中國消防企業集團控股有限公司*

CHINA FIRE SAFETY ENTERPRISE GROUP HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code：445

ANNUAL REPORT

2008

* For identification purposes only

CONTENTS

CORPORATE INFORMATION

EXECUTIVE DIRECTORS
Jiang Xiong, Chairman
Jiang Qing
Shi Jia Hao
Wang De Feng
Weng Xiu Xia
Zhang Hai Yan

NON-EXECUTIVE DIRECTORS
Doug Wright
Xi Zheng Zheng
Harinath Krishnamurthy
(alternate director to Doug Wright)

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

REGISTERED OFFICE
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KYI-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN PRC
No. 8 Section I, Xin Hua Road,
Chengdu Cross Straits
Technological Industry Park
Wenjiang District
Chengdu City
Sichuan Province,
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG
2002-03, 20th Floor
World Trade Centre
280 Gloucester Road
Causeway Bay
Hong Kong

WEBSITE
www.chinafire.com.cn

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE
Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705
KYI-1107
Grand Cayman
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE
Computershare Hong Kong Investor Services Limited
1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

AUDITOR
Deloitte Touche Tohmatsu
Certified Public Accountants
35th Floor
One Pacific Place
88 Queensway
Hong Kong

INVESTOR RELATIONS CONSULTANT
Strategic Financial Relations (China) Limited
Unit A, 29th Floor
Admiralty Centre I
18 Harcourt Road
Hong Kong

STOCK EXCHANGE LISTING
The Stock Exchange of Hong Kong Limited

STOCK CODE
445

CHAIRMAN'S STATEMENT

REVIEW

2008 was an extraordinary year. In the first half of the year, we experienced an overheated economy which led to high inflation and series of macro-economic control measures. In the second half of the year, an unprecedented financial crisis has turned the whole situation around. The world faces an exceptional economic downturn which has also seriously affected the Group.

Amongst our different business segments, the fire engines manufacturing division is the one that are comparatively less sensitive to the economic condition. Therefore, we see both its revenue and profit increased amid rising demand for domestic fire engines by fire brigades, driven by the needs to upgrade their equipment to meet the increasing concern over public safety. We received orders for around 800 fire engines in 2008 (2007: 600). However, because of the earthquake in Sichuan and factory removal, we finished approximately 500 only during the year. Installation business, on the other hand, recorded a sharp drop in profit for the year. Installation contracts secured during 2008 declined substantially as compared to last year. During the year, we signed up contracts of approximately RMB250 million which was far less than the amount of contracts obtained in 2007. Although revenue slightly increased over last year, a larger proportion of which was contributed by the branches (23 in total located in different provinces). They contributed only a small sum of profits because we have set the target of earning the largest possible market share irrespective of the profit margins. This is the main reason why profit declined in spite of revenue rose.

For manufacturing and sale of fire safety equipment, the withdrawal from the fire detection and alarm systems market was the main contributor to the decrease in revenue and profit. Since we are not strong in that product markets, the withdrawal allowed us to save the products modification and testing costs to fit the new safety standards and to concentrate our resources to other core products such as the emergency lightings. There was big improvement in sales of emergency lightings for the first six months over that of last year, though the poor market condition in the second half of the year has upset the sales on a year-on-year basis. Amongst our diverse business divisions, the trading business is the most disappointing one. It has incurred losses for three consecutive years. Albeit the resolution of the long perplexing 3C certificate problem, the demand for imported fire engines in China is on a decreasing trend especially after the Ministry of Finance has requested governmental institutions to minimize imports. Because of the obscure future, we have made an impairment loss in respect of the goodwill arose from the acquisition of the trading business amounted to RMB15 million.

CHAIRMAN'S STATEMENT

LOOKING FORWARD

Since the performance of a large part of our operations is highly dependent on the ups and downs of the economy, it has long been our target to develop streams of income that are relatively less responsive to the economic climate. And that was the reason we started our fire engines manufacturing and the network monitoring system years ago.

For fire engines manufacturing, we understand that we have to go beyond a low value producer. We have been working on bringing in new technologies, building up high value models and expanding market. We are working with a Korean company to import their ladder trucks technologies for local assembling to supply the domestic market at a price lower than those imported. It is now at the final stage of applying for the CCC (3C) certificate and quality inspection. Besides, we are also discussing with Sides, a French fire engines manufacturer and a subsidiary of UTC, and Morita Corporation, to form alliances to manufacture domestic airport trucks and bring in other high-tech and high value fire engines. The new factory in Chengdu was opened in October. Equipped with advanced equipment and enlarged production capacity, we are ready to grow into a world-class fire engines manufacturer.

In respect of the network monitoring system, since the national standard promulgated effective from 1 January 2008, our business began to pick up. We have set up monitoring centers in 11 cities and have connected over 380 customers. The monitoring system has gain widespread recognition from the authority because of its calibre of preventing fire accidents. In a meeting of all fire brigades in August 2008, the Fire Bureau requested that the monitoring system be installed to majority of the buildings in all cities and counties by 2012. Notwithstanding that the current unstable economic atmosphere may defer the schedule, we have the confidence that the monitoring system will soon become the essential components of a fire safety system.

We have been working hard in recent years to equip ourselves to cope with the fast changing and highly competitive market. I believe that all the foundations we laid will help us meet the challenges ahead. We have been actively looking for opportunities in the Central Government's RMB4 trillion economy stimulating program. We have also had some achievement in our move to switch emphasis from residential fire safety markets to industrial and fundamental constructions markets. I am delighted that we have secured the contracts to supply the Intelligent Fire Extinguishing Systems to the Main Stadium (China Hall) of the 2010 Shanghai World Expo.

It has long been our mission to achieve a long term sustainable growth by looking for new developments and opportunities to diversify our business.

APPRECIATION

On behalf of the Board, I would like to thank all the staff for their hard work. It was their enthusiasm and commitment that helped us overcome the difficulties and volatilities in the past year. I would also like to extend my gratitude to all my fellow directors for their support and valuable contributions.

Jiang Xiong
Chairman

16 April 2009

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the year ended 31 December 2008, turnover of the Group grew 6% to RMB1,216 million. Net profit, on the other hand, dropped 56% to RMB77 million. Included in the net profit for the year was an impairment loss in respect of goodwill recognised for the segment of trading of fire engines, fire prevention and fighting and rescue equipment amounted to RMB15 million. The impairment was made because of the foreseeable decrease in demand for imported fire engines in China.

Installation of fire prevention and fighting systems

Revenue from installation of fire prevention and fighting systems for the year increased slightly by 0.8% to RMB470 million. Operating profit, on the other hand, dropped 46% to RMB50 million.

Both the macro-economic control in China in the first half of 2008 and the worsening world economic condition in the second half have affected adversely the performance of the segment. Prolonged land development and construction due to tight credit and decrease in number of new installation contracts secured caused by the slack real estate market have negatively impacted the Group's revenue. The proportion of revenue contributed by the Group's 23 branches located across the country to the total installation revenue has increased to over 40% (2007: 31%). Since profits from branches have been set at very low level in order to capture market share, profit of the segment fell despite revenue rose.

Severe inflation in the first half of the year, when costs of materials including steel, copper and aluminium etc. jumped to record high, was another factor contributed to the reduced profit of the segment. As a large number of contracts were entered into in previous years, with contracts price fixed and determined based on the pre-inflation costs, the higher-than-budgeted costs incurred during the inflationary period have greatly lowered the profit of the segment.

Production and sale of fire engines

Revenue and operating profit from production and sales of fire engines for the year increased 27% and 12% to RMB248 million and RMB19 million respectively.

Driven by the strong demand of domestic fire engines, the number of fire engines sold during the year grew 13% as compared to last year. To continue to lead the market and maintain a growth impetus, the Group is diversifying into high-tech and high-value-added models to cater for the rising needs for quality and advanced fire engines. The Group is working with a Korean company to bring in the ladder trucks technologies and have the assembling localised to meet the domestic demand. Price of locally assembled trucks is estimated to be two-third of those imported. Besides, the Group is also discussing with Sides (a subsidiary of UTC and a fire engines manufacturer) and Morita Corporation, for some kind of partnership to manufacture domestic airport trucks and other high-tech and high value fire engines. With the increased production capacity brought by the new factory in Chengdu (which opened in October 2008), the Group has well equipped itself for future expansion and advancing into a high growth fire engines manufacturer.

Production and sale of fire prevention and fighting equipment

Revenue and operating profit from production and sales of fire prevention and fire fighting equipment for the year decreased 21% and 54% to RMB266 million and RMB34 million respectively.

The decrease in revenue and profit for the year was mainly attributable to the drop in sales of fire detection and alarm systems, as a result of the Group's decision to phase out majority models of the two product categories that were facing extremely intense competition at the beginning of the year. Since the Group's competitive edge does not lie in the detection and fire alarm systems, such move saved it a large sum for product modifications, inspections and approvals to meet the new quality standard for fire safety products that came into force in January 2008. Resources were channeled to the production and sale of other Group's core products such as emergency lightings, which led to a 38% growth in its sales for the first six months. Unfortunately, the case reversed in the second half of the year with the economic downturn. Sales of the Group's emergency lightings recorded a decrease on a year-to-year basis. Besides, the upsurge material costs in the first half of the year have also posed a negative impact on the performance of the segment.

Provision of maintenance services

Revenue from the provision of fire prevention and fighting system maintenance services for the year increased by 15% to RMB91 million. Operating profit, on the other hand, decreased 26% to RMB43 million.

Revenue from traditional maintenance services for the year increased 9% to RMB86 million. However, the high inflation in the first half of the year and the intensifying competition has squeezed profit of the maintenance segment to a great extent.

With the national standard for the network monitoring systems (**城市消防遠程監控系統技術規範**) promulgated effective from 1 January 2008 and more widespread knowledge of the system, revenue contributed by the network monitoring systems increased by more than 4 times for the year. The number of customers has increased to over 380 and operating loss for the year decreased by half. Three more monitoring centers in Xingtai, Zhaoqing and Fuqing were established during the year. Being a pioneer in developing and promoting the system, the Group is highly confident in the system. In a meeting held by the Fire Bureau which attended by representatives of all fire brigades across the country in August 2008, the monitoring system was praised highly for its capability in preventing fire accidents and speeding up the reporting of fire hazards. The Fire Bureau has requested that the system be installed to majority of the buildings in all cities and counties by 2012. The Group believes the foundations it built would take advantage of the opportunities arising and would turn the network monitoring systems as one of the Group's most important growth engines in the future.

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 107% to approximately RMB141 million. The segment incurred a loss of RMB20 million for the year (2007: loss of RMB3 million).

All previously backlogged imported fire engines have been released leading to the substantial increase in revenue for the year. Unfortunately, the significant appreciation of Euro against Hong Kong Dollar during the period of backlogged has eroded a massive part of the profit that should have been generated. Included in the loss for the year, there was also impairment loss recognised in respect of goodwill amounted to RMB15 million. The goodwill arose when the Group acquired the trading business in 2004. The impairment was mainly attributable to the foreseeable decrease in demand for imported fire engines in China, especially after the Ministry of Finance has requested governmental institutions to minimize imports unless there are no domestic substitutes.

FINANCIAL RESOURCES, LIQUIDITY, CONTINGENT LIABILITIES AND PLEDGE OF ASSETS

As at 31 December 2008, the Group had cash and bank balances amounting to approximately RMB786 million (2007: RMB684 million) of which RMB8 million (2007: RMB23 million) was pledged to secure banking facilities granted to the Group and as performance guarantee. Outstanding balances of short term bank loans and bank overdrafts as at the year end date were RMB60 million (2007: RMB53 million) and RMB3 million (2007: RMB5 million) respectively. All trust receipt loans have been repaid at end of the year (2007:13 million). The overdrafts and trust receipt loans were granted to a subsidiary and were secured by the Group's pledged bank deposits and/or personal assets and/or guarantee of a minority shareholder. The short term bank loans were granted to another non-wholly owned subsidiary and was secured by certain land and buildings, land leases and/or equipment of the Group with a total carrying amount of approximately RMB33 million (2007: RMB19 million). Net cash increase during the year was mainly due to the completion of a substantial number of installation projects in progress last year.

As at 31 December 2008, current assets and current liabilities of the Group were approximately RMB1,495 million (2007: RMB1,490 million) and RMB445 million (2007: RMB436 million) respectively. The current ratio was approximately 3.4 times (2007: 3.4 times). Gearing ratio (interest bearing debt / total equity) at end of the year was 4.4% (2007: 5.2%). Because of the worsening economic environment, recovery of receivables was slower in the current year and thus lengthened the Group's outstanding receivables. Provision for doubtful debts amounted to RMB3.5 million was made for the year in accordance with the Group's provision for aged debts policy. The management has reviewed the recoverability trade and bills receivables and considered the existing level of provision appropriate.

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. During the year, as Hong Kong dollar has depreciated against Renminbi, there was an exchange loss of RMB3.9 million included in the administrative expenses arose from the translation of some of the Group's Hong Kong dollar denominated assets (mainly Hong Kong dollar bank deposits) into Renminbi. 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. There were losses arising from changes in fair value of currency derivatives amounting to RMB2.5 million during the year.

Save as disclosed, the Group has no material contingent liabilities or pledge of assets for the year ended 31 December 2008.

INVESTMENTS AND CAPITAL COMMITMENTS

Investments

The Group has acquired 30% equity interests in Shanghai Kidde Fire Fighting Co., Ltd. ("Shanghai Kidde"), a company engaged in the design, production and sale of fire suppression foam and other fire protection equipment, at a consideration of RMB3,484,000. Shanghai Kidde is a subsidiary of the UTC Fire & Security. The investment marked another alliance between the Group and the United Technologies Corporation ("UTC").

Capital commitments

As at 31 December 2008, the Group has capital commitment of approximately RMB149 million (2007: RMB274 million) which continued to be in relation to the new factory in Chengdu. The new factory has been put in use in October 2008.

Save as disclosed herein, the Group has no material capital commitments, investments, acquisitions or disposals of subsidiaries as at 31 December 2008.

DIVIDENDS

The directors of the Company are in the opinion that under the current economic condition, there are a lot of investment and acquisition opportunities in the market. The Group has currently a number of investment and acquisition projects in consideration or negotiation. Therefore, the Board does not recommend the payment of a dividend for the year ended 31 December 2008 (2007: nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2008, the Group had approximately 1,279 full-time employees (2007: 1,551). Staff costs, excluding directors' remuneration, for the year amounted to RMB39 million, decrease by 28% over the previous year's RMB54.4 million. A number of staff were laid off at the beginning of the year due to the phasing out of the Group's fire detection and alarm systems as explained in "Production and sale of fire prevention and fighting equipment" under the Business review section above, leading to the decrease in staff costs. 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 41, 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 10 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 44, is an executive Director and Chief Executive Officer of the Company. He joined the Group in April 1995 and has over 10 years of experience in the building construction industry and fire prevention and fighting systems installation. Prior to joining the Group in April 1995, Mr. Jiang was an assistant executive of Fujian Construction and Development Limited (福建省建設發展總公司), a company engaged in property development, from February 1993 to April 1995 and he was mainly responsible for the management and administration for construction projects. Mr. Jiang received the professional certificate from Fujian Technical Institute of Construction (福建建築高等專科學校) in September 2000 and is a qualified engineer in the PRC and obtained the qualification of senior economist from the Human Resources Office of Fujian Provincial Government (福建省人事廳) in January 2004. Mr. Jiang was elected the Chairman of the Construction Industry Association and its branch for fire safety industry in 2006. He is responsible for the corporate management and overall operation of the Group. He is the elder brother of Mr. Jiang Xiong.

Mr. SHI Jia Hao, aged 62, is an executive Director of the Company. He is a graduate of the Department of Business Administration of the Xiamen University and a qualified economist. He has extensive experience of corporate management gained from various sectors including manufacturing, tourism and real estate. Mr. Shi joined the Group in 2005 and is responsible for administration works of the Group, he is also a director of Sichuan Morita Fire Safety Appliances Company Limited ("Sichuan Morita"), a subsidiary of the Company.

DIRECTORS AND SENIOR MANAGEMENT

Mr. WANG De Feng, aged 40, is as 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 39, is as 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 is 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.

Ms. ZHANG Hai Yan, aged 36, 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.

Non-executive Directors

Mr. Doug WRIGHT, aged 38, was appointed as a non-executive Director of the Company on 10 October 2007. He is the President of UTC Fire & Security Asia. He holds a Bachelor of Science in Mechanical Engineering where he graduated from the Virginia Polytechnic Institute and State University and an M.B.A. from the University of North Carolina-Charlotte. Before joining UTC Fire & Security, he held a series of senior management positions at Ingersoll Rand Company.

Ms. XI Zheng Zheng, aged 41, is as 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 43, is the alternate Director to Mr. Doug Wright. 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, aged 59, is an independent non-executive Director of the Company. He joined the Company in August 2006. Dr. Loke has over 30 years of experience in accounting and auditing for private and public companies, financial consultancy and corporate management. He holds a Master of Business Administrative Degree from Universiti Teknologi Malaysia and a Doctor of Business Administrative Degree from University of South Australia. He is a fellow member of The Institute of Chartered Accountants in England and Wales; Hong Kong Institute of Certified Public Accountants; and The Hong Kong Institute of Directors. Dr. Loke is also an associate member of The Hong Kong Institute of Chartered Secretaries and a member of Malaysian Institute Accountants. He is the Chairman of MHL Consulting Limited and Habamas Limited. He serves as an independent non-executive director of several publicly listed companies in Hong Kong including Bio-Dynamic Group Limited, Matrix Holdings Limited, VODone Limited, Winfair Investment Company Limited and ZMAY Holdings Limited.

Mr. SUN Jian Guo, aged 50, was appointed as 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 31, is a Principal of Morison Heng, Certified Public Accountants. Mr. Heng holds a Master of Science degree of the Imperial College, the 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 was appointed an independent non-executive director of the Company on 4 March 2009.

Mr. HENG Kwoo Seng, aged 61, is an independent non-executive Director of the Company. He joined the Company in April 2004. Mr. Heng is the Managing Partner of Morison Heng, Certified Public Accountants. He is a fellow member of The Institute of Chartered Accountants in England & Wales and an associate member of The Hong Kong Institute of Certified Public Accountants. Mr. Heng is also an independent non-executive Director of the following companies listed on the Main Board of the Stock Exchange: SCUD Group Limited and Zhong Au Real Estate Limited. Mr. Heng resigned as an independent non-executive director of the Company on 28 February 2009.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. HU Yong, aged 40, is the General Manager and Chief Engineer of Sichuan Morita. Mr. Hu graduated from the Sichuan Institute of Technology (四川工業學院), specializing in hydraulic mechanics. Upon graduation, he joined Sichuan Morita, and has since then been in service for 17 years, having been promoted from a designer to the General Manager and Chief Engineer. He has extensive experience in the product technology and design, production operations, and administration and management of the company.

Mr. LI Jin, aged 54, 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 46, 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 41, 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 Fire Safety Appliances Factory (四川消防機械總廠) (renamed Sichuan Morita Fire Appliances Company Limited after being acquired by the Company in 2005) 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. ZHUO Fu Quan, aged 63, joined the Group in November 2003 and is now the Deputy General Manager of Clusafe Control Equipment Co., Ltd., responsible for the company's overall operation. Mr. Zhuo is a graduate of the Department of Physics in Xiamen University and is a qualified senior engineer. He had worked for Fujian Hitachi Television Co. Ltd. (福建日立電視機有限公司), where he was the chief of the design department and sales department, responsible for the design and sales of products for export and domestic sales. Mr. Zhuo has extensive experience in technologies, productions, sales and operations management in the IT industry.

DIRECTORS AND SENIOR MANAGEMENT

Mr. CAI Jun, aged 45, 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).

Mr. FENG Quan Hui, aged 46, is the General Manager of Jiangxi Shengan City Safety Communications Development Company Limited (江西省盛安城市安全信息發展有限公司), a subsidiary of the Company, responsible for its management and business development. Mr. Feng is a graduate of the department of electronics of South China University of Technology (華南工學院). He is a qualified senior engineer and was awarded the first class manager qualification (一級項目經理資格) by the Ministry of Construction. Mr. Feng has many years of experience in fire systems installation.

Mr. CHAN Chun Wo, aged 58, 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 46, the General Manager of Chuanxiao Fire Engineering Company Limited, a subsidiary of the Company. He has worked in the fire safety engineering and project implementation and administration for over 20 years. Mr. Ren has extensive experience in the administration of numerous large-scaled fire safety projects.

CORPORATE GOVERNANCE PRACTICES

Throughout the year ended 31 December 2008, 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 three 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, up to the date of this announcement, 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 three board meetings held during the year which, besides the approval of the Company's quarterly, 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 the 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, though the number of board meetings held was less than four as stated in the code provision.

CORPORATE GOVERNANCE REPORT

Attendance of each Director is set out below:

Name of Directors	No. of meetings attended
Executive Directors	
Mr. Jiang Xiong (Chairman)	2/3
Mr. Jiang Qing (Chief Executive Officer)	3/3
Mr. Shi Jia Hao	3/3
Mr. Wang De Feng	3/3
Ms. Weng Xiu Xia	3/3
Ms. Zhang Hai Yan	3/3
Non-executive Directors	
Mr. Doug Wright	3/3
Ms. Xi Zheng Zheng	3/3
Independent non-executive Directors	
Mr. Heng Kwoo Seng	3/3
Dr. Loke Yu	3/3
Mr. Sun Jian Guo	2/3

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. Heng Kwoo Seng resigned as an independent non-executive Director of the Company on 28 February 2009 and Mr. Heng Ja Wei was appointed as an independent non-executive Director of the Company on 4 March 2009.

AUDITOR'S REMUNERATION

Auditor's remuneration is for audit services provided only. The auditors 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 the 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 Mr. Heng Kwoo Seng ("Mr. Heng"), Dr. Loke Yu, both are independent non-executive Directors, 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. Mr. Heng Ja Wei, who was appointed as an independent non-executive Director of the Company on 4 March 2009, joined the remuneration committee since appointment to take the place vacated by Mr. Heng who resigned as an independent non-executive Director of the Company on 28 February 2009.

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.

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE

The audit committee comprises three independent non-executive Directors, Mr. Heng Kwoo Seng ("Mr. Heng"), Dr. Loke Yu and Mr. Sun Jian Guo. The primary duties of the audit committee are to review the Company's annual report and accounts, half-yearly reports and quarterly 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 three meetings to review and comment on the Company's quarterly, 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
Mr. Heng Kwoo Seng (Chairman)	3/3
Dr. Loke Yu	3/3
Mr. Sun Jian Guo	2/3

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

Mr. Heng resigned as an independent non-executive Director of the Company on 28 February 2009. Mr. Heng Ja Wei was appointed an independent non-executive Director of the Company on 4 March 2009 and joined the audit committee since appointment to fill the place vacated by Mr. Heng.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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 auditors are responsible to form an independent opinion, based on the audit, on the financial statements prepared by the Directors and report the opinion solely to the shareholders of the Company.

The Directors present their annual report and the audited financial statements for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries, associates and jointly controlled entity are set out in notes 47, 20 and 21 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2008 are set out in the consolidated income statement on page 29.

The Directors do not recommend the payment of a dividend for the year ended 31 December 2008 (2007: nil).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements during the year in the property, plant and equipment of the Group are set out in note 16 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31 December 2008 were RMB766,609,000 (2007: RMB775,882,000).

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.

DIRECTORS' REPORT

DIRECTORS

The Directors during the year and up to date of this report were:

Executive Directors

Mr. Jiang Xiong (Chairman)
Mr. Jiang Qing
Mr. Shi Jia Hao
Mr. Wang De Feng
Ms. Weng Xiu Xia
Ms. Zhang Hai Yan

Non-executive Directors

Mr. Doug Wright
Ms. Xi Zheng Zheng
Mr. Harinath Krishnamurthy
(alternate director to Mr. Doug Wright)

Independent Non-executive Directors

Dr. Loke Yu	
Mr. Sun Jian Guo	
Mr. Heng Ja Wei	(appointed on 4 March 2009)
Mr. Heng Kwoo Seng	(resigned on 28 February 2009)

In accordance with the provisions of the Company's Articles of Association, Mr. Wang De Feng, Ms. Xi Zheng Zheng and Mr. Heng Ja Wei retire from office and, being eligible, offer themselves for re-election.

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.

No Director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' AND CHIEF EXECUTIVES' INTEREST IN THE COMPANY'S SECURITIES

Save as disclosed below, as of 31 December 2008, 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%

Notes:

(a) Mr. Jiang is beneficially interested in 981,600,000 shares. By virtue of the option agreement (the "Option Agreement") entered into between Mr. Jiang and United Technologies Far East Limited ("UTFE"), a subsidiary of United Technologies Corporation ("UTC"), Mr. Jiang and UTFE are parties to the Option 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 Option 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' AND CHIEF EXECUTIVES' INTEREST 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 *HK$*	Number of shares issuable under the options outstanding as at 1 January and 31 December 2008	Percentage of issued share capital of the Company
Mr. Jiang Qing	25 May 2004	20,000,000	25 May 2004 – 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.

ARRANGEMENTS TO PURCHASE 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.

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.

INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 31 December 2008, 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%

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

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

Notes:

(a) By virtue of the Option Agreement, Mr. Jiang and UTFE are parties to the Option 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 2008.

SHARE OPTIONS

The Company adopted a share option scheme on 20 September 2002 (the "GEM Share Option Scheme"), for the primary purpose of providing incentives to Directors and eligible employees, which will expire on 19 September 2012. With the transfer of the listing of the Company's shares from the Growth Enterprise Market of the Stock Exchange to the Main Board of the Stock Exchange on 6 October 2008, the Company will seek the approval of the Shareholders to terminate the GEM Share Option Scheme and adopt a new share option scheme (the "New Share Option Scheme") which will comply with the requirements of Chapter 17 of the Listing Rules in the forthcoming annual general meeting.

As at the date of this report, 20,000,000 options have already been granted to Mr. Jiang Qing, an executive Director, which are exercisable at an exercise price of HK$0.44 per share during the period from 25 May 2004 to 24 May 2014. Pursuant to the GEM Share Option Scheme, the outstanding 20,000,000 options previously granted but unexercised under the GEM Share Option Scheme will remain valid and exercisable in accordance with their terms of issue after the termination of the GEM Share Option Scheme.

No further options will be offered or granted until the New Share Option Scheme is adopted. Particulars of the GEM Share Option Scheme are set out in note 39 to the consolidated financial statements.

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.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year ended 31 December 2008, neither the Company nor any of its subsidiaries purchased, cancelled or redeemed any listed securities of the Company.

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.

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.

DIRECTORS' REPORT

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.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2008, 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.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2008.

AUDITOR

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

Jiang Xiong
Chairman

16 April 2009

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

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

We have audited the consolidated financial statements of China Fire Safety Enterprise Group Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 29 to 107, which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements 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. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 as to whether the consolidated financial statements are free from material misstatement.

INDEPENDENT AUDITOR'S REPORT

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 judgment, 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 and true and fair presentation of the consolidated financial statements 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 Group as at 31 December 2008 and of the Group's profit 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.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong, 16 April 2009

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

	NOTES	2008 RMB'000	2007 RMB'000
Turnover	5	**1,216,448**	1,146,124
Cost of sales		**(986,547)**	(833,594)
Gross Profit		**229,901**	312,530
Other income	7	**12,048**	24,562
Selling and distribution costs		**(28,410)**	(20,992)
Administrative expenses		**(80,031)**	(82,225)
Share of profits of associates		**3,836**	124
Other expenses	8	**(17,782)**	(2,559)
Finance costs	9	**(4,828)**	(4,620)
Profit before taxation		**114,734**	226,820
Taxation	12	**(38,083)**	(52,752)
Profit for the year	13	**76,651**	174,068
Attributable to:			
Equity holders of the Company		**80,433**	175,350
Minority interests		**(3,782)**	(1,282)
		76,651	174,068
Earnings per share (RMB cents)	15		
Basic		**2.82**	6.14
Diluted		**2.82**	6.13

CONSOLIDATED BALANCE SHEET

At 31 December 2008

	NOTES	2008 RMB'000	2007 RMB'000
Non-current assets			
Property, plant and equipment	16	**243,710**	138,961
Prepaid lease payments	17	**41,225**	56,664
Investment properties	18	**–**	–
Goodwill	19	**45,411**	61,879
Interests in associates	20	**70,173**	18,124
Other intangible assets	22	**1,523**	1,800
Available-for-sale investment	23	**–**	44,100
Deferred tax assets	24	**502**	502
		402,544	322,030
Current assets			
Inventories	25	**102,443**	128,587
Trade and bills receivables	26	**391,322**	374,664
Amounts due from contract customers	27	**129,946**	240,510
Retention receivables	28	**20,316**	5,674
Deposits, prepayments and other receivables		**31,994**	31,075
Amount due from a jointly controlled entity	29	**6,040**	4,761
Amount due from an associate	30	**431**	–
Prepaid lease payments	17	**855**	476
Derivative financial instruments	31	**214**	–
Pledged bank deposits	32	**8,422**	22,559
Bank balances and cash	32	**777,634**	661,934
		1,469,617	1,470,240
Assets classified as held for sale	33	**25,751**	19,800
		1,495,368	1,490,040

CONSOLIDATED BALANCE SHEET

At 31 December 2008

	NOTES	2008 RMB'000	2007 RMB'000
Current liabilities			
Trade and other payables	34	**337,736**	312,369
Amounts due to contract customers	27	**12,370**	29,928
Amounts due to minority shareholders	35	**4,676**	4,792
Tax liabilities		**26,274**	17,608
Bank borrowings	36	**63,471**	70,935
Obligations under a finance lease – amount due within one year	37	**46**	46
		444,573	435,678
Net current assets		**1,050,795**	1,054,362
Total assets less current liabilities		**1,453,339**	1,376,392
Non-current liabilities			
Deferred tax liabilities	24	**6,620**	10,742
Obligations under a finance lease – amount due after one year	37	**138**	193
		6,758	10,935
Net assets		**1,446,581**	1,365,457
Capital and reserves			
Share capital	38	**30,168**	30,168
Reserves	40	**1,388,799**	1,308,203
Equity attributable to equity holders of the Company		**1,418,967**	1,338,371
Minority interests		**27,614**	27,086
Total equity		**1,446,581**	1,365,457

The consolidated financial statements on pages 29 to 107 were approved and authorised for issue by the Board of Directors on 16 April 2009 and are signed on its behalf by:

Jiang Xiong
DIRECTOR

Jiang Qing
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008

	Attributable to equity holders of the Company												
	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000 (note 40(d))	Capital reserve RMB'000 (note 40(e))	Property revaluation reserve RMB'000	Statutory surplus reserve RMB'000 (note 40(a))	Statutory public welfare fund RMB'000 (note 40(b))	Statutory reserve fund RMB'000 (note 40(c))	Exchange reserve RMB'000	Retained profits RMB'000	Total RMB'000	Minority interests RMB'000	Total RMB'000
At 1 January 2007	30,168	646,363	(6,692)	57,840	2,985	30,250	20,121	49,203	(1,055)	333,415	1,162,598	26,234	1,188,832
Exchange differences arising on translation of foreign operations recognised directly in equity	–	–	–	–	–	–	–	–	436	–	436	202	638
Realisation of exchange reserve on disposal of a subsidiary	–	–	–	–	–	–	–	–	(13)	–	(13)	–	(13)
Profit for the year	–	–	–	–	–	–	–	–	–	175,350	175,350	(1,282)	174,068
Total recognised income (expense) for the year	–	–	–	–	–	–	–	–	423	175,350	175,773	(1,080)	174,693
Transfer	–	–	–	–	–	488	244	31,440	–	(32,172)	–	–	–
Capital contribution from minority shareholders	–	–	–	–	–	–	–	–	–	–	–	154	154
Acquired on acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	526	526
Disposal of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	1,252	1,252
At 31 December 2007	30,168	646,363	(6,692)	57,840	2,985	30,738	20,365	80,643	(632)	476,593	1,338,371	27,086	1,365,457
Exchange differences arising on translation of foreign operations recognised directly in equity	–	–	–	–	–	–	–	–	163	–	163	158	321
Profit for the year	–	–	–	–	–	–	–	–	–	80,433	80,433	(3,782)	76,651
Realisation of property revaluation reserve on disposal of the relevant investment properties that were reclassified as assets held for sale	–	–	–	–	(2,985)	–	–	–	–	2,985	–	–	–
Total recognised income (expense) for the year	–	–	–	–	(2,985)	–	–	–	163	83,418	80,596	(3,624)	76,972
Transfer	–	–	–	–	–	5,156	2,578	1,784	–	(9,518)	–	–	–
Capital contribution from minority shareholders	–	–	–	–	–	–	–	–	–	–	–	3,602	3,602
Disposal of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	259	259
Changes in minority interests	–	–	–	–	–	–	–	–	–	–	–	291	291
At 31 December 2008	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

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008

	2008 RMB'000	2007 RMB'000
Cash flows from operating activities		
Profit before taxation	**114,734**	226,820
Adjustments for:		
Depreciation of property, plant and equipment	**11,822**	14,703
Amortisation of prepaid lease payments	**381**	506
Amortisation of other intangible assets	**277**	177
Impairment loss recognised in respect of goodwill	**15,283**	–
Allowance for bad and doubtful debts	**3,511**	5,568
Interest income	**(7,747)**	(8,734)
Interest expense	**4,828**	4,620
Loss (gain) on disposal of property, plant and equipment	**1,732**	(912)
Gain on disposal of subsidiaries	**(170)**	(9,357)
Loss on partial disposal of subsidiaries	**228**	–
Change in fair value of derivative financial instruments	**(214)**	–
Share of profits of associates	**(3,836)**	(124)
Reversal of allowance for bad and doubtful debts	**–**	(573)
Decrease in fair value of investment properties	**–**	2,559
Gain on disposal of leasehold land	**–**	(372)
Operating cash flows before movements in working capital	**140,829**	234,881
Decrease (increase) in inventories	**23,223**	(65,119)
(Increase) decrease in trade and bills receivables	**(20,690)**	1,063
Decrease (increase) in amounts due from contract customers	**110,564**	(179,826)
(Increase) decrease in retention receivables	**(14,642)**	3,590
Increase in deposits, prepayments and other receivables	**(1,098)**	(5,784)
(Decrease) increase in trade and other payables	**(15,247)**	126,143
(Decrease) increase in amounts due to contract customers	**(17,558)**	16,252
Cash generated from operations	**205,381**	131,200
Interest paid	**(4,828)**	(4,620)
PRC Enterprise Income Tax paid	**(33,721)**	(31,729)
Hong Kong Profits Tax refunded (paid)	**181**	(195)
Net cash from operating activities	**167,013**	94,656

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008

	NOTE	2008 RMB'000	2007 RMB'000
Investing activities			
Purchase of property, plant and equipment		**(100,560)**	(47,957)
Proceeds from disposal of investment properties		**19,800**	–
Proceeds from disposal of leasehold land		**–**	2,339
Deposits received on assets classified as held for sale		**15,098**	–
Decrease in pledged bank deposits		**14,137**	1,724
Interest received		**7,747**	8,734
Acquisition of associates		**(3,484)**	(18,000)
Advance to a jointly controlled entity		**(1,279)**	(4,761)
Partial disposal of subsidiaries		**181**	–
Disposal of a subsidiary (net of cash and cash equivalent disposed of)	44	**(23)**	22,655
Proceeds from disposal of property, plant and equipment		**15**	4,019
Acquisition of available-for-sale investment		**–**	(44,100)
Payment for acquisition of leasehold land		**–**	(16,620)
Acquisition of subsidiaries		**–**	(3,074)
Additions of other intangible assets		**–**	(1,377)
Net cash used in investing activities		**(48,368)**	(96,418)
Financing activities			
(Decrease) increase in trust receipt loans		**(14,945)**	10,462
New bank loans raised		**62,502**	52,617
Repayment of bank loans		**(54,084)**	(43,340)
Capital contribution from minority shareholders of subsidiaries		**3,602**	154
Advance from minority shareholders		**180**	1,555
Advance from an associate		**49**	–
Repayment of obligations under a finance lease		**(44)**	(34)
Repayment to a jointly controlled entity		**–**	(245)
Net cash (used in) from financing activities		**(2,740)**	21,169
Net increase in cash and cash equivalents		**115,905**	19,407
Cash and cash equivalents at the beginning of the year		**661,934**	642,278
Effect of exchange rate changes		**(205)**	249
Cash and cash equivalents at the end of the year, representing bank balances and cash		**777,634**	661,934

1. GENERAL

The Company is incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the registered office and principal place of business of the Company are disclosed in the introduction to the annual report.

The Company is an investment holding company and the activities of its principal subsidiaries, associates and jointly controlled entity are set out in notes 47, 20 and 21.

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

2. APPLICATION OF NEW OR REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are or have become effective.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of financial assets
HK(IFRIC) – INT 11*	HKFRS 2 – Group and treasury share transactions
HK(IFRIC) – INT 12	Service concession arrangements
HK(IFRIC) – INT 14	HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction

* IFRIC represents the International Financial Reporting Interpretations Committee.

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

2. APPLICATION OF NEW OR REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of financial statements[2]
HKAS 23 (Revised)	Borrowing costs[2]
HKAS 27 (Revised)	Consolidated and separate financial statements[3]
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation[2]
HKAS 39 (Amendment)	Eligible hedged items[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate[2]
HKFRS 2 (Amendment)	Vesting conditions and cancellations[2]
HKFRS 3 (Revised)	Business combinations[3]
HKFRS 7 (Amendment)	Improving disclosures about financial instruments[2]
HKFRS 8	Operating segments[2]
HK(IFRIC) – INT 9 & HKAS 39 (Amendments)	Embedded derivatives[4]
HK(IFRIC) – INT 13	Customer loyalty programmes[5]
HK(IFRIC) – INT 15	Agreements for the construction of real estate[2]
HK(IFRIC) – INT 16	Hedges of a net investment in a foreign operation[6]
HK(IFRIC) – INT 17	Distribution of non-cash assets to owners[3]
HK(IFRIC) – INT 18	Transfer of assets from customers[7]

[1] Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009

[2] Effective for annual periods beginning on or after 1 January 2009

[3] Effective for annual periods beginning on or after 1 July 2009

[4] Effective for annual periods ending on or after 30 June 2009

[5] Effective for annual periods beginning on or after 1 July 2008

[6] Effective for annual periods beginning on or after 1 October 2008

[7] Effective for transfer on or after 1 July 2009

The application of HKFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after 1 January 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary. The Directors anticipate that the application of the other new or revised standards, amendments or interpretations will have no material impact on the results and financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Business combinations

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 Business Combinations are recognised at their fair values at the acquisition date.

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

Business combinations *(continued)*

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Goodwill

Goodwill arising on acquisitions prior to 1 January 2005

Goodwill arising on an acquisition of net assets and operations of another entity for which the agreement date is before 1 January 2005 represents the excess of the cost of the acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant acquiree at the date of acquisition.

For previously capitalised goodwill arising on acquisitions of net assets and operations of another entity prior to 1 January 2005, the Group has discontinued amortisation from 1 January 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired (see the accounting policy below).

Goodwill arising on acquisitions on or after 1 January 2005

Goodwill arising on an acquisition of a business or a jointly controlled entity (which is accounted for using proportionate consolidation) for which the agreement date is on or after 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business or jointly controlled entity at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a business or a jointly controlled entity is presented separately in the consolidated balance sheet.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill *(continued)*

Goodwill arising on acquisitions on or after 1 January 2005 (continued)

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of the relevant cash-generating units or a jointly controlled entity, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associates, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments in associates *(continued)*

Goodwill arising on acquisitions on or after 1 January 2005

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The Group recognises its interests in jointly controlled entities using proportionate consolidation. The Group's share of each of the assets, liabilities, income and expenses of the jointly controlled entities are combined with the Group's similar line items, line by line, in the consolidated financial statements.

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 business or a jointly controlled entity (see above).

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

When a group entity transacts with a jointly controlled entity of the Group, profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue on installation contracts is recognised (see accounting policy of installation contracts below for details) by reference to the stage of completion of the contract activity carried out during the year.

Sales of goods are recognised when goods are delivered and title has passed.

Service income is recognised when services are provided.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Property, plant and equipment

Property, plant and equipment including land and buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and taking into account of their estimated residual value, using the straight-line method.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in property revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to retained profits.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment *(continued)*

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Leasehold land and buildings under development for future owner-occupied purpose

When the leasehold land and buildings are in the course of development for production or for administrative purposes, the leasehold land component is classified as a prepaid lease payment and amortised over a straight-line basis over the lease term. During the construction period, the amortisation charge provided for the leasehold land is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by the management).

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair value using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the year in which the item is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses).

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

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 arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its estimated useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition.

Non-current assets classified as held for sale are measured at the lower of the assets previous carrying amount and fair value less costs to sell.

Installation contracts

Where the outcome of an installation contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Where the outcome of an installation contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from contract customers. For installation contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as amounts due to contract customers. Amounts received before the related work is performed are included in the consolidated balance sheet, as a liability, as receipts in advance. Amounts billed for work performed but not yet paid by the customer are included in the consolidated balance sheet under trade receivables.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment losses for tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. In addition, intangible assets with indefinite useful lives are tested for impairment annually, and whenever there is an indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement 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 balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. 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 profit will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, 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 each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit 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. Deferred tax is charged or credited to the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leasing *(continued)*

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire contract is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases.

Retirement benefit costs

Payments to the Group's Mandatory Provident Fund Scheme and the state-managed retirement plan for its employees in Hong Kong and the People's Republic of China respectively, are charged as an expense when employees have rendered service entitling them to the contributions.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when 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.

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

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the exchange reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the exchange reserve.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation before 1 January 2005 is treated as non-monetary foreign currency items of the acquirer and reported using the historical cost prevailing at the date of acquisition.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

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

Financial instruments *(continued)*

Financial assets

The Group's financial assets are classified into one of the three categories, including loans and receivables, financial assets at fair value through profit or loss ("FVTPL") and available-for-sale financial asset. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of loans and receivables, financial assets at FVTPL and available-for-sale financial asset are set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and bills receivables, other receivables, retention receivables, amount due from a jointly controlled entity, amount due from an associated company, pledged bank deposits, bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Financial assets at fair value through profit or loss

Financial assets at FVTPL are mainly investments held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

At each balance sheet date subsequent to initial recognition, financial assets at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets.

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

Financial instruments *(continued)*

Financial assets *(continued)*

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. The Group designated equity investment held for an identified long term strategic purpose as available-for-sale investment.

For available-for-sale equity investment that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period granted, observable changes in national or local economic conditions that correlate with default on receivables.

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

Financial instruments *(continued)*

Impairment of financial assets *(continued)*

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and bills receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade or other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investment will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at FVTPL and other financial liabilities.

Financial liabilities at fair value through profit or loss

Financial liabilities at FVTPL are mainly financial liabilities held for trading.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

At each balance sheet date subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Other financial liabilities

Other financial liabilities including trade and other payables, amounts due to minority shareholders, bank borrowings and obligations under a finance lease are subsequently measured at amortised cost, using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Equity instruments

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

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

Financial instruments *(continued)*

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss. If the Group retains substantially all the risks and rewards of ownership of a transferred asset, the Group continues to recognise the financial asset and recognise a collateralised borrowing for proceeds received.

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 and payable is recognised in profit or loss.

4. **KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the process of applying the Group's accounting policies, which are described in note 3, the management had made the following judgments and estimates that have the most significant effect on the amounts recognised in the consolidated financial statements.

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. KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

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. If the actual gross profit margin of an installation contract differs from the management's estimate, the installation contract revenue and the corresponding contract cost to be recognised within the next year will be adjusted accordingly.

Estimated provision for impairment of trade and bills receivables

Note 3 describes that trade and bills receivables are measured on initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method. Appropriate allowance for estimated irrecoverable amounts are recognised in profit and loss when there is objective evidence that the asset is impaired.

In making estimates for the allowance for irrecoverable amounts recognised in profit and loss, the management considers detailed procedures that are in place to monitor the risk as significant proportion of the Group's working capital is devoted to trade and bills receivables. When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, an impairment loss may arise. The provision for impairment of receivables of the Group is based on the likelihood of collection and the aging analysis of trade and bills receivables and estimation of future cash flows. As at 31 December 2008, the carrying amount of trade and bills receivables is RMB391,322,000 (net of allowance for doubtful debts of RMB28,885,000). In this regard, the management are satisfied that the risk is properly managed and adequate allowances for doubtful debts has been made in the consolidated financial statements.

Estimated impairment review of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units 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. As at 31 December 2008, the carrying amount of goodwill is RMB45,411,000. Details of the recoverable amount calculation are disclosed in note 19.

5. TURNOVER

Turnover represents the aggregate of the value of installation contract work 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:

	2008	2007
	RMB'000	RMB'000
Revenue from installation contracts	**469,969**	466,376
Sale of goods	**654,719**	600,204
Provision of maintenance services	**91,266**	79,495
Others	**494**	49
	1,216,448	1,146,124

6. SEGMENT INFORMATION

(a) Business segments

For management purposes, the Group is currently organised into the following operating segments: 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, and provision of maintenance services. These segments are the basis on which the Group reports its primary segment information.

Segment information about these businesses are 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	Others	Elimination	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
For the year ended 31 December 2008								
TURNOVER								
External sales	469,969	247,670	265,581	141,468	91,266	494	–	1,216,448
Inter-segment sales	–	–	24,949	–	–	–	(24,949)	–
Total	469,969	247,670	290,530	141,468	91,266	494	(24,949)	1,216,448

Inter-segment sales are charged on cost-plus basis.

RESULTS								
Segment results	49,880	18,543	34,457	(20,340)	43,056	(26)		125,570
Unallocated income								8,371
Unallocated corporate expenses								(18,215)
Share of profits (losses) of associates	4,047	–	(189)	–	(22)	–		3,836
Finance costs								(4,828)
Profit before taxation								114,734
Taxation								(38,083)
Profit for the year								76,651

6. SEGMENT INFORMATION *(continued)*

(a) Business segments *(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	Others RMB'000	Elimination RMB'000	Consolidated RMB'000
At 31 December 2008								
ASSETS								
Segment assets	300,967	313,444	323,427	32,751	42,219	2,309		1,015,117
Interests in associates	22,172	–	47,395	–	606	–		70,173
Unallocated corporate assets								812,622
								1,897,912
LIABILITIES								
Segment liabilities	131,066	106,475	72,251	12,975	6,732	103		329,602
Unallocated corporate liabilities								121,729
								451,331
OTHER INFORMATION								
Capital expenditure	54	89,080	38,001	17	2,402	6		
Depreciation and amortisation	451	1,286	9,045	154	1,281	187		
Loss on disposal of property, plant and equipment	22	959	729	–	22	–		
Impairment loss recognised in respect of goodwill	–	–	–	15,283	–	–		
Allowance for bad and doubtful debts	670	874	1,788	179	–	–		

6. SEGMENT INFORMATION *(continued)*

(a) Business segments *(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	Others RMB'000	Elimination RMB'000	Consolidated RMB'000
For the year ended 31 December 2007								
TURNOVER								
External sales	466,376	194,986	336,941	68,277	79,495	49	–	1,146,124
Inter-segment sales	–	–	50,641	–	–	–	(50,641)	–
Total	466,376	194,986	387,582	68,277	79,495	49	(50,641)	1,146,124

Inter-segment sales are charged on cost-plus basis.

RESULTS								
Segment results	92,253	16,618	74,196	(3,215)	58,506	(287)		238,071
Unallocated income								21,908
Unallocated corporate expenses								(28,663)
Share of profits of associates	124	–	–	–	–	–		124
Finance costs								(4,620)
Profit before taxation								226,820
Taxation								(52,752)
Profit for the year								174,068

6. SEGMENT INFORMATION *(continued)*

(a) Business segments *(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	Others RMB'000	Elimination RMB'000	Consolidated RMB'000
At 31 December 2007								
ASSETS								
Segment assets	337,522	215,793	345,777	103,695	39,253	2,482		1,044,522
Interests in associates	18,124	–	–	–	–	–		18,124
Unallocated corporate assets								749,424
								1,812,070
LIABILITIES								
Segment liabilities	157,376	65,481	59,815	46,239	2,888	82		331,881
Unallocated corporate liabilities								114,732
								446,613
OTHER INFORMATION								
Capital expenditure	712	29,448	17,687	315	2,371	2,528		
Depreciation and amortisation	891	1,449	11,262	155	1,523	65		
Loss (gain) on disposal of property, plant and equipment	19	(789)	(256)	114	–	–		
Allowance for bad and doubtful debts	554	62	1,059	3,320	–	–		

6. SEGMENT INFORMATION *(continued)*

(b) Geographical segments

No geographical segment information in respect of the Group's operations has been presented as over 90% of the Group's turnover was derived from the People's Republic of China other than Hong Kong (the "PRC").

The analysis of the carrying amount of segment assets and additions to property, plant and equipment and intangible assets analysed by the geographical areas in which the assets are located is as follows:

	Carrying amount of assets		Additions to property, plant and equipment and intangible assets	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
PRC	**982,366**	940,827	**129,543**	52,746
Hong Kong	**32,751**	103,695	**17**	315
Segment assets	**1,015,117**	1,044,522	**129,560**	53,061
Interests in associates	**70,173**	18,124	**–**	–
Unallocated assets	**812,622**	749,424	**–**	137
	1,897,912	1,812,070	**129,560**	53,198

7. OTHER INCOME

	2008	2007
	RMB'000	RMB'000
Interest income	**7,747**	8,734
Rental income	**987**	1,148
Gain on disposal of a subsidiary	**170**	9,357
Gain on disposal of leasehold land	**–**	372
Changes in fair value of investments held for trading	**–**	2,669
Others	**3,144**	2,282
	12,048	24,562

8. OTHER EXPENSES

	2008 RMB'000	2007 RMB'000
Impairment loss recognised in respect of goodwill	**15,283**	–
Fair value loss on derivative financial instruments	**2,499**	–
Changes in fair value of investment properties	**–**	2,559
	17,782	2,559

9. FINANCE COSTS

	2008 RMB'000	2007 RMB'000
Interest on:		
Bank borrowings wholly repayable within five years	**4,565**	4,310
Amount due to a minority shareholder	**252**	300
Obligations under a finance lease	**11**	10
	4,828	4,620

10. DIRECTORS' EMOLUMENTS

	2008 RMB'000	2007 RMB'000
Fees		
Executive directors	**640**	670
Non-executive directors	**–**	–
Independent non-executive directors	**402**	312
	1,042	982
Other emoluments (executive directors):		
Salaries and other benefits	**2,697**	2,811
Discretionary bonus *(Note a)*	**–**	5,812
Retirement benefit scheme contributions	**20**	36
	2,717	8,659
	3,759	9,641

10. DIRECTORS' EMOLUMENTS *(continued)*

	2008					2007				
	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	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive										
Mr. Jiang Xiong	–	1,250	–	–	1,250	–	1,363	2,906	–	4,269
Mr. Jiang Qing	–	1,111	–	–	1,111	–	1,212	2,906	–	4,118
Mr. Shi Jia Hao	160	66	–	–	226	175	68	–	–	243
Mr. Wang De Feng	160	172	–	6	338	175	72	–	16	263
Ms. Weng Xiu Xia	160	49	–	7	216	160	48	–	9	217
Ms. Zhang Hai Yan	160	49	–	7	216	160	48	–	11	219
Non-executive										
Mr. Doug Wright	–	–	–	–	–	–	–	–	–	–
Mr. Harinath Krishnamurthy (alternative director to Mr. Doug Wright)	–	–	–	–	–	–	–	–	–	–
Ms. Xi Zheng Zheng	–	–	–	–	–	–	–	–	–	–
Mr. Paul Winnowski (note b)	–	–	–	–	–	–	–	–	–	–
Independent non-executive										
Mr. Heng Kwoo Seng	134	–	–	–	134	117	–	–	–	117
Dr. Loke Yu	134	–	–	–	134	117	–	–	–	117
Mr. Sun Jian Guo	134	–	–	–	134	78	–	–	–	78
	1,042	2,697	–	20	3,759	982	2,811	5,812	36	9,641

10. 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 taxation and minority interests but before extraordinary and exception items of the Group for that financial year.

(b) Mr. Paul Winnowski resigned on 10 October 2007.

No emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office and no director waived any emoluments during the year.

11. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2007: two) were Directors whose emoluments are included in the note 10 above. The emoluments of the remaining three (2007: three) individuals were as follows:

	2008 **RMB'000**	2007 RMB'000
Salaries and other benefits	**1,309**	1,394
Retirement benefit scheme contributions	**32**	35
	1,341	1,429

The emoluments of each of the highest paid individual, other than the Directors, are below HK$1 million for both 2007 and 2008.

12. TAXATION

	2008 RMB'000	2007 RMB'000
The charge comprises:		
Current tax		
PRC Enterprise Income Tax	39,516	41,676
Under(over)provision in prior years		
PRC Enterprise Income Tax	2,870	1
Hong Kong Profits Tax	(181)	195
	2,689	196
Deferred tax *(Note 24)*		
Current year	(4,122)	11,687
Effect of change in tax rate	–	(807)
	(4,122)	10,880
	38,083	52,752

12. TAXATION *(continued)*

The charge for the year can be reconciled to the profit before taxation per the consolidated income statement as follows:

	2008 RMB'000	2007 RMB'000
Profit before taxation	**114,734**	226,820
Tax at the PRC domestic income tax rate of 25% (2007: 33%)	**28,682**	74,851
Tax effect of share of profits of associates	**(959)**	(41)
Tax effect attributable to tax concessions	**(4,904)**	(28,072)
Tax effect of expenses not deductible in determining taxable profit	**8,776**	5,814
Tax effect of income not taxable in determining taxable profit	**(1,086)**	(3,701)
Tax effect of tax losses not recognised	**4,264**	6,762
Utilisation of tax losses previously not recognised	**(484)**	(1,307)
Underprovision in prior years	**2,689**	196
Decrease in opening deferred tax liability resulting from a decrease in applicable tax rate	**–**	(807)
Others	**1,105**	(943)
Tax charge for the year	**38,083**	52,752

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

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

12. TAXATION *(continued)*

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

	Tax privileges started from
Fuzhou Wanyou Fire Equipment Co., Ltd.	2004
Shenzhen Hocen Emergency Lightings Technology Co., Ltd.	2004
Sichuan Morita Fire Safety Appliances Co., Ltd.	2006
Shanghai Pudong Special Fire Equipment Co., Ltd.	2007
Allied Best (China) Fire Safety Appliances Manufacturing Co., Ltd.	2008

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. Under the New Law and Implementation Regulation, the Enterprise Income Tax rate of the Group's subsidiaries in the PRC was reduced from 33% to 25% from 1 January 2008 onwards. Certain of the Group's subsidiaries that are currently entitled to exemption and reduction from the PRC statutory income tax rate will continue to enjoy such privileges until the exemption and reduction periods expire, but not beyond 2012. The relevant tax rates for the Group's subsidiaries in the PRC range from 12.5% to 25% (2007: 15% to 33%).

13. PROFIT FOR THE YEAR

	2008 RMB'000	2007 RMB'000
Profit for the year has been arrived at after charging:		
Depreciation of property, plant and equipment		
Owned assets	**11,742**	14,649
Assets held under a finance lease	**80**	54
Amortisation of prepaid lease payments	**381**	506
Allowance for bad and doubtful debts	**3,511**	5,568
Loss (gain) on disposal of property, plant and equipment	**1,732**	(912)
Auditor's remuneration	**2,523**	2,525
Amortisation of other intangible assets	**277**	177
Net foreign exchange loss (included in administrative expenses)	**3,916**	11,221
Minimum operating lease payments in respect of rented premises	**4,413**	5,311
Research and development expenditure *(Note)*	**1,602**	1,954
Cost of inventories recognised as expense	**535,070**	422,689
Staff costs, including directors' remuneration	**40,607**	60,841
Retirement benefit scheme contributions, including those to directors	**2,471**	3,190
Total staff costs	**43,078**	64,031

Note: The amount included staff costs of RMB645,000 (2007: RMB1,052,000) and depreciation on property, plant and equipment of RMB270,000 (2007: RMB270,000). These amounts are also included in the respective disclosure items under this note.

14 DIVIDENDS

The Directors do not recommend the payment of a dividend for the year ended 31 December 2008 (2007: nil).

15. EARNINGS PER SHARE

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

	2008 RMB'000	2007 RMB'000
Earnings for the purposes of basic and diluted earnings per share (profit for the year attributable to equity holders of the Company)	**80,433**	175,350
	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,855,000**	2,855,000
Effect of dilutive potential ordinary shares:		
Share options *(Note)*	**–**	4,094
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,855,000**	2,859,094

Note: There was no dilutive effect of the share options to the earnings per share as the average market price of the shares for the year ended 31 December 2008 was lower than the exercise price of the share options.

16. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Plant and equipment	Tooling and moulds	Furniture and fixtures	Computers	Motor vehicles	Leasehold improvements	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST									
At 1 January 2007	80,453	58,975	36,623	8,246	7,527	11,707	3,804	–	207,335
Exchange differences	–	(16)	–	(7)	(5)	–	–	–	(28)
Additions	609	3,239	4	416	915	1,219	1,990	39,711	48,103
Acquired on acquisition of subsidiaries	–	92	–	44	108	302	–	–	546
Disposal of subsidiaries	(4,635)	(239)	–	(252)	(2,540)	(944)	(1,335)	–	(9,945)
Disposal	(1,473)	(1,637)	–	(87)	(475)	(36)	(277)	–	(3,985)
At 31 December 2007	74,954	60,414	36,627	8,360	5,530	12,248	4,182	39,711	242,026
Exchange differences	–	(20)	–	(1)	–	–	(5)	–	(26)
Additions	–	13,566	–	1,897	1,221	2,102	1,273	109,501	129,560
Reclassification	146,097	–	–	–	–	–	–	(146,097)	–
Reclassified to assets classified as held for sale	(13,506)	–	–	–	–	–	–	–	(13,506)
Disposal	(224)	(4,618)	(90)	(154)	(658)	(1,379)	–	–	(7,123)
Disposal of a subsidiary	–	(61)	–	(15)	(115)	–	–	–	(191)
At 31 December 2008	207,321	69,281	36,537	10,087	5,978	12,971	5,450	3,115	350,740
DEPRECIATION AND IMPAIRMENT									
At 1 January 2007	8,367	35,487	36,372	2,174	1,766	4,665	1,605	–	90,436
Exchange differences	–	(9)	–	(6)	(3)	–	(1)	–	(19)
Charge for the year	2,786	7,688	39	576	1,089	1,758	767	–	14,703
Eliminated on disposal of subsidiaries	(178)	(97)	–	(62)	(522)	(256)	(62)	–	(1,177)
Eliminated on disposal	(161)	(456)	–	(12)	(95)	(11)	(143)	–	(878)
At 31 December 2007	10,814	42,613	36,411	2,670	2,235	6,156	2,166	–	103,065
Exchange differences	–	(7)	–	(1)	–	–	(2)	–	(10)
Charge for the year	3,190	5,102	39	686	922	1,143	740	–	11,822
Reclassified to assets classified as held for sale	(2,434)	–	–	–	–	–	–	–	(2,434)
Eliminated on disposal	(75)	(3,403)	(81)	(135)	(448)	(1,234)	–	–	(5,376)
Disposal of a subsidiary	–	(12)	–	(3)	(22)	–	–	–	(37)
At 31 December 2008	11,495	44,293	36,369	3,217	2,687	6,065	2,904	–	107,030
CARRYING VALUES									
At 31 December 2008	195,826	24,988	168	6,870	3,291	6,906	2,546	3,115	243,710
At 31 December 2007	64,140	17,801	216	5,690	3,295	6,092	2,016	39,711	138,961

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

All the land and buildings are held in the PRC under medium-term leases.

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Land and buildings	Over the shorter of the term of the lease, or 50 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 Group has pledged plant and equipment with carrying value of RMB14,794,000 (2007: nil) to secure bank loans granted to a subsidiary of the Group (note 36).

The carrying values of the Group's furniture and fixtures included an amount of RMB136,000 (2007: RMB227,000) in respect of assets held under a finance lease.

17. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise:

	2008	2007
	RMB'000	RMB'000
Leasehold land in the PRC:		
Medium-term leases	**42,080**	57,140
Analysed for reporting purposes as:		
Current portion	**855**	476
Non-current portion	**41,225**	56,664
	42,080	57,140

In June 2008, the Group entered into a sale and purchase agreement to dispose of certain land leases. The carrying value of the land leases of RMB14,679,000 was therefore reclassified to assets classified as held for sale *(note 33)*.

The Group is in the process of applying for the land use right certificates in respect of land leases with a carrying amount of RMB36,312,000.

18. INVESTMENT PROPERTIES

	RMB'000
FAIR VALUE	
Land and buildings in PRC, medium-term leases	
At 1 January 2007	22,359
Changes in fair value	(2,559)
Reclassified to assets classified as held for sale	(19,800)
At 31 December 2007 and 31 December 2008	–

19. GOODWILL

	RMB'000
COST	
At 1 January 2007	59,207
Arising on acquisition of subsidiaries (note 43)	2,672
At 31 December 2007	61,879
Eliminated on partial disposal of a subsidiary	(118)
Eliminated on disposal of a subsidiary (note 44)	(1,067)
At 31 December 2008	60,694
IMPAIRMENT	
At 1 January 2007 and 31 December 2007	–
Impairment loss recognised in the year	15,283
At 31 December 2008	15,283
CARRYING VALUES	
At 31 December 2008	45,411
At 31 December 2007	61,879

19. GOODWILL *(continued)*

During the year ended 31 December 2008, the Group assessed the recoverable amount of goodwill and determined that goodwill associated with the Group's trading of fire engines, fire prevention and fighting and rescue equipment business was impaired by RMB15,283,000 (2007: nil). The recoverable amount of the trading business was assessed with reference to value in use. A discount factor of 12.4% (2007: 11.6%) per annum was applied in the value in use model.

The main factor contributing to the impairment of the cash-generating unit was the anticipated decrease in demand for imported fire engines in the PRC. No write-down of the carrying amounts of other assets in the cash-generating unit was necessary. The goodwill is included in the trading of fire engines, fire prevention and fighting and rescue equipment reportable segment disclosed in note 6.

As explained in note 6, the Group uses business segments as its primary segment for reporting segment information. 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 2008 and 2007 is allocated as follows:

	2008	2007
	RMB'000	RMB'000
Production and sale of fire engines	**7,630**	7,630
Production and sale of fire prevention and fighting equipment	**4,549**	4,549
Trading of fire engines, fire prevention and fighting and rescue equipment	**12,127**	27,410
Installation of fire prevention and fighting systems	**8,442**	8,442
Provision of maintenance services	**10,973**	12,158
Provision of online advertising services	**1,690**	1,690
	45,411	61,879

19. GOODWILL *(continued)*

The basis of the recoverable amounts of the above CGUs and their principal underlying assumptions are summarised below:

The recoverable amounts of the above CGUs were determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a five year period, and discount rates ranging from 11% to 16% (2007: 11% to 12%). The cash flows for the next five years are extrapolated using a steady annual growth rate ranging from zero to 1% (2007: zero to 8%). 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.

20. INTERESTS IN ASSOCIATES

	2008	2007
	RMB'000	RMB'000
Costs of investments in associates, unlisted	**66,213**	18,000
Share of post acquisition profits	**3,960**	124
	70,173	18,124

20. INTERESTS IN ASSOCIATES *(continued)*

As at 31 December 2008 and 2007, the Group had interest in the following associates:

Name of entity/ type of legal entity	Place of establishment and principal place of operation	Proportion of registered capital held by the Group 2008	2007	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	**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	**40%**	40%	Provision of fire prevention and fighting system installation services and maintenance services
江西永安消防工程有限公司 Jiangxi Yongan Fire Engineering Co., Ltd./ limited liability enterprise	PRC	**40%**	40%	Provision of fire prevention and fighting system installation services and maintenance services
泉州市盛安消防服務有限公司 Quanzhou Shengan Fire Services Co., Ltd. ("Quanzhou Shengan")/ limited liability enterprise	PRC	**22%**	Note	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	**30%**	–	Production and sale of fire prevention and fighting equipment

20. INTERESTS IN ASSOCIATES *(continued)*

Note: Quanzhou Shengan was previously a subsidiary indirectly held by the Company through a non-wholly owned subsidiary. During the year, the non-wholly owned subsidiary disposed of 6% and 10% of the equity interests of Quanzhou Shengan to two independent third parties in March 2008 and September 2008 respectively, and reduced the equity interest held from 60% to 44%. Accordingly, the Group's effective interest in Quanzhou Shengan was reduced from 27% to 22%. Quanzhou Shengan became an associate of the Group on 1 September 2008.

Included in the carrying amount of interests in associates is the Group's share of an associate's intangible asset of RMB42,633,000 (2007: nil) in relation to the technical knowhow of fire suppression foam which arose on acquisition of an associate during the year and which has been determined on a provisional basis, awaiting the receipt of professional valuation.

Included in the cost of investments in associates is goodwill of RMB6,177,000 (2007: RMB4,526,000) arising on acquisitions. The movement of goodwill is set out below.

	RMB'000
COST	
At 1 January 2007	–
Arising on acquisition of associates	4,526
At 31 December 2007	4,526
Arising on acquisition of associates	782
Transfer upon change of status from a subsidiary to an associate	869
At 31 December 2008	6,177

20. INTERESTS IN ASSOCIATES *(continued)*

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

	2008 RMB'000	2007 RMB'000
Total assets	185,712	71,564
Total liabilities	(35,666)	(37,569)
Net assets	150,046	33,995
Group's share of net assets of associates	63,996	13,598
Revenue	134,377	39,020
Profit for the year	9,591	311
Group's share of profits of associates for the year	3,836	124

21. JOINTLY CONTROLLED ENTITY

As at 31 December 2008 and 2007, the Group had interest in the following jointly controlled entity:

Name of entity/ type of legal entity	Place of establishment and principal place of operation	Registered capital	Proportion of registered capital held by the Group	Principal activities
上海普東特種消防裝備有限公司 Shanghai Pudong Special Fire Equipment Co., Ltd./ limited liability enterprise	PRC	RMB10,000,000	51%	Production and sale of fire prevention and fighting equipment

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

21. JOINTLY CONTROLLED ENTITY *(continued)*

The summarised financial information in respect of the Group's interest in jointly controlled entity which is accounted for using proportionate consolidation with the line-by-line reporting format is set out below:

	2008	2007
	RMB'000	RMB'000
Non-current assets	**3,299**	3,349
Current assets	**33,367**	23,647
Current liabilities	**18,922**	15,812
Income	**48,782**	28,052
Expenses	**42,222**	21,969

22. OTHER INTANGIBLE ASSETS

	Capitalised development costs	Technical know-how	Total
	RMB'000	RMB'000	RMB'000
AT COST			
At 1 January 2007	120	–	120
Additions	–	1,377	1,377
Acquired on acquisition of a subsidiary *(note 43)*	500	–	500
At 31 December 2007 and 31 December 2008	620	1,377	1,997
AMORTISATION			
At 1 January 2007	20	–	20
Charge for the year	24	153	177
At 31 December 2007	44	153	197
Charge for the year	124	153	277
At 31 December 2008	168	306	474
CARRYING VALUES			
At 31 December 2008	452	1,071	1,523
At 31 December 2007	576	1,224	1,800

The above intangible assets have definite useful lives. Such intangible assets are amortised on a straight-line basis over the following periods:

Capitalised development costs	5 years
Technical know-how	9 years

Capitalised development costs include tailor-made software for the provision of on-line advertising services and costs for developing new models of certain fire prevention and fighting equipment. Technical know-how represents techniques acquired for the production of certain fire prevention and fighting equipment.

23. AVAILABLE-FOR-SALE INVESTMENT

The available-for-sale investment at 31 December 2007 represented 45% equity interest in the registered capital of Beijing TWT. Pursuant to a supplementary agreement entered into on 1 September 2007 between a wholly-owned subsidiary of the Company and the shareholders of Beijing TWT, the Group can only start to participate in the operations of Beijing TWT one month after payment of the purchase consideration. Since the purchase consideration was made in December 2007, the Group was not able to exert significant influence over Beijing TWT until January 2008 and therefore the corresponding amount paid was classified as available-for-sale investment at 31 December 2007.

In 2008, the Group reclassified its available-for-sale investment of Beijing TWT to interest in associate when the Group was able to exert significant influence over Beijing TWT.

24. DEFERRED TAXATION

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

	Profit recognition of installation contracts	Revaluation of properties	Accelerated tax depreciation	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(note a)			*(note b)*	
At 1 January 2007	4,942	1,470	(3,970)	(3,082)	(640)
Charge (credit) to the consolidated income statement for the year	6,524	(640)	3,970	1,833	11,687
Effect of change in tax rate	(1,198)	(356)	–	747	(807)
At 31 December 2007	10,268	474	–	(502)	10,240
Credit to the consolidated income statement for the year	(3,648)	(474)	–	–	(4,122)
At 31 December 2008	6,620	–	–	(502)	6,118

At 31 December 2008, the Group has unused tax losses of RMB39,271,000 (2007: RMB24,152,000) 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.

24. DEFERRED TAXATION *(continued)*

Included in the unrecognised tax losses are losses of RMB26,698,000 that will expire from 2010 to 2012 (2007: RMB17,148,000 expiring from 2010 to 2011). Other losses may be carried forward indefinitely.

Deferred taxation has not been recognised in respect of the temporary differences attributable to the undistributed retained profits earned by the subsidiaries in the PRC amounting to RMB79,686,000 starting from 1 January 2008 under the New Law of the PRC that requires withholding tax upon the distribution of such profits to shareholders which are not established in the PRC as the Directors are of the opinion that the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

The following is an analysis of the deferred tax balances for financial reporting purpose:

	2008	2007
	RMB'000	RMB'000
Deferred tax assets	**(502)**	(502)
Deferred tax liabilities	**6,620**	10,742
	6,118	10,240

Notes:

(a) The amount represents the temporary difference arising on the profit recognition of installation contracts between Hong Kong generally accepted accounting principles in which revenue and costs of installation contract are recognised in the consolidated income statement 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.

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

25. INVENTORIES

Inventories represent fire engines, fire prevention and fighting equipment.

	2008 RMB'000	2007 RMB'000
Raw materials	34,217	21,789
Work-in-progress	32,177	21,852
Finished goods	36,049	84,946
	102,443	128,587

26. TRADE AND BILLS RECEIVABLES

	2008 RMB'000	2007 RMB'000
Trade and bills receivables	420,207	400,781
Less: Allowance for doubtful debts	(28,885)	(26,117)
	391,322	374,664

The following is an aged analysis of trade and bills receivables net of allowance for doubtful debts at the balance sheet date:

	2008 RMB'000	2007 RMB'000
0 – 90 days	182,697	179,650
91 – 180 days	96,135	133,276
181 – 360 days	93,102	45,100
Over 360 days	19,388	16,638
	391,322	374,664

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.

26. TRADE AND BILLS RECEIVABLES *(continued)*

Included in the Group's trade and bills receivable balances are debtors with a carrying amount of RMB133,924,000 (2007: RMB109,775,000) which are past due at the report date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

Aging of trade and bills receivables which are past due but not impaired:

	2008	2007
	RMB'000	RMB'000
0 – 90 days	**48**	68
91 – 180 days	**21,386**	47,969
181 – 360 days	**93,102**	45,100
Over 360 days	**19,388**	16,638
	133,924	109,775

Movements in the allowance for doubtful debts:

	2008	2007
	RMB'000	RMB'000
Balance at beginning of the year	**26,117**	21,156
Impairment losses recognised on receivables	**3,511**	5,568
Impairment losses recognised upon acquisition of subsidiaries	**–**	333
Amounts written off as uncollectible	**(478)**	–
Amounts recovered during the year	**–**	(573)
Exchange difference	**(265)**	(367)
Balance at end of the year	**28,885**	26,117

The management closely monitors the credit quality of trade and bills receivables and considers the trade and bills receivables that are neither past due nor impaired to be of a good credit quality. Based on the payment pattern of the customers of the Group, trade and bills receivables that are past due but not impaired are generally collectable. Allowance on doubtful debts recognised for 2007 and 2008 are on trade and bills receivables which are either aged over two years because historical experience is that such receivables past due beyond 2 years are generally not recoverable, or individually impaired trade and bills receivables of customers which has either been placed under liquidation or in severe financial difficulties.

26. TRADE AND BILLS RECEIVABLES *(continued)*

Included in trade and bills receivables are the following amounts denominated in currencies other than functional currencies of the respective group entities.

	2008	2007
	RMB'000	RMB'000
EURO	**3,259**	976
USD	**11,839**	6,884

27. AMOUNTS DUE FROM (TO) CONTRACT CUSTOMERS

	2008	2007
	RMB'000	RMB'000
Contract costs incurred plus profits recognised less recognised losses	**334,011**	498,683
Less: Progress billings	**(216,435)**	(288,101)
	117,576	210,582
Comprising:		
Amounts due from contract customers	**129,946**	240,510
Amounts due to contract customers	**(12,370)**	(29,928)
	117,576	210,582

28. RETENTION RECEIVABLES

Included in the retention receivables is an aggregate amount of RMB16,508,000 (2007: RMB1,820,000) which was due after one year.

29. AMOUNT DUE FROM A JOINTLY CONTROLLED ENTITY

The amount is unsecured, carries fixed interest rate at 6% (2007: 6%) per annum and is due for settlement within 12 months.

30. AMOUNT DUE FROM AN ASSOCIATE

The amount is unsecured, interest-free and is due for settlement within 12 months.

31. DERIVATIVE FINANCIAL INSTRUMENTS

	2008 RMB'000	2007 RMB'000
Foreign currency forward contract	**214**	–

During the current year, the Group 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 contract to which the Group is committed at the balance sheet date are as follows:

Notional amount	Maturity	Exchange rates
Buy Euro 218,093 and sell USD276,389	31.03.2009	Euro/USD 1.2673

At 31 December 2008, the fair value of the Group's currency derivatives is estimated to be RMB214,000 (2007: nil). The amount is based on market prices provided by the counterparty bank.

During the year, losses arising from changes in fair value of the Group's currency derivatives amounting to RMB2,499,000 (2007: nil) have been charged to the consolidated income statement in the year.

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

32. BANK BALANCES/PLEDGED BANK DEPOSITS

Bank balances carry interest ranging from nil to 4.15% (2007: nil to 5.8%) per annum.

Included in the pledged bank deposits are deposits pledged to banks amounting to RMB4,432,000 (2007: RMB18,628,000) for securing banking facilities granted to a subsidiary of the Company, which carry interest ranging from 0.15% to 2.68% (2007: 2.6% to 5.8%) per annum. The remaining pledged bank deposits are performance guarantee for certain installation projects and carry interest ranging from 0.36% to 0.72% (2007: nil to 5.8%) per annum.

32. BANK BALANCES/PLEDGED BANK DEPOSITS *(continued)*

Included in the bank balances and cash are the following amounts denominated in currencies other than functional currencies of the respective group entities.

	2008 RMB'000	2007 RMB'000
EURO	**877**	1,058
HKD	**73,611**	116,722
USD	**399**	1,235

33. ASSETS CLASSIFIED AS HELD FOR SALE

	2008 RMB'000	2007 RMB'000
Prepaid lease payments	**14,679**	–
Land and buildings	**11,072**	–
Investment properties	**–**	19,800
	25,751	19,800

During the current year, the Group entered into an agreement with an independent third party for the disposal of certain land leases and land and buildings (collectively the "Properties") situated in the PRC. The transaction is expected to be completed within twelve months and thus the Properties are classified as held for sale in the consolidated balance sheet. The net proceeds on disposal of the Properties are expected to exceed the net carrying amount of the Properties and accordingly, no impairment loss has been recognised.

The Properties with a carrying value of RMB18,580,000 have been pledged to secure bank loans granted to a subsidiary of the Company (note 36) and the pledge will be released upon the repayment of the bank loans.

In December 2007, the Group entered into an agreement with an independent third party for the disposal of its investment properties for a consideration of RMB19,800,000. A decrease in fair value of RMB2,559,000 by reference to the contracted selling price of the investment properties was recognised in the consolidated income statement for the year ended 31 December 2007 under other expenses on the reclassification of the investment properties as assets held for sale. The transaction was completed in April 2008.

34. TRADE AND OTHER PAYABLES

	2008 RMB'000	2007 RMB'000
Trade creditors	**138,917**	120,009
Accrued costs and charges *(Note)*	**135,655**	148,845
Receipts in advance	**25,156**	19,209
Value added tax, sales tax and other levies	**19,838**	21,234
Amount payable for acquisition of leasehold land	**3,072**	3,072
Deposits received from disposal of leasehold land and buildings	**15,098**	–
	337,736	312,369

Note: The amount included accrued construction cost for land and buildings of RMB29,000,000 (2007: nil).

The aged analysis of trade creditors included in trade and other payables is as follows:

	2008 RMB'000	2007 RMB'000
Within 30 days	**48,847**	68,187
31 – 60 days	**32,450**	17,920
61 – 90 days	**12,430**	10,215
Over 90 days	**45,190**	23,687
	138,917	120,009

Included in trade and other payables are the following amounts denominated in currencies other than functional currencies of the respective group entities.

	2008 RMB'000	2007 RMB'000
EURO	**3,773**	37,620
USD	**843**	910

35. AMOUNTS DUE TO MINORITY SHAREHOLDERS

The amounts due to minority shareholders are unsecured and repayable on demand. An aggregate amount of RMB2,503,000 (2007: RMB4,410,000) bears interest at a fixed rate of 6.68% (2007: 6.68%) per annum, the remaining amounts are interest-free.

36. BANK BORROWINGS

	2008	2007
	RMB'000	RMB'000
Short term bank loans	**60,000**	52,617
Bank overdrafts	**3,471**	5,303
Trust receipt loans	**–**	13,015
	63,471	70,935
Analysed as:		
Secured	**61,761**	68,596
Unsecured	**1,710**	2,339
	63,471	70,935

The short term bank loans are secured by certain land and buildings, land leases and plant and equipment of the Group with carrying values of RMB8,389,000 (2007: RMB8,498,000), RMB10,191,000 (2007: RMB10,382,000) and RMB14,794,000 (2007: nil) respectively. The relevant land and buildings and land leases under pledge were classified as assets held for sale at 31 December 2008.

The bank overdrafts and trust receipt loans are secured by the Group's pledged bank deposits and/or personal assets and/or guarantee of a minority shareholder of a subsidiary.

The bank borrowings of the Group are arranged at London Inter Bank Offer Rate plus 1.75% to 2% and bench mark interest rate as stipulated by the People's Bank of China plus 1% and expose the Group to cash flow interest rate risk. The average bank interest rate during the year was 7.66% (2007: 7.6%) per annum which approximates to the effective interest rate of the Group.

Bank overdrafts carry interest at market rates which range from 5.25% to 8.81% (2007: 6.85% to 10%) per annum.

36. BANK BORROWINGS *(continued)*

All of the Group's bank borrowings are due for settlement within 12 months.

Included in the bank borrowings are the following amounts denominated in currencies other than functional currencies of the respective group entities.

	2008	2007
	RMB'000	RMB'000
EURO	–	3,646
USD	–	11,987

37. OBLIGATIONS UNDER A FINANCE LEASE

	Minimum lease payments		**Present value of minimum lease payments**	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Amounts payable under a finance lease				
Within one year	**53**	56	**46**	46
In the second to fifth year inclusive	**147**	210	**138**	193
	200	266	**184**	239
Less: Future finance charges	**(16)**	(27)	**N/A**	N/A
Present value of lease obligations	**184**	239	**184**	239
Less: Amount due for settlement within 12 months (shown under current liabilities)			**(46)**	(46)
Amount due for settlement after 12 months			**138**	193

37. OBLIGATIONS UNDER A FINANCE LEASE *(continued)*

Certain of the Group's furniture and fixtures are under finance lease. The finance lease has a lease term of 5 years (2007: 5 years) and with an effective borrowing rate of approximate 5% (2007: 5%) per annum. The interest rate was fixed at the contract date. The lease is on a fixed repayment basis and no arrangement has been entered into for contingent rental payment.

The Group's obligations under a finance lease are secured by the lessor's title to the leased assets.

38. SHARE CAPITAL

	No. of shares	HK$'000
Authorised:		
Shares of HK$0.01 each		
At 1 January 2007, 31 December 2007 and 31 December 2008	10,000,000,000	100,000
Issued and fully paid:		
Shares of HK$0.01 each		
At 1 January 2007, 31 December 2007 and 31 December 2008	2,855,000,000	28,550

	2008	2007
	RMB'000	RMB'000
Shown in the consolidated financial statements as	**30,168**	30,168

39. SHARE OPTION SCHEME

The Company's share option scheme was adopted pursuant to a resolution passed on 20 September 2002 (the "GEM Share Option Scheme") for the primary purpose of providing incentives to directors and eligible employees, and will remain valid for a period of 10 years commencing on 20 September 2002. Under the GEM Share Option Scheme, the Board of Directors of the Company may grant options to full-time employees, including directors (executive and non-executive) of the Company and its subsidiaries, to subscribe for shares in the Company.

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 GEM Share Option 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 GEM Share Option Scheme when aggregated with any shares subject to any other schemes is not permitted to exceed 10% of the shares of the Company as at the date of adoption of the GEM Share Option Scheme, i.e. 160,000,000 shares of the Company, without prior approval from the Company's shareholders. On 21 April 2004, an ordinary resolution to refresh the limit under the GEM Share Option Scheme to grant options of up to 200,000,000 shares of the Company was duly passed by the shareholders of the Company. It represents 10% of the issued share capital of the Company at the date the resolution was passed or 7% of the issued share capital of the Company as at 31 December 2008. The number of shares in respect of which options may be granted to any individual in aggregate within any 12-month period is not permitted to exceed 1% of the shares of the Company in issue, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive Directors in any one year exceeding the higher of 0.1% of the Company's shares in issue and with a value in excess of HK$5 million 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 HK$1 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.

39. SHARE OPTION SCHEME *(continued)*

With the transfer of the listing of the Company's shares from the Growth Enterprise Market to the Main Board of the Stock Exchange on 6 October 2008, the Company will seek the approval of the shareholders to terminate the GEM Share Option Scheme and to adopt a new share option scheme (the "New Share Option Scheme") which will comply with the requirements of Chapter 17 of the Listing Rules in the forthcoming annual general meeting.

Details of the options granted under the GEM Share Option Scheme are as follows:

Grantee	Capacity	Date of grant	No. of shares issuable under the options granted	Exercisable period	Exercise price	Outstanding at 1 January 2007 and 31 December 2007 and 2008
					HK$	
Mr. Jiang Qing	Director	25 May 2004	20,000,000	25 May 2004 to 24 May 2014	0.44	20,000,000

The options granted but unexercised under the GEM Share Option Scheme will remain valid and exercisable in accordance with their terms of issue after termination of the GEM Share Option Scheme. No further option will be offered or granted until the New Share Option Scheme is adopted.

Save as disclosed above, there was no options granted, exercised, cancelled or lapsed in accordance with the terms of the GEM Share Option Scheme during both years.

40. RESERVES

(a) 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 taxation 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.

40. RESERVES *(continued)*

(b) 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 taxation 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.

(c) 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 taxation to the statutory reserve fund, which may be used for making up prior year losses, if any, and for capitalisation into capital.

(d) 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.

(e) Capital reserve

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

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Categories of financial instruments

	2008	2007
	RMB'000	RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**1,222,685**	1,083,921
Available-for-sale investment	**–**	44,100
Derivative financial instruments	**214**	–
Financial liabilities		
Amortised cost	**230,158**	220,281

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Financial risk management objectives and policies

The Group's major financial instruments include trade and bills receivables, other receivables, retention receivables, amount due from a jointly controlled entity, amount due from an associate, derivative financial instruments, pledged bank deposits, bank balances, trade and other payables, bank borrowings, obligations under a finance lease and amounts due to minority shareholders. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Currency risk

A subsidiary of the Company has foreign currency sales and purchases, foreign currencies are also used to pay certain expenses. The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at 31 December 2007 and 2008 are as follows:

	Assets		**Liabilities**	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
USD	**12,238**	8,119	**843**	12,897
EURO	**4,136**	2,034	**3,773**	41,266
HKD	**73,611**	116,722	**–**	–
	89,985	126,875	**4,616**	54,163

The Group currently does not have a foreign currency hedging policy but the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Financial risk management objectives and policies *(continued)*

Market risk (continued)

Currency risk *(continued)*

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 balance sheet date and adjusts their translation at each balance sheet date for a 5% change in foreign currency rates.

	2008	2007
	RMB'000	RMB'000
Increase (decrease) in profit for the year		
– if RMB weakens against foreign currencies		
HKD	**3,680**	5,836
USD	**570**	(239)
EURO	**18**	(1,962)
– if RMB strengthens against foreign currencies		
HKD	**(3,680)**	(5,836)
USD	**(570)**	239
EURO	**(18)**	1,962

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.

Cash flow interest rate risk

The Group's cash flow interest rate risk relates primarily to variable-rate bank borrowings (see note 36). The Group currently does not have policy on cash flow hedges of interest rate risk. However, the management monitors interest rate exposure and will consider hedging significant interest rate risk should the need arise.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Financial risk management objectives and policies *(continued)*

Market risk (continued)

Cash flow interest rate risk *(continued)*

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 balance sheet date and the reasonably possible change taking place at the beginning of each year and held constant throughout the respective year.

	2008	2007
Reasonably possible change in interest rate	**50 basis point**	50 basis point
	RMB'000	RMB'000
Increase (decrease) in profit for the year		
– as a result of increase in interest rate	**(302)**	(284)
– as a result of decrease in interest rate	**302**	284

Credit risk

The Group's credit risk is primarily attributable to trade and bills receivables. The maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 December 2008 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. 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 management has reviewed the recoverable amount of each individual trade debt at each balance sheet date 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 liquid funds is limited because the counterparties are banks with acceptable credit quality.

The Group has no significant concentration of credit risk on retention receivables, trade and bills receivables and other receivables with exposure spread over a number of counterparties and customers. No single customer accounted for more than 5% of the Group's total revenue for the year ended 31 December 2008.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Financial risk management objectives and policies *(continued)*

Liquidity risk

The Group has sufficient cash and cash equivalents and has available funding through bank borrowings (note 36) to meet its working capital requirement. Generally, trade payables are normally required to be settled within 6 months after receipt of goods and services.

In the management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities (including derivative financial instruments) with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices and ask prices respectively;

- the fair value of other financial assets and financial liabilities (excluding derivative financial instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions; and

- the fair value of derivative financial instruments is calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate to their fair values.

42. CAPITAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which mainly include the bank borrowings disclosed in note 36, and equity attributable to equity holders of the Company, comprising issued share capital and reserves including retained profits.

42. CAPITAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

The Directors review the capital structure on a regular basis. As part of this review, the Directors consider 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 issue of new debts or the repayment of existing debt.

43. ACQUISITION OF SUBSIDIARIES

During the year ended 31 December 2007, the Group acquired two subsidiaries for an aggregate consideration of RMB3,530,000. The acquisitions have been accounted for by the acquisition method of accounting. The amount of goodwill arising as a result of the acquisitions was RMB2,672,000.

	2007		
	Acquirees' carrying amount before combination	**Fair value adjustments**	**Fair value**
	RMB'000	RMB'000	RMB'000
Property, plant and equipment	546	–	546
Other intangible assets	–	500	500
Inventories	2,111	–	2,111
Trade and bills receivables	347	–	347
Deposits, prepayments and other receivables	466	–	466
Bank balances and cash	456	–	456
Trade and other payables	(3,042)	–	(3,042)
Net assets acquired	884	500	1,384
Minority interests			(526)
Goodwill (note 19)			2,672
Total consideration			3,530
Satisfied by:			
Cash paid			3,530
Net cash outflow arising on acquisition:			
Cash consideration			(3,530)
Bank balances and cash acquired			456
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries			(3,074)

44. DISPOSAL OF SUBSIDIARIES

The summary of the disposal of subsidiaries and the net assets disposed of in the transactions is as follows:

(a) As set out in note 20, the Group's shareholding in Quanzhou Shengan decreased from 54% to 44% on 1 September 2008 through a 51% non wholly-owned subsidiary. Accordingly, Quanzhou Shengan became an associate of the Group. The net assets of Quanzhou Shengan at the date of becoming an associate of the Group were as follows:

	2008
	RMB'000
Property, plant and equipment	154
Inventories	107
Trade and bills receivables	39
Deposits, prepayments and other receivables	23
Bank balances and cash	23
Trade and other payables	(338)
Amount due to holding company	(480)
Amount due to minority shareholders	(90)
Net assets disposed of	(562)
Minority interests	259
Attributable goodwill	1,067
	764
Transferred to interests in associates	(629)
	135
Gain on disposal	170
Total consideration receivable included under deposits, prepayments and other receivables	305
Net cash outflow arising on disposal:	
Bank balances and cash disposed of	(23)

44. DISPOSAL OF SUBSIDIARIES *(continued)*

(b) During the year ended 31 December 2007, the Group disposed of its then subsidiaries, China Alliance Security Holdings Company Limited, Wang Sheng (China) Technology Co., Ltd. (萬盛（中國）科技有限公司) and Beijing Jibao Shengan Security Technology Development Company Limited (北京集保盛安安全防護技術發展有限公司). The net assets of the subsidiaries disposed of at the date of disposal were as follows:

	2007 RMB'000
Property, plant and equipment	8,768
Inventories	1,452
Trade and bills receivables	5
Deposits, prepayments and other receivables	2,512
Bank balances and cash	8,336
Trade and other payables	(678)
Net assets disposed of	20,395
Minority interests	1,252
Exchange reserve realised	(13)
Gain on disposal	9,357
Total consideration satisfied by cash	30,991
Net cash inflow arising on disposal:	
Cash consideration	30,991
Bank balances and cash disposed of	(8,336)
	22,655

45. CAPITAL COMMITMENTS

	2008 **RMB'000**	2007 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment	**148,526**	273,977

46. OPERATING LEASE COMMITMENTS

The Group as lessee

At the balance sheet date, the commitments of the Group under non-cancellable operating leases in respect of premises are as follows:

	2008	2007
	RMB'000	RMB'000
Amounts payable:		
Within one year	**3,893**	5,267
In the second to fifth year inclusive	**7,628**	10,477
Over five years	**3,187**	8,335
	14,708	24,079

Operating lease payments represent rentals payable by the Group for certain of its offices and sales offices. Leases are negotiated for an average term of two years and rentals are fixed for an average of two years.

The Group as lessor

At 31 December 2008, the Group had contracted with tenants for future minimum lease payments which fall due within one year of RMB86,000 (2007: RMB253,000 fall due within one year).

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31 December 2008 and 2007 are as follows:

Name of subsidiary/ type of legal entity	Place/ country of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest to the Group 2008	Attributable equity interest to the Group 2007	Principal activities
Wang Sing Technology Limited/limited liability company	British Virgin Islands	US$4,984,359	**100%**	100%	Investment holding
Allied Best Holdings Limited/limited liability company	British Virgin Islands	US$1	**100%**	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	HK$50,000,000	**100%**	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	RMB4,870,000	**55.44%**	55.44%	Production and sale of fire prevention and fighting equipment

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name of subsidiary/ type of legal entity	Place/ country of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest to the Group 2008	2007	Principal activities
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	RMB22,500,000	**51%**	51%	Investment holding
川消消防工程有限公司 Chuanxiao Fire Engineering Company Limited/ limited liability enterprise	PRC	RMB51,000,000	**100%**	100%	Provision of fire prevention and fighting system installation services and maintenance services
Clusafe Control Equipment Co., Ltd./wholly foreign-owned enterprise	PRC	HK$50,500,000	**100%**	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	RMB7,000,000	**51%**	44.24% (Note a)	Development of network based monitoring system for fire prevention and fighting system and operation of remote automatic monitoring centre
福州市萬有友消防設備有限公司 Fuzhou Wanyou Fire Equipment Co., Ltd./ wholly foreign-owned enterprise	PRC	HK$20,000,000	**100%**	100%	Production and sale of fire prevention and fighting equipment

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name of subsidiary/ type of legal entity	Place/ country of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest to the Group 2008	2007	Principal activities
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	RMB1,010,000	**26.52%** *(Note a)*	23% *(Note a)*	Development of network based monitoring system for fire prevention and fighting system and operation of remote automatic monitoring centre
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	RMB1,580,000	**30.60%** *(Note a)*	30.97% *(Note a)*	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	RMB15,500,000	**51%**	51.61%	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	US$1	**100%**	100%	Investment holding
南昌市盛安消防安全遠程監控有限公司 Nanchang Shengan Fire Safety Monitoring Co., Ltd./limited liability enterprise	PRC	RMB1,000,000	**43.35%** *(Note a)*	43.87% *(Note a)*	Development of network based monitoring system for fire prevention and fighting system and operation of remote automatic monitoring centre

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name of subsidiary/ type of legal entity	Place/ country of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest to the Group 2008	2007	Principal activities
深圳市恒生照明科技有限公司 (前稱深圳市恒生照明有限公司) Shenzhen Hocen Emergency Lightings Technology Co. Ltd. (formerly known as Shenzhen Hocen Emergency Lightings Co., Ltd.)/limited liability enterprise	PRC	RMB1,500,000	**51%**	51%	Production and sale of fire prevention and fighting equipment
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	RMB80,640,000	**75%**	75%	Production and sale of fire engines and fire prevention and fighting equipment
Tung Shing Trade Development Company Limited/ limited liability company	Hong Kong	Ordinary – HK$100,000 Non-voting deferred shares – HK$100,000	**51%**	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	RMB50,000,000	**100%**	100%	Provision of fire prevention and fighting system installation services and maintenance services

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Notes:

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

(b) Other than Wang Sing Technology Limited, Allied Best Holdings Limited and Loyal Asset Investment Holdings Limited which operate in Hong Kong, all operating subsidiaries operate in their countries/place of incorporation or establishment.

(c) 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.

(d) None of the subsidiaries had issued any debt securities at the end of the year.

48. 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% (2007: 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 2008 amounted to RMB2,382,000 (2007: RMB3,042,000).

In accordance with the relevant mandatory provident fund laws and regulations of Hong Kong, the Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") for all qualifying Hong Kong employees. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent MPF service provider. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the MPF Scheme at rates specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the MPF Scheme. The retirement benefits scheme contributions arising from the MPF Scheme charged to the consolidated income statement 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 2008, the Group made to the MPF Scheme contributions amounting to RMB89,000 (2007: RMB148,000).

49. RELATED PARTY TRANSACTIONS

In addition to the related party information disclosed in notes 29, 30, 35 and 36, the Group purchased finished goods from an associate of RMB830,000 (2007: nil) for the year ended 31 December 2008.

The key management personnel are the Directors. The details of the remuneration paid to them are set out in note 10.

FINANCIAL SUMMARY

	For the year ended 31 December				
	2004	2005	2006	2007	**2008**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
RESULTS					
Turnover	486,720	829,627	969,705	1,146,124	**1,216,448**
Profit before taxation	161,911	219,271	152,665	226,820	**114,734**
Taxation	(31,602)	(44,655)	(44,468)	(52,752)	**(38,083)**
Profit for the year	130,309	174,616	108,197	174,068	**76,651**
Attributable to:					
Equity holders of the Company	129,089	172,929	115,815	175,350	**80,433**
Minority interests	1,220	1,687	(7,618)	(1,282)	**(3,782)**
	130,309	174,616	108,197	174,068	**76,651**
Earnings per share (RMB cents)					
Basic	6.44	7.59	4.24	6.14	**2.82**
Diluted	6.44	7.44	4.17	6.13	**2.82**

	At 31 December				
	2004	2005	2006	2007	**2008**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
ASSETS AND LIABILITIES					
Total assets	666,488	1,094,066	1,473,182	1,812,070	**1,897,912**
Total liabilities	(118,984)	(260,422)	(284,350)	(446,613)	**(451,331)**
	547,504	833,644	1,188,832	1,365,457	**1,446,581**
Equity attributable to equity holders of the Company	540,936	805,642	1,162,598	1,338,371	**1,418,967**
Minority interests	6,568	28,002	26,234	27,086	**27,614**
Total equity	547,504	833,644	1,188,832	1,365,457	**1,446,581**