease receipts under non-cancellable operating leases are receivable as follows:

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**8,345**	2,892	**–**	–
In the second to fifth year inclusive	**29,949**	4,072	**–**	–
After five years	**17,105**	–	**–**	–
	55,399	6,964	**–**	–

45. 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% (2012: 18% to 22%) 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 2013 amounted to RMB7,204,000 (2012(restated): RMB7,388,000).

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 profit or loss and other 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 2013, the Group made to the MPF Scheme contributions amounting to RMB72,000 (2012: RMB74,000).

46. 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:

	2013	2012
	RMB'000	RMB'000
		(Restated)
Finished goods purchased from associates	**3,946**	2,040
Finished goods purchased from a joint venture	**2,576**	286
Finished goods sold to associates	**82**	3,029
Interest income on amount due from a joint venture	**–**	1,417
Interest expenses on amount due to a non-controlling shareholder	**201**	194
Rental income received from associates	**336**	336

(b) The key management personnel are the directors. The details of the remuneration paid to them are set out in note 14 to the financial statements.

47. CONTINGENT LIABILITIES

The Group and the Company did not have any significant contingent liabilities at 31 December 2013. In 2012, the Group issued a guarantee of RMB20,000,000 to a bank in respect of a banking facility granted to a joint venture. The guarantee was revoked as when the respective bank loan was settled in 2013. The Group sold its equity interest in the joint venture in December 2013.

48. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 25 March 2014.

FINANCIAL SUMMARY

	For the year ended 31 December				
	2009 RMB'000 (Restated)	2010 RMB'000 (Restated)	2011 RMB'000 (Restated)	2012 RMB'000 (Restated)	**2013** **RMB'000**
RESULTS					
Turnover	977,765	876,944	1,080,349	969,273	**836,812**
Loss before tax	(100,949)	(29,878)	(28,931)	(11,501)	**(149,449)**
Income tax expense	(6,353)	(9,028)	(9,557)	(10,635)	**(12,281)**
Loss for the year	(107,302)	(38,906)	(38,488)	(22,136)	**(161,730)**
Attributable to:					
Owners of the Company	(105,530)	(39,381)	(41,245)	(21,414)	**(152,871)**
Non-controlling interests	(1,772)	475	2,757	(722)	**(8,859)**
	(107,302)	(38,906)	(38,488)	(22,136)	**(161,730)**
Loss per share (RMB cents)					
Basic	(3.70)	(1.38)	(1.44)	(0.75)	**(5.35)**
Diluted	(3.70)	(1.38)	(1.44)	(0.75)	**(5.35)**

	At 31 December				
	2009 RMB'000 (Restated)	2010 RMB'000 (Restated)	2011 RMB'000 (Restated)	2012 RMB'000 (Restated)	**2013** **RMB'000**
ASSETS AND LIABILITIES					
Total assets	1,687,580	1,687,762	1,751,890	1,789,889	**1,687,623**
Total liabilities	(348,175)	(387,308)	(479,286)	(543,023)	**(602,527)**
	1,339,405	1,300,454	1,272,604	1,246,866	**1,085,096**
Equity attributable to owners of the Company	1,313,542	1,273,805	1,232,158	1,210,602	**1,057,464**
Non-controlling interests	25,863	26,649	40,446	36,264	**27,632**
Total equity	1,339,405	1,300,454	1,272,604	1,246,866	**1,085,096**