中國消防

Annual Report 2010

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

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CORPORATE INFORMATION

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

NON-EXECUTIVE DIRECTORS
Xi Zheng Zheng
Harinath Krishnamurthy

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

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
Sun Jian Guo
Heng Ja Wei

MEMBERS OF REMUNERATION COMMITTEE
Loke Yu
Heng Ja Wei
Jiang Qing

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STOCK EXCHANGE LISTING
The Stock Exchange of Hong Kong Limited

STOCK CODE
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CHAIRMAN'S STATEMENT

With the turnaround of the economic environment, we saw improvement in some of our business segments. Among them, the production and sale of fire prevention and fighting equipment showed the biggest advancement. It generated an operating profit of RMB24 million for the year, as compared to the loss of RMB52 million last year. Even if we take away the effect of the allowance for bad and doubtful debts, we still see a big improvement there. This is attributable to our endless effort in developing new products and refining those in existence. After years of distribution network and product quality refinement, our fire protection equipments (especially those high-end) have build up their reputation in the market and have attracted lots of customers. The Intelligent Auto-aiming Fire Extinguishing System is exactly one of those products highly preferred by our customers. It is a self-developed equipment particularly designed for use in constructions with high roof, such as stadiums, warehouses, airports, train stations etc, that are not suitable for sprinklers installation. Its sales have been on an increasing trend since it was launched a few years ago. In addition, the trading business has also turned around with more demands for imported fire engines as a result of economic recovery.

In spite of these improvements, we made a loss for the year. This was attributable to the allowance for bad and doubtful debts made for the year that eroded completely the favourable happenings mentioned above. The allowance was made on the old age receivables that have long exceeded the reasonable recovery period. Those receivables arose from sales made in the days when we aimed for a sales growth with a slightly relaxed credit control. We are still closely following up the accounts and taking all possible dunning procedures and I believe they could be recovered only at a longer time span. Meanwhile, we have tightened the credit control especially on the installation business and are more selective in securing jobs.

In the coming years, we will strengthen the rationalisation of our different businesses and products by closing down the less efficient and less profitable business units. We will also reinforce the product development to enhance the product variety: the 32-meter water tanker and high power water foam trucks have been scheduled for production in 2011; we are also working on the development of the airport trucks that fulfill the requirement of International Civil Aviation Organisation in respect of response time, aiming to be the one to launch the first domestic qualified airport trucks. For the services market, the volatile income from installation business (as its ups and downs are highly correlated with the macroeconomic environment) and the unstable revenue from maintenance business (because services provided were mostly one-off jobs) have long been our concern. Nevertheless, we have moved a great leap forward in securing a stable income stream this year. We have entered into contracts with Foxconn Group to provide maintenance services to some of its plants in Shenzhen for a fixed annuity. With the reputation and experience gained, I believe this would be a milestone for our opening of the annuity maintenance market.

CHAIRMAN'S STATEMENT

Taking this chance, I would like to extend my gratitude to all the staff and my fellow directors for their dedication, support and valuable contributions in the past year.

Jiang Xiong
Chairman

25 March 2011

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the year ended 31 December 2010, turnover of the Group declined 9% to RMB908 million. Loss for the year decreased by 64% to RMB39 million. Allowance for bad and doubtful debts amounted to RMB41 million was made for the year. There was also an impairment loss on investments in associates amounted to RMB12 million.

Installation of fire prevention and fighting systems

Revenue from installation of fire prevention and fighting systems for the year decreased 21% to RMB420 million. Operating loss increased 4% to RMB26 million, after an allowance for bad and doubtful debts of RMB43 million (2009: RMB44 million).

The decrease in revenue for the year was mainly attributable to the decline in amount of contracts secured as compared to last year. The allowance for bad and doubtful debts was made on the old age receivables that have long exceeded the reasonable recovering period. They originated from the days when the Group targeted for sales growth with the credit control slightly relaxed. The Group believed that a large part of the receivables would be recovered but at a longer time span. Allowances were still made for both 2009 and 2010 for prudence sake. The Group has been more selective in bidding for installation contracts since then. As a result, revenue in the future may drop substantially and return would also be affected but in a positive way.

Production and sale of fire engines

Revenue from production and sales of fire engines for the year slightly decreased 1% to RMB281 million. Operating profit dropped 94% to RMB0.5 million.

The drop in profit was mainly due to the inflation of material costs. Selling prices, however, has been constrained by the market competition and therefore could not catch up with the rising costs of production. In order to outperform competitors, the Group launched series of new products every year to cater for the changing market needs. The 32 meters water tanker, high power water foam trucks (discharge rate at 10,000 liters per minute) and airport-specific foam trucks have been scheduled for production in 2011. Orders for the airport-specific foam trucks have been received once it was launched. Other special purpose vehicles are also under development including the swift airport trucks. A qualified airport truck must have good acceleration to meet the response time requirement by the International Civil Aviation Organisation, and the ability to move on rough terrain outside the runway. There is currently no domestic supply for such airport trucks, the Group is eager to be the first one to set the record.

Since the fire hazard in Shanghai in November 2010, the Fire Bureau has requested fire brigades of all levels to upgrade their fleet of fire engines and equipment. It is estimated that there will be surging demand for different types of fire engines all over the country in the coming few years. As one of the largest manufacturers in China, the Group absolutely will get a good share of it.

MANAGEMENT DISCUSSION AND ANALYSIS

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 8% to RMB144 million. Operating results, on the other hand, turned around and realized a profit of RMB24 million (2009: loss of RMB52 million).

Operating results improved because some of the receivables previously provided for impairment losses have been recovered during the year and subsequent to the year end date, resulted in a reversal of the allowance for bad and doubtful debts for RMB12 million (2009: allowance for bad and doubtful debts made was RMB37 million).

Moreover, change in the Group's sales mix that comprised a larger proportion of high-end products has also accounted for the result improvement. After years of effort in refining the distribution network and product quality, many of the Group's high-end fire protection equipments have build up their reputation in the market and pushed up the sales for the year. The Intelligent Auto-aiming Fire Extinguishing System is exactly one of the Group's most favoured fire protection equipments. It is particularly popular among airports, train stations, stadiums, warehouses and other constructions with high roof that are not fit for the use of sprinklers.

Provision of maintenance services

Revenue from the provision of fire prevention and fighting system maintenance services for the year decreased by 6% to RMB5 million. Operating loss increased by 96% to RMB5 million, after an allowance for bad and doubtful debts amounted to RMB5 million (2009: RMB4 million).

In the fourth quarter of the year, the Group secured a two-year-contract to provide maintenance services to a number of plants of Foxconn International Holdings in Shenzhen. For many years, almost all of the Group's maintenance services provided were one-off repairing or renovation works which have resulted in a high volatility in volume of business. Taking advantage of the experience and reputation gain from the Foxconn contracts, the Group has a good chance to open the annuity service market in which the Group had previously seldom participated.

Provision of network monitoring system services

Revenue from provision of network monitoring system services for the year decreased by 19% to approximately RMB5 million. Operating loss for the year decreased by 80% to RMB3 million.

Operating loss decreased because there was an impairment loss of RMB11 million in respect of the goodwill associated with the segment last year. The business of the segment, to the disappointment of the Group, was still in stagnation. There was no material change in the regulations or the market and most of the target customers remained uninterested in the benefits the system brought because of the costs involved. Unless the installation of the system is made mandatory, it seems that there is no alternative way to effectively turn around the business of the segment in the short run.

MANAGEMENT DISCUSSION AND ANALYSIS

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

Revenue from the trading of fire engines, fire prevention and fighting and rescue equipment for the year increased by 1.8 times to approximately RMB53 million. Operating results turned around and realized a profit of RMB2 million (2009: loss of RMB1 million).

Given the six to nine months production lead time, the pessimistic economic climate in the first half of 2009 has adversely affected the order book and therefore the sales for last year. With the growing demands for fire engines and customers' regaining confidence in the economy in the second half of 2009, the Group's sales of imported fire engines were significantly improved for the year under review.

FINANCIAL RESOURCES, LIQUIDITY, CONTINGENT LIABILITIES AND PLEDGE OF ASSETS

As at 31 December 2010, the Group had bank and cash balances amounting to approximately RMB277 million (2009: RMB166 million) of which RMB15 million (2009: RMB6 million) was pledged for bid bond guarantee issued, performance guarantee, guarantee for letter of credit issued, and as margin for forward foreign exchange contracts. Outstanding balances of bank borrowings as at the year end date were RMB95 million (2009: RMB80 million). Included in the bank borrowings were trust receipt loans amounted to RMB5 million (2009: Nil) borrowed by a subsidiary in Hong Kong, being drawn from the banking facilities granted by a bank in Hong Kong. The banking facilities, which sum up to USD23 million, cover bank overdraft and other trade lines facilities including letter of credit, trust receipt loans, and forward contracts. The settlement of the borrowings under the facilities was guaranteed by the Company. The remaining amount of bank borrowings was short term bank loans borrowed by two of the Company's subsidiaries in Sichuan.

As at 31 December 2010, current assets and current liabilities of the Group were approximately RMB1,278 million (2009: RMB1,247 million) and RMB392 million (2009: RMB357 million) respectively. The current ratio was approximately 3.3 times (2009: 3.5 times). Gearing ratio (interest bearing debt/total equity) at end of the year was 7.3% (2009: 6%). There was an allowance for bad and doubtful debts amounted to RMB158 million as at year end date (2009: RMB118 million). The allowances made in recent years were on those old age receivables that have long exceeded the normal recovering period. They were originated from sales several years ago when the Group targeted for a high sales growth with a slightly relaxed credit control. For the receivables previously impaired, RMB12 million of which have been recovered during the year and subsequent to the year end date, showing that they could still be recovered though at a much longer time span.

MANAGEMENT DISCUSSION AND ANALYSIS

Renminbi is the functional currency and adopted as the reporting currency by the Group. The majority of the Group's assets, liabilities, sales and purchases are primarily denominated in Renminbi and Hong Kong dollar. The Group has entered into foreign currency forward exchange contracts to minimize exposure to exchange rate volatility arising from receivables and payables involving currencies other than Renminbi and Hong Kong dollar. During the year, there were gains arising from changes in fair value of currency derivatives amounting to RMB0.9 million (2009: RMB0.4 million).

Save as disclosed, the Group has no material contingent liabilities or pledge of assets for the year ended 31 December 2010.

INVESTMENTS AND CAPITAL COMMITMENTS

Capital commitments

As at 31 December 2010, the Group has capital commitment of approximately RMB27 million (2009: RMB28 million) which was related to the investment amount committed to the local government of the county where the Sichuan factory is located.

Save as disclosed herein, the Group has no other material capital commitments, investments, acquisitions or disposals of subsidiaries as at 31 December 2010.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2010, the Group had approximately 1,108 full-time employees (2009: 1,239). Staff costs, excluding directors' remuneration for the year was RMB43 million (2009: RMB41 million). The decrease in number of staff was a direct result of the disposal of subsidiaries. Staff costs increased despite the decline in number of staff reflected the general pay rise in the mainland China. All full-time employees are entitled to medical contributions, provident funds and retirement plans. The Group provides a series of comprehensive in-house and on-the-job training to staff to keep their technical skills and standards up to date for quality services and to enhance work safety.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive directors

Mr. JIANG Xiong, aged 43, 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 46, is an executive director and Chief Executive Officer of the Company. He joined the Group in April 1995 and has over 15 years of experience in the building construction industry and fire prevention and fighting systems installation. Prior to joining the Group in April 1995, Mr. Jiang was an assistant executive of Fujian Construction and Development Limited (福建省建設發展總公司), a company engaged in property development, from February 1993 to April 1995 and he was mainly responsible for the management and administration for construction projects. Mr. Jiang received the professional certificate from Fujian Technical Institute of Construction (福建建築高等專科學校) in September 2000 and is a qualified engineer in the PRC and obtained the qualification of senior economist from the Human Resources Office of Fujian Provincial Government (福建省人事廳) in January 2004. Mr. Jiang was elected the Chairman of the Construction Industry Association and its branch for fire safety industry in 2006. He is responsible for the corporate management and overall operation of the Group. He is the elder brother of Mr. Jiang Xiong.

Ms. ZHANG Hai Yan, aged 38, is an executive director of the Company. Ms. Zhang joined the Group in 2004 and is responsible for overseeing acquisitions and other development projects of the Group. Ms. Zhang is a graduate of the Jianghan Petroleum Institute and was elected the Deputy Secretary General and executive of the Fujian Young Entrepreneur Association in 2005.

DIRECTORS AND SENIOR MANAGEMENT

Mr. WANG De Feng, aged 42, 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 41, 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 over 15 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 42, was appointed an executive director of the Company on 12 May 2010, 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 18 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.

Non-executive directors

Ms. XI Zheng Zheng, aged 43, is a non-executive director of the Company. She joined the Company in November 2006. She is the Director of Legal Affairs of UTC Fire & Security Asia. Ms. Xi graduated with a LL.B from Beijing University Law School and a LL.M from Cornell Law School (New York, USA). She is a qualified lawyer in both China and State of New York, USA. Ms. Xi joined United Technologies Corporation in 1998 and served as Counsel for Otis and Pratt Whitney respectively, prior to joining UTC Fire & Security.

Mr. Harinath KRISHNAMURTHY, aged 45, was appointed a non-executive director of the Company on 17 November 2009. He is the Director Finance, Asia of UTC Fire & security Asia. He holds a Bachelor Degree in commerce where he graduated from Bangalore University (India) and is a qualified Chartered Accountant from Institute of Chartered Accountants of India. Before joining UTC Fire & Security, he held a series management positions at GE Infrastructure, Hercules Inc, Betz and 3M.

DIRECTORS AND SENIOR MANAGEMENT

Independent non-executive directors

Dr. Loke Yu alias **Loke Hoi Lam**, aged 61, was appointed an independent non-executive director of the Company on 1 August 2006. He is the chairman of the audit committee of the Company. Dr. Loke has over 35 years of experience in accounting and auditing for private and public companies, financial consultancy and corporate management. He holds a Master of Business Administration degree from University Teknology Malaysia and a Doctor of Business Administration degree from University of South Australia. He is a Fellow of The Institute of Chartered Accountants in England and Wales; Hong Kong Institute of Certified Public Accountants and The Hong Kong Institute of Directors. He is also an Associate member of The Hong Kong Institute of Chartered Secretaries.

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

Mr. SUN Jian Guo, aged 52, was appointed an independent non-executive director of the Company on 7 May 2007. He is a Vice Secretary-General of the Chinese Productivity Distribution and Regional Economic Development Committee of Chinese Association of Productivity Science (中國生產力學會生產力佈局與地區經濟發展專業委員會), a Vice President of the Hebei Economic Promotion Association (河北省經濟促進會) and a Visiting Professor of Beijing Minzu Daxue (北京民族大學). Mr. Sun graduated from the Faculty of Chinese of Hebei University in 1981. He had been working in Baoding division of Hebei Province of the Ministry of Public Security (河北省保定市公安局) before he retired as the Chief Commander of sub-division in 1996.

Mr. HENG Ja Wei, aged 33, was appointed an independent non-executive director of the Company on 4 March 2009. Mr. Heng is the Managing Partner of Morison Heng, Certified Public Accountants. Mr. Heng holds a Master of Science degree of the Imperial College, University of London. He is a member of The Association of Chartered Certified Accountants and a member of The Hong Kong Institute of Certified Public Accountants. Mr. Heng is also an independent non-executive director of Lee & Man Holding Limited, a company listed on The Stock Exchange of Hong Kong Limited.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. LI Jin, aged 56, is the Managing Director of Fujian Shengan City Safety Communications Development Company Limited, a subsidiary of the Company. Mr. Li has over 21 years of experience in working for the fire services department of Fujian Province from 1974 to 2001. He retired from the fire services department of Fujian Province in 2001. He was also awarded Third Class Honour (三等功) for his contribution when he served in the fire services department in 1999. Mr. Li is a qualified engineer in the PRC. He joined the Group in May 2001 and is responsible for the supervision of the R&D of the Group's network-based monitoring system as well as the operation and marketing of monitoring centres.

Ms. ZHANG Yu Rong, aged 48, 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 in service in the accounting area 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 43, is the General Manager of Allied Best (China) Fire Safety Appliances Manufacturing Co., Ltd., a subsidiary of the Company. Ms Liao graduated from 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. CAI Jun, aged 47, is the Managing Director of Beijing City Chongzheng Huasheng Emergency Appliances System Co., Ltd. ("Chongzheng Huasheng") (北京市崇正華盛應急設備系統有限責任公司), a subsidiary of the Company. Mr. Cai is a graduate of the Department of Mechanical Engineering of the Southwest Jiaotong University (西南交通大學). He is the Divisional Leader of the Emergency Lighting Division of the Interior Experts Committee of the China Illumination Engineer Association (中國照明學會室內專業委員會應急照明課題組組長), and the committee member of the No. 6 Sub-Committee of the China Fire Safety Standardizations Technology Committee (中國消防標準化技術委員會第六分委技術委員會委員). Mr. Cai is also a member of the editorial committee responsible for formulating the National Standards in fire safety lighting equipments (消防應急燈具), fire safety emergency power sources (消防設備應急電源), and the Acceptance Standards for the Installation of Emergency Lighting Equipments and Signage (消防應急照明系統及標誌牌安裝驗收規範).

DIRECTORS AND SENIOR MANAGEMENT

Mr. CHAN Chun Wo, aged 60, is the Managing Director of Tung Shing Trade Development Company Limited, a subsidiary of the Company. Mr. Chan is a graduate of the Mechanical and Engineering Department of Southeast University of China (Nanjing) (中國東南大學(南京)), has over 15 years of experience in trading of fire services and rescuing equipments. Mr. Chan is responsible for the management and business development of Tung Shing.

Mr. REN Long, aged 48, the General Manager of Chuanxiao Fire Engineering Company Limited, a subsidiary of the Company. He has worked in the fire safety engineering and project implementation and administration for over 20 years. Mr. Ren has extensive experience in the administration of numerous large-scaled fire safety projects.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

Throughout the year ended 31 December 2010, the Company has complied with the code provisions set out in the Code on Corporate Governance Practices set out in Appendix 14 of the Listing Rules, except for the following:

1. Only two board meetings were held during the year.
2. There were no fixed terms of appointment for the directors.
3. According to the articles of association, no director holding office as chairman and/or managing director shall be subject to retirement by rotation.

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

DIRECTORS' SECURITIES TRANSACTIONS

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

BOARD OF DIRECTORS

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

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

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(continued)*

Attendance of each director is set out below:

Name of directors	No. of meetings attended
Executive directors	
Mr. Jiang Xiong *(Chairman)*	2/2
Mr. Jiang Qing *(Chief Executive Officer)*	2/2
Ms. Zhang Hai Yan	2/2
Mr. Wang De Feng	2/2
Ms. Weng Xiu Xia	2/2
Mr. Hu Yong	1/1*
Mr. Shi Jia Hao	0/0*
Non-executive directors	
Ms. Xi Zheng Zheng	2/2
Mr. Harinath Krishnamurthy	2/2
Independent non-executive directors	
Dr. Loke Yu	2/2
Mr. Sun Jian Guo	2/2
Mr. Heng Ja Wei	2/2

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

* Mr. Hu Yong was appointed an executive director of the Company on 12 May 2010. There was only one board meeting held after his appointment. Mr. Shi Jiao Hao resigned on 25 February 2010 and there was no board meeting held before his resignation.

CORPORATE GOVERNANCE REPORT

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.

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 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 all of the directors' remuneration packages.

NOMINATION OF DIRECTORS

The Board does not establish a nomination committee at present. The appointment of new director(s) is therefore a matter for consideration and decision by the full Board. The Board considers that the 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.

AUDIT COMMITTEE

The audit committee comprises three independent non-executive directors, Dr. Loke Yu, Mr. Sun Jian Guo and Mr. Heng Ja Wei. 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. Sun Jian Guo	2/2
Mr. Heng Ja Wei	2/2

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

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

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

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements of the Group for the year ended 31 December 2010.

1. PRINCIPAL ACTIVITIES

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

2. RESULTS AND FINANCIAL POSITION

The results of the Group for the year ended 31 December 2010 are set out in the consolidated statement of comprehensive income on page 28.

The state of affairs of the Group at 31 December 2010 are set out in the consolidated statement of financial position on pages 29.

3. SHARE CAPITAL

Details of the movements in the share capital of the Company are set out in note 40 to the financial statements.

4. RESERVES

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

The Company's reserves available for distribution to shareholders as at 31 December 2010 were RMB724,548,000 (2009: RMB729,825,000).

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 2010 (2009: 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 18 to the financial statements.

7. DIRECTORS

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

Executive Directors

Mr. Jiang Xiong *(Chairman)*	
Mr. Jiang Qing	
Ms. Zhang Hai Yan	
Mr. Wang De Feng	
Ms. Weng Xiu Xia	
Mr. Hu Yong	(appointed on 12 May 2010)
Mr. Shi Jia Hao	(resigned on 25 February 2010)

Non-executive Directors

Ms. Xi Zheng Zheng
Mr. Harinath Krishnamurthy

Independent Non-executive Directors

Dr. Loke Yu
Mr. Heng Ja Wei
Mr. Sun Jian Guo

In accordance with the provisions of the Company's articles of association, Mr. Jiang Qing, Ms. Weng Xiu Xia, Mr. Hu Yong, and Mr. Sun Jian Guo retire from office and, being eligible, offer themselves for re-election.

8. DIRECTORS' SERVICE CONTRACTS

No service contract has been entered into between the Company and the directors.

The term of office of each of the directors is the period to his/her retirement by rotation in accordance with the Company's articles of association.

DIRECTORS' REPORT

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

Save as disclosed below, as of 31 December 2010, none of the directors or chief executives has any interest or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) ("SFO")) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or were required, pursuant to Section 352 of the SFO to be entered in the register required to be kept therein or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), to be notified to the Company and the Stock Exchange.

Long positions in ordinary shares of the Company

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

Note:

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

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

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

DIRECTORS' REPORT

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

Short positions in ordinary shares of the Company

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

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

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

Mr. Jiang has a short position in the shares to be sold (as held by UTFE) under the Option Agreement.

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

Options to subscribe for ordinary shares in the Company

Grantee	Date of grant	Number of shares issuable under the options granted	Exercisable period	Exercise price	Number of shares issuable under the options outstanding as at 1 January 2010 and 31 December 2010	Percentage of issued share capital of the Company
				HK$		
Mr. Jiang Qing	25 May 2004	20,000,000	25 May 2004 to 24 May 2014	0.44	20,000,000	0.70%

Notes: 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 2010, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of certain directors, the following shareholders had notified the Company of their relevant interests in the issued share capital of the Company.

Long positions in ordinary shares of the Company

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

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

Long positions in ordinary shares of the Company *(continued)*

Note:

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

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

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

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

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

Short positions in ordinary shares of the Company

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

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 2010.

DIRECTORS' REPORT

13. SHARE OPTIONS

Particulars of the Company's share option scheme and details of the options are set out in note 41 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. PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year ended 31 December 2010, neither the Company nor any of its subsidiaries purchased, cancelled or redeemed any listed securities of the Company.

16. 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.

17. 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 pro-rata basis to existing shareholders.

18. 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.

19. MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2010, 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.

20. SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2010.

DIRECTORS' REPORT

21. AUDITOR

At an extraordinary general meeting of the shareholders of the Company held on 21 December 2009, a resolution was passed to appoint RSM Nelson Wheeler as auditor of the Company in place of the resigned auditor, Deloitte Touche Tomatsu, to hold office until the conclusion of the following annual general meeting of the Company.

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 2011

INDEPENDENT AUDITOR'S REPORT

RSM Nelson Wheeler
中瑞岳華(香港)會計師事務所
Certified Public Accountants

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

We have audited the consolidated financial statements of China Fire Safety Enterprise Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 28 to 103, which comprise the consolidated and Company statements of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITY *(continued)*

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 2010, 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 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
Turnover	6	**908,285**	1,002,585
Cost of sales and services		**(800,268)**	(883,062)
Gross profit		**108,017**	119,523
Other income	7	**8,588**	36,624
Selling and distribution costs		**(29,156)**	(30,310)
Administrative expenses		**(101,371)**	(179,572)
Share of profits of associates		**1,171**	3,372
Other expenses	9	**(12,038)**	(47,108)
Finance costs	10	**(5,089)**	(3,478)
Loss before tax		**(29,878)**	(100,949)
Income tax expense	11	**(9,028)**	(6,353)
Loss for the year	12	**(38,906)**	(107,302)
Other comprehensive income after tax:			
Exchange differences on translating foreign operations		**(123)**	(22)
Other comprehensive income for the year, net of tax		**(123)**	(22)
Total comprehensive income for the year		**(39,029)**	(107,324)
Loss for the year attributable to:			
Owners of the Company	15	**(39,381)**	(105,530)
Non-controlling interests		**475**	(1,772)
		(38,906)	(107,302)
Total comprehensive income for the year attributable to:			
Owners of the Company		**(39,737)**	(105,573)
Non-controlling interests		**708**	(1,751)
		(39,029)	(107,324)
Loss per share (RMB cents)	17		
Basic		**(1.38)**	(3.70)
Diluted		**(1.38)**	(3.70)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
Non-current assets			
Property, plant and equipment	18	**282,173**	314,244
Prepaid land lease payments	19	**35,210**	37,574
Investment properties	20	**36,410**	23,658
Goodwill	21	**31,767**	32,748
Other intangible assets	22	**965**	1,218
Investments in associates	24	**29,973**	39,099
		416,498	448,541
Current assets			
Inventories	26	**95,841**	70,655
Trade and bills receivables	27	**259,713**	317,573
Amounts due from contract customers	28	**546,243**	386,778
Retention receivables	29	**21,125**	21,835
Prepayments, deposits and other receivables	30	**69,628**	277,135
Amount due from a jointly controlled entity	31	**4,570**	6,040
Amounts due from associates	32	**1,886**	480
Prepaid land lease payments	19	**752**	789
Derivative financial instruments	33	**827**	642
Pledged bank deposits	34	**14,859**	5,932
Bank and cash balances	34	**262,526**	159,601
		1,277,970	1,247,460
Current liabilities			
Trade and other payables	35	**271,707**	251,493
Amounts due to contract customers	28	**10,264**	4,372
Amounts due to non-controlling shareholders	36	**5,055**	4,860
Bank borrowings	37	**95,478**	80,000
Finance lease payables	38	**48**	48
Current tax liabilities		**9,374**	15,882
		391,926	356,655
Net current assets		**886,044**	890,805
Total assets less current liabilities		**1,302,542**	1,339,346

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
Non-current liabilities			
Deferred tax liabilities	39	**2,198**	–
Finance lease payables	38	**38**	89
		2,236	89
NET ASSETS		**1,300,306**	1,339,257
Capital and reserves			
Share capital	40	**30,168**	30,168
Reserves	42	**1,243,489**	1,283,226
Equity attributable to owners of the Company		**1,273,657**	1,313,394
Non-controlling interests		**26,649**	25,863
TOTAL EQUITY		**1,300,306**	1,339,257

Approved by the Board of Directors on 25 March 2011

Jiang Xiong
Director

Jiang Qing
Director

STATEMENT OF FINANCIAL POSITION

At 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
Non-current assets			
Investments in subsidiaries	23	**187,567**	187,567
Current assets			
Prepayments, deposits and other receivables		**40**	42
Amounts due from subsidiaries	23	**521,792**	518,111
Bank and cash balances	34	**33,962**	43,409
		555,794	561,562
Current liabilities			
Accrued charges	35	**2,989**	3,480
Net current assets		**552,805**	558,082
NET ASSETS		**740,372**	745,649
Capital and reserves			
Share capital	40	**30,168**	30,168
Reserves	42	**710,204**	715,481
TOTAL EQUITY		**740,372**	745,649

Approved by the Board of Directors on 25 March 2011

Jiang Xiong
Director

Jiang Qing
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

	Attributable to owners of the Company											
	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000 (Note 42(c)(i))	Capital reserve RMB'000 (Note 42(c)(ii))	Statutory surplus reserve RMB'000 (Note 42(c)(iii))	Statutory public welfare fund RMB'000 (Note 42(c)(iv))	Statutory reserve fund RMB'000 (Note 42(c)(v))	Exchange reserve RMB'000 (Note 42(c)(vi))	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2009	30,168	646,363	(6,692)	57,840	35,894	22,943	82,427	(469)	550,493	1,418,967	27,614	1,446,581
Total comprehensive income for the year	–	–	–	–	–	–	–	(43)	(105,530)	(105,573)	(1,751)	(107,324)
Transfer	–	–	–	–	2,159	1,079	–	–	(3,238)	–	–	–
Changes in equity for the year	–	–	–	–	2,159	1,079	–	(43)	(108,768)	(105,573)	(1,751)	(107,324)
At 31 December 2009 and 1 January 2010	30,168	646,363	(6,692)	57,840	38,053	24,022	82,427	(512)	441,725	1,313,394	25,863	1,339,257
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(356)**	**(39,381)**	**(39,737)**	**708**	**(39,029)**
Disposal of subsidiaries (Note 43)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**78**	**78**
Transfer	**–**	**–**	**–**	**–**	**–**	**274**	**–**	**–**	**(274)**	**–**	**–**	**–**
Changes in equity for the year	**–**	**–**	**–**	**–**	**–**	**274**	**–**	**(356)**	**(39,655)**	**(39,737)**	**786**	**(38,951)**
At 31 December 2010	**30,168**	**646,363**	**(6,692)**	**57,840**	**38,053**	**24,296**	**82,427**	**(868)**	**402,070**	**1,273,657**	**26,649**	**1,300,306**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

	Note	2010 RMB'000	2009 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(29,878)**	(100,949)
Adjustments for:			
Allowance for bad and doubtful debts		**40,987**	89,210
Amortisation of other intangible assets		**253**	305
Amortisation of prepaid land lease payments		**791**	810
Depreciation of property, plant and equipment		**20,301**	21,336
Fair value gains on derivative financial instruments		**(850)**	(432)
Gain on disposal of assets classified as held for sale		**–**	(26,975)
Gain on disposal of subsidiaries	43	**(616)**	–
Impairment loss on goodwill		**–**	12,663
Impairment loss on investments in associates		**12,038**	34,445
Interest expense		**5,089**	3,478
Interest income		**(1,112)**	(4,760)
Loss on disposal of property, plant and equipment		**1,777**	8,719
(Reverse of allowance)/allowance for obsolete and slow-moving inventories		**(1,789)**	5,971
Share of profits of associates		**(1,171)**	(3,372)
Operating profit before working capital changes		**45,820**	40,449
(Increase)/decrease in inventories		**(26,369)**	25,797
Decrease/(increase) in trade and bills receivables		**14,594**	(15,574)
Increase in amounts due from contract customers		**(159,465)**	(256,832)
Decrease/(increase) in retention receivables		**710**	(1,519)
Decrease/(increase) in prepayments, deposits and other receivables		**207,004**	(208,504)
Increase/(decrease) in trade and other payables		**26,576**	(41,445)
Increase/(decrease) in amounts due to contract customers		**5,892**	(7,998)
Cash generated from/(used in) operations		**114,762**	(465,626)
Interest paid		**(5,089)**	(3,478)
Income tax paid		**(13,338)**	(22,863)
Net cash generated from/(used in) operating activities		**96,335**	(491,967)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

	Note	2010 RMB'000	2009 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment		**(1,840)**	(121,088)
Payment for accrued construction costs		**–**	(29,000)
(Increase)/decrease in pledged bank deposits		**(8,927)**	2,490
Interest received		**1,112**	4,760
Acquisition of an associate		**(2,000)**	–
Advances to associates		**(668)**	(49)
Repayment of advance to a jointly controlled entity		**1,470**	–
Disposal of subsidiaries (net of cash and cash equivalent disposed of)	43	**830**	–
Proceeds from disposal of property, plant and equipment		**80**	123
Net cash used in investing activities		**(9,943)**	(142,764)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in trust receipt loans		**5,628**	–
New bank loans raised		**90,000**	80,000
Repayment of bank loans		**(80,000)**	(63,454)
Advances from non-controlling shareholders		**1,296**	208
Repayment of finance lease payables		**(47)**	(46)
Net cash generated from financing activities		**16,877**	16,708
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**103,269**	(618,023)
Effect of foreign exchange rate changes		**(344)**	(10)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**159,601**	777,634
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**262,526**	159,601
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Bank and cash balances		**262,526**	159,601

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

1. GENERAL INFORMATION

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

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

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

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are relevant to its operations and effective for its accounting year beginning on 1 January 2010. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards; and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current year and prior years.

The Group has not applied new HKFRSs that have been issued but are not yet effective. The application of these new HKFRSs will not have material impact on the financial statements of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

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

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties and derivatives which are carried at their fair values.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

(a) Consolidation

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(a) Consolidation *(continued)*

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

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

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

(b) Business combination and goodwill

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

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

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

(c) Associates

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Associates *(continued)*

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

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

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

(d) Jointly controlled entity

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Jointly controlled entity *(continued)*

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

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

(e) Foreign currency translation

(i) Functional and presentation currency

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

(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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Foreign currency translation *(continued)*

(iii) Translation on consolidation

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

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

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

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

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

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

(f) Property, plant and equipment

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

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

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

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.

3. **SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

(g) **Investment properties** *(continued)*

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.

(ii) *Finance leases*

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

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

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

The Group as lessor

(i) *Operating leases*

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Research and development expenditure

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

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

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

(j) Technical know-how

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

(k) Inventories

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(l) Installation contracts

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

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

(m) Recognition and derecognition of financial instruments

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Trade, bills and other receivables

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

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

(o) Derivative financial instruments

Derivatives are initially recognised and subsequently measured at fair value. Changes in the fair value of derivatives are recognised in profit or loss as they arise.

(p) 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.

(q) 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** *(continued)*

(r) **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.

(s) **Trade and other payables**

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

(t) **Equity instruments**

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

(u) **Revenue recognition**

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

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

Service income is recognised when the services are rendered.

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.

3. **SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

(v) **Employee benefits**

(i) *Employee entitlements*

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

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

(ii) *Pension obligations*

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

(iii) *Termination benefits*

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

(w) **Borrowing costs**

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. **SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

(x) Taxation

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

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

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

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

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

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

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** *(continued)*

(y) Related parties

A party is related to the Group if:

(i) directly or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Group; has an interest in the Group that gives it significant influence over the Group; or has joint control over the Group;

(ii) the party is an associate;

(iii) the party is a joint venture;

(iv) the party is a member of the key management personnel of the Company or its parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

(z) Impairment of assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets except goodwill, investment properties, inventories, receivables and derivative assets 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 to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(z) Impairment of assets *(continued)*

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

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

(aa) Provisions and contingent liabilities

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

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

(ab) Events after the reporting period

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

4. CRITICAL JUDGEMENT AND KEY ESTIMATES

Critical judgement in applying accounting policies

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

Legal titles of certain land and buildings

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

Key sources of estimation uncertainty

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

(a) Property, plant and equipment and depreciation

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

(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 bear 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.

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

Key sources of estimation uncertainty *(continued)*

(b) Profit recognition of installation contracts *(continued)*

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

(c) Impairment of goodwill

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

(d) Fair values of investment properties

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

(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. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade and other receivables and doubtful debt expenses in the year in which such estimate has been changed.

(f) Allowance for obsolete and slow-moving inventories

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

(g) Income taxes

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

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 2010 and 31 December 2009 are as follows:

The Group — **Exposure to foreign currencies**

	2010			2009		
	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	**976**	**3,331**	**–**	5,084	2,112	–
Pledged bank deposits and bank and cash balances	**4,358**	**9,464**	**35,446**	839	373	44,994
Trade and other payables	**(18)**	**(110)**	**–**	(7)	(1,353)	–
	5,316	**12,685**	**35,446**	5,916	1,132	44,994

The Company — **Exposure to foreign currencies**

	2010			2009		
	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	**–**	**–**	**33,962**	–	–	43,409
	–	**–**	**33,962**	–	–	43,409

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

(a) **Foreign currency risk** *(continued)*

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

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

	2010	2009
	RMB'000	RMB'000
(Decrease)/increase in loss for the year		
– if RMB weakens against foreign currencies		
Hong Kong dollar ("HKD")	**(1,772)**	(2,250)
United States dollar ("USD")	**(266)**	(296)
Euro ("EUR")	**(634)**	(57)
– if RMB strengthens against foreign currencies		
HKD	**1,772**	2,250
USD	**266**	296
EUR	**634**	57

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 *(continued)*

(b) Credit risk

The Group's credit risk is primarily attributable to its trade and bills receivables, retention receivables, other receivables, amount due from a jointly controlled entity, amounts due from associates and bank and cash balances. The Group's maximum exposure to credit risk in the event that counterparties fail to perform their obligations at 31 December 2010 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 each end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors consider that the Group's credit risk is significantly reduced.

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

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

(c) Liquidity risk

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

5. FINANCIAL RISK MANAGEMENT *(continued)*

(c) Liquidity risk *(continued)*

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000
Group			
At 31 December 2010			
Trade payables	75,902	–	–
Accrued charges	134,674	–	–
Value added tax, sales tax and other levies	27,760	–	–
Other payables	3,072	–	–
Amounts due to non-controlling shareholders	5,055	–	–
Bank borrowings	98,615	–	–
Finance lease payables	51	38	–
At 31 December 2009			
Trade payables	80,257	–	–
Accrued charges	99,298	–	–
Value added tax, sales tax and other levies	24,125	–	–
Other payables	3,072	–	–
Amounts due to non-controlling shareholders	4,860	–	–
Bank borrowings	82,712	–	–
Finance lease payables	53	53	39
Company			
At 31 December 2010			
Accrued charges	2,989	–	–
At 31 December 2009			
Accrued charges	3,480	–	–

NOTES TO THE FINANCIAL STATEMENTS

5. FINANCIAL RISK MANAGEMENT *(continued)*

(d) Interest rate risk

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

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

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

	2010	2009
Reasonably possible change in interest rate	**50 basis point**	50 basis point
	RMB'000	RMB'000
Increase/(decrease) in loss for the year		
– as a result of increase in interest rate	**463**	339
– as a result of decrease in interest rate	**(463)**	(339)

(e) Categories of financial instruments

	2010	2009
	RMB'000	RMB'000
Financial assets:		
Financial assets at fair value through profit or loss held for trading	**827**	642
Loan and receivables (including cash and cash equivalents)	**620,963**	774,327
Financial liabilities:		
Financial liabilities at amortised cost	**342,027**	291,749

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

(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.

The following disclosures of fair value measurements use a fair value hierarchy which has 3 levels:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Disclosures of level in fair value hierarchy:

Description	**2010 Fair value measurement using: Level 2 RMB'000**	2009 Fair value measurement using: Level 2 RMB'000
Financial assets at fair value through profit or loss		
Derivative financial instruments	**827**	642

NOTES TO THE FINANCIAL STATEMENTS

6. TURNOVER

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

	2010	2009
	RMB'000	RMB'000
Revenue from installation contracts	**420,288**	530,833
Sales of goods	**477,728**	459,935
Provision of maintenance services	**10,224**	11,772
Provision of online advertising services	**45**	45
	908,285	1,002,585

7. OTHER INCOME

	2010	2009
	RMB'000	RMB'000
Interest income	**1,112**	4,760
Rental income	**2,172**	1,693
Gain on disposal of subsidiaries	**616**	–
Gain on disposal of assets classified as held for sale	**–**	26,975
Fair value gains on derivative financial instruments	**850**	354
Sundry income	**3,838**	2,842
	8,588	36,624

8. SEGMENT INFORMATION

The Group has six reportable segments as follows:

– installation of fire prevention and fighting systems;
– production and sale of fire engines;
– production and sale of fire prevention and fighting equipment;
– trading of fire engines, fire prevention and fighting and rescue equipment;
– provision of maintenance services; and
– provision of network monitoring system services.

8. SEGMENT INFORMATION *(continued)*

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

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

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

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

8. SEGMENT INFORMATION *(continued)*

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

	Installation of fire prevention and fighting systems	Production and sale of fire engines	Production and sale of fire prevention and fighting equipment	Trading of fire engines, fire prevention and fighting and rescue equipment	Provision of maintenance services	Provision of network monitoring system services	Others	Unallocated	Elimination	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
For the year ended 31 December 2010										
TURNOVER										
External sales	420,288	281,130	143,660	52,938	4,861	5,363	45	–	–	908,285
Inter-segment sales	–	11	9,075	6,871	–	–	–	–	(15,957)	–
Total	420,288	281,141	152,735	59,809	4,861	5,363	45	–	(15,957)	908,285
RESULTS										
Segment (loss)/profit	(25,636)	476	24,221	1,913	(4,771)	(2,766)	(332)			(6,895)
Interest income										1,112
Fair value gains on derivative financial instruments										850
Unallocated corporate expenses										(8,989)
Impairment loss on investment in an associate										(12,038)
Share of profits of associates										1,171
Finance costs										(5,089)
Loss before tax										(29,878)
Income tax expense										(9,028)
Loss for the year										(38,906)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

8. SEGMENT INFORMATION *(continued)*

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

	Installation of fire prevention and fighting systems	Production and sale of fire engines	Production and sale of fire prevention and fighting equipment	Trading of fire engines, fire prevention and fighting and rescue equipment	Provision of maintenance services	Provision of network monitoring system services	Others	Unallocated	Elimination	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2010										
ASSETS										
Segment assets	666,451	406,438	242,543	25,157	4,549	2,573	313			1,348,024
Investments in associates										29,973
Amounts due from associates										1,886
Pledged bank deposits										14,859
Bank and cash balances										262,526
Unallocated other receivables										37,200
										1,694,468
LIABILITIES										
Segment liabilities	146,316	52,913	61,978	12,507	1,683	3,454	82			278,933
Amounts due to non-controlling shareholders										5,055
Current tax liabilities										9,374
Bank borrowings										95,478
Deferred tax liabilities										2,198
Finance lease payables										86
Unallocated other payables										3,038
										394,162

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

8. SEGMENT INFORMATION *(continued)*

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

	Installation of fire prevention and fighting systems RMB'000	Production and sale of fire engines RMB'000	Production and sale of fire prevention and fighting equipment RMB'000	Trading of fire engines, fire prevention and fighting and rescue equipment RMB'000	Provision of maintenance services RMB'000	Provision of network monitoring system services RMB'000	Others RMB'000	Unallocated RMB'000	Elimination RMB'000	Total RMB'000
OTHER INFORMATION										
Capital expenditure	64	728	1,017	1	–	28	–	2		1,840
Depreciation and amortisation	392	12,598	6,994	47	107	1,011	186	10		21,345
(Gain)/loss on disposal of property, plant and equipment	–	(20)	(1)	–	–	1,798	–	–		1,777
(Reversal of allowance)/ allowance for obsolete and slow-moving inventories	–	(517)	(1,395)	85	–	38	–	–		(1,789)
Allowance/(reversal of allowance) for bad and doubtful debts	43,031	2,920	(11,560)	1,525	4,860	211	–	–		40,987

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

8. SEGMENT INFORMATION *(continued)*

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

	Installation of fire prevention and fighting systems RMB'000	Production and sale of fire engines RMB'000	Production and sale of fire prevention and fighting equipment RMB'000	Trading of fire engines, fire prevention and fighting and rescue equipment RMB'000	Provision of maintenance services RMB'000	Provision of network monitoring system services RMB'000	Others RMB'000	Unallocated RMB'000	Elimination RMB'000	Total RMB'000
For the year ended 31 December 2009										
TURNOVER										
External sales	530,833	283,951	156,959	19,025	5,191	6,581	45	–	–	1,002,585
Inter-segment sales	–	–	7,043	8,042	–	–	–	–	(15,085)	–
Total	530,833	283,951	164,002	27,067	5,191	6,581	45	–	(15,085)	1,002,585
RESULTS										
Segment (loss)/profit	(24,766)	7,396	(52,455)	(1,129)	(2,440)	(13,742)	(2,126)			(89,262)
Interest income										4,760
Gain on disposal of assets classified as held for sale										26,975
Fair value gains on derivative financial instruments										354
Unallocated corporate expenses										(9,225)
Impairment loss on investments in associates										(34,445)
Share of profits of associates										3,372
Finance costs										(3,478)
Loss before tax										(100,949)
Income tax expense										(6,353)
Loss for the year										(107,302)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

8. SEGMENT INFORMATION *(continued)*

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

	Installation of fire prevention and fighting systems RMB'000	Production and sale of fire engines RMB'000	Production and sale of fire prevention and fighting equipment RMB'000	Trading of fire engines, fire prevention and fighting and rescue equipment RMB'000	Provision of maintenance services RMB'000	Provision of network monitoring system services RMB'000	Others RMB'000	Unallocated RMB'000	Elimination RMB'000	Total RMB'000
At 31 December 2009										
ASSETS										
Segment assets	753,349	361,783	303,377	23,069	6,286	5,805	418			1,454,087
Investments in associates										39,099
Amount due from an associate										480
Pledged bank deposits										5,932
Bank and cash balances										159,601
Unallocated other receivables										36,802
										1,696,001
LIABILITIES										
Segment liabilities	102,231	73,892	64,281	7,092	693	3,369	83			251,641
Amounts due to non-controlling shareholders										4,860
Current tax liabilities										15,882
Bank borrowings										80,000
Finance lease payables										137
Unallocated other payables										4,224
										356,744

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

8. SEGMENT INFORMATION *(continued)*

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

	Installation of fire prevention and fighting systems RMB'000	Production and sale of fire engines RMB'000	Production and sale of fire prevention and fighting equipment RMB'000	Trading of fire engines, fire prevention and fighting and rescue equipment RMB'000	Provision of maintenance services RMB'000	Provision of network monitoring system services RMB'000	Others RMB'000	Unallocated RMB'000	Elimination RMB'000	Total RMB'000
OTHER INFORMATION										
Capital expenditure	299	90,288	30,410	–	–	85	–	6		121,088
Depreciation and amortisation	389	12,139	7,865	116	191	1,508	189	54		22,451
(Gain)/loss on disposal of property, plant and equipment	(74)	1,419	7,210	–	–	165	–	(1)		8,719
Impairment loss on goodwill	–	–	–	–	–	10,973	1,690	–		12,663
Allowance/(reversal of allowance) for obsolete and slow-moving inventories	–	1,770	4,330	(129)	–	–	–	–		5,971
Allowance for bad and doubtful debts	44,443	1,552	36,514	2,671	3,958	72	–	–		89,210

NOTES TO THE FINANCIAL STATEMENTS

8. SEGMENT INFORMATION *(continued)*

Geographical information:

	Revenue		Non-current assets	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
PRC	**903,705**	999,583	**404,335**	436,330
Others	**4,580**	3,002	**12,163**	12,211
	908,285	1,002,585	**416,498**	448,541

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 the year. For 2009, there was one customer with whom transactions had exceeded 10% of the Group's total revenue. The revenue concerned was generated from the installation of fire prevention and fighting systems segment which amounted to approximately RMB153,000,000.

9. OTHER EXPENSES

	2010	2009
	RMB'000	RMB'000
Impairment loss on goodwill	**–**	12,663
Impairment loss on investments in associates	**12,038**	34,445
	12,038	47,108

10. FINANCE COSTS

	2010	2009
	RMB'000	RMB'000
Interest on bank borrowings wholly repayable within five years	**4,903**	3,299
Interest on amount due to a non-controlling shareholder	**181**	172
Finance lease charges	**5**	7
	5,089	3,478

11. INCOME TAX EXPENSE

	2010 RMB'000	2009 RMB'000
Current tax		
PRC Enterprise Income Tax	**6,729**	12,368
Under-provision in prior years		
PRC Enterprise Income Tax	**101**	103
Deferred tax (note 39)		
Current year	**2,198**	(6,118)
	9,028	6,353

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

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

In accordance with the enterprise income tax laws in the PRC, the statutory tax rate for PRC operations is 25% from 1 January 2008. However, certain of the Group's subsidiaries and a jointly controlled entity that are currently entitled to exemption and reduction from the PRC statutory income tax rate will continue to enjoy such privileges until the exemption and reduction periods expire, but not beyond 2012. The relevant tax rates for the Group's subsidiaries and a jointly controlled entity in the PRC range from 12.5% to 25% (2009: 12.5% to 25%).

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

	Tax privileges started from
Subsidiaries	
Sichuan Morita Fire Safety Appliances Co., Ltd.	2006
Allied Best (China) Fire Safety Appliances Manufacturing Co., Ltd.	2008
Jointly-controlled entity	
Shanghai Pudong Special Fire Equipment Co., Ltd.	2007

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

11. INCOME TAX EXPENSE *(continued)*

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

	2010 **RMB'000**	2009 RMB'000
Loss before tax	**(29,878)**	(100,949)
Tax at the PRC domestic income tax rate of 25% (2009: 25%)	**(7,469)**	(25,237)
Tax effect of income that is not taxable	**(682)**	(4,025)
Tax effect of expenses that are not deductible	**4,560**	11,374
Tax effect of temporary differences not recognised	**14,475**	22,077
Tax effect of share of profits of associates	**(293)**	(843)
Tax effect attributable to tax concessions	**(3,998)**	(4,080)
Tax effect of tax losses not recognised	**3,543**	3,508
Utilisation of tax losses not previously recognised	**(1,534)**	–
Under-provision in prior years	**101**	103
Effect of different tax rates of subsidiaries	**325**	3,274
Others	**–**	202
Income tax expense	**9,028**	6,353

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

12. LOSS FOR THE YEAR

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

	2010	2009
	RMB'000	RMB'000
Allowance for bad and doubtful debts	**40,987**	89,210
Amortisation of other intangible assets (included in administrative expenses)	**253**	305
Amortisation of prepaid land lease payments	**791**	810
Auditor's remuneration	**1,393**	1,426
Cost of inventories sold (note (i))	**397,603**	378,891
Depreciation of property, plant and equipment	**20,301**	21,336
Impairment loss on goodwill	**–**	12,663
Impairment loss on investments in associates	**12,038**	34,445
Loss on disposal of property, plant and equipment	**1,777**	8,719
Net foreign exchange loss	**652**	996
Operating lease charges in respect of rented premises	**4,722**	4,965
Research and development expenditure (note (ii))	**2,986**	2,294
(Reversal of allowance)/allowance for obsolete and slow-moving inventories (included in administrative expenses)	**(1,789)**	5,971
Staff costs including directors' emoluments		
Salaries, bonus and allowances	**40,930**	39,855
Retirement benefit scheme contributions	**5,448**	5,344
	46,378	45,199

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 RMB29,333,000 (2009: RMB31,102,000) which are included in the amounts disclosed separately above.

(ii) Research and development expenditure includes staff costs of approximately RMB2,111,000 (2009: RMB1,507,000) which are included in the staff costs disclosed separately above.

13. DIRECTORS' EMOLUMENTS

	2010					2009				
	Fees	Salaries and other benefits	Discretionary bonus	Retirement benefit scheme contributions	Total	Fees	Salaries and other benefits	Discretionary bonus	Retirement benefit scheme contributions	Total
	RMB'000	RMB'000	RMB'000 (Note (a))	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (Note (a))	RMB'000	RMB'000
Executive directors										
Mr. Jiang Xiong	–	1,219	–	–	1,219	–	1,238	–	–	1,238
Mr. Jiang Qing	–	1,084	–	–	1,084	–	1,100	–	–	1,100
Ms. Zhang Hai Yan	157	48	–	13	218	159	52	–	11	222
Mr. Wang De Feng	157	153	–	22	332	159	153	–	19	331
Ms. Weng Xiu Xia	157	48	–	13	218	159	52	–	11	222
Mr. Hu Yong (note b)	91	223	–	13	327	–	–	–	–	–
Mr. Shi Jia Hao (note c)	13	5	–	–	18	159	70	–	–	229
	575	2,780	–	61	3,416	636	2,665	–	41	3,342
Non-executive directors										
Ms. Xi Zheng Zheng	–	–	–	–	–	–	–	–	–	–
Mr. Harinath Krishnamurthy	–	–	–	–	–	–	–	–	–	–
Mr. Doug Wright (note c)	–	–	–	–	–	–	–	–	–	–
	–	–	–	–	–	–	–	–	–	–
Independent non-executive directors										
Dr. Loke Yu	130	–	–	–	130	132	–	–	–	132
Mr. Sun Jian Guo	130	–	–	–	130	132	–	–	–	132
Mr. Heng Ja Wei	130	–	–	–	130	110	–	–	–	110
Mr. Heng Kwoo Seng (note c)	–	–	–	–	–	22	–	–	–	22
	390	–	–	–	390	396	–	–	–	396
	965	2,780	–	61	3,806	1,032	2,665	–	41	3,738

13. DIRECTORS' EMOLUMENTS *(continued)*

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 but before extraordinary and exceptional items of the Group for that financial year.

(b) Mr. Hu Yong was appointed as an executive director on 12 May 2010.

(c) Mr. Shi Jia Hao, Mr. Doug Wright and Mr. Heng Kwoo Seng resigned on 25 February 2010, 17 November 2009 and 28 February 2009 respectively.

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

14. EMPLOYEES' EMOLUMENTS

The five highest paid individuals in the Group during the year included, two (2009: two) directors, whose emoluments are included in the note 13 to the financial statements above. The emoluments of the remaining three (2009: three) individuals are set out below:

	2010	2009
	RMB'000	RMB'000
Salaries and other benefits	**1,731**	1,299
Retirement benefit scheme contributions	**32**	32
	1,763	1,331

During the years ended 31 December 2010 and 2009, the emoluments of each of the highest paid individual, other than the directors, fell within the band of HKDNil to HKD1,000,000 (equivalent to RMB869,500 (2009: RMB882,000)).

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

The loss for the year attributable to owners of the Company included a loss of approximately RMB5,277,000 (2009: loss of RMB36,786,000) which has been dealt with in the financial statements of the Company.

16. DIVIDENDS

The directors do not recommend the payment of any dividend for the year ended 31 December 2010 (2009: Nil).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

17. LOSS PER SHARE

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

	2010	2009
	RMB'000	RMB'000
Loss for the year attributable to owners of the Company	**39,381**	105,530
	'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 prices of the shares for the years ended 31 December 2010 and 2009 were lower than the exercise price of the share options.

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For the year ended 31 December 2010

18. PROPERTY, PLANT AND EQUIPMENT

	Group								
	Buildings RMB'000	Plant and equipment RMB'000	Tooling and moulds RMB'000	Furniture and fixtures RMB'000	Computers RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
Cost									
At 1 January 2009	207,321	69,281	36,537	10,087	5,978	12,971	5,450	3,115	350,740
Additions	116,345	2,786	–	163	251	578	201	764	121,088
Reclassification	377	3,115	–	–	–	–	–	(3,115)	377
Reclassified to investment properties	(25,410)	–	–	–	–	–	–	–	(25,410)
Disposals	–	(18,966)	(102)	(7,238)	(216)	(440)	–	–	(26,962)
Exchange differences	–	(4)	–	–	–	–	(1)	–	(5)
At 31 December 2009 and 1 January 2010	298,633	56,212	36,435	3,012	6,013	13,109	5,650	764	419,828
Additions	–	1,152	–	117	138	310	58	65	1,840
Reclassification	–	65	–	764	–	–	–	(829)	–
Reclassified to investment properties	(14,638)	–	–	–	–	–	–	–	(14,638)
Disposals	–	(1,252)	–	(134)	(1,259)	(621)	(387)	–	(3,653)
Disposal of subsidiaries	–	(300)		(76)	(314)	(28)	(653)		(1,371)
Exchange differences	–	(14)	–	–	–	–	(5)	–	(19)
At 31 December 2010	283,995	55,863	36,435	3,683	4,578	12,770	4,663	–	401,987
Accumulated depreciation and impairment									
At 1 January 2009	11,495	44,293	36,369	3,217	2,687	6,065	2,904	–	107,030
Charge for the year	14,634	2,843	34	653	1,003	1,375	794	–	21,336
Reclassified to investment properties	(4,659)	–	–	–	–	–	–	–	(4,659)
Disposals	–	(14,860)	(23)	(2,678)	(162)	(397)	–	–	(18,120)
Exchange differences	–	(2)	–	–	–	–	(1)	–	(3)
At 31 December 2009 and 1 January 2010	21,470	32,274	36,380	1,192	3,528	7,043	3,697	–	105,584
Charge for the year	14,435	2,779	30	500	738	1,285	534	–	20,301
Reclassified to investment properties	(3,497)	–	–	–	–	–	–	–	(3,497)
Disposals	–	(565)	–	(73)	(570)	(401)	(187)	–	(1,796)
Disposal of subsidiaries	–	(204)	–	(47)	(216)	(23)	(273)	–	(763)
Exchange differences	–	(12)	–	–	–	–	(3)	–	(15)
At 31 December 2010	32,408	34,272	36,410	1,572	3,480	7,904	3,768	–	119,814
Carrying amount									
At 31 December 2010	251,587	21,591	25	2,111	1,098	4,866	895	–	282,173
At 31 December 2009	277,163	23,938	55	1,820	2,485	6,066	1,953	764	314,244

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

At 31 December 2010 the carrying amount of furniture and fixtures held by the Group under a finance lease amounted to RMB29,000 (2009: RMB69,000).

At 31 December 2010, the Group was in the process of applying for the property rights certificates in respect of buildings with carrying amount of RMB111,510,000 (2009: RMB249,632,000).

19. PREPAID LAND LEASE PAYMENTS

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

At 31 December 2010, the Group was in the process of applying for the land use rights certificates in respect of land leases with carrying amount of RMB23,324,000 (2009: RMB23,724,000).

20. INVESTMENT PROPERTIES

	Group
	RMB'000
At 1 January 2009	–
Reclassified from property, plant and equipment	20,751
Reclassified from prepaid land lease payments	2,907
At 31 December 2009 and 1 January 2010	23,658
Reclassified from property, plant and equipment	11,141
Reclassified from prepaid land lease payments	1,611
At 31 December 2010	36,410

The Group's investment properties were revalued at 31 December 2010 on the open market value basis by reference to market evidence of transaction prices for similar properties by Vigers Appraisal & Consulting Limited, an independent firm of qualified professional valuers.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

21. GOODWILL

	Group
	RMB'000
Cost	
At 1 January 2009, 31 December 2009 and 1 January 2010	60,694
Eliminated on disposal of a subsidiary (note 43)	(981)
At 31 December 2010	59,713
Accumulated impairment losses	
At 1 January 2009	15,283
Impairment loss recognised in the year	12,663
At 31 December 2009 and 1 January 2010	27,946
Impairment loss recognised in the year	–
At 31 December 2010	27,946
Carrying amount	
At 31 December 2010	31,767
At 31 December 2009	32,748

21. GOODWILL *(continued)*

For the purposes of impairment testing, goodwill has been allocated to the following cash-generating units ("CGUs"). The carrying amount of goodwill (net of accumulated impairment losses) as at 31 December 2010 and 2009 is allocated as follows:

	2010	2009
	RMB'000	RMB'000
Installation of fire prevention and fighting systems	**8,442**	8,442
Production and sale of fire engines	**7,630**	7,630
Production and sale of fire prevention and fighting equipment	**3,568**	4,549
Trading of fire engines, fire prevention and fighting and rescue equipment	**12,127**	12,127
	31,767	32,748

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 ranging from 11% to 15% (2009: 13% to 14%). The cash flows beyond that five-year period have been extrapolated using a steady annual growth rate ranging from zero to 1% (2009: zero to 1%). This growth rate is based on the forecasts of the relevant industries and does not exceed their average long-term growth rate. Other key assumptions for the value in use calculations included budgeted sales and gross margins and their related cash inflows and outflows patterns, estimated based on the CGUs' historical performance and management's expectation of the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the recoverable amounts of CGUs to fall below their respective carrying amounts.

At 31 December 2009, the Group fully impaired the goodwill associated to the network monitoring system services and online advertising services of RMB10,973,000 and RMB1,690,000 respectively.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

22. OTHER INTANGIBLE ASSETS

	Group		
	Capitalised development costs	**Technical know-how**	**Total**
	RMB'000	RMB'000	RMB'000
Cost			
At 1 January 2009, 31 December 2009, 1 January 2010 and 31 December 2010	620	1,377	1,997
Accumulated amortisation			
At 1 January 2009	168	306	474
Charge for the year	152	153	305
At 31 December 2009 and 1 January 2010	320	459	779
Charge for the year	100	153	253
At 31 December 2010	420	612	1,032
Carrying amount			
At 31 December 2010	200	765	965
At 31 December 2009	300	918	1,218

23. INVESTMENTS IN SUBSIDIARIES

	Company	
	2010	2009
	RMB'000	RMB'000
Unlisted investments, at cost	**187,567**	187,567

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

23. INVESTMENTS IN SUBSIDIARIES *(continued)*

Particulars of the Company's principal subsidiaries as at 31 December 2010 are as follows:

Name/ type of legal entity	Place of incorporation	Issued and paid up capital	Percentage of ownership interest attributable to the Company	Principal activities
Wang Sing Technology Limited/ limited liability company	British Virgin Islands	4,984,359 ordinary shares of USD1 each	100% (note (i))	Investment holding
Allied Best Holdings Limited/limited liability company	British Virgin Islands	1 ordinary share of USD1 each	100%	Investment holding
萃聯（中國）消防設備製造有限公司 Allied Best (China) Fire Safety Appliances Manufacturing Co., Ltd./wholly foreign-owned enterprise	PRC	Registered capital of HKD50,000,000	100%	Production and sale of fire prevention and fighting equipment
北京市崇正華盛應急設備系統有限公司 Beijing City Chongzheng Huasheng Emergency Appliances System Co., Ltd./limited liability enterprise	PRC	Registered capital of RMB4,870,000	55.44%	Production and sale of fire prevention and fighting equipment
福建中消城市網絡技術有限公司 China Fire (Fujian) City Network Tech. Co., Ltd./wholly foreign-owned enterprise	PRC	Registered capital of RMB22,500,000	51%	Investment holding
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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

23. INVESTMENTS IN SUBSIDIARIES *(continued)*

Particulars of the Company's principal subsidiaries as at 31 December 2010 are as follows: *(continued)*

Name/ type of legal entity	Place of incorporation	Issued and paid up capital	Percentage of ownership interest attributable to the Company	Principal activities
集保控制設備有限公司 Clusafe Control Equipment Co., Ltd./ wholly foreign-owned enterprise	PRC	Registered capital of HKD50,500,000	100%	Production and sale of fire prevention and fighting equipment
福建省盛安城市安全信息發展有限公司 Fujian Shengan City Safety Communications Development Company Limited/limited liability enterprise	PRC	Registered capital of RMB7,000,000	51%	Development of network based monitoring system for fire prevention and fighting system and operation of remote automatic monitoring centre
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
福州盛安消防安全服務有限公司 Fuzhou Shengan Fire Safety Services Co., Ltd./limited liability enterprise	PRC	Registered capital of RMB1,010,000	26.52% (note (ii))	Development of network based monitoring system for fire prevention and fighting system and operation of remote automatic monitoring centre

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

23. INVESTMENTS IN SUBSIDIARIES *(continued)*

Particulars of the Company's principal subsidiaries at 31 December 2010 are as follows: *(continued)*

Name/ type of legal entity	Place of incorporation	Issued and paid up capital	Percentage of ownership interest attributable to the Company	Principal activities
江門市盛安消防安全遠程監控有限公司 Jiangmen Shengan Fire Safety Monitoring Co., Ltd./limited liability enterprise	PRC	Registered capital of RMB1,580,000	30.60% (note (ii))	Development of network based monitoring system for fire prevention and fighting system and operation of remote automatic monitoring centre
江西省盛安城市安全信息發展有限公司 Jiangxi Shengan City Safety Communications Development Company Limited/limited liability enterprise	PRC	Registered capital of RMB15,500,000	51%	Development of network based monitoring system for fire prevention and fighting system and operation of remote automatic monitoring centre
Loyal Asset Investment Holdings Limited/ limited liability company	British Virgin Islands	1 ordinary share of USD1 each	100%	Investment holding
四川森田消防裝備製造有限公司 Sichuan Morita Fire Safety Appliances Co., Ltd./sino-foreign equity joint venture	PRC	Registered capital of RMB80,640,000	75%	Production and sale of fire engines and fire prevention and fighting equipment

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

23. INVESTMENTS IN SUBSIDIARIES *(continued)*

Particulars of the Company's principal subsidiaries at 31 December 2010 are as follows: *(continued)*

Name/ type of legal entity	Place of incorporation	Issued and paid up capital	Percentage of ownership interest attributable to the Company	Principal activities
Tung Shing Trade Development Company Limited/limited liability company	Hong Kong	10,000 ordinary shares of HKD10 each and 10,000 non-voting deferred shares of HKD10 each	51%	Trading of fire engines and fire fighting and rescue equipment
萬友消防工程集團有限公司 Wanyou Fire Engineering Group Company Limited/limited liability enterprise	PRC	Registered capital of RMB50,000,000	100%	Provision of fire prevention and fighting system installation services and maintenance services

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

(ii) These subsidiaries are held through non-wholly-owned subsidiaries and therefore, the Company's effective interest in these subsidiaries are less than 50%.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets or liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

24. INVESTMENTS IN ASSOCIATES

	Group	
	2010	2009
	RMB'000	RMB'000
Unlisted investments:		
Share of net assets	**69,047**	67,367
Goodwill	**7,409**	6,177
	76,456	73,544
Impairment losses (note)	**(46,483)**	(34,445)
	29,973	39,099

Details of the Group's associates at 31 December 2010 are as follows:

Name/ type of legal entity	Place of incorporation	Paid up registered capital	Percentage of ownership interest	Principal activities
北京特威特國際環保科技有限公司 Beijing TWT International Technical Co., Ltd. ("Beijing TWT")/ limited liability enterprise	PRC	RMB5,000,000	45%	Production and sale of fire suppression foam
福州華安消防工程技術有限公司 Fuzhou Huaan Fire Engineering Co., Ltd./limited liability enterprise	PRC	RMB10,300,000	40%	Provision of fire prevention and fighting system installation services and maintenance services
南昌市盛安消防安全遠程監控有限公司 Nanchang Shengan Fire Safety Monitoring Co., Ltd. ("Nanchang Shengan")/limited liability enterprise	PRC	RMB1,000,000	30%	Development of network based monitoring system for fire prevention and fighting system and operation of remote automatic monitoring centre
江西永安消防工程有限公司 Jiangxi Yongan Fire Engineering Co., Ltd. ("Jiangxi Yongan")/ limited liability enterprise	PRC	RMB5,000,000	40%	Provision of fire prevention and fighting system installation services and maintenance services

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

24. INVESTMENTS IN ASSOCIATES *(continued)*

Details of the Group's associates at 31 December 2010 are as follows: *(continued)*

Name/ type of legal entity	Place of incorporation	Paid up registered capital	Percentage of ownership interest	Principal activities
泉州市盛安消防服務有限公司 Quanzhou Shengan Fire Services Co., Ltd./ limited liability enterprise	PRC	RMB3,050,000	22%	Development of network based monitoring system for fire prevention and fighting system and operation of remote automatic monitoring centre
上海凱德消防設備有限公司 Shanghai Kidde Fire Fighting Co., Ltd./ sino-foreign equity joint venture	PRC	USD1,200,000	30%	Production and sale of fire prevention and fighting equipment
四川神劍消防科技有限公司 Sichuan Shenjian Fire Technology Co., Ltd.,/limited liability enterprise	PRC	RMB5,000,000	40%	Production and sale of fire prevention and fighting equipment

Note: The impairment loss for 2010 was made in respect of the investment in Jiangxi Yongan as its operation was suspended during the year. The Group considered that an impairment on the carrying value of the interests in Jiangxi Yongan is required.

Impairment losses for 2009 were primarily made in respect of the investment in Beijing TWT. No further impairment is required for the year ended 31 December 2010.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

24. INVESTMENTS IN ASSOCIATES *(continued)*

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

	Group	
	2010	2009
	RMB'000	RMB'000
At 31 December		
Total assets	**229,577**	219,672
Total liabilities	**(66,368)**	(60,760)
Net assets	**163,209**	158,912
Group's share of associates' net assets	**22,564**	32,922
Year ended 31 December		
Total revenue	**75,789**	142,368
Total profit for the year	**3,241**	8,867
Group's share of associates' profits for the year	**1,171**	3,372

25. INVESTMENT IN A JOINTLY CONTROLLED ENTITY

Details of the jointly controlled entity at 31 December 2010 are as follows:

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

25. INVESTMENT IN A JOINTLY CONTROLLED ENTITY *(continued)*

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

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

	Group	
	2010	2009
	RMB'000	RMB'000
At 31 December		
Non-current assets	**2,321**	2,661
Current assets	**27,088**	28,424
Current liabilities	**(11,611)**	(14,856)
Net assets	**17,798**	16,229
Year ended 31 December		
Income	**31,341**	24,820
Expenses	**29,772**	26,335

26. INVENTORIES

Inventories represent fire engines and fire prevention and fighting equipment.

	Group	
	2010	2009
	RMB'000	RMB'000
Raw materials	**23,345**	21,609
Work in progress	**34,386**	23,949
Finished goods	**38,110**	25,097
	95,841	70,655

NOTES TO THE FINANCIAL STATEMENTS

26. INVENTORIES *(continued)*

Because of the change in market conditions, some of the inventories identified obsolete or slow-moving in prior years were sold or utilised during the year. As a result, the allowance made in prior years against the inventories of RMB1,789,000 (2009: Nil) was reversed. None of the above inventories is stated at net realisable value.

27. TRADE AND BILLS RECEIVABLES

	Group	
	2010	2009
	RMB'000	RMB'000
Trade and bills receivables	**418,014**	435,580
Less: Allowance for bad and doubtful debts	**(158,301)**	(118,007)
	259,713	317,573

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.

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	
	2010	2009
	RMB'000	RMB'000
0 – 90 days	**108,288**	155,746
91 – 180 days	**41,070**	43,159
181 – 360 days	**28,241**	40,061
Over 360 days	**82,114**	78,607
	259,713	317,573

27. TRADE AND BILLS RECEIVABLES *(continued)*

As of 31 December 2010, trade and bills receivables of RMB114,220,000 (2009: RMB133,478,000) 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:

	2010	2009
	RMB'000	RMB'000
0 – 90 days	**20**	41
91 – 180 days	**3,845**	14,769
181 – 360 days	**28,241**	40,061
Over 360 days	**82,114**	78,607
	114,220	133,478

The reconciliation of allowance for bad and doubtful debts is as follows:

	2010	2009
	RMB'000	RMB'000
At 1 January	**118,007**	28,885
Allowance for the year	**40,987**	89,210
Amounts written off	**–**	(28)
Disposal of subsidiaries	**(362)**	–
Exchange differences	**(331)**	(60)
At 31 December	**158,301**	118,007

The management closely monitors the credit quality of 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 2010 and 2009 were on trade and bills receivables which were either aged over two years or individually impaired customers which had either been placed under liquidation or in severe financial difficulties. The Group does not hold any collateral over these balances.

28. AMOUNTS DUE FROM/TO CONTRACT CUSTOMERS

	Group	
	2010	2009
	RMB'000	RMB'000
Contract costs incurred plus profits recognised less recognised losses	**1,025,482**	649,528
Less: Progress billings	**(489,503)**	(267,122)
	535,979	382,406
Comprising:		
Gross amounts due from contract customers	**546,243**	386,778
Gross amounts due to contract customers	**(10,264)**	(4,372)
	535,979	382,406

29. RETENTION RECEIVABLES

Included in the retention receivables is an aggregate amount of RMB147,000 (2009: RMB6,759,000) which is due after one year.

30. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Included in the prepayments, deposits and other receivables of the Group as at 31 December 2009, there was a performance guarantee of RMB216,000,000 paid for an installation project secured in the fourth quarter of 2009. The amount has been fully refunded during 2010.

31. AMOUNT DUE FROM A JOINTLY CONTROLLED ENTITY

The amount due from a jointly controlled entity is unsecured, carries fixed interest rate at 6% (2009: 6%) per annum and is due for settlement within 12 months.

32. AMOUNTS DUE FROM ASSOCIATES

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

33. DERIVATIVE FINANCIAL INSTRUMENTS

	Group	
	2010	2009
	RMB'000	RMB'000
Foreign currency forward contracts	**827**	642

During the year, the Group has used foreign currency forward contracts in the management of its foreign exchange rate exposures. The instruments purchased are primarily denominated in the currencies of the Group's principal markets. The major terms of the outstanding forward foreign exchange contracts to which the Group is committed at the end of the reporting period are as follows:

Notional amount	**Maturity**	**Exchange rate**
2010		
Buy EUR1,200,000 and sell USD1,534,920	1 March 2011	EUR/USD 1.2791
Buy EUR700,000 and sell USD866,460	31 March 2011	EUR/USD 1.2378
Buy EUR1,450,000 and sell USD1,919,220	31 October 2011	EUR/USD 1.3236
2009		
Buy EUR1,200,000 and sell USD1,668,720	30 June 2010	EUR/USD 1.3906
Buy EUR600,000 and sell USD838,200	30 June 2010	EUR/USD 1.3970
Buy EUR500,000 and sell USD706,750	30 June 2010	EUR/USD 1.4135

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33. DERIVATIVE FINANCIAL INSTRUMENTS *(continued)*

At 31 December 2010, the fair value of the Group's currency derivatives is estimated to be RMB827,000 (2009: RMB642,000). The amount is based on fair value as at 31 December 2010 quoted from the counterparty bank.

The Group does not currently designate any hedging relationship on the foreign currency forward contracts for the purpose of hedge accounting.

34. PLEDGED BANK DEPOSITS AND BANK AND CASH BALANCES

Bank balances carry interest ranging from Nil to 1.35% (2009: Nil to 2.70%) per annum.

The pledged bank deposits are mainly to secure banking facilities granted to the Group and carry interest at range from Nil to 0.36% (2009: ranging from Nil to 0.36%) per annum.

35. TRADE AND OTHER PAYABLES

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables	**75,902**	80,257	**–**	–
Accrued charges	**134,674**	99,298	**2,989**	3,480
Receipts in advance	**30,299**	44,741	**–**	–
Value added tax, sales tax and other levies	**27,760**	24,125	**–**	–
Other payables	**3,072**	3,072	**–**	–
	271,707	251,493	**2,989**	3,480

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

	2010	2009
	RMB'000	RMB'000
0 – 30 days	**28,338**	30,247
31 – 60 days	**14,086**	22,679
61 – 90 days	**8,088**	5,045
Over 90 days	**25,390**	22,286
	75,902	80,257

36. AMOUNTS DUE TO NON-CONTROLLING SHAREHOLDERS

The amounts due to non-controlling shareholders are unsecured and repayable on demand. An aggregate amount of RMB2,714,000 (2009: RMB2,675,000) bears interest at a fixed rate of 6.68% (2009: 6.68%) per annum, the remaining amounts are interest-free.

37. BANK BORROWINGS

	Group	
	2010	2009
	RMB'000	RMB'000
Bank loans	**95,478**	80,000
Analysed as:		
Unsecured	**95,478**	80,000

At 31 December 2010 and 2009 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).

Bank loans amounted to RMB5,478,000 (2009: Nil) were guaranteed by the Company. The remaining bank loans were guaranteed by certain subsidiaries of the Company amounted to RMB90,000,000 (2009: RMB80,000,000).

The average interest rates at 31 December are as follows:

	2010	2009
Bank loans	**5.83%**	6.25%

Bank loans amounted to RMB5,478,000 (2009: Nil) at 31 December 2010 were trust receipt loan. They were subject to an interest rate of HIBOR + 2% per annum and expose the Group to cash flow interest rate risk.

Bank loans amounted to RMB82,000,000 (2009: RMB60,000,000) were arranged at the benchmark interest rate as stipulated by the People's Bank of China plus 1% to 1.5% (2009: 1%) and expose the Group to cash flow interest rate risk.

The remaining bank loans amounted to RMB8,000,000 (2009: RMB20,000,000) were arranged at a fixed interest rate of 5.841% (2009: 5.841%) per annum and expose the Group to fair value interest rate risk.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

38. FINANCE LEASE PAYABLES

	Group			
	Minimum lease payments		Present value of minimum lease payments	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**51**	53	**48**	48
In the second to fifth years, inclusive	**38**	92	**38**	89
	89	145	**86**	137
Less: Future finance charges	**(3)**	(8)	**N/A**	N/A
Present value of lease obligations	**86**	137	**86**	137
Less: Amount due for settlement within 12 months (shown under current liabilities)			**(48)**	(48)
Amount due for settlement after 12 months			**38**	89

It is the Group's policy to lease certain of its furniture and fixtures under a finance lease. The lease term is 5 years. At 31 December 2010, the effective borrowing rate was 5% (2009: 5%) per annum. Interest rates are fixed at the contract dates and thus expose the Group to fair value interest rate risk. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. At the end of lease term, the Group has the option to purchase the furniture and fixtures at nominal prices.

The Group's finance lease payables are denominated in HKD and are secured by the lessor's title to the leased assets.

39. DEFERRED TAX

The following are the major deferred tax (assets)/liabilities recognised, and movements thereon:

	Profit recognition of installation contracts	Others	Total
	RMB'000	RMB'000	RMB'000
	(note (i))	(note (ii))	
At 1 January 2009	6,620	(502)	6,118
(Credit)/charge to the profit or loss for the year	(6,620)	502	(6,118)
At 31 December 2009 and 1 January 2010	–	–	–
Charge to the profit or loss for the year	2,198	–	2,198
At 31 December 2010	2,198	–	2,198

At 31 December 2010, the Group has unused tax losses of RMB80,549,000 (2009: RMB72,657,000) 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 RMB38,782,000 (2009: RMB35,515,000) that will expire from 2011 to 2015 (2009: 2010 to 2014). Other tax losses may be carried forward indefinitely.

At the end of the reporting period, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised is RMB131,292,000 (2009: RMB112,785,000). 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 reverse in the foreseeable future.

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

(ii) The amount mainly represents temporary differences arising on allowance for bad and doubtful debts.

40. SHARE CAPITAL

	Number of shares	Amount
		HKD'000
Authorised:		
Shares of HKD0.01 (2009: HKD0.01) each		
At 1 January 2009, 31 December 2009, 1 January 2010 and 31 December 2010	10,000,000,000	100,000
Issued and fully paid:		
Shares of HKD0.01 (2009: HKD0.01) each		
At 1 January 2009, 31 December 2009, 1 January 2010 and 31 December 2010	2,855,000,000	28,550

	2010	2009
	RMB'000	RMB'000
Shown in the consolidated financial statements as	**30,168**	30,168

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

The capital structure of the Group consists of debt, which mainly include the bank borrowings disclosed in note 37 to the financial statements, and equity attributable to owners of the Company, comprising issued share capital and reserves including retained profits.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

41. SHARE OPTION SCHEME

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

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

Options granted must be taken up within 21 days of the date of grant, upon payment of HKD1 per option. 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.

41. SHARE OPTION SCHEME *(continued)*

Details of the options granted are as follows:

Grantee	Capacity	Date of grant	No. of shares issuable under the options granted	Exercisable period	Exercise price	Outstanding at 1 January 2009, 31 December 2009, 1 January 2010 and 31 December 2010
					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 2010 (2009: Nil).

42. RESERVES

(a) Group

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

(b) Company

	Share premium	Capital reserve	Exchange reserve	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(Note (ii))	(Note (vi))		
At 1 January 2009	646,363	170,607	(3,342)	(61,361)	752,267
Total comprehensive income for the year	–	–	–	(36,786)	(36,786)
At 31 December 2009 and 1 January 2010	646,363	170,607	(3,342)	(98,147)	715,481
Total comprehensive income for the year	–	–	–	(5,277)	(5,277)
At 31 December 2010	646,363	170,607	(3,342)	(103,424)	710,204

42. RESERVES *(continued)*

(c) Nature and purpose of reserves

(i) Special reserve

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

(ii) Capital reserve

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

(iii) Statutory surplus reserve

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

(iv) Statutory public welfare fund

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

(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.

NOTES TO THE FINANCIAL STATEMENTS

42. RESERVES *(continued)*

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

(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 was arised from the change of the functional currency of the Company from HKD to RMB in prior year.

43. DISPOSAL OF SUBSIDIARIES

During the year, the Group has disposed of its equity interests in the following two subsidiaries:

(a) Nanchang Shengan was previously a subsidiary indirectly held by the Company through a non-wholly owned subsidiary. The subsidiary's interests in Nanchang Shengan decreased from 85% to 30% when it sold 55% of the equity interests to an independent third party in October 2010. Accordingly, Nanchang Shengan became an associate of the Group (note 24).

(b) Shenzhen Hocen Emergency Lighting Co., Ltd. ("Shenzhen Hocen") was engaged in the production and sale of fire prevention and fighting equipment. The Group entered into an agreement to sell all its shareholdings in Shenzhen Hocen to certain independent third parties in October 2010.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

43. DISPOSAL OF SUBSIDIARIES *(continued)*

The net assets of the subsidiaries disposed of at the date of disposal were as follows:

	2010
	RMB'000
Property, plant and equipment	608
Inventories	2,792
Trade and bills receivables	2,073
Prepayments, deposits and other receivables	474
Amount due from a related company	23
Bank and cash balances	170
Trade and other payables	(5,336)
Amount due to holding company	(738)
Amounts due to non-controlling shareholders	(1,000)
Net liabilities disposed of	(934)
Non-controlling interests	78
Attributable goodwill	981
	125
Fair value of retained investment recognised as interest in an associate	259
Gain on disposal of subsidiaries	616
Total consideration satisfied by cash	1,000
Net cash inflow arising on disposal:	
Cash consideration	1,000
Bank and cash balances disposed of	(170)
	830

44. CAPITAL COMMITMENTS

At 31 December 2010, the Group's capital commitments are as follows:

	2010	2009
	RMB'000	RMB'000
Property, plant and equipment		
Contracted for but not provided for	**26,992**	28,159

The Company had no capital commitment at 31 December 2010 (2009: Nil).

45. OPERATING LEASE COMMITMENTS

As lessee

At 31 December 2010 the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**2,868**	4,510	**585**	607
In the second to fifth year inclusive	**6,692**	9,820	**398**	1,020
After five years	**936**	2,340	**–**	–
	10,496	16,670	**983**	1,627

Operating lease payments represent rentals payable by the Group for certain of its offices and sales offices. Length of the leases ranged from one to seven years and rentals are fixed over the lease terms and do not include contingent rentals.

As lessor

At 31 December 2010, the future aggregate minimum lease receipts under non-cancellable operating leases are as follows:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**1,990**	1,688	**–**	–
In the second to fifth year inclusive	**3,413**	1,318	**–**	–
	5,403	3,006	**–**	–

46. 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 20% (2009: 18% to 20%) of the basic salary of its eligible PRC employees and have no further obligation for post-retirement benefits beyond the annual contributions made. Pursuant to these arrangements, the retirement plan contributions paid for the year ended 31 December 2010 amounted to RMB5,361,000 (2009: RMB5,256,000).

46. RETIREMENT BENEFIT SCHEMES *(continued)*

In accordance with the relevant mandatory provident fund laws and regulations of Hong Kong, the Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") for all qualifying Hong Kong employees. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent MPF service provider. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the MPF Scheme at rates specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the MPF Scheme. The retirement benefits scheme contributions arising from the MPF Scheme charged to the consolidated statement of comprehensive income represent contributions payable to the funds by the Group at rates specified in the rules of the MPF Scheme. During the year ended 31 December 2010, the Group made to the MPF Scheme contributions amounting to RMB87,000 (2009: RMB88,000).

47. 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:

	2010	2009
	RMB'000	RMB'000
Finished goods purchased from associates	**2,758**	981
Finished goods sold to an associate	**192**	–
Rental income received from an associate	**245**	–

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

48. CONTINGENT LIABILITIES

As at 31 December 2010, the Group and the Company did not have any significant contingent liabilities (2009: Nil).

49. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 25 March 2011.

FINANCIAL SUMMARY

	For the year ended 31 December				
	2006 RMB'000	2007 RMB'000	2008 RMB'000	2009 RMB'000	**2010 RMB'000**
RESULTS					
Turnover	969,705	1,146,124	1,216,448	1,002,585	**908,285**
Profit/(loss) before tax	152,665	226,820	114,734	(100,949)	**(29,878)**
Income tax expense	(44,468)	(52,752)	(38,083)	(6,353)	**(9,028)**
Profit/(loss) for the year	108,197	174,068	76,651	(107,302)	**(38,906)**
Attributable to:					
Owners of the Company	115,815	175,350	80,433	(105,530)	**(39,381)**
Non-controlling interests	(7,618)	(1,282)	(3,782)	(1,772)	**475**
	108,197	174,068	76,651	(107,302)	**(38,906)**
Earnings/(loss) per share (RMB cents)					
Basic	4.24	6.14	2.82	(3.70)	**(1.38)**
Diluted	4.17	6.13	2.82	(3.70)	**(1.38)**

	At 31 December				
	2006 RMB'000	2007 RMB'000	2008 RMB'000	2009 RMB'000	**2010 RMB'000**
ASSETS AND LIABILITIES					
Total assets	1,473,182	1,812,070	1,897,912	1,696,001	**1,694,468**
Total liabilities	(284,350)	(446,613)	(451,331)	(356,744)	**(394,162)**
	1,188,832	1,365,457	1,446,581	1,339,257	**1,300,306**
Equity attributable to owners of the Company	1,162,598	1,338,371	1,418,967	1,313,394	**1,273,657**
Non-controlling interests	26,234	27,086	27,614	25,863	**26,649**
Total equity	1,188,832	1,365,457	1,446,581	1,339,257	**1,300,306**