CFE

China Fire Safety Enterprise Group Holdings Limited

中國消防企業集團控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8201

ANNUAL REPORT 2006

* For identification purposes only

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Corporate Information

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Shi Jia Hao
Wang De Feng
Weng Xiu Xia
Zhang Hai Yan

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Paul Winnowski
Xi Zheng Zheng
Harinath Krishnamurthy
(alternate director to Paul Winnowski)

INDEPENDENT NON-EXECUTIVE DIRECTORS
Heng Kwoo Seng
Pu Rong Sheng
Loke Yu

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
Heng Kwoo Seng
Pu Rong Sheng
Loke Yu

MEMBERS OF REMUNERATION COMMITTEE
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STOCK EXCHANGE LISTING
The Growth Enterprise Market of the Stock Exchange of Hong Kong Limited

STOCK CODE
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RESULTS FOR THE YEAR

Year 2006 was a challenging year for us. Although revenue topped record at RMB970 million, profit for the year dropped to RMB108 million. Under the market economy, as an industry is getting mature, the number of players will increase and hence the degree of competition. As a result, it is quite normal that profit margin gets slimmed. Competition has forced us to cut the prices of most of our electrical fire fighting and prevention equipment by 20% on average during the year and also underpinned the declining profit margins for all our business segments. Further affected the results for the year was the failure on obtaining 3C certificates, as required by the Chinese government, by the overseas fire engines manufacturers and thus causing the backlog of orders and turning our trading business from profit to loss. Fortunately, we have seen light in the 3C certificate issues as some of the suppliers have received notice from the authorities that their application will soon be approved and by then the delayed shipment could be fulfilled. The change in national standards for fire safety equipment like detectors and emergency lightings, which rendered most of the Group's tooling and moulds and product development costs obsolete, have also given rise to a loss of RMB23 million from assets impairment. There were also increased expenses arising from market developments, including opening overseas markets. I believe the move will drive the profit growth despite the adverse effect on profit for the year.

We understand that in the highly competitive fire safety industry, it is important to provide customers with greater product and service options. The acquisitions and cooperation projects in the last few years, which allowed us to expand in terms of product range and geographical locations, reflect our ongoing effort to maintain the leading market status. In addition to the acquisitions of the trading and manufacturing of fire engines businesses in 2004 and 2005, during the year, we had a new joint venture with the Shanghai Fire Research Institute of the Ministry of Public Security to set up a new factory in Shanghai for the development and production of large scale fire fighting equipment for industrial uses. It was particularly encouraging to see the new factory receiving orders of over RMB5 million in its first month of operation in January 2007. Given the pace of industrial development in China, we believe that the high potential market will bring us fruitful results.

Besides the product market, we were keen in the development of the network based monitoring system in the last two years. Unfortunately, the result was not quite what we had expected as the launching of the system was beset by the lack of progress in issuance of standards for the systems. As a result, we incurred a loss of RMB15 million for the year. In spite of the unknown schedule of standards promulgation, we believe that the monitoring system will become a significant part of the fire safety industry and will change its landscape especially for the maintenance market in the near future. I am delighted that at the end of 2006, fire brigades of a number of cities issued documents requesting all new constructions, buildings under renovations and extensions and places of public entertainment under their jurisdictions to install the system. We expect demands for the system will be push up by similar requirement in other places that soon will follow.

For the installation market, we will continue with the expansion plan to acquire well-established installation companies in different cities across the countries though the progress in 2006 was affected by the unforeseen length of time in searching and screening target companies and concluding terms of negotiation. Some acquisition negotiations are at the final stage and are expected to be completed in April 2007.

STRATEGIC ALLIANCE

More cooperation between the Group and United Technologies Corporation (UTC) can be seen as we are getting closer upon its exercise of the second tranche subscription to increase its shareholdings in the Company to 29% during the year. We are discussing with Sides, a subsidiary of UTC in France specializing in the production of fire engines and rescue vehicles, about a technology transfer program that involve medium and heavy-duty foam trucks and high-mobility trucks etc. It is expected that the first fire engines manufactured with the assistance of Sides will be available for sale in 2008. In addition, detail plans of manufacturing high-tech fire fighting and prevention equipment in cooperation with Kidde - the renowned fire safety equipment provider, for large scale industrial projects that has long relied on imported equipment, has also been put on the agenda. The production lines will be located in our new factory in Chengdu with operation scheduled to start in 2007.

The opportunities of sharing advance technologies and modern management techniques with a large multi-national corporation would improve our competitiveness as a market leader.

LOOKING FORWARD

Though the Group did not perform as well as expected in 2006, I believe that we are on the right track. Our network monitoring system is favourably commented by the fire authorities. Although there is no schedule for the promulgation of national standards, we are confident that its market position will soon pick up. Besides, we are also actively developing both the local and overseas product markets and bringing in advanced new technologies to cater for the needs of different customers. The new joint venture in Shanghai is leading our debut in the industrial sector; the new factory in Chengdu will be well equipped with new technologies and products including fire engines with Sides' technologies and high-tech fire fighting and prevention equipment of Kidde. For overseas markets, we have sold a number of fire engines and fire safety equipment with value over RMB10 million to customers in Burma, India, Pakistan, North Korea, Angola, Dubai, Japan and France etc during the year. I believe this will give us a good foundation for increased sale in the overseas market, and it is very promising that the Group's sales to overseas customers in the first two months of 2007 have reached RMB4 million. I think we will soon see many of our products serving foreign customers, particularly those in less developed countries.

APPRECIATION

On behalf of the Board, I would like to thank all the staff for their hard work in the past year. I highly appreciate their dedication and commitment shown. More, I would like to extend my grateful thanks to all my fellow directors for their support and valuable contributions.

Jiang Xiong
Chairman

26 March 2007

BUSINESS REVIEW

Operating in a highly competitive market, the Group's profit margins are under severe pressure from the surging market competition. Despite it reported a 17% growth in revenue to achieve a record RMB970 million, gross profit and net profit declined 4% and 38% to RMB274 million and RMB108 million respectively. An analysis of the operating results for the year by business segment is as follows:

Installation of fire prevention and fighting systems

Revenue from installation of fire prevention and fighting systems increased by 28% to RMB463 million while operating profit decreased by 10% to RMB99 million.

The revenue growth was attributed to the continuously active property market in China. A significant part of the contracts secured during the year were for new construction projects. In addition to the residential and commercial properties markets where the Group's core expertise lies, during the year, the Group has also participated in the design and installation of fire safety systems for industrial projects like Zhangzhou Houshi Power Plant (漳州后石電廠), Fujian Kemen Power Plant (福建可門電廠), Jianyang Masha Hydro-electrical Station (建陽麻沙水電站) and the plant of Asahi Kasei chemicals (Nantong) Co., Ltd., a Japanese company (旭化成精細化工(南通)有限公司), Chengdu Cigarette (成都卷煙廠) and manufacturing base of Chengdu Toyota etc.. Revenue of approximately RMB67 million from industrial projects was recognised which reflected the Group's diversifying customer base. In March 2007, the Group won a contract of installing fire safety systems for the Olympic main stadium in Beijing, reinforcing the Group's outstanding performance and distinguished status in the industry.

In spite of the increase in revenue, stiff market competition has been squeezing the profit margin. Since the unveiling of cross-provincial restrictions in 2002, the Group has been facing challenges from market players across the country. Conversely, the Group has expanded its geographical coverage by establishing branches offices outside Fujian. The Group's branch offices have become an increasingly important revenue driver. Unfortunately, part of the profit margins has been sacrificed in order to gain foothold in the new markets. The Group expects the situation will improve when it is rooted in the markets after a period of operation.

Last year, the Group budgeted RMB300 million for acquiring well-established companies specializing in installation of fire prevention and fighting system services in different parts of China. However, because of the time spent in searching and screening target companies and the unforeseen length of time in terms negotiation, no acquisition has been concluded. In 2007, the Group will carry on with the acquisition plan in order to quickly capture the local markets and to close the gap in profit margin. Certain acquisitions are expected to be concluded in April 2007.

Production and sale of fire engines, fire prevention and fighting equipment

Revenue from production and sales of fire engines, fire prevention and fire fighting equipment increased by 38% to RMB433 million. Operating profit, on the other hand, decreased by 56% to RMB31 million.

The rise in revenue was mainly brought by the consolidation of the full year result of Sichuan Morita Fire Safety Appliances Co., Ltd. ("Sichuan Morita") which amounted to RMB202 million as compared to the RMB97 million for the second half of 2005. Excluding the sales of fire engines and fire fighting equipment by Sichuan Morita, there was also a slight increase (around 6%) in the sale of electrical fire prevention and fighting equipment like emergency lightings and detection equipment. However, similar to the case for installation services, the Group has been facing tremendous pressure on product pricing due to competition. Prices for most of the Group's electrical fire prevention and fighting equipment were reduced by 20% on average in June 2006 to match with competitors' price adjustments, gross profits were thus adversely affected although there were increments in quantity sold. Besides, the operating profit of the segment was also affected by the impairment loss on certain tooling and moulds and development costs amounting to RMB23 million, as they have become obsolete with the change in product standards in China.

To tackle the margin thinning problem, certain new models of detectors and emergency lightings that have lower material costs and / or are less price-sensitive were developed and launched. Some of these new versions generated profit margins that doubled the old versions. As there are still rooms for further price cut in the market, the Group will strengthen its effort in new product development including bringing in foreign brands and technologies to enhance its competitive edge. In addition, the opening of the new plant in Shanghai in January 2007, a joint venture with the Shanghai Fire Research Institute of the Ministry of Public Security, which specializes in manufacturing and sale of large scale fire fighting equipment for industrial uses, (such as petrochemicals) marked the Group's entrance into a new market and is anticipated to new growth momentum in both revenue and profit. The Group believed that it is a high potential market given the pace of industrial development in China and unlike the real estate market, it is less subject to government's austerity measures. The factory has already received orders of over RMB5 million in the first month of operation.

In addition to the local markets, the Group is also actively developing the overseas markets, especially those in less developed countries. During the year 2006, a number of fire engines and fire fighting and prevention equipment with value over RMB10 million was sold to customers in Burma, India, Pakistan, North Korea, Angola, Dubai, Japan and France etc.. Although it is just minimal to the total sales, the Group believes that it is a good start given the favourable comment from the overseas customers. In the first two months of 2007, the Group's sales to overseas customers (mainly in Angola) has already over RMB4 million. The Group is now considering granting distribution rights to a Dubai company, which is also one the Group's customers, to distribute the Group's products in the Middle East. It is expected that the Group's products will soon be serving increasingly more customers in the area. Although costs incurred in developing overseas markets affected profit in the short run, it will bring the Group growth impetus in the long run.

Provision of fire prevention and fighting system maintenance services

Revenue from the provision of fire prevention and fighting system maintenance services increased by 16% to approximately RMB63 million while profit decreased by 20% to approximately RMB34 million.

The maintenance services sector comprises the provision of traditional repair and maintenance services and the network based monitoring system. This system allows users to have their fire prevention and fighting systems securely monitored all the time from a remote automatic monitoring center and maintains them in a good working standard. Because of the delay in the promulgation of standards for the monitoring system (which was originally expected to be announced in mid 2006), the sector register RMB1 million in revenue only and incurred a loss of approximately RMB15 million. With the continuous effort in perfecting the system and undertaking a series of promotional works, the system is well received by the fire authorities and is recognized as an effective tool in fire prevention. At the end of 2006, the fire brigades of certain cities issued documents requiring that all new constructions, buildings under renovations and extensions and places of public entertainment under their jurisdictions must have the system installed and connected to the local monitoring centres. The Group expects demands for the system will be pushed up by similar requirements in other places that soon will follow. On the other hand, the traditional repair and maintenance services performed steadily during the year with revenue up by 14% to RMB62 million. Operating profit, however, have been affected by the aggressive action of the competitors as in other segments and declined slightly by 1.6% to RMB49 million.

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 decreased by 89% to approximately RMB11 million and it turned from a profit of RMB5 million for 2005 to a loss of RMB4 million for the year under review.

The disappointing result was mainly due to the unsuccessful application of the 3C certificates in China by some major suppliers of fire engines in Europe, causing the delay in fulfillment of orders and thus recognition of revenue. It is a compulsory regulations managed by the Certification and Accreditation Administration of the People's Republic of China (CNCA), that all fire engines suppliers are required to possess the 3C certificate before their products could be sold and used in China as from 1 October 2005. For the year under review, the deliveries of 20 fire engines with contract value of approximately RMB72 million were affected. Up to the date of report, two of the affected fire engines (with contract value of RMB11 million) have been delivered and another one (with contract value of RMB4 million) was scheduled to be delivered soon. Other backlogged orders are expected to be resolved soon as some suppliers have received notice from the authorities that their applications will soon be approved.

Financial resources, liquidity, contingent liabilities and pledge of assets

As at 31 December 2006, the Group had cash and bank balances amounting to approximately RMB667 million (2005: RMB442 million) of which RMB24 million (2005: RMB22 million) were pledged to secure banking facilities granted to the Group. Outstanding balances of trust receipt loans, short term bank loans and bank overdraft as at the year end date were RMB3 million (2005: RMB4 million), RMB41 million (2005: RMB11 million) and RMB8 million (2005: RMB9 million) respectively. The trust receipt loans and overdraft were granted to a subsidiary and were secured by the Group's bank deposits together with personal assets and guarantee of a minority shareholder. The short term bank loan was granted to another subsidiary and was secured by certain land leases and buildings of the Group with a total net book value of approximately RMB20 million (2005: RMB20 million).

As at 31 December 2006, current assets and current liabilities of the Group were approximately RMB1,211 million (2005: RMB836 million) and RMB280 million (2005: RMB257 million) respectively. The current ratio was approximately 4.3 times (2005: 3.3 times), reflecting sufficient financial resources to meet the Group's liabilities. Trade receivables as at end of year was RMB383 million, representing an increment of 45% over that of last year. The increase was mainly attributable to the postponement of settlement by customers. Competition has forced the Group to ease its credit policy and grant customers with more generous terms. To better reflect the financial position of the Group and to address the recoverability risk of receivables, the Group adopted for the first time a provision policy for aged debts during the year. Provisions of RMB9 million were made for the year on receivables aged over 1 year. The Group has a minimal gearing ratio as its long-term interest bearing liabilities as at year end date was only RMB0.1 million (2005: RMB0.1 million) in comparison with the Group's shareholders equity of RMB1,163 million (RMB806 million).

Renminbi is adopted as the reporting currency by the Group. The majority of the Group's assets, liabilities, sales and purchases are primarily denominated in Renminbi and Hong Kong dollar. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Save as disclosed, the Group has no material contingent liabilities nor pledge of assets for the year ended 31 December 2006.

ACQUISITIONS, DISPOSALS AND CAPITAL COMMITMENTS

Acquisitions and investments

During the year, the Group had the following acquisitions and investments:

1. Acquisition of the controlling shareholdings of two companies engaging in the provision of monitoring services in Quanzhou of Fujian Province and Jiangmen of Guangdong Province amounted to a total consideration of RMB3.3 million. The two companies have been in the industry for a few years but in view of the changing market needs and the new standards, their monitoring systems would become obsolete for further business advancement. The acquisitions allowed the Group to have quick access to the customer base and the relationship already established by the two companies, thus saving time from developing the markets from scratch. With the Group's sophisticated system, it is believed that the operations of the two new subsidiaries will soon be turned around.

2. Acquisition of a land lease in Chengdu for the construction of a new plant to cater for the needs of manufacturing new models of fire engines and fire fighting and prevention equipment amounted to a consideration of approximately RMB36 million. The new plant, which is expected to be in production at end of 2007, will double the capacity of the existing one and will be equipped with new and advanced production equipment. It will relieve the overloaded problems of the existing production lines and the inefficiencies and quality issues caused by the outdated machinery and equipment (in 2006, the Group received orders for over 500 fire engines, however, because of the limited capacity only 401 fire engines were completed.)

3. Setting up a joint venture with the Shanghai Fire Research Institute of the Ministry of Public Security with an injected capital of RMB5.1 million for the establishment of a factory in Pudong which commenced operation in January 2007. The joint venture specializes in the development and production of special large scale fire prevention and fire fighting equipment for industrial uses, such as the petrochemical industry. In the first month of operation, the factory has already received orders of over RMB5 million. The Group has budgeted RMB20 million as initial investments in the new factory.

Capital commitments

As at 31 December 2006, the Group has capital commitment of approximately RMB315 million (2005: RMB0.5 million) for the acquisition of property, plant and equipment and technical know-how. The majority of which is in relation to the new factory in Chengdu.

Save as disclosed herein, the Group has no material capital commitment, investments, acquisitions or disposals of subsidiaries as at 31 December 2006.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2006, the Group had approximately 1,529 full-time employees (2005: 1,370). Staff costs, excluding directors' remuneration, for the year amounted to RMB49 million, a 5% increase over the previous year's RMB47 million. The rise in number of staff was mainly due to additional workers employed by Sichuan Morita to meet the increase in orders. Remuneration of employees was determined mainly on the basis of their performance. 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.

STRATEGIC PARTNERS

During the year, the Group issued 469,000,000 shares to United Technologies Far East Limited (UTFE), a subsidiary of UTC, pursuant to the second tranche subscription of the subscription agreement between the Company and UTFE dated 1 February 2005. UTFE currently holds 825,000,000 shares of the Company, or 29% of the Company's enlarged issued share capital. With UTC's increasing interests in the Company, more projects between the Group and UTC would be secured. During the year, the Group discussed with Sides, a subsidiary of UTC in France specializing in production of fire engines and rescue vehicles, about a technology transfer program that involves medium and heavy-duty foam trucks and high-mobility trucks etc.. The project is expected to commence from the second quarter of 2007 and the first fire engines manufactured with the assistance of Sides will be available for sale in 2008. Besides, another project that involves the production of high-tech fire safety equipment in cooperation with Kidde in Chengdu is also ongoing. Production lines will be located in the Group's new factory in Chengdu with operation scheduled to start from the second half of 2007.

DIRECTORS

Executive Directors

Mr. JIANG Xiong, aged 39, is the Chairman of the Group. 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 42, is an executive Director and Chief Executive Officer of the Group. 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. 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 60, was appointed as an executive Director on 19 September 2006. 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.

Mr. WANG De Feng, aged 38, was appointed as an executive Director on 19 September 2006. He is a graduate of the Second Mechanical Engineering Department of the Chongqing University. Mr. Wang joined the Group in 1995 upon the Group's acquisition of Sichuan Fire Appliances Factory (now reformed and renamed as Sichuan Morita). He is also the Managing Director of Sichuan Morita, responsible for the production, sales and administration of the enterprise.

Ms. WENG Xiu Xia, aged 36, was appointed as an executive Director on 5 February 2007. She is the General Manager of a subsidiary of the Company engaged in installation and maintenance of fire safety systems. Ms. Weng joined the Group in 1998 and is responsible for managing installation and maintenance projects of the Group. She has 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 qualified as a "Grade I project manager" by the Ministry of Construction in 2004 and was elected executives of the Construction Industry Association and its branch for safety industry in 2006.

Ms. ZHANG Hai Yan, aged 34, was appointed as an executive Director on 5 February 2007. 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. Paul WINNOWSKI, aged 35, was appointed as a non-executive Director on 9 November 2006. He is the President of UTC Fire & Security Asia. He holds a B.B.A. in Business Economic where he graduated cum laude from the University of San Diego and an M.B.A. with an emphasis in Finance from Vanderbilt's Owen Graduate School of Management. Before joining UTC Fire & Security, he held a series of senior management positions at GE Security.

Ms. XI Zheng Zheng, aged 39, was appointed as a non-executive Director on 9 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 41, was appointed as an alternate Director to Mr. Paul Winnowski on 5 February 2007.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.

Independent non-executive Directors

Mr. HENG Kwoo Seng, aged 59, was appointed as an independent non-executive Director on 29 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: Lee & Man Holdings Limited, Lee & Man Paper Manufacturing Limited, Tack Fat Group International Limited, Minth Group Limited, SCUD Group Limited, SIM Technology Group Limited, Soundwill Holdings Limited, and Winfair Investment Company Limited.

Mr. PU Rong Sheng, aged 64, was appointed as an independent non-executive Director of the Company in September 2005. Mr. Pu is a graduate from the Faculty of Electrical Engineering of the Beijing University of Technology. He has almost 40 years of working experience in the Fire Prevention and Fighting Bureau and was a Senior Colonel of the Armed Police Professionals (武警專業技術大校), working in the Fire Prevention Monitoring Division of the Fire Prevention and Fighting Bureau of the Beijing Public Security Bureau (北京市公安局消防局防火監督部) before he retired in 1999. Mr. Pu is a senior engineer appointed by the Fire Safety Technicians Technical Expertise Accreditation Committee of the China Armed Police (中國武警部隊消防技術人員高級技術專業職務評審委員會任命的高級工程師). He is also a vice Chairman of the Intelligent Buildings and Automation Committee of the China Association of Automation (中國自動化學會智能建築與樓宇自動化專業委員會副主任) and is a member of the Intelligent Building Technical Committee of the Construction Industry Association of China (中國建築業協會智能建築專業委員會專家). Mr. Pu is also appointed a committee member and an expert of the Intelligent Engineering Branch of China Exploration and Design Association (中國勘察設計協會工程智能設計分會個人理事及建築智能化技術專家).

Dr. LOKE Yu, aged 57, was appointed as an independent non-executive Director on 1 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 Shandong Molong Petroleum Machinery Company Limited, United Metals Holdings Limited, New Chinese Medicine Holdings Limited, Martix Holdings Limited, VODone Limited and Wealthmark International (Holdings) Limited.

SENIOR MANAGEMENT

Mr. HU Yong, aged 38, 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 (formerly known as Sichuan Fire Safety Appliances Factory (四川消防機械總廠)), and has since then been in service for 16 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 52, 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.

Mr. LI Xin, aged 50, joined the Group in 2005 as the General Manager of Clusafe Control Equipment Co., Ltd. ("Clusafe Control Equipment") (formerly known as Fujian Wanyou Fire Fighting Science and Technology Co., Ltd.). He is responsible for the technology development, production and administration of the company. Mr. Li is a graduate of the Department of Electronic Engineering of Shenyang University of Technology. After graduation Mr. Li has worked in a number of companies which engaged in fire prevention and fighting products and equipment as well as fire safety engineering, from which he gained extensive experience in the fire safety industry in the PRC.

Ms. ZHANG Yu Rong, aged 44, 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. Upon graduation, she joined Sichuan Morita (formerly known as Sichuan Fire Safety Appliances Factory (四川消防機械總廠)), 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.

Mr. ZHUO Fu Quan, aged 61, joined the Group in November 2003 and is now the Deputy General Manager of Clusafe Control Equipment (formerly known as Fujian Wanyou Fire Fighting Science and Technology Co., Ltd.), responsible for the company's overall operation. Mr. Zhuo is a graduate of the Department of Physics in Xiamen University. 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.

Mr. CAI Jun, aged 43, is the Managing Director of Beijing Chongzheng Huasheng Emergency Lighting System Ltd., Co. ("Chongzheng Huasheng") (北京市崇正華盛應急照明系統有限責任公司), 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. YAN Li Jun, aged 45, joined the Group in December 2003 and is currently the General Manager of Chongzheng Huasheng (北京市崇正華盛應急照明系統有限責任公司), responsible for the management of the company. Mr. Yan is a graduate of the Department of Business Management of the Machinery Department's Executives Institute of Management (機械部幹部管理學院). He was the Manager of the Domestic Trade Department of China Wires and Cables Import and Export Co. (中國電線電纜進出口公司) and the Deputy Manager of Shandong Tzbo Disheng Electric Co. Ltd. (山東淄博迪生電源有限公司) where he gained extensive experiences in business management.

Mr. FENG Quan Hui, aged 44, is the General Manager of Jiangxi Shengan City Safety Communications Development Co. Ltd. (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 Construction Office of Fujian Province (福建省建設廳). Mr. Feng has many years of experience in fire services installation.

Mr. CHAN Chun Wo, aged 56, 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 44, the General Manager of Chuanxiao Fire Safety 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

Corporate governance practices

Throughout the year ended 31 December 2006, the Company has complied with the code provisions set out in the Code on Corporate Governance Practices set out in Appendix 15 of the GEM Listing Rules, except for the following:

1. There were no fixed terms of appointment for the directors.

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

The details of such deviation have been disclosed in the relevant paragraphs below in this Corporate Governance Report.

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 Rules 5.48 to 5.67 of the GEM 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 report, is composed of six executive directors, two non-executive directors and three independent non-executive directors. Name of the directors are set out in the table below. Mr. Jiang Xiong (Chairman) and Mr. Jiang Qing (Chief Executive Officer) are brothers.

There were four 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. Attendance of each director is set out below:

Name of directors	No. of meetings attended
Executive directors	
Mr. Jiang Xiong *(Chairman)*	2/4
Mr. Jiang Qing *(Chief Executive Officer)*	4/4
Mr. Shi Jia Hao[1] *(newly appointed)*	1/1
Mr. Wang De Feng[1] *(newly appointed)*	1/1
Ms. Weng Xiu Xia[2] *(newly appointed)*	N/A
Ms. Zhang Hai Yan[2] *(newly appointed)*	N/A
Mr. Chen Shu Quan[1] *(resigned)*	3/3
Mr. Chan Siu Tat[1] *(resigned)*	2/3
Non-executive directors	
Mr. Paul Winnowski[1] *(newly appointed)*	1/1
Ms. Xi Zheng Zheng[1] *(newly appointed)*	1/1
Mr. Cheng Kai Tuen, George[1] *(resigned)*	1/3
Mr. Wat Chi Ping, Isaac[1] *(resigned)*	2/3
Independent non-executive directors	
Mr. Heng Kwo Seng	4/4
Mr. Pu Rong Sheng	4/4
Dr. Loke Yu[1] *(newly appointed)*	2/2
Mr. Liu Shi Pu[1] *(resigned)*	2/2

1 *The Directors were appointed or resigned during the year. Their attendance of meeting were counted based on the number of meetings held after their appointment or before their resignation.*

2 *The Directors were appointed on 5 February 2007.*

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers all of the independent non-executive directors are independent.

Auditors' remuneration

Auditors' 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.

Terms of appointment for the directors

There were no fixed terms of appointment for the 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 ("Dr. Loke"), both are independent non-executive Directors of the Company, and Mr. Jiang Qing who are an executive Director and the Chief Executive Officer of the Company. The primary duties of the committee are to formulate policy and structure of remuneration of directors and senior management of the Group and to provide advice and recommendations thereon to the Board. During the year, the remuneration committee held one meeting, in which all members were present, to review all of the Directors' remuneration packages.

Nomination of directors

The Board does not establish a nomination committee at present. The appointment of new director(s) is therefore a matter for consideration and decision by the full Board. The Board considers that the new director(s) is expected to have expertise in relevant area to make contribution to the Company and to have sufficient time to participate in the decision making process of the Company. Under the Company's articles of association, one third of the directors for the time being (or if their number is not a multiple of three, then the number nearest to but not greater than one third) will retire from office by rotation at each annual general meeting in accordance with the provisions of the articles of association.

Audit committee

The audit committee comprises three independent non-executive Directors, Mr. Heng, Mr. Pu Rong Sheng ("Mr. Pu") and Dr. Loke. Dr. Loke was appointed as an independent non-executive directors and members of the audit committee on 1 August 2006. Mr. Liu Shi Pu ("Mr. Liu") was a member of the audit committee for the period up to 1 August 2006. 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 four 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 Kwo Seng *(Chairman)*	4/4
Mr. Pu Rong Sheng	4/4
Dr. Loke Yu[1] *(newly appointed)*	2/2
Mr. Liu Shi Pu[1] *(resigned)*	2/2

[1] *The directors were appointed or resigned during the year, their attendance of meeting were counted based on the number of meetings held after the appointment or before their resignation.*

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

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 2006.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 39 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2006 are set out in the consolidated income statement on page 34.

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2006 (2005: 1.3 HK cents per share).

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 17 to the financial statements.

SHARE CAPITAL

Details of the movements during the year of the share capital of the Company are set out in note 33 to the financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31 December 2006 were RMB834,300,000 (2005: RMB580,347,000).

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

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

Executive Directors

Mr. Jiang Xiong *(Chairman)*	
Mr. Jiang Qing	
Mr. Shi Jia Hao	(appointed on 19 September 2006)
Mr. Wang De Feng	(appointed on 19 September 2006)
Ms. Weng Xiu Xia	(appointed on 5 February 2007)
Ms. Zhang Hai Yan	(appointed on 5 February 2007)
Mr. Chan Siu Tat	(resigned on 15 August 2006)
Mr. Chen Shu Quan	(resigned on 3 November 2006)

Non-executive Directors

Mr. Paul Winnowski	(appointed on 9 November 2006)
Mr. Harinath Krishnamurthy (alternate director to Mr. Paul Winnowski)	(appointed on 5 February 2007)
Ms. Xi Zheng Zheng	(appointed on 9 November 2006)
Mr. Cheng Kai Tuen George	(resigned on 9 November 2006)
Mr. Wat Chi Ping Isaac	(resigned on 9 November 2006)

Independent Non-executive Directors

Mr. Heng Kwoo Seng	
Mr. Pu Rong Sheng	
Dr. Loke Yu	(appointed on 1 August 2006)
Mr. Liu Shi Pu	(resigned on 1 August 2006)

In accordance with provisions of the Company's Articles of Association, Mr. Shi Jia Hao, Mr. Wang De Feng, Ms. Weng Xiu Xia, Ms. Zhang Hai Yan, Mr. Paul Winnowski, Ms. Xi Zheng Zheng, Mr. Heng Kwoo Seng and Dr. Loke Yu 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).

CONNECTED TRANSACTIONS

During the financial year ended 31 December 2006, the Group has the following connected transaction not fully exempted under Rule 20.31 or Rule 20.33 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("the GEM Listing Rules"):

On 3 April 2006, the Company issued 469,000,000 shares at HK$0.577 each (equivalent to RMB0.597 each) to UTFE, a substantial shareholder of the Company, pursuant to the second tranche subscription of a subscription agreement (the "Subscription Agreement") entered into between the Company and UTFE on 1 February 2005. UTFE owns 29% of the Company's enlarged issued share capital upon completion of the second tranche subscription. Details of the Subscription Agreement are set out in the Company's announcement and circular dated 2 February 2005 and 10 March 2005 respectively.

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

Save as disclosed below, as of 31 December 2006, none of the Directors or chief executive 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 Future 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 Rules 5.46 to 5.67 of the GEM 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	Beneficial owner *(Note 1)*	981,600,000	63.28%
	Deemed interest *(Note 2)*	825,000,000	*(Note 3)*
Mr. Jiang Qing	Beneficial owner	7,500,000	0.26%

DIRECTORS' AND CHIEF EXECUTIVE'S INTEREST IN THE COMPANY'S SECURITIES *(continued)*

Notes:

1. Mr. Jiang Xiong ("Mr. Jiang") is beneficially interested in 981,600,000 shares. By virtue of the option agreement entered into between Mr. Jiang and UTFE (the"Option Agreement"), he and UTFE are parties to the agreement under section 317 of the SFO. Under the SFO, Mr. Jiang is deemed to have a long position in the 825,000,000 shares of the Company owned by UTFE.

2. 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 its capacity as a party to the Option Agreement to which Section 317(1)(a) of the SFO applies.

3. 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.

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:

a. 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

b. all the shares of the Company held by Mr. Jiang at the time when UTFE exercise 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.

DIRECTORS' AND CHIEF EXECUTIVES' INTEREST IN THE COMPANY'S SECURITIES *(continued)*

Options to subscribe for ordinary shares in the Company

Grantee	Date of grant	Number of shares issuable under the options granted	Exercisable period	Exercise price	Number of shares issuable under the options outstanding as at 1. 1. 2006	31.12.2006	Percentage of issued share capital of the Company
				HK$			
Mr. Jiang Qing	25 May 2004	20,000,000	25 May 2004 – 24 May 2014	0.44	20,000,000	20,000,000	0.70%
Mr. Chen Shu Quan	25 May 2004	5,000,000	25 May 2004 – 24 May 2014	0.44	5,000,000	–	–
Mr. Chan Siu Tat	25 May 2004	5,000,000	25 May 2004 – 24 May 2014	0.44	5,000,000	–	–
					30,000,000	20,000,000	

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

Mr. Chan Siu Tat and Mr. Chen Shu Quan exercised all the options granted to them on 13 July 2006 and 11 October 2006 respectively. Mr. Chan and Mr. Chen resigned as executive Directors of the Company respectively on 15 August 2006 and 3 November 2006.

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

DIRECTORS' AND CHIEF EXECUTIVES' INTEREST IN THE COMPANY'S SECURITIES *(continued)*

Interest in a subsidiary

Name of directors	Name of subsidiary	Capacity	Value of equity capital held RMB	Percentage of equity interest in the subsidiary
Mr Jiang Xiong	北京集保盛安安全防護技術發展有限公司 Beijing Jibao Shengan Security Technology Development Company Limited	Beneficial owner	5,000	0.05%
Mr. Jiang Qing	北京集保盛安安全防護技術發展有限公司 Beijing Jibao Shengan Security Technology Development Company Limited	Beneficial owner	5,000	0.05%

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 of the Company 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 executive, 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

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 2006, 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 1)*	981,600,000	*(Note 2)*
Otis Elevator Company	Interest of a controlled corporation *(Note 3)*	1,806,600,000	63.28%
Carrier Corporation	Interest of a controlled corporation *(Note 4)*	1,806,600,000	63.28%
United Technologies Corporation	Interest of a controlled corporation *(Note 5)*	1,806,600,000	63.28%

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

Notes:

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

2. 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: (a) such number of shares as are required to be sold by Mr. Jiang to UTFE to enable UTFE to beneficially hold, in addition to any other shares 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 (b) all the shares 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.

3. 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.

4. 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.

5. United Technologies Corporation 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.

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 2006.

SHARE OPTIONS

Particulars of the Company's share option scheme and details of the options are set out in note 34 to the financial statements.

RETIREMENT BENEFIT SCHEMES

The Group complies with the Mandatory Provident Fund 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 2006, neither the Company nor any of its subsidiaries purchased, cancelled or redeemed any listed securities of the Company. Save the issue of shares pursuant to the Subscription Agreement, the Company has not sold 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 5.09 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited. 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.

COMPETING INTERESTS

None of the Directors or the management shareholder of the Company and their respective associates (as defined in the GEM 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

For the year ended 31 December 2006, 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.

AUDITORS

A resolution will be submitted to the annual general meeting to re-appoint the auditors, Messrs. Deloitte Touche Tohmatsu.

On behalf of the Board

Jiang Xiong

CHAIRMAN

26 March 2007

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 34 to 91, which comprise the consolidated balance sheet as at 31 December 2006, 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.

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 2006 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
26 March 2007

Consolidated Income Statement

For the year ended 31 December 2006

	Notes	2006 RMB'000	2005 RMB'000
Turnover	6	**969,705**	829,627
Cost of sales		**(696,151)**	(543,871)
Gross profit		**273,554**	285,756
Other income	8	**13,390**	4,846
Selling and distribution costs		**(25,441)**	(10,770)
Administrative expenses		**(78,859)**	(59,281)
Other expenses	9	**(26,472)**	–
Finance costs	10	**(3,507)**	(1,280)
Profit before taxation		**152,665**	219,271
Taxation	13	**(44,468)**	(44,655)
Profit for the year	14	**108,197**	174,616
Attributable to:			
Equity holders of the Company		**115,815**	172,929
Minority interests		**(7,618)**	1,687
		108,197	174,616
Earnings per share (RMB cents)	16		
Basic		**4.24**	7.59
Diluted		**4.17**	7.44

Consolidated Balance Sheet

At 31 December 2006

	Notes	2006 RMB'000	2005 RMB'000
Non-current assets			
Property, plant and equipment	17	**116,899**	166,633
Prepaid lease payments	18	**59,092**	23,301
Investment properties	19	**22,359**	–
Goodwill	20	**59,207**	62,543
Development costs	22	**100**	5,455
Deferred tax assets	23	**4,602**	–
		262,259	257,932
Current assets			
Inventories	24	**63,784**	52,277
Retention receivables		**9,264**	5,034
Amounts due from contract customers	25	**60,684**	35,527
Trade receivables	26	**382,731**	264,233
Deposits, prepayments and other receivables	27	**27,378**	36,087
Prepaid lease payments	18	**521**	521
Pledged bank deposits		**24,283**	22,442
Bank balances and cash		**642,278**	420,013
		1,210,923	836,134
Current liabilities			
Trade and other payables	28	**203,702**	191,281
Amounts due to contract customers	25	**13,676**	13,401
Amount due to a jointly controlled entity	29	**245**	–
Amounts due to minority shareholders	30	**3,483**	7,695
Tax liabilities		**7,660**	20,362
Bank borrowings	31	**51,484**	24,367
Obligation under a finance lease – amount due within one year	32	**34**	32
		280,284	257,138
Net current assets		**930,639**	578,996
Total assets less current liabilities		**1,192,898**	836,928
Non-current liabilities			
Deferred tax liabilities	23	**3,962**	3,142
Obligation under a finance lease – amount due after one year	32	**104**	142
		4,066	3,284
Net assets		**1,188,832**	833,644

Consolidated Balance Sheet

At 31 December 2006

	Notes	2006 RMB'000	2005 RMB'000
Capital and reserves			
Share capital	33	**30,168**	25,186
Reserves	35	**1,132,430**	780,456
Equity attributable to equity holders of the Company		**1,162,598**	805,642
Minority interests		**26,234**	28,002
Total equity		**1,188,832**	833,644

The financial statements on pages 34 to 91 were approved and authorised for issue by the Board of Directors on 26 March 2007 and are signed on its behalf by:

Jiang Xiong
DIRECTOR

Jiang Qing
DIRECTOR

	Attributable to equity holders of the Company												
	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000	Capital reserve RMB'000	Property revaluation reserve RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Statutory reserve fund RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	Total RMB'000	Minority interests RMB'000	Total RMB'000
At 1 January 2005	21,412	151,368	(6,692)	57,840	–	18,405	13,155	31,677	94	253,677	540,936	6,568	547,504
Exchange differences arising on translation of foreign operations recognised directly in equity	–	–	–	–	–	–	–	–	(2,639)	–	(2,639)	(49)	(2,688)
Realisation of exchange reserve on disposal of a subsidiary	–	–	–	–	–	–	–	–	(116)	–	(116)	–	(116)
Profit for the year	–	–	–	–	–	–	–	–	–	172,929	172,929	1,687	174,616
Total recognised income (expense) for the year	–	–	–	–	–	–	–	–	(2,755)	172,929	170,174	1,638	171,812
Issue of new shares	3,774	213,963	–	–	–	–	–	–	–	–	217,737	–	217,737
Transfer	–	–	–	–	–	6,738	3,639	12,532	–	(22,909)	–	–	–
Capital contribution from minority shareholders	–	–	–	–	–	–	–	–	–	–	–	2,259	2,259
Partial disposal of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	18,869	18,869
Reduction of minority interests on acquisition of additional interest in a subsidiary	–	–	–	–	–	–	–	–	–	–	–	(1,332)	(1,332)
Dividends paid	–	–	–	–	–	–	–	–	–	(123,205)	(123,205)	–	(123,205)
At 31 December 2005	25,186	365,331	(6,692)	57,840	–	25,143	16,794	44,209	(2,661)	280,492	805,642	28,002	833,644
Exchange differences arising on translation of foreign operations	-	-	-	-	-	-	-	-	(9,328)	-	(9,328)	(51)	(9,379)
Increase in fair value of leasehold properties transferred to investment properties	-	-	-	-	4,455	-	-	-	-	-	4,455	-	4,455
Deferred tax liability arising on revaluation on properties	-	-	-	-	(1,470)	-	-	-	-	-	(1,470)	-	(1,470)
Net income and expenses recognised directly in equity	-	-	-	-	2,985	-	-	-	(9,328)	-	(6,343)	(51)	(6,394)
Realisation of exchange reserve on disposal of a subsidiary	-	-	-	-	-	-	-	-	(66)	-	(66)	-	(66)
Profit for the year	-	-	-	-	-	-	-	-	-	115,815	115,815	(7,618)	108,197
Total recognised income (expense) for the year	-	-	-	-	2,985	-	-	-	(9,394)	115,815	109,406	(7,669)	101,737
Issue of new shares	4,982	281,032	-	-	-	-	-	-	-	-	286,014	-	286,014
Transfer	-	-	-	-	-	5,107	3,327	4,994	-	(13,428)	-	-	-
Capital contribution from minority shareholders	-	-	-	-	-	-	-	-	-	-	-	5,271	5,271
Acquired on acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	630	630
Dividends paid	-	-	-	-	-	-	-	-	-	(38,464)	(38,464)	-	(38,464)
At 31 December 2006	30,168	646,363	(6,692)	57,840	2,985	30,250	20,121	49,203	(12,055)	344,415	1,162,598	26,234	1,188,832

Consolidated Cash Flow Statement

For the year ended 31 December 2006

	2006 RMB'000	2005 RMB'000
Cash flows from operating activities		
Profit before taxation	**152,665**	219,271
Adjustments for:		
Depreciation of property, plant and equipment	**20,339**	18,187
Amortisation of prepaid lease payments	**521**	188
Loss on disposal of property, plant and equipment	**736**	75
(Gain) loss on disposal of a subsidiary	**(66)**	228
Loss on partial disposal of a subsidiary	**–**	1,162
Allowance for bad and doubtful debts	**8,936**	–
Amortisation of development costs	**1,700**	1,680
Impairment loss recognised on property, plant and equipment	**22,697**	–
Write-off of product development costs	**3,775**	–
Interest income	**(10,922)**	(3,858)
Interest expense	**3,507**	1,280
Operating cash flows before movements in working capital	**203,888**	238,213
Increase in inventories	**(12,135)**	(21,471)
Increase in retention receivables	**(4,230)**	(1,989)
Increase in amounts due from contract customers	**(25,157)**	(8,083)
Increase in trade receivables	**(127,900)**	(85,406)
Decrease (increase) in deposits, prepayments and other receivables	**8,570**	(4,514)
(Decrease) increase in trade and other payables	**(921)**	44,929
Increase in amounts due to contract customers	**275**	859
Cash generated from operations	**42,390**	162,538
Interest paid	**(3,507)**	(1,280)
PRC Enterprise Income Tax paid	**(62,414)**	(38,561)
Net cash (used in) from operating activities	**(23,531)**	122,697
Investing activities		
Purchase of property, plant and equipment	**(10,426)**	(11,196)
Acquisition of subsidiaries	**(3,300)**	(32,590)
Increase in pledged bank deposits	**(1,841)**	(20,319)
Acquisition of shareholdings of a minority shareholder	**–**	(5,916)
Proceeds from partial disposal of interest in a subsidiary	**–**	20,250
Refund from acquisition of plant and equipment	**–**	10,000
Deposit paid for acquisition of a prepaid lease	**(16,620)**	–
Interest received	**10,922**	3,858
Proceeds from disposal of property, plant and equipment	**–**	16
Disposal of a subsidiary	**–**	154
Additions of development costs	**(120)**	–
Net cash used in investing activities	**(21,385)**	(35,743)

For the year ended 31 December 2006

	2006 RMB'000	2005 RMB'000
Financing activities		
Proceeds from issue of new shares	**286,014**	217,737
Capital contributions from minority shareholders of subsidiaries	**5,271**	2,259
(Decrease) increase in trust receipt loans	**(1,482)**	1,469
Dividends paid	**(38,464)**	(123,205)
Repayment of bank loans	**(12,195)**	(6,615)
Repayment to minority shareholders	**(4,039)**	(1,160)
Increase in amount due to a jointly controlled entity	**245**	–
Repayment of obligations under a finance lease	**(32)**	(13)
New bank loan raised	**42,442**	–
Net cash from financing activities	**277,760**	90,472
Net increase in cash and cash equivalents	**232,844**	177,426
Cash and cash equivalents at the beginning of the year	**410,992**	236,170
Exchange difference	**(9,071)**	(2,604)
Cash and cash equivalents at the end of the year	**634,765**	410,992
Analysis of balances of cash and cash equivalents		
Bank balances and cash	**642,278**	420,013
Bank overdrafts	**(7,513)**	(9,021)
	634,765	410,992

1. GENERAL

The Company is incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on the Growth Enterprise Market ("GEM") of 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 principal activities of the subsidiaries are set out in note 39 to the financial statements.

The consolidated financial statements are presented in Renminbi, which is also the functional currency of the Company and the Company's principal subsidiaries.

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

In the current year, the Group has applied, for the first time, a number of new standard, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standards, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new standards, amendment or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital disclosures[1]
HKFRS 7	Financial instruments: Disclosures[1]
HKFRS 8	Operating segments[2]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[3]
HK(IFRIC) – INT 8	Scope of HKFRS 2[4]
HK(IFRIC) – INT 9	Reassessment of embedded derivatives[5]
HK(IFRIC) – INT 10	Interim financial reporting and impairment[6]
HK(IFRIC) – INT 11	HKFRS 2 – Group and Treasury Share Transactions[7]
HK(IFRIC) – INT 12	Service concession arrangements[8]

1 Effective for annual periods beginning on or after 1 January 2007.
2 Effective for annual periods beginning on or after 1 January 2009.
3 Effective for annual periods beginning on or after 1 March 2006.
4 Effective for annual periods beginning on or after 1 May 2006.
5 Effective for annual periods beginning on or after 1 June 2006.
6 Effective for annual periods beginning on or after 1 November 2006.
7 Effective for annual periods beginning on or after 1 March 2007.
8 Effective for annual periods beginning on or after 1 January 2008.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain properties, 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 Growth Enterprise Market of 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 or 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 and balances 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.

Acquisition of additional interests of subsidiaries that do not result in a change in control do not fall within the definition of business combination under HKFRS 3. The excess of the cost of acquisition over the carrying amount of assets and liabilities of the subsidiary is recognised as goodwill.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations

The acquisition of subsidiaries 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, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-Current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

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 acquisition of a subsidiary 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 subsidiary at the date of acquisition.

For previously capitalised goodwill arising on acquisitions 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).

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

Goodwill *(continued)*

Goodwill arising on acquisitions on or after 1 January 2005

Goodwill arising on an acquisition of a subsidiary 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 subsidiary 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 subsidiary or a jointly controlled entity is presented separately in the balance sheet.

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 a subsidiary 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 subsidiary (see above).

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment

Property, plant and equipment 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, over their estimated useful lives and taking into account of their estimated residual value, using the straight-line method.

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 income statement in the year in which the item is derecognised.

Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured 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.

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.

When no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

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.

Installation contracts

When 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. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

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

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as an amount 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 an amount 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.

Impairment losses (other than goodwill)

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

Retirement benefit schemes

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 ("PRC"), 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.

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

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 exchanges 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.

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. 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 Company (i.e. Renminbi) 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.

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.

Financial assets

The Group's financial assets are classified as loans and receivables. The accounting policies adopted in respect of loans and receivables are set out below.

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

Financial assets *(continued)*

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 retention receivables, trade receivables, other receivables and pledged bank deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. 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. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction 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.

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 including trade and other payables, borrowings, amounts due to jointly controlled entity and amounts due to minority shareholders are subsequently measured at amortised cost, using the effective interest rate method. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

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.

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. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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 2006, the carrying amount of goodwill is RMB59,207,000. Details of the recoverable amount calculation are disclosed in note 20.

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.

The management has also matched the recognition to detailed criteria for the recognition of contract revenue from installation contracts, set out in HKAS 11 Construction Contracts.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include retention receivables, trade receivables, other receivables, pledged bank deposits and bank balances, trade and other payables, borrowings 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.

Credit risk

The Group's credit risk is primarily attributable to trade receivables. The maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 December 2006 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 the 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 additions, the management of the Group 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 of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

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

Cash flow interest rate risk

The Group's cash flow interest rate risk relates primarily to variable-rate bank borrowings (see Note 31). 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 arises.

6. TURNOVER

Turnover represents the aggregate of the value of installation contract work carried out, the sales proceed of goods sold and income from provision of maintenance services during the year less sales tax, and is analysed as follows:

	2006	2005
	RMB'000	RMB'000
Revenue from installation contracts	**463,082**	363,063
Sale of goods	**443,681**	412,296
Provision of maintenance services	**62,942**	54,268
	969,705	829,627

7. 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, 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 RMB'000	Production and sale of fire engines, 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	Elimination RMB'000	Consolidated RMB'000
For the year ended 31 December 2006						
TURNOVER						
External sales	463,082	432,712	10,969	62,942	-	969,705
Inter-segment sales	1,000	53,596	-	-	(54,596)	-
Total	464,082	486,308	10,969	62,942	(54,596)	969,705
Inter-segment sales are charged on cost-plus basis.						
RESULTS						
Segment results	99,180	31,478	(4,303)	34,105		160,460
Unallocated income						11,517
Unallocated corporate expenses						(15,805)
Finance costs						(3,507)
Profit before taxation						152,665
Taxation						(44,468)
Profit for the year						108,197
At 31 December 2006						
ASSETS						
Segment assets	234,095	398,928	59,794	86,550		779,367
Unallocated corporate assets						693,815
						1,473,182
LIABILITIES						
Segment liabilities	102,561	98,869	8,771	4,737		214,938
Unallocated corporate liabilities						69,412
						284,350
OTHER INFORMATION						
Capital expenditure (exclude goodwill)	460	5,722	-	5,891		
Depreciation and amortisation	787	20,189	180	1,374		
Impairment loss recognised on property, plant and equipment	-	22,697	-	-		
Write-off of product development costs	-	3,775	-	-		
Loss on disposal of property, plant and equipment	3	486	-	47		
Allowance for bad and doubtful debts	2,506	3,932	2,498	-		

7. SEGMENT INFORMATION *(continued)*

(a) Business segments *(continued)*

	Installation of fire prevention and fighting systems RMB'000	Production and sale of fire engines, 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	Elimination RMB'000	Consolidated RMB'000
For the year ended 31 December 2005						
TURNOVER						
External sales	363,063	314,120	98,176	54,268	–	829,627
Inter-segment sales	–	68,533	–	–	(68,533)	–
Total	363,063	382,653	98,176	54,268	(68,533)	829,627
Inter-segment sales are charged on cost-plus basis.						
RESULTS						
Segment results	110,767	71,921	5,361	42,666		230,715
Unallocated income						3,858
Unallocated corporate expenses						(14,022)
Finance costs						(1,280)
Profit before taxation						219,271
Taxation						(44,655)
Profit for the year						174,616
At 31 December 2005						
ASSETS						
Segment assets	176,398	374,258	71,216	27,347		649,219
Unallocated corporate assets						444,847
						1,094,066
LIABILITIES						
Segment liabilities	59,909	110,343	30,934	1,375		202,561
Unallocated corporate liabilities						57,861
						260,422
OTHER INFORMATION						
Capital expenditure (exclude goodwill)	1,145	39,142	524	9,337		
Depreciation and amortisation	639	18,019	91	981		
Loss on disposal of property, plant and equipment	–	9	65	–		

7. 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 PRC.

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

	Carrying amount of segment assets		Additions to property, plant and equipment and development costs	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
PRC	**719,573**	577,806	**12,073**	49,624
Hong Kong	**59,794**	71,216	**–**	524
United States of America	**–**	197	**–**	–
	779,367	649,219	**12,073**	50,148
Unallocated assets	**693,815**	444,847	**6**	29
	1,473,182	1,094,066	**12,079**	50,177

8. OTHER INCOME

	2006	2005
	RMB'000	RMB'000
Interest income	**10,922**	3,858
Gain on disposal of a subsidiary	**66**	–
Rental income	**595**	–
Others	**1,807**	988
	13,390	4,846

9. OTHER EXPENSES

	2006 RMB'000	2005 RMB'000
Impairment loss recognised on property, plant and equipment	**22,697**	–
Write-off of product development costs	**3,775**	–
	26,472	–

10. FINANCE COSTS

	2006 RMB'000	2005 RMB'000
Interest on:		
Bank borrowings wholly repayable within five years	**3,100**	1,275
Amount due to a minority shareholder	**395**	–
Finance leases	**12**	5
	3,507	1,280

11. DIRECTORS' EMOLUMENTS

	2006 RMB'000	2005 RMB'000
Fees		
Executive Directors	**299**	252
Non-executive Directors	**–**	–
Independent non-executive Directors	**369**	288
	668	540
Other emoluments (Executive Directors):		
Salaries and other benefits	**4,124**	2,052
Discretionary bonus *(Note)*	**3,198**	7,044
Retirement benefit scheme contributions	**8**	13
	7,330	9,109
	7,998	9,649

11. DIRECTORS' EMOLUMENTS *(continued)*

	2006					2005				
	Fees	Salaries and other benefits	Discretionary bonus (Note)	Retirement benefits	Total	Fees	Salaries and other benefits	Discretionary bonus (Note)	Retirement benefits	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	-	1,441	470	-	1,911	–	409	3,001	–	3,410
Mr. Jiang Qing	-	1,281	470	-	1,751	–	409	2,789	–	3,198
Mr. Chen Shu Quan	-	867	-	-	867	–	409	1,051	–	1,460
Mr. Chan Siu Tat	175	491	2,258	8	2,932	252	825	203	13	1,293
Mr. Shi Jia Hao	62	20	-	-	82	–	–	–	–	–
Mr. Wang De Feng	62	24	-	-	86	–	–	–	–	–
Non-executive										
Mr. Paul Winnowski	-	-	-	-	-	–	–	–	–	–
Ms. Xi Zheng Zheng	-	-	-	-	-	–	–	–	–	–
Mr. Cheng Kai Tuen George	-	-	-	-	-	–	–	–	–	–
Mr. Wat Chi Ping Isaac	-	-	-	-	-	–	–	–	–	–
Independent non-executive										
Mr. Heng Kwoo Seng	123	-	-	-	123	104	–	–	–	104
Mr. Pu Rong Sheng	123	-	-	-	123	52	–	–	–	52
Dr. Loke Yu	51	-	-	-	51	–	–	–	–	–
Mr. Liu Shi Pu	72	-	-	-	72	104	–	–	–	104
Mr. Xiang Yu Fu	-	-	-	-	-	28	–	–	–	28
	668	4,124	3,198	8	7,998	540	2,052	7,044	13	9,649

Note: 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.

12. EMPLOYEES' EMOLUMENTS

The five highest paid individuals included four (2005: four) directors and one (2005: one) employee of the Company. The emoluments of the five highest paid individuals of the Company were as follows:

	2006 RMB'000	2005 RMB'000
Fees	**175**	252
Salaries and other benefits	**4,750**	2,556
Discretionary bonus	**3,198**	7,044
Retirement benefit scheme contributions	**21**	13
	8,144	9,865

No emoluments were paid by the Group to the directors or the remaining highest paid individual 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.

The emoluments of the remaining highest paid individual are below HK$1 million.

13. TAXATION

	2006 RMB'000	2005 RMB'000
The charge comprises:		
Current tax		
PRC Enterprise Income Tax	**44,292**	43,346
Hong Kong Profits Tax	**–**	659
	44,292	44,005
Underprovision in prior year:		
PRC Enterprise Income Tax	**5,416**	–
Hong Kong Profits Tax	**12**	–
	5,428	–
Deferred tax *(Note 23)*	**(5,252)**	650
	44,468	44,655

13. TAXATION *(continued)*

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

	2006 RMB'000	2006 %	2005 RMB'000	2005 %
Profit before taxation	**152,665**		219,271	
Tax at the PRC domestic income tax rate of 33% (2005: 33%)	**50,379**	**33.0**	72,359	33.0
Tax effect attributable to tax concession	**(22,149)**	**(14.5)**	(32,963)	(15.0)
Tax effect of expenses that are not deductible in determining taxable profit	**7,003**	**4.6**	7,577	3.5
Tax effect of income that are not taxable in determining taxable profit	**(2,534)**	**(1.7)**	(263)	(0.1)
Tax effect of tax losses not recognised	**6,343**	**4.2**	–	–
Effect of tax rates of subsidiaries operating in other jurisdictions	**–**	**–**	(309)	(0.2)
Underprovision in respect of prior years	**5,428**	**3.6**	–	–
Others	**(2)**	**–**	(1,746)	(0.8)
Tax charge and effective tax rate for the year	**44,468**	**29.2**	44,655	20.4

No provision for Hong Kong Profits Tax was made in current year as the Group had no assessable profit derived from Hong Kong for the year. In 2005, the charge for Hong Kong Profits Tax was calculated at 17.5% of the estimated assessable profit for that year.

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

Subsidiaries of the Company, Clusafe Control Equipment Co., Ltd. (formerly known as Fujian Wanyou Fire Fighting Science and Technology Co., Ltd.) and Fuzhou Wanyou Fire Equipment Co., Ltd. (formerly known as Fuzhou Wanyou Fire Fighting Science and Technology Co., Ltd.), are entitled to income tax exemption for two years followed by three years of 50% tax reduction from the year 2002 and 2004 respectively.

14. PROFIT FOR THE YEAR

	2006 RMB'000	2005 RMB'000
Profit for the year has been arrived at after charging:		
Depreciation of property, plant and equipment		
Owned assets	**20,293**	18,171
Assets held under a finance lease	**46**	16
Amortisation of prepaid lease payments	**521**	188
Allowance of bad and doubtful debts	**8,936**	–
Loss on disposal of a subsidiary	**–**	228
Loss on partial disposal of a subsidiary	**–**	1,162
Loss on disposal of property, plant and equipment	**736**	75
Auditors' remuneration	**2,002**	1,518
Amortisation of development costs included in cost of sales	**1,700**	1,680
Net exchange loss	**186**	751
Operating lease rentals in respect of rented premises	**4,043**	2,917
Research and development expenditure (Note)	**4,322**	2,354
Cost of inventories charged as expense	**238,446**	255,207
Staff costs, including directors' remuneration	**57,329**	56,514
Retirement benefit scheme contributions, including those included in directors' remuneration	**3,736**	2,695
Total staff costs	**61,065**	59,209

Note: The amount included staff cost of RMB1,429,000 (2005: RMB286,000) and depreciation on property, plant and equipment of RMB270,000 (2005: RMB270,000). These amounts are also included in the respective disclosure items under this note.

15. DIVIDENDS

	2006	2005
	RMB'000	RMB'000
Dividends recognised as distributions during the year:		
2005 interim dividend paid of 1 HK cent per share on 2,376,000,000 shares (2006: nil)	**–**	24,710
2005 final dividend paid of 1.3 HK cents per share on 2,845,000,000 shares (2006: nil)	**38,464**	–
	38,464	24,710
2005 special dividend paid of 4.6 HK cents per share on 2,020,000,000 shares (2006: nil)	**–**	98,495
	38,464	123,205

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2006 (2005: 1.3 HK cents per share).

At the meeting held on 31 January 2005, the directors proposed a special interim dividend of 4.6 HK cents per share which was paid on 26 April 2005.

16. EARNINGS PER SHARE

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

	2006 RMB'000	2005 RMB'000
Earnings for the purpose of basic and diluted earnings per share (profit for the year attributable to equity holders of the Company)	**115,815**	172,929
	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,730,266**	2,277,490
Effect of dilutive potential ordinary shares:		
Share options	**11,864**	10,000
Second tranche subscription *(Note)*	**32,391**	38,097
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,774,521**	2,325,587

Note: 469,000,000 shares of the Company were issued to UTFE on 3 April 2006 at HK$0.577 each (equivalent to RMB0.597 each) pursuant to the second tranche subscription of the subscription agreement entered into between the Company and UTFE on 1 February 2005. Details of the subscription agreement are set out in the circular of the Company dated 10 March 2005.

17. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Plant and equipment	Tooling and moulds	Furniture and fixtures	Computers	Motor vehicles	Leasehold improvements	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST								
At 1 January 2005	60,202	52,481	36,360	7,242	2,020	5,442	2,065	165,812
Exchange differences	–	(9)	–	(4)	(2)	(81)	–	(96)
Additions	4,949	1,605	15	399	1,414	1,735	1,266	11,383
Acquired on acquisition of subsidiaries	31,993	3,696	–	240	177	2,688	–	38,794
Disposal on disposal of a subsidiary	–	(52)	–	–	–	(621)	–	(673)
Disposals	–	(9)	–	(12)	–	–	(96)	(117)
At 31 December 2005	97,144	57,712	36,375	7,865	3,609	9,163	3,235	215,103
Exchange differences	–	(12)	–	(3)	(3)	–	(10)	(28)
Additions	1,953	966	244	423	3,272	2,989	579	10,426
Acquired on acquisition of subsidiaries	–	681	4	116	717	15	–	1,533
Surplus on revaluation *(Note)*	4,455	–	–	–	–	–	–	4,455
Reclassified to investment properties	(23,099)	–	–	–	–	–	–	(23,099)
Disposals	–	(372)	–	(155)	(68)	(460)	–	(1,055)
At 31 December 2006	80,453	58,975	36,623	8,246	7,527	11,707	3,804	207,335
DEPRECIATION AND IMPAIRMENT								
At 1 January 2005	2,913	17,392	5,715	1,263	358	2,287	579	30,507
Exchange differences	–	(1)	–	(3)	(1)	(18)	–	(23)
Charge for the year	2,733	8,794	3,970	465	541	1,174	510	18,187
Eliminated on disposal of a subsidiary	–	(13)	–	–	–	(162)	–	(175)
Eliminated on disposal	–	–	–	(9)	–	–	(17)	(26)
At 31 December 2005	5,646	26,172	9,685	1,716	898	3,281	1,072	48,470
Exchange differences	–	(5)	–	(2)	(1)	–	(3)	(11)
Charge for the year	3,461	9,320	3,990	548	906	1,578	536	20,339
Impairment loss recognised	–	–	22,697	–	–	–	–	22,697
Eliminated on transfer to investment properties	(740)	–	–	–	–	–	–	(740)
Eliminated on disposal	–	–	–	(88)	(37)	(194)	–	(319)
At 31 December 2006	8,367	35,487	36,372	2,174	1,766	4,665	1,605	90,436
CARRYING VALUES								
At 31 December 2006	72,086	23,488	251	6,072	5,761	7,042	2,199	116,899
At 31 December 2005	91,498	31,540	26,690	6,149	2,711	5,882	2,163	166,633

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

Note: As the Group rented out certain of its leasehold properties to outsiders for rental income during the year, these properties were transferred to investment properties, at their revalued amount and increase in fair value of RMB4,455,000 was credited to the property valuation reserve.

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	10% – 20%

During the year, the directors conducted a review of the Group's manufacturing assets and determined that a number of those assets were impaired, due to technical obsolescence and the introduction of new product standards of the underlying assets. Accordingly, impairment losses of RMB22,697,000 had been recognised in respect of tooling and moulds, which were used in the group's production and sale of fire engines, fire prevention and fighting equipment segment.

The Group has pledged land and buildings with carrying value of RMB9,059,000 (2005: RMB8,835,000) to secure general banking facilities granted to a subsidiary of the Group.

The carrying values of the Group's of furniture and fixtures included an amount of RMB120,000 (2005: RMB171,000) in respect of assets held under finance leases.

18. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise:

	2006	2005
	RMB'000	RMB'000
Leasehold land in the PRC:		
Medium-term leases	**59,613**	23,822
Analysed for reporting purposes as:		
Current portion	**521**	521
Non-current portion	**59,092**	23,301
	59,613	23,822

Certain land leases with carrying values of RMB10,683,000 (2005: RMB10,926,000) have been pledged to secure short term bank loans granted to a subsidiary of the Group.

19. INVESTMENT PROPERTIES

	RMB'000
FAIR VALUE	
Land and buildings outside Hong Kong, medium terms lease	
At 1 January 2005 and 2006	–
Reclassified from land and buildings	22,359
At 31 December 2006	22,359

The fair value of the Group's investment properties at 31 December 2006 have been arrived at on the basis of a valuation carried out on that date by 四川衡興房地產評估有限公司, independent qualified professional valuers not connected with the Group. Messrs四川衡興房地產評估有限公司 have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation was arrived at by reference to market evidence of transaction prices for similar properties.

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

20. GOODWILL

	RMB'000
AT COST	
At 1 January 2005	50,329
Arising on acquisition of subsidiaries *(Note 36)*	10,173
Arising on acquisition of additional interest in a subsidiary	4,584
Eliminated on partial disposal of a subsidiary	(2,543)
At 31 December 2005	62,543
Arising on acquisition of subsidiaries *(Note 36)*	2,384
Decrease on adjustment of consideration *(Note a)*	(5,720)
At 31 December 2006	59,207

Note a: No deferred consideration for the acquisition of a subsidiary was required as the profit warranty in respect of the profits of the subsidiary for two years ended 31 December 2006 were not fulfilled.

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. The carrying amount of goodwill had been allocated as follows:

	2006 **RMB'000**	2005 RMB'000
Production and sale of fire engines, fire prevention and fighting equipment	**11,197**	11,197
Trading of fire engines, fire prevention and fighting and rescue equipment	**27,410**	33,130
Installation of fire preventions and fighting systems	**8,442**	8,442
Provision of maintenance services	**12,158**	9,774
	59,207	62,543

20. GOODWILL *(continued)*

The recoverable amount of each CGUs is determined on the basis of value in use calculations. The key assumptions for the value in use calculation are those regarding the discount rate, growth rates and expected changes to revenue and direct costs. Management estimates discount rate using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on the industry growth forecasts. Changes in revenue and direct costs are based on past practices and expectations of future changes in the market.

During the year, the Group performed impairment review of goodwill based on cash flow forecast derived from the most recent financial budgets for the next three to five years approved by the management using a discount rate of respective CGUs of 13%, while the remaining forecast is based on financial budget of the previous year with a growth rate ranging from zero to 8% based on respective CGUs performance and management's expectation for the market development. The value in use calculation by using the discount rate is higher than the carrying amount of CGUs, accordingly, no impairment loss was considered necessary.

21. JOINTLY CONTROLLED ENTITY

As at 31 December 2006, the Group had interest in the following jointly controlled entity:

Name/kind 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 share capital of Shanghai Pudong Special Fire Equipment Co., Ltd., the Group and the other significant shareholder are having joint 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 jointly controlled entity which is accounted for using proportionate consolidation with the line-by-line reporting format is set out below:

	2006 RMB'000
Current assets	4,846
Income	1

22 DEVELOPMENT COSTS

	RMB'000
AT COST	
At 1 January 2005 and 1 January 2006	8,400
Additions	120
Write-off	(8,400)
At 31 December 2006	120
AMORTISATION	
At 1 January 2005	1,265
Charge for the year	1,680
At 31 December 2005	2,945
Charge for the year	1,700
Eliminated on write off	(4,625)
At 31 December 2006	20
CARRYING VALUES	
At 31 December 2006	100
At 31 December 2005	5,455

The development costs are amortised on a straight-line basis over 5 years.

23. DEFERRED TAXATION

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

	Profit recognition of installation contracts RMB'000 *(Note a)*	Revaluation of properties RMB'000	Accelerated tax depreciation RMB'000	Others RMB'000 *(Note b)*	Total RMB'000
At 1 January 2005	2,492	–	–	–	2,492
Charge to the consolidated income statement for the year	650	–	–	–	650
At 31 December 2005	3,142	–	–	–	3,142
Charge (credit) to the consolidated income statement for the year	1,800	–	(3,970)	(3,082)	(5,252)
Charge to property revaluation reserve	–	1,470	–	–	1,470
At 31 December 2006	4,942	1,470	(3,970)	(3,082)	(640)

At the balance sheet date, the Group has unused tax losses of RMB19,333,000 (2005: RMB113,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

Included in unrecognised tax losses are losses of RMB13,619,000 (2005: RMB113,000) that will expire from 2010 to 2011. Other losses may be carried forward indefinitely.

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

	2006 RMB'000	2005 RMB'000
Deferred tax assets	**(4,602)**	–
Deferred tax liabilities	**3,962**	3,142
	(640)	3,142

23. DEFERRED TAXATION *(continued)*

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 income statement by reference to the stage of completion of the contract activity and the taxable income of the PRC subsidiaries which recognised revenue of installation contracts upon completion.

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

By reference to financial budgets, management believes that there will be sufficient future profits or taxable temporary differences available in the future for the realisation of the deferred tax assets.

24. INVENTORIES

Inventories represent fire engines, fire prevention and fighting equipment and are carried at cost.

	2006	2005
	RMB'000	RMB'000
Raw materials	**14,485**	11,554
Work-in-progress	**9,711**	12,269
Finished goods	**39,588**	28,454
	63,784	52,277

25. AMOUNTS DUE FROM (TO) CONTRACT CUSTOMERS

	2006 RMB'000	2005 RMB'000
Contract costs incurred plus profits recognised less recognised losses	**195,694**	127,595
Less: Progress billings	**(148,686)**	(105,469)
	47,008	22,126
Comprising:		
Amounts due from contract customers	**60,684**	35,527
Amounts due to contract customers	**(13,676)**	(13,401)
	47,008	22,126

Advances received from customers for contract work amounted to RMB42,492,000 (2005: RMB6,125,000) included in above.

The directors consider that the carrying value of amounts due from (to) contract customers approximate their fair values at 31 December 2006.

26. TRADE RECEIVABLES

The credit period allowed by the Group to its customers is normally ranging from 30 to 180 days.

The aged analysis of trade receivables is as follows:

	2006 RMB'000	2005 RMB'000
0 – 90 days	**220,860**	183,307
91 – 180 days	**109,699**	44,629
181 – 360 days	**36,556**	25,832
Over 360 days	**15,616**	10,465
	382,731	264,233

The fair value of the Group's trade receivables at 31 December 2006 approximates to the corresponding carrying amount.

27. OTHER RECEIVABLES

The fair value of the Group's other receivables at 31 December 2006 approximates to the corresponding carrying amount.

28. TRADE AND OTHER PAYABLES

	2006 RMB'000	2005 RMB'000
Trade creditors	118,059	101,447
Accrued costs and charges	38,817	43,693
Receipts in advance	13,697	16,858
Value added tax, sales tax and other levies	13,437	23,453
Amount payable on acquisition of a leasehold land	19,692	–
Amount payable on acquisition of a subsidiary	–	5,830
	203,702	191,281

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

	2006 RMB'000	2005 RMB'000
Within 30 days	45,694	28,045
31 – 60 days	16,223	18,236
61 – 90 days	19,145	18,111
Over 90 days	36,997	37,055
	118,059	101,447

The fair value of the Group's trade and other payables at 31 December 2006 approximates to the corresponding carrying amount.

29. AMOUNT DUE TO A JOINTLY CONTROLLED ENTITY

The amount due to a jointly controlled entity is unsecured, interest free and repayable on demand. The directors consider the carrying value of the amount due to a jointly controlled entity approximates to the fair value.

30. AMOUNTS DUE TO MINORITY SHAREHOLDERS

The amounts due to minority shareholders are unsecured and repayable on demand. An amount due to a minority shareholder of RMB3,430,000 is interest bearing at the rate 6.68 per cent per annum, the remaining amounts are interest free. The directors consider the carrying value of the amounts due to minority shareholders approximates to the fair value.

31. BANKS BORROWINGS

	2006 RMB'000	2005 RMB'000
Trust receipt loans	**2,751**	4,346
Short term bank loans	**41,220**	11,000
Bank overdrafts	**7,513**	9,021
	51,484	24,367

Note:

The short term bank loans are secured by certain buildings and land leases of the Group with carrying values of RMB9,059,000 (2005: RMB8,835,000) and RMB10,683,000 (2005: RMB10,926,000) respectively.

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

The bank borrowings of the Group are arranged at floating rates and expose the Group to cash flow interest rate risk. The average interest rate during the year was 7.5% (2005: 7.4%).

All the Group's borrowings are denominated in functional currencies of the relevant entities.

The directors consider the carrying value of the bank borrowings approximates to their fair values.

32. OBLIGATION UNDER A FINANCE LEASE

	Minimum lease payments		Present value of minimum lease payments	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Amounts payable under a finance lease				
Within one year	**43**	45	**34**	32
In the second to fifth years inclusive	**116**	164	**104**	142
	159	209	**138**	174
Less: Future finance charges	**(21)**	(35)	**N/A**	N/A
Present value of lease obligations	**138**	174	**138**	174
Less: Amount due for settlement within 12 months (shown under current liabilities)			**(34)**	(32)
Amount due for settlement after 12 months			**104**	142

In 2005, the Group entered into a finance lease for the purchase of furniture and fixture with a lease term of 5 years and with an effective borrowing rate of approximate 8%. The interest rate was fixed at the contract date. The lease is on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The fair value of the Group's lease obligations approximates the carrying amount.

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

33. SHARE CAPITAL

	No. of shares	HK$'000
Authorised:		
Shares of HK$0.01 each		
At 1 January 2005, 1 January 2006 and 31 December 2006	10,000,000,000	100,000

	No. of shares	HK$'000
Issued and fully paid:		
At 1 January 2005	2,020,000,000	20,200
Issue of new shares *(Note a)*	356,000,000	3,560
At 31 December 2005	2,376,000,000	23,760
Issue of new shares *(Note b)*	479,000,000	4,790
At 31 December 2006	2,855,000,000	28,550

	2006	2005
	RMB'000	RMB'000
Shown in the financial statements as	**30,168**	25,186

Notes:

(a) On 12 April 2005, the Company issued 356,000,000 shares at HK$0.577 each (equivalent to RMB0.612 each) to UTFE, pursuant to the first tranche subscription of the subscription agreement entered into between the Company and UTFE on 1 February 2005. Details of the subscription agreement are set out in the circular of the Company dated 10 March 2005.

(b) On 3 April 2006, the Company issued 469,000,000 shares at HK$0.577 each (equivalent to RMB0.597 each) to UTFE pursuant to the second tranche subscription of the subscription agreement as mentioned in note (a) above.

During the year, 10,000,000 share options were exercised at a subscription price of HK$0.44 per share, resulting in aggregate the issue of 10,000,000 ordinary shares of HK$0.01 each in the Company.

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

34. SHARE OPTION SCHEME

The Company's share option scheme was adopted pursuant to a resolution passed on 20 September 2002 (the "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 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 Scheme and any other schemes of the Company must not exceed 30% of the shares of the Company in issue from time to time, the total number of shares in respect of which options may be granted under the Scheme when aggregated with any shares subject to any other schemes is not permitted to exceed 10% of the shares of the Company as at the date of adoption of the 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 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 2006. 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 higher 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.

34. SHARE OPTION SCHEME *(continued)*

Details of the options granted under the Scheme are as follows:

Grantee	Capacity	Date of grant	No. of shares issuable under the options granted	Exercisable period	Exercise price HK$	Outstanding at 1 January 2005 and 1 January 2006	Exercised during the year	Outstanding at 31 December 2006
Mr. Jiang Qing	Director	25 May 2004	20,000,000	25 May 2004 to 24 May 2014	0.44	20,000,000	–	20,000,000
Mr. Chen Shu Quan	Director	25 May 2004	5,000,000	25 May 2004 to 24 May 2014	0.44	5,000,000	5,000,000	–
Mr. Chan Siu Tat	Director	25 May 2004	5,000,000	25 May 2004 to 24 May 2014	0.44	5,000,000	5,000,000	–
						30,000,000	10,000,000	20,000,000

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

35. RESERVES

(a) Statutory surplus reserve

Pursuant to the articles of association of the group companies established in the PRC, the group companies 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.

(b) Statutory public welfare fund

Pursuant to the articles of association of the group companies established in the PRC, these companies 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 its profit after tax to the statutory reserve fund, which may be used for making up its prior year losses, if any and 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.

36. ACQUISITION OF SUBSIDIARIES

During the year, the Group acquired two subsidiaries for an aggregate consideration of RMB3,330,000. The acquisitions have been accounted for by the acquisition method of accounting. The amount of goodwill arising as a result of the acquisitions was RMB2,384,000.

	Acquiree's carrying amount before combination	**Fair value**
	RMB'000	RMB'000
Property, plant and equipment	1,533	1,533
Inventories	43	43
Bank balances and cash	30	30
Trade and other payables	(30)	(30)
Minority interests	(630)	(630)
Net assets acquired	946	946
Goodwill *(Note 20)*		2,384
Total consideration		3,330
Satisfied by:		
Cash paid		3,330
Net cash outflow arising on acquisition:		
Cash consideration		(3,330)
Bank balances and cash acquired		30
Net outflow of cash and cash equivalents in respect of the purchase of subsidiaries		(3,300)

36. ACQUISITION OF SUBSIDIARIES *(continued)*

The details of the subsidiaries acquired are the following:

Name of subsidiaries	Date of acquisition	Percentage of registered capital acquired
泉州吉信科技有限公司 (後更名泉州市盛安消防服務有限公司) Quanzhou Jixin Technology Co., Ltd. (subsequently renamed as Quanzhou Shengan Fire Services Co., Ltd.)	1 June 2006	60%
江門市無綫電消防監測(中心) (後更名江門市盛安消防遠程監控有限公司) Jiangmen Wireless Fire Safety Monitoring Centre (subsequently renamed as Jiangmen Shengan Fire Safety Monitoring Co., Ltd.)	1 July 2006	60%

The acquiree's carrying value of net assets before combination approximates to its fair value. Accordingly, no fair value adjustments are required.

The goodwill arising on the acquisition of subsidiaries is attributable to the expected enhancement of the Group's market share in maintenance services and the anticipated future operating synergies.

The subsidiaries acquired during the year contributed RMB267,000 to the Group's turnover and a loss of RMB848,000 to the Group for the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1 January 2006, total group revenue for the period would have been RMB969,438,000, and profit for the period would have been RMB107,349,000. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2006, nor is it intended to be a projection of future results.

36. ACQUISITION OF SUBSIDIARIES *(continued)*

During the year ended 31 December 2005, the Group acquired two subsidiaries, 100% equity interest in Sichuan Morita Fire Safety Appliances Company Limited ("四川森田消防裝備製造有限公司") and 100% equity interest in Chuanxiao Fire Engineering Company Limited ("川消消防工程有限公司"), for an aggregate consideration of RMB82,898,000. The acquisitions have been accounted for by the acquisition method of accounting. The amount of goodwill arising as a result of the acquisitions was RMB10,173,000.

	Acquiree's carrying amount before combination	**Fair value adjustments**	**Fair value**
	RMB'000	RMB'000	RMB'000
Property, plant and equipment	37,899	895	38,794
Prepaid lease payments	17,704	23	17,727
Inventories	21,671	–	21,671
Trade receivables	56,261	–	56,261
Amounts due from contract customers	6,678	–	6,678
Deposits, prepayments and other receivables	10,651	–	10,651
Bank balances and cash	17,908	–	17,908
Trade and other payables	(68,001)	–	(68,001)
Amounts due to contract customers	(9,285)	–	(9,285)
Tax liabilities	(2,679)	–	(2,679)
Bank borrowings	(17,000)	–	(17,000)
Net assets acquired	71,807	918	72,725
Goodwill *(Note 20)*			10,173
Total consideration			82,898
Satisfied by:			
Cash paid			50,498
Deposit paid			32,400
			82,898

36. ACQUISITION OF SUBSIDIARIES *(continued)*

	RMB'000
Net cash outflow arising on acquisition:	
Cash consideration	(50,498)
Bank balances and cash acquired	17,908
Net outflow of cash and cash equivalents in respect of the purchase of subsidiaries	(32,590)

The goodwill arising on the acquisition of subsidiaries is attributable to profitability of the distribution of the Group's products and the anticipated future operating synergies from the contributions.

The subsidiaries acquired during 2005 contributed RMB98,709,000 to the Group's turnover and RMB8,680,000 to the Group's profits before taxation for the period between the date of acquisition and 31 December 2005.

If the acquisition had been completed on 1 January 2005, total group revenue for the period would have been RMB928,336,000, and profit for the period would have been RMB182,497,000. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2005, nor is it intended to be a projection of future results.

37. CAPITAL COMMITMENTS

	2006 RMB'000	2005 RMB'000
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	**314,527**	538

38. 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:

	2006 RMB'000	2005 RMB'000
Amounts payable:		
Within one year	**3,484**	3,792
In the second to fifth years inclusive	**1,600**	3,260
	5,084	7,052

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 the balance sheet date, the Group had contracted with tenants for future minimum lease payments which fall due within one year of HK$484,000 (2005: nil).

39. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries at 31 December 2006 are as follows:

Name/kind of legal entity	Place/ country of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company Directly	Attributable equity interest held by the Company Indirectly	Principal activities
Wang Sing Technology Limited/limited liability company	British Virgin Islands	US$4,984,359	100%	–	Investment holding
Allied Best Holdings Limited/limited liability company	British Virgin Islands	US$1	–	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%	Investment holding
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%	Production and sale of fire prevention and fighting equipment
北京集保盛安安全防護技術發展有限公司 Beijing Jibao Shengan Security Technology Development Company Limited/limited liability enterprise	PRC	RMB10,010,000	–	99.9%	Development of network based monitoring system for fire prevention and fighting system and operation of remote automatic monitoring centre

39. PARTICULARS OF SUBSIDIARIES *(continued)*

Name/kind of legal entity	Place/ country of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company Directly	Attributable equity interest held by the Company Indirectly	Principal activities
China Alliance Security Holdings Company Limited/limited liability company	Hong Kong	HK$100	–	75%	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%	Provision of fire prevention and fighting system installation services and maintenance services
Clusafe Control Equipment Co., Ltd. (formerly known as Fujian Wanyou Fire Fighting Science and Technology Co., Ltd.)/ wholly foreign-owned enterprise	PRC	HK$50,500,000	–	100%	Production and sale of fire prevention and fighting equipment
福建省盛安城市安全信息發展有限公司 Fujian Shengan City Safety Communications Development Company Limited/limited liability enterprise	PRC	RMB7,000,000	–	44.24% *(Note 1)*	Development of network based monitoring system for fire prevention and fighting system and operation of remote automatic monitoring centre
Fuzhou Wanyou Fire Equipment Co., Ltd. (formerly known as Fuzhou Wanyou Fire Fighting Science and Technology Co., Ltd.)/wholly foreign-owned enterprise	PRC	HK$20,000,000	–	100%	Production and sale of fire prevention and fighting equipment

39. PARTICULARS OF SUBSIDIARIES *(continued)*

Name/kind of legal entity	Place/ country of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company Directly	Indirectly	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	–	23% *(Note 1)*	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 Jiangment Shengan Fire Safety Monitoring Co., Ltd./limited liability enterprise	PRC	RMB1,580,000	–	30.97% *(Note 1)*	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 (前稱江西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	–	51.61%	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%	Investment holding
南平市盛安城市安全信息發展有限公司 Nanping Shengan City Safety Communications Development Co., Ltd./ limited liability enterprise	PRC	RMB1,000,000	–	22.56% *(Note 1)*	Development of network based monitoring system for fire prevention and fighting system and operation of remote automatic monitoring centre

39. PARTICULARS OF SUBSIDIARIES *(continued)*

Name/kind of legal entity	Place/ country of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company Directly	Attributable equity interest held by the Company Indirectly	Principal activities
寧德市盛安城市安全信息有限公司 Ningde Shengan City Safety Communications Development Co., Ltd./ limited liability enterprise	PRC	RMB1,000,000	–	22.56% *(Note 1)*	Development of network based monitoring system for fire prevention and fighting system and operation of remote automatic monitoring centre
泉州市盛安消防服務有限公司 Quanzhou Shengan Fire Services Co., Ltd./limited liability enterprise	PRC	RBM3,050,000	–	26.54% *(Note 1)*	Development network based monitoring system for fire prevention and fighting system and operation of remote automatic monitoring centre
三明市盛安城市安全信息發展有限公司 Sanming Shengan City Safety Communications Development Co., Ltd./ limited liability enterprise	PRC	RMB1,000,000	–	22.56% *(Note 1)*	Development of network based monitoring system for five prevention and fighting system and operation of remote automatic monitoring centre
四川森田消防裝備製造有限公司 Sichuan Morita Fire Safety Appliances Company Limited/sino-foreign equity joint venture	PRC	RMB80,640,000	–	75%	Production and sale of fire engines and fire prevention and fighting equipment
Tung Shing Trade Development Company Limited/limited liability company	Hong Kong	Ordinary – HK$100,000 Non-voting deferred shares – HK$100,000	–	51%	Trading of fire engines and fire fighting and rescue equipment

39. PARTICULARS OF SUBSIDIARIES *(continued)*

Name/kind of legal entity	Place/ country of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company Directly	Indirectly	Principal activities
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%	Provision of fire prevention and fighting system installation services and maintenance services
萬盛(中國)科技有限公司 Wang Sheng (China) Technology Co., Ltd./ wholly foreign-owned enterprise	PRC	HK$30,000,000	–	75%	Development of network based monitoring system for fire prevention and fighting system and operation of remote automatic monitoring centre
新疆盛安消防安全監控有限公司 Xinjiang Shengan Fire Safety Monitoring Co., Ltd./limited liability enterprise	PRC	RMB3,640,000	–	28.39% *(Note 1)*	Development of network based monitoring system for fire prevention and fighting system and operation of remote automatic monitoring centre

Notes:

1. The effective equity interest held by the Company.

2. 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 of incorporation or establishment.

3. The above table lists the subsidiaries of the Group 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.

4. None of the subsidiaries had issued any debt securities at the end of the year.

40. RETIREMENT BENEFIT SCHEMES

The group companies 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% (2005: 18% to 20%) of 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 2006 amounted to RMB3,629,000 (2005: RMB2,573,000).

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 of 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 income statement represent contributions payable to the funds by the Group at rates specified in the rules of the MPF Scheme. During the year, the Group made to the MPF Scheme contributions amounting to RMB106,000 (2005: RMB122,000).

41. RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

The key management personnel are the directors of the Company. The details of the remuneration paid to them are set out in Note 11.

	For the year ended 31 December				
	2002	2003	2004	2005	**2006**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
RESULTS					
Turnover	259,519	282,475	486,720	829,627	**969,705**
Profit before taxation	142,272	131,877	161,911	219,271	**152,665**
Taxation	(16,100)	(19,761)	(31,602)	(44,655)	**(44,468)**
Profit for the year	126,172	112,116	130,309	174,616	**108,197**
Attributable to:					
Equity holders of the Company	125,877	111,715	129,089	172,929	**115,815**
Minority interests	295	401	1,220	1,687	**(7,618)**
	126,172	112,116	130,309	174,616	**108,197**
Earnings per share (RMB cents)					
Basic	7.55	5.59	6.44	7.59	**4.24**
Diluted	N/A	N/A	6.44	7.44	**4.17**

	At 31 December				
	2002	2003	2004	2005	**2006**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
ASSETS AND LIABILITIES					
Total assets	400,966	480,602	666,488	1,094,066	**1,473,182**
Total liabilities	(37,826)	(37,392)	(118,984)	(260,422)	**(284,350)**
	363,140	443,210	547,504	833,644	**1,188,832**
Equity attributable to equity holders of the Company	362,578	442,493	540,936	805,642	**1,162,598**
Minority interests	562	717	6,568	28,002	**26,234**
Total equity	363,140	443,210	547,504	833,644	**1,188,832**