* For identification purposes only

2007

Annual Report

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

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CORPORATE INFORMATION

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

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

INDEPENDENT NON-EXECUTIVE DIRECTORS
Heng Kwoo Seng
Loke Yu
Sun Jian Guo

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
Loke Yu
Sun Jian Guo

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

STOCK CODE
8201

CHAIRMAN'S STATEMENT

RESULTS FOR THE YEAR

I am delighted to report that our Group has delivered a strong performance for 2007. We achieved a record turnover of RMB1,146 million and net profit of RMB174 million, representing a growth of 18% and 61% respectively. Had the exchange loss on the Group's Hong Kong Dollar denominated assets arising from the depreciation of Hong Kong dollar against Renmibi been excluded, net profit for the year would have been increased by 71% to RMB185 million. Amongst our diverse business segments, growths of the two manufacturing divisions were particularly remarkable. Benefiting from the increase in demand for domestic fire engines, as driven by the needs of fire brigades to upgrade their equipment to meet the rising concern over public safety, we sold more than 450 units of fire engines during the year, representing an increment of 24% over last year (we have received orders for over 600 fire engines, but constrained by the existing production capacity, some of the orders have to be postponed to 2008). New products launched, such as automatic fire monitors and digitized image fire monitors, and the successful operation of the joint venture with Shanghai Fire Research Institute specializing in production and sale of industrial fire protection equipment, have both contributed to the rise in revenue and profit. Besides, the promotion of more stringent control over fire protection equipment, including a new regulation on emergency lightings effective from 1 January 2008, has forced the closure of many small and deficient manufacturers during the year. As a result, the decrease in supply had facilitated our price adjustments and thus contributed to the profit increase. For the trading business, it is to our relief that the 3C certificate problems have been resolved and all the imported fire engines backlogged last year were delivered during the year and in the first quarter of 2008.

In regard of the service divisions, we secured installation contracts of more than RMB600 million during the year. Revenue is recognized in accordance with the percentage of work done, which is affected by the progress of the underlying estate development. This is the main reason why we see a large amount of contracts on hand but revenue increased only slightly while operating profit also declined slightly. Besides, a considerable proportion of the contracts so secured were from the branch offices, which have lower profit margins as they offered comparatively lower prices to stay competitive. We have been negotiating to acquire equity interests in established installation companies in different cities (more than 20 potential companies are currently in discussion) to consolidate the competitiveness of the Group. Although the process has not been as smooth as we expected, during the year, we acquired 40% equity interests in two installation companies. These two companies have projects in progress valued over RMB190 million and we expect we can have a good share in the coming years. Maintenance services, as usual, are subject to certain volatility because landlords are not willing to keep regular maintenance. During the year, the maintenance contracts we obtained were larger in scale than last year, thus leading to the growth of the business segment.

LOOKING FORWARD

As an industry leader, we always look for new opportunities. The joint venture with the Shanghai Fire Research Institute, as our debut in the industrial fire protection equipment market, has successfully secured contracts from PetroChina, Sinopec, CNOOC, Shell and BP and also projects of container ports and manufacturing plants since the commencement of the operations at the beginning of this year. The success of the joint venture has laid down a strong foundation for our future development in the industrial market. The hard work and efforts rendered by our management and staff have made us one of the largest fire engines manufacturers in China. The existing production capacity constraint will be solved after the completion of the first phase of the new factory in Chengdu. By then, we can produce up to 1,500 units of fire engines per year. The increase in capacity and the use of new advance equipment will enhance our efficiency and improve product quality to sustain our leading status in the industry.

We understand the importance of providing customers with the most comprehensive products and service options to cater for their changing requirements. In view of the total reliance on imported ladder trucks to serve the increasing number of high-rise buildings in China, we are acquiring production technology for ladder trucks from overseas. By localizing the whole production process, we expect the price of our ladder trucks will only be one third of the imported ones. In addition, we have also invested in the production of a new and patented fire suppression foam extinguishing agent. The foam extinguishing agent, which is highly recommended by the Ministry of Public Security, has a number of advantages over the traditional fire suppression foams: it can be applied to all classes of fire (fire caused by ethanol fuel in particular); improves efficiency of fire fighting; and protects environment as its production and applications are environmentally-friendly.

I am also delighted to report that the national standards for the remote network monitoring systems have finally been promulgated. After the restructuring of our network monitoring business and the disposal of three non-performing subsidiaries during the year, we will focus on cities with high potentials with the support from local fire brigades. In 2008, we will set up 13 operating centers in Jiangsu, Guangdong, Heibei, Sichuan, Tianjin, Chongqing and Yunnan. Although it may take a few more years to harvest, I believe all our investments are worthwhile as the monitoring system will become a significant part of the fire safety industry and will change its landscape especially in the maintenance market in the near future.

We have been working hard in recent years to equip ourselves to cope with the fast changing and highly competitive market. I believe that all the foundations we laid will help us meet the challenges and take advantage of the opportunities arising.

APPRECIATION

On behalf of the Board, I would like to thank all the staff for their hard work in past year. It is their enthusiasm and commitment that supported our success. I would also like to extend my gratitude to all my fellow directors for their support and valuable contributions.

Jiang Xiong
Chairman

26 March 2008

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the year ended 31 December 2007, turnover of the Group grew 18% to RMB1,146 million with net profit increased remarkably by 61% to RMB174 million. Earnings per share also grew 45% to RMB6.14 cents. If the exchange loss on the Group's Hong Kong Dollar denominated assets arising from the depreciation of Hong Kong dollar against Renmibi had been excluded, net profit for the year would have been increased by 71% to RMB185 million.

Installation of fire prevention and fighting systems

Revenue from installation of fire prevention and fighting systems for the year increased slight by 0.7% to RMB466 million. Operating profit, on the other hand, dropped by 7% to RMB92 million.

Driven by the active property markets across China, the Group's installation services segment enjoyed a stable development during the year. Contracts valued more than RMB600 million for the provision of installation services on residential buildings, office premises, hotels, hospitals and government projects have been awarded. Revenue is recognized according to the percentage of work done, which is highly dependent on the work progress of the underlying estates development. It therefore explained why revenue increased only slightly while operating profit also declined slightly during the year in spite of the large amount of contracts secured. Although branch offices have brought in considerable amount of contracts and revenue, their profit contributions were small as they adopted lower prices to stay competitive.

To provide an additional growth impetus for the installation business, the Group has been negotiating to acquire installation companies operating in different cities (more than 20 potential companies are currently in discussion). During the year, the Group acquired 40% equity interests in two installation companies in Nanchang and Fuzhou. Both companies have been in the industry for almost 20 years. Although the Group's share of their profit for the year (after adjustment for the amortization of intangible assets acquired as required by the new accounting standard) was RMB124,000 only, the two companies together have projects in progress of more than RMB190 million at end of the year. It is anticipated that the two associated companies would contribute considerable profits to the Group in the coming years.

Production and sale of fire engines

Revenue and operating profit from production and sales of fire engines for the year increased by 25% and 57% to RMB195 million and RMB17 million respectively.

Increase in demand for domestic fire engines driven by the accelerating urbanization and economic development in China has contributed to the remarkable growth in revenue and operating profit for the year. Fire brigades are in need to improve their equipment, both in quantity and quality, in order to match the rising concern for public safety. During the year, the Group sold 458 units of domestically manufactured fire engines, representing a 24% increment over last year. The Group has received orders for over 600 fire engines, however, as constrained by the production capacity of the existing factory, some of the orders have to be postponed to 2008. In addition to the ordinary fire fighting trucks, ladder trucks are also in great demand given the increasing number of high-rise buildings in China. However, the high import price and the lack of quality domestic substitutes have made them in short supply. To tap into the large potential market, the Group is in the process of acquiring production technology of ladder truck from overseas. The Group's first locally made ladder truck is expected to come out by the third quarter of 2008. Costing around one third of the imported trucks, the Group expects that the locally made trucks would have a strong market.

Production and sale of fire prevention and fighting equipment

Revenue and operating profit from production and sales of fire prevention and fire fighting equipment for the year increased by 22% and 255% to RMB337 million and RMB74 million respectively. Included in the operating profit for 2006 was impairment loss recognized on property, plant and equipment and write off of other intangible assets amounted to RMB26 million. If the one-off expenses had been excluded, operating profit for 2007 would have been increased by 57% as compared to 2006.

The increase in revenue and operating profit for the year was mainly due to:

- Contribution from the new joint venture with the Shanghai Fire Research Institute which commenced operation in January 2007, specializing in the manufacturing and sale of industrial fire protection equipment. Customers of the joint venture include some large petroleum companies like Sinopec, PetroChina, CNOOC, Shell and BP.

- The launching of new fire fighting equipment such as automatic fire monitors, digitized image fire monitors and new versions of emergency lightings (run on lithium polymer batteries) and system control panels, which attached higher prices and profit margins.

- Upward price adjustment of the Group's emergency lightings. More stringent measures to curb defective fire safety products (including an emergency lightings identity regulation effective from 1 January 2008) were proposed during the year. The identity regulation requires that every individual emergency light must have on it a pre-registered number. As unqualified manufacturers are unable to obtain the registration with the authorities, the requirement has forced the closure of many such suppliers. The decrease in supply therefore facilitated the Group's price adjustment and also profit growth.

To cater for the changing needs for fire safety products, the Group has been working to increase its product variety. In December 2007, the Group acquired 45% equity interest in a company in Beijing which is engaged in the production and sale of a self developed and patented fire suppression foam extinguishing agent. The foam extinguishing agent is a newly invented product and has numerous advantages over the traditional fire suppression foams and therefore received high recommendation from the Ministry of Public Security. It can put out all classes of fire including fire caused by ethanol fuel; it is environmentally friendly as it produces no harm to environment during production and application; and it is space saving as its universal application obviates the needs to store different types of foams. It also improves efficiency of fire fighting by saving time of identifying classes of fire before application. The Group expects that the new products will contribute to the Group a significant share of profit in the future.

Provision of maintenance services

Revenue and operating profit from the provision of fire prevention and fighting system maintenance services for the year increased by 26% and 72% to approximately RMB79 million and RMB59 million respectively.

The marked growth in both revenue and operating profit was mainly due to increased scale of maintenance projects contracted during the year. Besides, the disposal of three non-performing subsidiaries engaged in the provision of network monitoring business has also contributed to the increase in operating profit. The disposal was part of the Group's plan to streamline the structure of its network monitoring business by discarding non-performing subsidiaries and focusing on those with high potentials, particularly those in cities in which support from and recognition by the local fire brigades towards the monitoring system prevails. As the national standard for the network monitoring systems (城市消防遠程監控系統技術規範) has been promulgated effective from 1 January 2008, the Group is going to expand from eight monitoring centers in operation by setting up another 13 monitoring centers in Sichuan, Tianjin, Chongqing, Yunnan, Jiangsu and Hebei. With the national standards being put in place, the Group expects many cities will soon have their own regulations for the mandatory installation of the network monitoring systems. Being a pioneer in developing and promoting the system, the Group believes the foundations built would take advantage of the opportunities arising and would turn the network monitoring systems as one of the Group's most important growth engines in the future.

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

Revenue from the trading of fire engines, fire prevention and fighting and rescue equipment for the year increased by more than five times to approximately RMB68 million. Operating loss reduced by 25% to RMB3 million compared with last year.

With the resolution of the 3C certificate problem, the 20 fire engines reported backlogged last year have been resolved: 6 of which were shipped during the year and the remaining 14 scheduled to be delivered in the first quarter of 2008. Operating loss was recorded for the year because a major supplier obtained the 3C certificates in November 2007 only, leading to the postponement of delivery of another 13 units of fire engines (originally scheduled to be shipped in 2007) with contract value of RMB44 million, to the first quarter of 2008. Excluding the above mentioned fire engines, as at 31 December 2007, the Group has on hand contracts for 12 units of fire engines valued over RMB78 million that will be delivered in 2008.

FINANCIAL RESOURCES, LIQUIDITY, CONTINGENT LIABILITIES AND PLEDGE OF ASSETS

As at 31 December 2007, the Group had cash and bank balances amounting to approximately RMB684 million (2006: RMB667 million) of which RMB23 million (2006: RMB24 million) was 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 RMB13 million (2006: RMB3 million), RMB53 million (2006: RMB41 million) and RMB5 million (2006: RMB8 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 non-wholly owned subsidiary and was secured by certain of its land and buildings and land leases of the Group with a total carrying amount of approximately RMB19 million (2006: RMB20 million).

As at 31 December 2007, current assets and current liabilities of the Group were approximately RMB1,490 million (2006: RMB1,211 million) and RMB436 million (2006: RMB280 million) respectively. The current ratio was approximately 3.4 times (2006: 4.3 times), reflecting sufficient financial resources to meet the Group's liabilities. Gearing ratio (interest bearing debt / total equity) at end of the year was 5.2% (2006: 4.3%). With sales increased by RMB176 million during the year, trade receivables (before allowance for doubtful debts) still decreased slightly from RMB404 million at end of 2006 to RMB401 million at end of 2007, showing the Group's effort in collecting outstanding debts. In spite of this, it is quite common that customers postpone payment which resulted in the Group's accumulation of long aged debt. To better reflect the financial position of the Group and to address the recoverability risk of receivables, the Group adopted a provision policy for aged debts in 2006. During the year, provisions of RMB5.6 million (2006: RMB9 million) were made on receivables aged over 1 year.

Renminbi is the functional currency and adopted as the reporting currency by the Group. The majority of the Group's assets, liabilities, sales and purchases are primarily denominated in Renminbi and Hong Kong dollar. During the year, as Hong Kong dollar has depreciated against Reminbi, there was an exchange loss of RMB11 million included in the administrative expenses arose from the translation of some of the Group's Hong Kong dollar denominated assets (mainly Hong Kong dollar bank deposits) into Reminbi. 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 or pledge of assets for the year ended 31 December 2007.

ACQUISITIONS, DISPOSALS AND CAPITAL COMMITMENTS

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

Acquisitions and investments

1. The Group has acquired the controlling shareholdings of a company in Shenzhen engaged in the manufacturing and sale of emergency lightings, exit signs and emergency power supply, at a consideration of RMB1,530,000. The subsidiary has been operating in Guangdong for almost 20 years. The acquisition allowed the Group to have a quick access to one of the most prosperous and developed markets in China. It has also added to the Group's product list new models of emergency lightings running on lithium polymer batteries that last longer and are more environmental friendly.

2. The Group has also acquired all equity interest of a company in Shanghai which operates a website for the provision of on-line advertising services, at a consideration RMB2,000,000. The subsidiary is publishing an on-line magazine providing information about the fire safety industry in China. An on-line yellow page, which provides an easy search for enterprises in the fire safety industry in China, is also in preparation. Besides, the subsidiary is going to launch a B2B e-commerce market for fire fighting and prevention products.

3. The Group has invested RMB18,000,000 to acquire 40% equity interest in two installation companies in Nanchang and Fuzhou. The two companies have been in the industry for almost 20 years. The acquisition allowed the Group to have an additional growth impetus for its installation business.

4. In December 2007, the Group paid RMB44,100,000 to acquire 45% equity interest in a company in Beijing engaged in the production and sale of a self developed and patented fire suppression foam extinguishing agent (see "Production and sale of fire prevention and fighting equipment" under Business Review above for description of the product).

Disposals

The Group disposed all equity interests of three non-wholly owned subsidiaries engaged in the provision of network monitoring services in May 2007, at consideration of RMB30,991,000. The disposed subsidiaries had accumulated losses of approximately RMB15 million at the date of disposal and the sale generated the Group a gain of approximately RMB9.4 million. The disposal is part of the Group's plan to streamline the structure of its network monitoring business by discarding the non-performing subsidiaries and focus on those with high potentials, particularly those in cities in which support from and recognition by the local fire brigades towards the monitoring system prevails.

Capital commitments

As at 31 December 2007, the Group has capital commitment of approximately RMB273 million (2006: RMB315 million) which continued to be in relation to the new factory in Chengdu. The first phase of the new plant is expected to be completed and ready for move in before end of June 2008.

Save as disclosed herein, the Group has no material capital commitments, investments, acquisitions or disposals of subsidiaries as at 31 December 2007.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2007, the Group had approximately 1,499 full-time employees (2006: 1,529). Staff costs, excluding directors' remuneration, for the year amounted to RMB54.4 million, slightly increase by 2.4% over the previous year's RMB53.1 million. The effect of the increase in number of staff arising from the new acquisitions and new joint venture has been offset by the decrease in number from the disposal of three subsidiaries during the year (see section "Acquisitions, disposal and capital commitment" above). All full-time employees are entitled to medical contributions, provident funds and retirement plans. The Group provides a series of comprehensive in-house and on-the-job training to staff to keep their technical skills and standards up to date for quality services and to enhance work safety.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. JIANG Xiong, aged 40, is the Chairman of the Board of the Company. He is responsible for the strategic planning and the overall development of the Group and joined the Group in January 1994. He has over 10 years of experience in the fire services and maintenance industry in the PRC. In April 1996, he was awarded the title "Fuzhou Outstanding Entrepreneur" (福州市優秀私營企業家). In May 1996, Mr. Jiang was awarded one of the "Ten Most Outstanding Youths in Fuzhou" and in November 1997 he was appointed as "member of the Ninth Standing Committee of Fuzhou City People's Political Consultative Conference" (中國人民政治協商會議第九屆福建省福州市常務委員會委員). In May 1999, he was given the award of "Fujian Outstanding Entrepreneur" (福建省優秀青年企業家). In November 2001, he was also appointed as Vice Secretary-General of Fire Committee of International Police Foundation (世界警察基金會消防行業委員會副秘書長), a non-profit organisation for the promotion of police goodwill and development of police science. Mr. Jiang is a qualified engineer in the PRC and obtained the qualification of senior economist from the Human Resources Office of Fujian Provincial Government (福建省人事廳) in January 2004.

Mr. JIANG Qing, aged 43, is an executive Director and Chief Executive Officer of the Company. He joined the Group in April 1995 and has over 10 years of experience in the building construction industry and fire prevention and fighting systems installation. Prior to joining the Group in April 1995, Mr. Jiang was an assistant executive of Fujian Construction and Development Limited (福建省建設發展總公司), a company engaged in property development, from February 1993 to April 1995 and he was mainly responsible for the management and administration for construction projects. Mr. Jiang received the professional certificate from Fujian Technical Institute of Construction (福建建築高等專科學校) in September 2000 and is a qualified engineer in the PRC and obtained the qualification of senior economist from the Human Resources Office of Fujian Provincial Government (福建省人事廳) in January 2004. Mr. Jiang was elected the Chairman of the Construction Industry Association and its branch for fire safety industry in 2006. He is responsible for the corporate management and overall operation of the Group. He is the elder brother of Mr. Jiang Xiong.

Mr. SHI Jia Hao, aged 61, is an executive Director of the Company. He is a graduate of the Department of Business Administration of the Xiamen University and a qualified economist. He has extensive experience of corporate management gained from various sectors including manufacturing, tourism and real estate. Mr. Shi joined the Group in 2005 and is responsible for administration works of the Group, he is also a director of Sichuan Morita Fire Safety Appliances Company Limited ("Sichuan Morita"), a subsidiary of the Company.

Mr. WANG De Feng, aged 39, is as an executive Director of the Company. He is a graduate of the Second Mechanical Engineering Department of the Chongqing University. Mr. Wang joined the Group in 2005. He is the Managing Director of Sichuan Morita, responsible for the production, sales and administration of the enterprise.

Ms. WENG Xiu Xia, aged 37, is as an executive Director of the Company. 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 awarded "Grade I project manager" by the Ministry of Construction in 2004 and was elected executives of the Construction Industry Association and its branch for fire safety industry in 2006. Ms. Weng was awarded "Outstanding Manager" by the Construction Office of Fujian Province in 2007.

Ms. ZHANG Hai Yan, aged 35, is an executive Director of the Company. Ms. Zhang joined the Group in 2004 and is responsible for overseeing acquisitions and other development projects of the Group. Ms. Zhang is a graduate of the Jianghan Petroleum Institute and was elected the Deputy Secretary General and executive of the Fujian Young Entrepreneur Association in 2005.

Non-executive Directors

Mr. Doug WRIGHT, aged 37, was appointed as a non-executive Director of the Company on 10 October 2007. He is the President of UTC Fire & Security Asia. He holds a Bachelor of Science in Mechanical Engineering where he graduated from the Virginia Polytechnic Institute and State University and an M.B.A. from the University of North Carolina-Charlotte. Before joining UTC Fire & Security, he held a series of senior management positions at Ingersoll Rand Company.

Ms. XI Zheng Zheng, aged 40, is as a non-executive Director of the Company. She joined the Company in November 2006. She is the Director of Legal Affairs of UTC Fire & Security Asia. Ms. Xi graduated with a LL.B from Beijing University Law School and a LL.M from Cornell Law School (New York, USA). She is a qualified lawyer in both China and State of New York, USA. Ms. Xi joined United Technologies Corporation in 1998 and served as Counsel for Otis and Pratt Whitney respectively, prior to joining UTC Fire & Security.

Mr. Harinath KRISHNAMURTHY, aged 42, is the alternate Director to Mr. Doug Wright. He is the Director Finance, Asia of UTC Fire & security Asia. He holds a Bachelor Degree in commerce where he graduated from Bangalore University (India) and is a qualified Chartered Accountant from Institute of Chartered Accountants of India. Before joining UTC Fire & Security, he held a series management positions at GE Infrastructure, Hercules Inc, Betz and 3M.

DIRECTORS AND SENIOR MANAGEMENT

Independent non-executive Directors

Mr. HENG Kwoo Seng, aged 60, is an independent non-executive Director of the Company. He joined the Company in April 2004. Mr. Heng is the Managing Partner of Morison Heng, Certified Public Accountants. He is a fellow member of The Institute of Chartered Accountants in England & Wales and an associate member of The Hong Kong Institute of Certified Public Accountants. Mr. Heng is also an independent non-executive Director of the following companies listed on the Main Board of the Stock Exchange: Lee & Man Holdings Limited, Lee & Man Paper Manufacturing Limited, Minth Group Limited, SCUD Group Limited, SIM Technology Group Limited and Soundwill Holdings Limited.

Dr. LOKE Yu, aged 58, is an independent non-executive Director of the Company. He joined the Company in August 2006. Dr. Loke has over 30 years of experience in accounting and auditing for private and public companies, financial consultancy and corporate management. He holds a Master of Business Administrative Degree from Universiti Teknologi Malaysia and a Doctor of Business Administrative Degree from University of South Australia. He is a fellow member of The Institute of Chartered Accountants in England and Wales; Hong Kong Institute of Certified Public Accountants; and The Hong Kong Institute of Directors. Dr. Loke is also an associate member of The Hong Kong Institute of Chartered Secretaries and a member of Malaysian Institute Accountants. He is the Chairman of MHL Consulting Limited and Habamas Limited. He serves as an independent non-executive director of several publicly listed companies in Hong Kong including Shandong Molong Petroleum Machinery Company Limited, United Metals Holdings Limited, New Chinese Medicine Holdings Limited, Matrix Holdings Limited, VODone Limited, Wealthmark International (Holdings) Limited and Winfair Investment Company Limited.

Mr. SUN Jian Guo, aged 49, was appointed as an independent non-executive Director of the Company on 7 May 2007. He is a Vice Secretary-General of the Chinese Productivity Distribution and Regional Economic Development Committee of Chinese Association of Productivity Science (中國生產力學會生產力佈局與地區經濟發展專業委員會), a Vice President of the Hebei Economic Promotion Association (河北省經濟促進會) and a Visiting Professor of Beijing Minzu Daxue (北京民族大學). Mr. Sun graduated from the Faculty of Chinese of Hebei University in 1981. He had been working in Baoding division of Hebei Province of the Ministry of Public Security (河北省保定市公安局) before he retired as the Chief Commander of sub-division in 1996.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. HU Yong, aged 39, is the General Manager and Chief Engineer of Sichuan Morita. Mr. Hu graduated from the Sichuan Institute of Technology (四川工業學院), specializing in hydraulic mechanics. Upon graduation, he joined Sichuan Morita, and has since then been in service for 17 years, having been promoted from a designer to the General Manager and Chief Engineer. He has extensive experience in the product technology and design, production operations, and administration and management of the company.

Mr. LI Jin, aged 53, 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 41, joined the Group in 2005 as the General Manager of Clusafe Control Equipment Co., Ltd. ("Clusafe Control Equipment"). 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 45, is the Financial Controller of Sichuan Morita. Ms. Zhang graduated from the Sichuan Radio TV University (四川廣播電視大學), with an emphasis in finance and accounting. Ms. Zhang was awarded "Qualified Senior Accountant" by the Human Resources Office of the Sichuan Provincial Government (四川省人事廳) in 2000. Upon graduation, she joined Sichuan Morita, and has been in service in the accounting area for over 20 years. She was promoted to the Financial Controller in 2005. She has extensive experience in the finance, taxation, accounting, and management of the company.

Mr. ZHUO Fu Quan, aged 62, joined the Group in November 2003 and is now the Deputy General Manager of Clusafe Control Equipment, responsible for the company's overall operation. Mr. Zhuo is a graduate of the Department of Physics in Xiamen University and is a qualified senior engineer. He had worked for Fujian Hitachi Television Co. Ltd. (福建日立電視機有限公司), where he was the chief of the design department and sales department, responsible for the design and sales of products for export and domestic sales. Mr. Zhuo has extensive experience in technologies, productions, sales and operations management in the IT industry.

DIRECTORS AND SENIOR MANAGEMENT

Mr. CAI Jun, aged 44, 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. FENG Quan Hui, aged 45, 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 Ministry of Construction. Mr. Feng has many years of experience in fire systems installation.

Mr. CHAN Chun Wo, aged 57, 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 45, 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 PRACTICES

Throughout the year ended 31 December 2007, 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.

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

There were 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)	4/4
Mr. Jiang Qing (Chief Executive Officer)	4/4
Mr. Shi Jia Hao	4/4
Mr. Wang De Feng	4/4
Ms. Weng Xiu Xia*	4/4
Ms. Zhang Hai Yan*	4/4
Non-executive directors	
Mr. Doug Wright	1/1
Ms. Xi Zheng Zheng	4/4
Mr. Paul Winnowski *	3/3
Independent non-executive directors	
Mr. Heng Kwoo Seng	4/4
Dr. Loke Yu	4/4
Mr. Sun Jian Guo*	3/3
Mr. Pu Rong Sheng*	1/1

* 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.

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.

AUDITOR'S REMUNERATION

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

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

NON-EXECUTIVE DIRECTORS

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

REMUNERATION OF DIRECTORS

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

NOMINATION OF DIRECTORS

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

AUDIT COMMITTEE

The audit committee comprises three independent non-executive directors, Mr. Heng Kwoo Seng, Dr. Loke Yu and Mr. Sun Jian Guo ("Mr. Sun"). Mr. Sun was appointed as an independent non-executive director and member of the audit committee on 7 May 2007 to replace Mr. Pu Rong Sheng who resigned on the same day. 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 auditor and participate in the reappointment and assessment of the performance of the external auditor. Attendance of each member of the audit committee is set out below:

Name of Members	No. of meetings attended
Mr. Heng Kwoo Seng (Chairman)	4/4
Dr. Loke Yu	4/4
Mr. Sun Jian Guo*	3/3
Mr. Pu Rong Sheng*	1/1

* 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 AUDITOR

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

REPORT OF THE DIRECTORS

The Directors present their annual report and the audited financial statements for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries, associates and jointly controlled entity are set out in notes 44, 20 and 21 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2007 are set out in the consolidated income statement on page 30.

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2007 (2006: nil).

PROPERTY, PLANT AND EQUIPMENT

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

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31 December 2007 were RMB775,882,000 (2006: RMB834,300,000).

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	
Mr. Wang De Feng	
Ms. Weng Xiu Xia	(appointed on 5 February 2007)
Ms. Zhang Hai Yan	(appointed on 5 February 2007)

Non-executive Directors

Ms. Xi Zheng Zheng	
Mr. Doug Wright	(appointed on 10 October 2007)
Mr. Harinath Krishnamurthy (alternate director to Mr. Doug Wright)	
Mr. Paul Winnowski	(resigned on 10 October 2007)

Independent Non-executive Directors

Mr. Heng Kwoo Seng	
Dr. Loke Yu	
Mr. Sun Jian Guo	(appointed on 7 May 2007)
Mr. Pu Rong Sheng	(resigned on 7 May 2007)

In accordance with the provisions of the Company's Articles of Association, Mr. Jiang Qing, Mr. Shi Jia Hao, Mr. Doug Wright and Mr. Sun Jian Guo retire from office and, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

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

The term of office of each of the Directors is the period to his/her retirement by rotation in accordance with the Company's Articles of Association.

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

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

Save as disclosed below, as of 31 December 2007, none of the Directors or chief executives has any interest or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and 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% *(Note 3)*
("Mr. Jiang")	Deemed interest *(Note 2)*	825,000,000	
Mr. Jiang Qing	Beneficial owner	7,500,000	0.26%

Notes:

1. Mr. Jiang is beneficially interested in 981,600,000 shares. By virtue of the option agreement entered into between Mr. Jiang and United Technologies Far East Limited ("UTFE"), a subsidiary of United Technologies Corporation ("UTC") (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.

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

Short positions in ordinary shares of the Company

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

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.

Options to subscribe for ordinary shares in the Company

Grantee	Date of grant	Number of shares issuable under the options granted	Exercisable period	Exercise price *HK$*	Number of shares issuable under the options outstanding as at 1 January and 31 December 2007	Percentage of issued share capital of the Company
Mr. Jiang Qing	25 May 2004	20,000,000	25 May 2004 – 24 May 2014	0.44	20,000,000	0.70%

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

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

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors 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 2007, 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 Deemed interest *(Note 1)*	825,000,000 981,600,000	63.28% *(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%
UTC	Interest of a controlled corporation *(Note 5)*	1,806,600,000	63.28%
Deutsche Bank Aktiengesellschaft	Beneficial owner	265,191,000	9.29%

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

Short positions in ordinary shares of the Company

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

Other than as disclosed above, the Company has not been notified of any other interests or short position in the issued share capital of the Company as at 31 December 2007.

SHARE OPTIONS

Particulars of the Company's share option scheme and details of the options are set out in note 36 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 2007, neither the Company nor any of its subsidiaries purchased, cancelled or redeemed any listed securities of the Company.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 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 2007, the aggregate purchases and turnover attributable to the Group's five largest suppliers and customers were both less than 30% of the Group's purchases and turnover respectively.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2007.

AUDITOR

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

On behalf of the Board

Jiang Xiong
Chairman

26 March 2008

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

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

We have audited the consolidated financial statements of China Fire Safety Enterprise Group Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 30 to 99, which comprise the consolidated balance sheet as at 31 December 2007, 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 2007 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 2008

CONSOLIDATED INCOME STATEMENT

For the Year Ended 31 December 2007

	NOTES	2007 RMB'000	2006 RMB'000
Turnover	5	**1,146,124**	969,705
Cost of sales		**(833,594)**	(696,151)
Gross profit		**312,530**	273,554
Other income	7	**24,562**	13,390
Selling and distribution costs		**(20,992)**	(25,441)
Administrative expenses		**(82,225)**	(78,859)
Share of profits of associates		**124**	–
Other expenses	8	**(2,559)**	(26,472)
Finance costs	9	**(4,620)**	(3,507)
Profit before taxation		**226,820**	152,665
Taxation	12	**(52,752)**	(44,468)
Profit for the year	13	**174,068**	108,197
Attributable to:			
Equity holders of the Company		**175,350**	115,815
Minority interests		**(1,282)**	(7,618)
		174,068	108,197
Earnings per share (RMB cents)	15		
Basic		**6.14**	4.24
Diluted		**6.13**	4.17

CONSOLIDATED BALANCE SHEET

At 31 December 2007

	NOTES	2007 RMB'000	2006 RMB'000
Non-current assets			
Property, plant and equipment	16	**138,961**	116,899
Prepaid lease payments	17	**56,664**	59,092
Investment properties	18	**–**	22,359
Goodwill	19	**61,879**	59,207
Interests in associates	20	**18,124**	–
Other intangible assets	22	**1,800**	100
Available-for-sale investment	23	**44,100**	–
Deferred tax assets	24	**502**	4,602
		322,030	262,259
Current assets			
Inventories	25	**128,587**	63,784
Retention receivables		**5,674**	9,264
Amounts due from contract customers	26	**240,510**	60,684
Amount due from a jointly controlled entity	27	**4,761**	–
Trade receivables	28	**374,664**	382,731
Deposits, prepayments and other receivables	29	**31,075**	27,378
Prepaid lease payments	17	**476**	521
Pledged bank deposits	30	**22,559**	24,283
Bank balances and cash	30	**661,934**	642,278
		1,470,240	1,210,923
Assets classified as held for sale	18	**19,800**	–
		1,490,040	1,210,923
Current liabilities			
Trade and other payables	31	**312,369**	203,702
Amounts due to contract customers	26	**29,928**	13,676
Amount due to a jointly controlled entity		**–**	245
Amounts due to minority shareholders	32	**4,792**	3,483
Tax liabilities		**17,608**	7,660
Bank borrowings	33	**70,935**	51,484
Obligation under a finance lease – amount due within one year	34	**46**	34
		435,678	280,284
Net current assets		**1,054,362**	930,639
Total assets less current liabilities		**1,376,392**	1,192,898

CONSOLIDATED BALANCE SHEET

At 31 December 2007

	NOTES	2007 RMB'000	2006 RMB'000
Non-current liabilities			
Deferred tax liabilities	24	**10,742**	3,962
Obligation under a finance lease – amount due after one year	34	**193**	104
		10,935	4,066
Net assets		**1,365,457**	1,188,832
Capital and reserves			
Share capital	35	**30,168**	30,168
Reserves	37	**1,308,203**	1,132,430
Equity attributable to equity holders of the Company		**1,338,371**	1,162,598
Minority interests		**27,086**	26,234
Total equity		**1,365,457**	1,188,832

The financial statements on pages 30 to 99 were approved and authorised for issue by the Board of Directors on 26 March 2008 and are signed on its behalf by:

Jiang Xiong
DIRECTOR

Jiang Qing
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Year Ended 31 December 2007

	Attributable to equity holders of the Company												
	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000 (note 37(d))	Capital reserve RMB'000 (note 37(e))	Property revaluation reserve RMB'000	Statutory surplus reserve RMB'000 (note 37(a))	Statutory public welfare fund RMB'000 (note 37(b))	Statutory reserve fund RMB'000 (note 37(c))	Exchange reserve RMB'000	Retained profits RMB'000	Total RMB'000	Minority interests RMB'000	Total RMB'000
At 1 January 2006	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
Exchange differences arising on translation of foreign operations	–	–	–	–	–	–	–	–	436	–	436	202	638
Realisation of exchange reserve on disposal of a subsidiary	–	–	–	–	–	–	–	–	(13)	–	(13)	–	(13)
Profit for the year	–	–	–	–	–	–	–	–	–	175,350	175,350	(1,282)	174,068
Total recognised income (expense) for the year	–	–	–	–	–	–	–	–	423	175,350	175,773	(1,080)	174,693
Transfer	–	–	–	–	–	488	244	31,440	–	(32,172)	–	–	–
Capital contribution from minority shareholders	–	–	–	–	–	–	–	–	–	–	–	154	154
Acquired on acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	526	526
Disposal of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	1,252	1,252
At 31 December 2007	30,168	646,363	(6,692)	57,840	2,985	30,738	20,365	80,643	(11,632)	487,593	1,338,371	27,086	1,365,457

CONSOLIDATED CASH FLOW STATEMENT

For the Year Ended 31 December 2007

	2007	2006
	RMB'000	RMB'000
Cash flows from operating activities		
Profit before taxation	**226,820**	152,665
Adjustments for:		
Depreciation of property, plant and equipment	**14,703**	20,339
Amortisation of prepaid lease payments	**506**	521
Gain on disposal of a leasehold land	**(372)**	–
(Gain) loss on disposal of property, plant and equipment	**(912)**	736
Gain on disposal of subsidiaries	**(9,357)**	(66)
Allowance for bad and doubtful debts	**5,568**	8,936
Reversal of allowance for bad and doubtful debts	**(573)**	–
Amortisation of other intangible assets	**177**	1,700
Share of profit of associates	**(124)**	–
Decrease in fair value of investment properties	**2,559**	–
Interest income	**(8,734)**	(10,922)
Interest expense	**4,620**	3,507
Impairment loss recognised on property, plant and equipment	**–**	22,697
Write-off of other intangible assets	**–**	3,775
Operating cash flows before movements in working capital	**234,881**	203,888
Increase in inventories	**(65,119)**	(12,135)
Decrease (increase) in retention receivables	**3,590**	(4,230)
Increase in amounts due from contract customers	**(179,826)**	(25,157)
Decrease (increase) in trade receivables	**1,063**	(127,900)
(Increase) decrease in deposits, prepayments and other receivables	**(5,784)**	8,570
Increase (decrease) in trade and other payables	**126,143**	(921)
Increase in amounts due to contract customers	**16,252**	275
Cash generated from operations	**131,200**	42,390
Interest paid	**(4,620)**	(3,507)
PRC Enterprise Income Tax paid	**(31,729)**	(62,414)
Hong Kong Profits Tax paid	**(195)**	–
Net cash from (used in) operating activities	**94,656**	(23,531)

CONSOLIDATED CASH FLOW STATEMENT

For the Year Ended 31 December 2007

	NOTES	2007 RMB'000	2006 RMB'000
Investing activities			
Purchase of property, plant and equipment		**(47,957)**	(10,426)
Acquisition of subsidiaries	40	**(3,074)**	(3,300)
Acquisition of associates		**(18,000)**	–
Acquisition of available-for-sale investment		**(44,100)**	–
Advance to a jointly controlled entity		**(4,761)**	–
Decrease (increase) in pledged bank deposits		**1,724**	(1,841)
Interest received		**8,734**	10,922
Proceeds from disposal of property, plant and equipment		**4,019**	–
Proceeds from disposal of a leasehold land		**2,339**	–
Disposal of subsidiaries	41	**22,655**	–
Additions of other intangible assets		**(1,377)**	(120)
Payment for acquisition of a leasehold land		**(16,620)**	(16,620)
Net cash used in investing activities		**(96,418)**	(21,385)
Financing activities			
Increase (decrease) in trust receipt loans		**10,462**	(1,482)
New bank loan raised		**17,618**	42,442
Advance from (repayment to) minority shareholders		**1,555**	(4,039)
Capital contributions from minority shareholders of subsidiaries		**154**	5,271
(Repayment to) advance from a jointly controlled entity		**(245)**	245
Repayment of bank loans		**(8,341)**	(13,703)
Repayment of obligations under a finance lease		**(34)**	(32)
Proceeds from issue of new shares		**–**	286,014
Dividends paid		**–**	(38,464)
Net cash from financing activities		**21,169**	276,252
Net increase in cash and cash equivalents		**19,407**	231,336
Cash and cash equivalents at the beginning of the year		**642,278**	420,013
Effect of exchange rate changes on the balance of cash held in foreign currencies		**249**	(9,071)
Cash and cash equivalents at the end of the year, representing bank balances and cash		**661,934**	642,278

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2007

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 activities of its principal subsidiaries, associates and jointly controlled entity are set out in notes 44, 20 and 21 to the consolidated financial statements.

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

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

In the current year, the Group has applied, for the first time, the following new standard, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning 1 January 2007.

HKAS 1 (Amendment)	Capital disclosures
HKFRS 7	Financial instruments: Disclosures
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) – INT 8	Scope of HKFRS 2
HK(IFRIC) – INT 9	Reassessment of embedded derivatives
HK(IFRIC) – INT 10	Interim financial reporting and impairment

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

The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

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

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

HKAS 1 (Revised)	Presentation of financial statements[1]
HKAS 23 (Revised)	Borrowing costs[1]
HKFRS 8	Operating segments[1]
HK(IFRIC) – INT 11	HKFRS 2: Group and treasury share transactions[2]
HK(IFRIC) – INT 12	Service concession arrangements[3]
HK(IFRIC) – INT 13	Customer loyalty programmes[4]
HK(IFRIC) – INT 14	HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction[3]

1 Effective for annual periods beginning on or after 1 January 2009.
2 Effective for annual periods beginning on or after 1 March 2008.
3 Effective for annual periods beginning on or after 1 January 2008.
4 Effective for annual periods beginning on or after 1 July 2008.

The directors of the Company anticipate the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation *(continued)*

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.

Business combinations

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill

Goodwill arising on acquisitions prior to 1 January 2005

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

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

Goodwill arising on acquisitions on or after 1 January 2005

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments in associates

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

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

Goodwill arising on acquisitions on or after 1 January 2005

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

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

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

Jointly controlled entities

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

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

Property, plant and equipment

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment *(continued)*

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

An owner occupied property is transferred to investment property when it is evidenced by the end of owner occupation at fair value. The difference between the fair value and the carrying amount of the property at the date of transfer is recognised as a revaluation increase in accordance with HKAS 16 "Property, plant and equipment". On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to retained profits.

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

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

Investment properties

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets

Intangible assets acquired separately

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

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

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

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

When no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Inventories

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

Non-current assets held for sale

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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, except where this would not be representative of stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

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

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

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

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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.

Leasehold land and building

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

Retirement benefit costs

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of 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, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

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

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

Estimated provision for impairment of trade and other receivables

In making the estimate for the allowances for irrecoverable amounts recognised in profit and loss, the management considers detailed procedures are in place to monitor the risk as significant proportion of the Group's working capital is devoted to trade receivables. When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2007, the carrying amount of trade receivable is RMB 374,664,000 (net of allowance for doubtful debts of RMB 26,117,000). In this regard, the management are satisfied the risk is properly managed and adequate allowances for doubtful debts has been made in the consolidated financial statements.

Financial instruments

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets

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

Loans and receivables

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

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

Financial assets at fair value through profit or loss

Financial assets at FVTPL are mainly classified as investments held for trading.

A financial asset is classified as held for trading if:

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets (continued)

Available-for-sale financial assets

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

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

Impairment of financial assets

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Impairment of financial assets (continued)

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

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

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

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

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity (continued)

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, amount 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.

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

Derecognition

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

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Profit recognition of installation contracts

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

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

For applying the percentage of completion method, the Group need to estimate the gross profit margin of each installation contract, which was determined based on the estimated total installation contract costs and total installation contact sum. If the actual gross profit margin of an installation contract differs from the management's estimate, the installation contract revenue and the corresponding contract cost to be recognised within the next year will need to be adjusted accordingly.

Estimated provision for impairment of trade and other receivables

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

The provision for impairment of receivables of the Group is based on the likelihood of collection and the aging analysis of trade receivables and estimation of future cash flows. Where the actual cash flows are less than expected, additional allowance for doubtful debts may arise. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of the customers. Management reassesses the estimation on each balance sheet date. The carrying amount of trade receivables at 31 December 2007 was RMB374,664,000.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

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 2007, the carrying amount of goodwill is RMB61,879,000. Details of the recoverable amount calculation are disclosed in note 19.

5. TURNOVER

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

	2007	2006
	RMB'000	RMB'000
Revenue from installation contracts	**466,376**	463,082
Sale of goods	**600,204**	443,681
Provision of maintenance services	**79,495**	62,942
Others	**49**	–
	1,146,124	969,705

6. SEGMENT INFORMATION

(a) Business segments

For management purposes, the Group is currently organised into the following operating segments; installation of fire prevention and fighting systems, production and sale of fire engines, production and sale of fire prevention and fighting equipment, trading of fire engines, fire prevention and fighting and rescue equipment and provision of maintenance services. These segments are the basis on which the Group reports its primary segment information.

6. SEGMENT INFORMATION *(continued)*

(a) Business segments *(continued)*

Segment information about these businesses are as follows:

	Installation of fire prevention and fighting systems RMB'000	Production and sale of fire engines RMB'000	Production and sale of fire prevention and fighting equipment RMB'000	Trading of fire engines, fire prevention and fighting and rescue equipment RMB'000	Provision of maintenance services RMB'000	Others RMB'000	Elimination RMB'000	Consolidated RMB'000
For the year ended 31 December 2007								
TURNOVER								
External sales	466,376	194,986	336,941	68,277	79,495	49	–	1,146,124
Inter-segment sales	–	–	50,641	–	–	–	(50,641)	–
Total	466,376	194,986	387,582	68,277	79,495	49	(50,641)	1,146,124
Inter-segment sales are charged on cost-plus basis.								
RESULTS								
Segment results	92,253	16,618	74,196	(3,215)	58,506	(287)		238,071
Unallocated income								21,908
Unallocated corporate expenses								(28,663)
Share of profits of associates	124	–	–	–	–	–		124
Finance costs								(4,620)
Profit before taxation								226,820
Taxation								(52,752)
Profit for the year								174,068
At 31 December 2007								
ASSETS								
Segment assets	337,522	215,793	345,777	103,695	39,253	2,482		1,044,522
Interest in associates	18,124	–	–	–	–	–		18,124
Unallocated corporate assets								749,424
								1,812,070
LIABILITIES								
Segment liabilities	157,376	65,481	59,815	46,239	2,888	82		331,881
Unallocated corporate liabilities								114,732
								446,613
OTHER INFORMATION								
Capital expenditure	712	29,448	17,687	315	2,371	2,528		
Depreciation and amortisation	891	1,449	11,262	155	1,523	65		
Loss (gain) on disposal of property, plant and equipment	19	(789)	(256)	114	–	–		
Allowance for bad and doubtful debts	554	62	1,059	3,320	–	–		

6. SEGMENT INFORMATION *(continued)*

(a) Business segments *(continued)*

	Installation of fire prevention and fighting systems RMB'000	Production and sale of fire engines RMB'000	Production and sale of fire prevention and fighting equipment RMB'000	Trading of fire engines, fire prevention and fighting and rescue equipment RMB'000	Provision of maintenance services RMB'000	Others RMB'000	Elimination RMB'000	Consolidated RMB'000
For the year ended 31 December 2006								
TURNOVER								
External sales	463,082	156,317	276,395	10,969	62,942	–	–	969,705
Inter-segment sales	1,000	–	53,596	–	–	–	(54,596)	–
Total	464,082	156,317	329,991	10,969	62,942	–	(54,596)	969,705

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

	Installation of fire prevention and fighting systems RMB'000	Production and sale of fire engines RMB'000	Production and sale of fire prevention and fighting equipment RMB'000	Trading of fire engines, fire prevention and fighting and rescue equipment RMB'000	Provision of maintenance services RMB'000	Others RMB'000	Elimination RMB'000	Consolidated RMB'000
RESULTS								
Segment results	99,180	10,562	20,916	(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	111,556	287,372	59,794	86,550	–		779,367
Unallocated corporate assets								693,815
								1,473,182
LIABILITIES								
Segment liabilities	102,561	44,389	54,480	8,771	4,737	–		214,938
Unallocated corporate liabilities								69,412
								284,350
OTHER INFORMATION								
Capital expenditure	460	2,703	3,019	–	8,275			
Depreciation and amortisation	787	2,182	18,007	180	1,374			
Impairment loss recognised on property, plant and equipment	–	–	22,697	–	–			
Write-off of other intangible assets	–	–	3,775	–	–			
Loss on disposal of property, plant and equipment	3	377	109	–	47			
Allowance for bad and doubtful debts	2,506	69	3,863	2,498	–			

6. SEGMENT INFORMATION *(continued)*

(b) Geographical segments

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

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

	Carrying amount of segment assets		Additions to property, plant and equipment and intangible assets	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
PRC	**940,827**	719,573	**52,746**	14,457
Hong Kong	**103,695**	59,794	**315**	–
	1,044,522	779,367	**53,061**	14,457
Interest in associates	**18,124**	–	**–**	–
Unallocated assets	**749,424**	693,815	**137**	6
	1,812,070	1,473,182	**53,198**	14,463

7. OTHER INCOME

	2007	2006
	RMB'000	RMB'000
Interest income	**8,734**	10,922
Gain on disposal of a leasehold land	**372**	–
Gain on disposal of subsidiaries	**9,357**	66
Changes in fair value of investments held for trading	**2,669**	–
Rental income	**1,148**	595
Others	**2,282**	1,807
	24,562	13,390

8. OTHER EXPENSES

	2007 RMB'000	2006 RMB'000
Impairment loss recognised on property, plant and equipment	–	22,697
Write-off of other intangible assets	–	3,775
Changes in fair value of investment properties	2,559	–
	2,559	26,472

9. FINANCE COSTS

	2007 RMB'000	2006 RMB'000
Interest on:		
Bank borrowings wholly repayable within five years	4,310	3,100
Amount due to a minority shareholder	300	395
Finance leases	10	12
	4,620	3,507

10. DIRECTORS' EMOLUMENTS

	2007 RMB'000	2006 RMB'000
Fees		
Executive Directors	670	299
Non-executive Directors	–	–
Independent non-executive Directors	312	369
	982	668
Other emoluments (Executive Directors):		
Salaries and other benefits	2,811	4,124
Discretionary bonus *(Note)*	5,812	3,198
Retirement benefit scheme contributions	36	8
	8,659	7,330
	9,641	7,998

10. DIRECTORS' EMOLUMENTS *(continued)*

	2007					2006				
	Fees RMB'000	Salaries and other benefits RMB'000	Discre-tionary bonus RMB'000 *(Note)*	Retirement benefits RMB'000	Total RMB'000	Fees RMB'000	Salaries and other benefits RMB'000	Discre-tionary bonus RMB'000	Retirement benefits RMB'000	Total RMB'000
Executive										
Mr. Jiang Xiong	–	1,363	2,906	–	4,269	–	1,441	470	–	1,911
Mr. Jiang Qing	–	1,212	2,906	–	4,118	–	1,281	470	–	1,751
Mr. Shi Jia Hao	175	68	–	–	243	62	20	–	–	82
Mr. Wang De Feng	175	72	–	16	263	62	24	–	–	86
Ms. Weng Xiu Xia	160	48	–	9	217	–	–	–	–	–
Ms. Zhang Hai Yan	160	48	–	11	219	–	–	–	–	–
Mr. Chen Shu Quan	–	–	–	–	–	–	867	–	–	867
Mr. Chan Siu Tat	–	–	–	–	–	175	491	2,258	8	2,932
Non-executive										
Mr. Doug Wright	–	–	–	–	–	–	–	–	–	–
Mr. Harinath Krishnamurthy (alternative director to Mr. Doug Wright)	–	–	–	–	–	–	–	–	–	–
Ms. Xi Zheng Zheng	–	–	–	–	–	–	–	–	–	–
Mr. Paul Winnowski	–	–	–	–	–	–	–	–	–	–
Independent non-executive										
Mr. Heng Kwoo Seng	117	–	–	–	117	123	–	–	–	123
Dr. Loke Yu	117	–	–	–	117	51	–	–	–	51
Mr. Sun Jian Guo	78	–	–	–	78	–	–	–	–	–
Mr. Liu Shi Pu	–	–	–	–	–	72	–	–	–	72
Mr. Pu Rong Sheng	–	–	–	–	–	123	–	–	–	123
	982	2,811	5,812	36	9,641	668	4,124	3,198	8	7,998

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.

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

11. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2006: four) were directors of the Company whose emoluments are included in the note 10 above. The emoluments of the three (2006: one) individuals were as follows:

	2007	2006
	RMB'000	RMB'000
Salaries and other benefits	**1,394**	670
Retirement benefit scheme contributions	**35**	13
	1,429	683

The emoluments of each of the highest paid individual, other than the directors, are below HK$1 million for both 2006 and 2007.

12. TAXATION

	2007 RMB'000	2006 RMB'000
The charge comprises:		
Current tax		
PRC Enterprise Income Tax	**41,676**	44,292
Hong Kong Profits Tax	**–**	–
	41,676	44,292
Underprovision in prior years:		
PRC Enterprise Income Tax	**1**	5,416
Hong Kong Profits Tax	**195**	12
	196	5,428
Deferred tax *(note 24)*		
Current year	**11,687**	(5,252)
Effect of change in tax rate	**(807)**	–
	10,880	(5,252)
	52,752	44,468

12. TAXATION *(continued)*

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

	2007		2006	
	RMB'000	%	RMB'000	%
Profit before taxation	**226,820**		152,665	
Tax at the PRC domestic income tax rate of 33% (2006: 33%)	**74,851**	**33.0**	50,379	33.0
Tax effect of share of profits of associates	**(41)**	**–**	–	–
Tax effect attributable to tax concession	**(28,072)**	**(12.4)**	(22,149)	(14.5)
Tax effect of expenses that are not deductible in determining taxable profit	**4,483**	**2.0**	7,003	4.6
Tax effect of income that are not taxable in determining taxable profit	**(3,701)**	**(1.6)**	(2,534)	(1.7)
Tax effect of tax losses not recognised	**8,093**	**3.5**	6,343	4.2
Utilisation of tax losses previously not recognised	**(1,307)**	**(0.5)**	–	–
Underprovision in respect of prior years	**196**	**0.1**	5,428	3.6
Decrease in opening deferred tax liability resulting from a decrease in applicable tax rate	**(807)**	**(0.4)**	–	–
Others	**(943)**	**(0.4)**	(2)	–
Tax charge and effective tax rate for the year	**52,752**	**23.3**	44,468	29.2

12. TAXATION *(continued)*

The charge of Hong Kong Profits Tax for the year represented the underprovision of taxation in prior years. No provision for Hong Kong Profits Tax has been made in the current year and previous year as the Group had no assessable profit derived from Hong Kong for both years.

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

The following subsidiaries of the Company were granted tax privileges which entitled them to income tax exemption for the two years followed by three years of 50% tax reduction.

	Tax privileges started from
Clusafe Control Equipment Co., Ltd. (Note)	2002
Fuzhou Wanyou Fire Equipment Co., Ltd.	2004
Shenzhen Hocen Emergency Lighting Co., Ltd.	2004
Sichuan Morita Fire Safety Appliances Co., Ltd.	2006
Shanghai Pudong Special Fire Equipment Co., Ltd.	2007

Note: Clusafe Control Equipment Co., Ltd. was established in a new development zone in Fuzhou and has been entitled to a further 50% tax reduction from 2004.

On 16 March 2007, the People's Republic of China promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the People's Republic of China. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the tax rate to 25% for certain subsidiaries from 1 January 2008. The deferred tax balance has been adjusted to reflect the tax rates that are expected to apply to the respective periods when the asset is realised or the liability is settled.

Certain of the Group's subsidiaries that are currently entitled to exemption and reduction from the PRC statutory income tax rate would continue to enjoy such treatment until the exemption and reduction period expire, but not beyond 2012.

13. PROFIT FOR THE YEAR

	2007	2006
	RMB'000	RMB'000
Profit for the year has been arrived at after charging:		
Depreciation of property, plant and equipment		
Owned assets	**14,649**	20,293
Assets held under a finance lease	**54**	46
Amortisation of prepaid lease payments	**506**	521
Allowance of bad and doubtful debts	**5,568**	8,936
(Gain) loss on disposal of property, plant and equipment	**(912)**	736
Gain on disposal of a leasehold land	**(372)**	–
Gain on disposal of subsidiaries	**(9,357)**	–
Auditor's remuneration	**2,525**	2,002
Amortisation of other intangible assets included in cost of sales	**177**	1,700
Net exchange loss	**11,221**	186
Operating lease rentals in respect of rented premises	**5,311**	4,043
Research and development expenditure *(Note)*	**1,954**	4,322
Cost of inventories recognised as expense	**422,689**	294,307
Staff costs, including directors' remuneration	**60,841**	57,329
Retirement benefit scheme contributions, including those to directors	**3,190**	3,736
Total staff costs	**64,031**	61,065

Note: The amount included staff cost of RMB1,052,000 (2006: RMB1,429,000) and depreciation on property, plant and equipment of RMB270,000 (2006: RMB270,000). These amounts are also included in the respective disclosure items under this note.

14. DIVIDENDS

	2007	2006
	RMB'000	RMB'000
Dividends recognised as distributions during the year:		
2005 final dividend paid of 1.3 HK cents per share on 2,845,000,000 shares	–	38,464

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2007 (2006: nil).

15. EARNINGS PER SHARE

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

	2007	2006
	RMB'000	RMB'000
Earnings for the purpose of basic and diluted earnings per share (profit for the year attributable to equity holders of the Company)	**175,350**	115,815
	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,855,000**	2,730,266
Effect of dilutive potential ordinary shares:		
Share options	**4,094**	11,864
Second tranche subscription *(Note)*	–	32,391
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,859,094**	2,774,521

Note: 469,000,000 shares of the Company were issued to United Technologies Far East Limited ("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.

16. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings RMB'000	Plant and equipment RMB'000	Tooling and moulds RMB'000	Furniture and fixtures RMB'000	Computers RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
COST									
At 1 January 2006	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
Exchange differences	–	(16)	–	(7)	(5)	–	–	–	(28)
Additions	609	3,239	4	416	915	1,219	1,990	39,711	48,103
Acquired on acquisition of subsidiaries	–	92	–	44	108	302	–	–	546
Disposal of subsidiaries	(4,635)	(239)	–	(252)	(2,540)	(944)	(1,335)	–	(9,945)
Disposals	(1,473)	(1,637)	–	(87)	(475)	(36)	(277)	–	(3,985)
At 31 December 2007	74,954	60,414	36,627	8,360	5,530	12,248	4,182	39,711	242,026
DEPRECIATION AND IMPAIRMENT									
At 1 January 2006	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
Exchange differences	–	(9)	–	(6)	(3)	–	(1)	–	(19)
Charge for the year	2,786	7,688	39	576	1,089	1,758	767	–	14,703
Eliminated on disposal of subsidiaries	(178)	(97)	–	(62)	(522)	(256)	(62)	–	(1,177)
Eliminated on disposal	(161)	(456)	–	(12)	(95)	(11)	(143)	–	(878)
At 31 December 2007	10,814	42,613	36,411	2,670	2,235	6,156	2,166	–	103,065
CARRYING VALUES									
At 31 December 2007	64,140	17,801	216	5,690	3,295	6,092	2,016	39,711	138,961
At 31 December 2006	72,086	23,488	251	6,072	5,761	7,042	2,199	–	116,899

Note: During 2006, the Group rented out certain of its leasehold properties to outsiders for rental income, these properties were transferred to investment properties at their revalued amount. The increase in fair value of RMB4,455,000 up to the date of transfer was credited to the property valuation reserve.

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

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

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

Land and buildings	Over the shorter of the term of the lease, or 50 years
Plant and equipment	10% – 20%
Tooling and moulds	10% – 20%
Furniture and fixtures	10% – 20%
Computers	20%
Motor vehicles	10% – 20%
Leasehold improvements	Over the shorter of the term of the lease or 20%

During 2006, 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 of fire engines, fire prevention and fighting equipment segment.

The Group has pledged land and buildings with carrying value of RMB8,498,000 (2006: RMB9,059,000) to secure general banking facilities granted to a subsidiary of the Group.

The carrying values of the Group's furniture and fixtures included an amount of RMB227,000 (2006: RMB120,000) in respect of assets held under finance leases.

17. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise:

	2007 **RMB'000**	2006 RMB'000
Leasehold land in the PRC:		
Medium-term leases	**57,140**	59,613
Analysed for reporting purposes as:		
Current portion	**476**	521
Non-current portion	**56,664**	59,092
	57,140	59,613

Certain land leases with carrying values of RMB10,382,000 (2006: 10,683,000) have been pledged to secure short term bank loans granted to a subsidiary of the Group.

18. INVESTMENT PROPERTIES/ASSETS CLASSIFIED AS HELD FOR SALE

	RMB'000
FAIR VALUE	
Land and buildings in PRC, medium-term leases	
At 1 January 2006	–
Reclassified from property, plant and equipment	22,359
At 31 December 2006	22,359
Changes in fair value	(2,559)
Reclassified to assets classified as held for sale	(19,800)
At 31 December 2007	–

A sales and purchase agreement for the disposal of the investment properties at RMB19,800,000 was entered into in December 2007 with an independent third party. The disposal will be completed in April 2008.

The fair value of the Group's investment property before reclassification as asset classified as held for sale was determined based on its selling price of sales and purchase agreement entered in December 2007. In the opinion of the directors, there is no material difference between the fair value of investment properties at 31 December 2007 and its fair value on completion which is expected to be in April 2008.

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.

19. GOODWILL

	RMB'000
AT COST	
At 1 January 2006	62,543
Arising on acquisition of subsidiaries	2,384
Decrease on adjustment of consideration *(note)*	(5,720)
At 31 December 2006	59,207
Arising on acquisition of subsidiaries *(note 40)*	2,672
At 31 December 2007	61,879

Note: 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:

	2007	2006
	RMB'000	RMB'000
Production and sale of fire engines	**7,630**	7,630
Production and sale of fire prevention and fighting equipment	**4,549**	3,567
Trading of fire engines, fire prevention and fighting and rescue equipment	**27,410**	27,410
Installation of fire preventions and fighting systems	**8,442**	8,442
Provision of maintenance services	**12,158**	12,158
Provision of online advertising services	**1,690**	–
	61,879	59,207

The recoverable amount of each CGU 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.

19. GOODWILL *(continued)*

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 ranging from 11% to 12% (2006: 13%), while the remaining forecast is based on financial budget of the previous year with a growth rate ranging from zero to 8% (2006: 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.

20. INTERESTS IN ASSOCIATES

	2007 RMB'000
Costs of investments in associates, unlisted	18,000
Share of post acquisition profits	124
	18,124

During the year, the Group acquired interests in the following associates at a total consideration of RMB18,000,000.

Name of entity/ kind of legal entity	Place of and incorporation principal place of operation	Proportion of registered capital held by the Group	Date of acquisition	Principal activities
福州華安消防工程技術有限公司 Fuzhou Huaan Fire Engineering Co., Ltd./ limited liability enterprise	PRC	40%	1 July 2007	Provision of fire prevention and fighting system installation services and maintenance services
江西永安消防工程有限公司 Jiangxi Yongan Fire Engineering Co., Ltd./ limited liability enterprise	PRC	40%	1 July 2007	Provision of fire prevention and fighting system installation services and maintenance services

20. INTERESTS IN ASSOCIATES *(continued)*

Included in the cost of investment in associates is goodwill of RMB4,526,000 arising on acquisitions during the year. The movement of goodwill is set out below.

	RMB'000
Cost	
At 1 January 2006 and 2007	–
Arising on acquisitions of associates	4,526
At 31 December 2007	4,526

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

	2007 **RMB'000**
Total assets	**71,564**
Total liabilities	**(37,569)**
Net assets	**33,995**
Group's share of net assets of associates	**13,598**
Revenue	**39,020**
Profit for the period	**311**
Group's share of profits of associates for the period	**124**

21. JOINTLY CONTROLLED ENTITY

As at 31 December 2007, 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 jointly control over Shanghai Pudong Special Fire Equipment Co., Ltd. under a shareholders' agreement.

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

	2007 RMB'000	2006 RMB'000
Non-current assets	**3,349**	–
Current assets	**23,647**	4,846
Current liabilities	**15,812**	–
Income	**28,052**	1
Expenses	**21,969**	–

22. OTHER INTANGIBLE ASSETS

	Capitalised development costs	Technical know-how	Total
	RMB'000	RMB'000	RMB'000
AT COST			
At 1 January 2006	8,400	–	8,400
Additions	120	–	120
Write-off	(8,400)	–	(8,400)
At 31 December 2006	120	–	120
Additions	–	1,377	1,377
Acquired on acquisition of a subsidiary *(note 40)*	500	–	500
At 31 December 2007	620	1,377	1,997
AMORTISATION			
At 1 January 2006	2,945	–	2,945
Charge for the year	1,700	–	1,700
Eliminated on write off	(4,625)	–	(4,625)
At 31 December 2006	20	–	20
Charge for the year	24	153	177
At 31 December 2007	44	153	197
CARRYING VALUES			
At 31 December 2007	576	1,224	1,800
At 31 December 2006	100	–	100

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

Capitalised development costs	5 years
Technical know-how	6 years

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

23. AVAILABLE-FOR-SALE INVESTMENT

Available-for-sale investment represents 45% of the registered capital of 北京特威特國際環保科技有限公司 Beijing TWT International Environment-Protection Co., Ltd. ("Beijing TWT"), a limited liability company established in the PRC and engaged in the production of fire suppression foam extinguishing agent. Pursuant to a supplementary agreement entered on 1 September 2007 between a wholly-owned subsidiary of the Company and the shareholders of Beijing TWT, the Group can only start to participate in the operations of Beijing TWT from one month after payment of purchase consideration. Since the purchase consideration was made in December 2007, the Group was not able to exert significant influence over Beijing TWT until January 2008 and therefore the corresponding amount paid was classified as available-for-sale investment at 31 December 2007.

The available-for-sale investment is measured at cost less impairment at 31 December 2007 because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair values cannot be measured reliably.

24. 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 2006	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)
Charge (credit) to the consolidated income statement for the year	6,524	(640)	3,970	1,833	11,687
Effect of change in tax rate	(1,198)	(356)	–	747	(807)
At 31 December 2007	10,268	474	–	(502)	10,240

24. DEFERRED TAXATION *(continued)*

At the balance sheet date, the Group has unused tax losses of RMB31,059,000 (2006: RMB19,333,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profit streams.

Included in unrecognised tax losses are losses of RMB14,370,000 (2006: RMB13,619,000) 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:

	2007	2006
	RMB'000	RMB'000
Deferred tax assets	**(502)**	(4,602)
Deferred tax liabilities	**10,742**	3,962
	10,240	(640)

Notes:

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

25. INVENTORIES

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

	2007 RMB'000	2006 RMB'000
Raw materials	**21,789**	14,485
Work-in-progress	**21,852**	9,711
Finished goods	**84,946**	39,588
	128,587	63,784

26. AMOUNTS DUE FROM (TO) CONTRACT CUSTOMERS

	2007 RMB'000	2006 RMB'000
Contract costs incurred plus profits recognised less recognised losses	**498,683**	195,694
Less: Progress billings	**(288,101)**	(148,686)
	210,582	47,008
Comprising:		
Amounts due from contract customers	**240,510**	60,684
Amounts due to contract customers	**(29,928)**	(13,676)
	210,582	47,008

The directors consider that the carrying value of amounts due from (to) contract customers approximates their fair values.

27. AMOUNT DUE FROM A JOINTLY CONTROLLED ENTITY

The amount is unsecured, carries fixed interest rate at 6 per cent per annum and is due for settlement within 12 months. The directors consider that the carrying value of amount due from a jointly controlled entity approximates to the fair value.

28. TRADE RECEIVABLES

	2007	2006
	RMB'000	RMB'000
Trade receivables	**400,781**	403,887
Less: allowance for doubtful debts	**(26,117)**	(21,156)
	374,664	382,731

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

	2007	2006
	RMB'000	RMB'000
0-90 days	**179,650**	220,860
91-180 days	**133,276**	109,699
181-360 days	**45,100**	36,556
Over 360 days	**16,638**	15,616
	374,664	382,731

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

Included in the Group's trade receivable balances are debtors with a carrying amount of RMB109,775,000 (2006: RMB135,666,000) which are past due at the report date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

28. TRADE RECEIVABLES *(continued)*

Aging of trade receivables which are past due but not impaired

	2007 RMB'000	2006 RMB'000
0-90 days	**68**	14
91-180 days	**47,969**	83,480
181-360 days	**45,100**	36,556
Over 360 days	**16,638**	15,616
	109,775	135,666

Movement in the allowance for doubtful debts

	2007 RMB'000	2006 RMB'000
Balance at beginning of the year	**21,156**	12,220
Impairment losses recognised on receivables	**5,568**	8,936
Impairment losses recognised upon acquisition of subsidiaries	**333**	–
Amounts recovered during the year	**(573)**	–
Exchange difference	**(367)**	–
	26,117	21,156

The Group's management closely monitors the credit quality of trade receivables and considers the trade receivables that are neither past due nor impaired to be of a good credit quality. Based on the payment pattern of the customers of the Group, trade receivables are past due but not impaired are generally collectable. Allowance on doubtful debt recognised for 2006 and 2007 are on trade receivables which are either aged over two years because historical experience is that such receivables past due beyond two years are generally not recoverable, or individually impaired trade receivables of customers which has either been placed under liquidation or in severe financial difficulties.

28. TRADE RECEIVABLES *(continued)*

The fair value of the Group's trade receivables approximates to its carrying amount.

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

	2007	2006
	RMB'000	RMB'000
EURO	**976**	1,237
USD	**6,884**	875

29. OTHER RECEIVABLES

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

30. BANK BALANCES/PLEDGED BANK DEPOSITS

Bank balances carry interest at market rates which range from nil to 5.8% (2006: nil to 4.7%) per annum.

Included in the pledged bank deposits are deposits pledged to banks amounted to RMB18,628,000 (2006: RMB22,252,000) to secure banking facilities granted to a subsidiary of the Company. They carry interest rates range from 2.6% to 5.8% (2006: 2.75% to 4.7%) per annum. The remaining pledged bank deposits are performance guarantee for certain installation projects and carry interest ranging from nil to 5.8% (2006: nil to 4.7%) per annum.

The fair value of the Group's bank balances and pledged bank deposits approximates to the respective carrying amounts.

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

	2007	2006
	RMB'000	RMB'000
EURO	**1,058**	450
HKD	**116,722**	115,889
USD	**1,235**	62

31. TRADE AND OTHER PAYABLES

	2007 RMB'000	2006 RMB'000
Trade creditors	120,009	118,059
Accrued costs and charges	148,845	38,817
Receipts in advance	19,209	13,697
Value added tax, sales tax and other levies	21,234	13,437
Amount payable for acquisition of a leasehold land	3,072	19,692
	312,369	203,702

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

	2007 RMB'000	2006 RMB'000
Within 30 days	68,187	45,694
31 – 60 days	17,920	16,223
61 – 90 days	10,215	19,145
Over 90 days	23,687	36,997
	120,009	118,059

The fair value of the Group's trade and other payables approximates to the corresponding carrying amounts.

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

	2007 RMB'000	2006 RMB'000
EURO	37,963	2,720
HKD	4,589	6,167
USD	910	33

32. 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 RMB4,410,000 (2006: RMB3,430,000) is interest bearing at a fixed rate of 6.68% (2006: 6.68%) 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.

33. BANK BORROWINGS

	2007	2006
	RMB'000	RMB'000
Trust receipt loans	**13,015**	2,751
Short term bank loans	**52,617**	41,220
Bank overdrafts	**5,303**	7,513
	70,935	51,484

Note:

The short term bank loans are secured by certain land and buildings and land leases of the Group with carrying values of RMB8,498,000 (2006: RMB9,059,000) and RMB10,382,000 (2006: RMB10,683,000) respectively.

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

The bank borrowings of the Group are arranged at London Inter Bank Offer Rate plus 1.75% to 2% and bench mark interest rate as stipulated by the People's Bank of China plus 1% and expose the Group to cash flow interest rate risk. The average bank interest rate during the year was 7.6% (2006: 7.4%) which approximates the effective interest rate of the Group.

Bank overdrafts carry interest at market rates which range from 6.85% to 10% (2006: 7.75% to 10.25%) per annum.

All the Group's borrowings are denominated in functional currencies of the relevant group entities and are due for settlement within 12 months.

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

33. BANK BORROWINGS *(continued)*

Note: (continued)

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

	2007	2006
	RMB'000	RMB'000
EURO	**3,646**	303
USD	**11,987**	2,450

34. OBLIGATION UNDER A FINANCE LEASE

	Minimum lease payments		**Present value of minimum lease payments**	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Amounts payable under a finance lease				
Within one year	**56**	43	**46**	34
In the second to fifth years inclusive	**210**	116	**193**	104
	266	159	**239**	138
Less: Future finance charges	**(27)**	(21)	**N/A**	N/A
Present value of lease obligations	**239**	138	**239**	138
Less: Amount due for settlement within 12 months (shown under current liabilities)			**(46)**	(34)
Amount due for settlement after 12 months			**193**	104

34. OBLIGATION UNDER A FINANCE LEASE *(continued)*

In 2007, the Group entered into a new finance lease which superseded the one entered into in 2005. The new finance lease was to finance the purchase of an additional furniture and fixture during the year and the remaining obligation under the finance lease entered into in 2005. The new finance lease has a lease term of 5 years and with an effective borrowing rate of approximate 5% per annum. The interest rate was fixed at the contract date. The lease is on a fixed repayment basis and no arrangement has been entered into for contingent rental payment.

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

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

35. SHARE CAPITAL

	No. of shares	HK$'000
Authorised:		
Shares of HK$0.01 each		
At 1 January 2006, 1 January 2007 and 31 December 2007	10,000,000,000	100,000

	No. of shares	HK$'000
Issued and fully paid:		
Shares of HK$0.01 each		
At 1 January 2006	2,376,000,000	23,760
Issue of new shares *(Note)*	479,000,000	4,790
At 31 December 2006 and 31 December 2007	2,855,000,000	28,550

	2007	2006
	RMB'000	RMB'000
Shown in the financial statements as	**30,168**	30,168

Note: 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 subscription agreement.

During the year of 2006, 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 2006 rank pari passu with the then existing shares in all respects.

36. 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 2007. 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.

36. 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	Outstanding at 1 January 2006	Exercised during 2006	Outstanding at 1 January 2007 and 31 December 2007
					HK$			
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.

37. 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.

37. RESERVES *(continued)*

(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.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Categories of financial instruments

	2007	2006
	RMB'000	RMB'000
Financial assets		
Loans and receivables		
(including cash and cash equivalents)	**1,325,071**	1,132,513
Available-for-sale investment	**44,100**	–
Financial liabilities		
Amortised cost	**220,281**	206,293

Financial risk management objectives and policies

The Group's major financial instruments include retention receivables, trade receivables, other receivables, amount due from a jointly controlled entity, pledged bank deposits and bank balances, trade and other payables, bank 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.

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

Financial risk management objectives and policies *(continued)*

Market risk

Currency risk

The Group's functional currency is RMB in which majority of transactions are denominated. However, a subsidiary of the Company has foreign currency sales and purchases, foreign currencies are also used to pay for certain expenses. The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at 31 December 2006 and 2007 are as follows:

	Assets		**Liabilities**	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
USD	**8,119**	937	**12,897**	2,483
EURO	**2,034**	1,687	**41,609**	3,023
HKD	**116,722**	115,889	**4,589**	6,167
	126,875	118,513	**59,095**	11,673

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

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

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

Financial risk management objectives and policies *(continued)*

Market risk (continued)

Currency risk *(continued)*

	Increase (decrease in profit)	
	2007	2006
	RMB'000	RMB'000
Increase (decrease) in profit before tax for the year		
– if RMB weaken against foreign currencies		
HKD	**5,607**	5,486
USD	**(239)**	(77)
EURO	**(1,978)**	(67)
– if RMB strengthen against foreign currencies		
HKD	**(5,607)**	(5,486)
USD	**239**	77
EURO	**1,978**	67

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

Cash flow interest rate risk

The Group's cash flow interest rate risk relates primarily to variable-rate bank borrowings (see note 33). The Group currently does not have policy on cash flow hedges of interest rate risk. However, the management monitors interest rate exposure and will consider hedging significant interest rate risk should the need arise.

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

	2007	2006
Reasonably possible change in interest rate	**50 basis point**	50 basis point
	RMB'000	RMB'000
Increase (decrease) in profit before tax for the year		
– as a result of increase in interest rate	**(284)**	(205)
– as a result of decrease in interest rate	**284**	205

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

Financial risk management objectives and policies *(continued)*

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 2007 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 on retention receivables, trade receivables, other receivables and amounts due from contract customers, with exposure spread over a number of counterparties and customers. No single customer accounted for more than 5% of the Group's total revenue for the year ended 31 December 2007.

Liquidity risk

The Group has sufficient cash and cash equivalents and has available funding through bank borrowings (note 33) to meet its working capital requirement. Generally, trade payables are normally required to be settled within 6 months after receipt of goods and services.

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

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

Fair value

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

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

- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

39. CAPITAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

The capital structure of the Group consists of debt, which mainly include the bank borrowings disclosed in note 33, and equity attributable to equity holders of the Company, comprising issued share capital and reserves including retained profits.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associates with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends and new share issues as well as the issue of new debts or the redemption of existing debt.

40. ACQUISITION OF SUBSIDIARIES

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

	Acquiree's carrying amount before combination RMB'000	**Fair value adjustments** RMB'000	**Fair value** RMB'000
Property, plant and equipment	546	–	546
Other intangible assets	–	500	500
Inventories	2,111	–	2,111
Trade receivables	347	–	347
Deposits, prepayments and other receivables	466	–	466
Bank balances and cash	456	–	456
Trade and other payables	(3,042)	–	(3,042)
Net assets acquired	884	500	1,384
Minority interests			(526)
Goodwill *(note 19)*			2,672
Total consideration			3,530
Satisfied by:			
Cash paid			3,530

Net cash outflow arising on acquisition:

Cash consideration	(3,530)
Bank balances and cash acquired	456
Net outflow of cash and cash equivalents in respect of the purchase of subsidiaries	(3,074)

40. ACQUISITION OF SUBSIDIARIES *(continued)*

The details of the subsidiaries acquired are the following:

Name of subsidiaries	Date of acquisition	Percentage of registered capital acquired	Principal activities
深圳市恒生照明有限公司 Shenzhen Hocen Emergency Lighting Co., Ltd.	1 March 2007	51%	Production and sale of fire prevention and fighting equipment
上海金格邏博網絡技術有限公司 Shanghai Jinge Luobo Network Technology Co., Ltd.	1 April 2007	100%	Provision of on-line advertising services

The fair value of the other intangible assets acquired, which relates to the capitalised development costs of tailor-made software for the provision of on-line advertising services has been determined with reference to professional valuation.

The goodwill arising on the acquisition of subsidiaries is attributable to the expected new business from new markets and industry.

The subsidiaries acquired during the year contributed RMB5,172,000 the Group's turnover and a loss of RMB1,196,000 between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1 January 2007, total group revenue for the year would have been RMB1,147,165,000, and profit for the year would have been RMB173,790,000. 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 2007, nor is it intended to be a projection of future results.

41. DISPOSAL OF SUBSIDIARIES

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

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

42. CAPITAL COMMITMENTS

	2007	2006
	RMB'000	RMB'000
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	**273,977**	314,527

43. 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:

	2007	2006
	RMB'000	RMB'000
Amounts payable:		
Within one year	**5,267**	3,484
In the second to fifth years inclusive	**10,477**	1,600
Over five years	**8,335**	–
	24,079	5,084

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 RMB253,000 (2006: RMB484,000). In December 2007, the Group entered into a sales and purchase agreement to sell its investment properties together with the lease contracts with tenants. All rental income belongs to the vendee upon completion of the agreement.

44. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's subsidiaries at 31 December 2007 and 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		Principal activities
			Directly	Indirectly	
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%	Production and sale of fire prevention and fighting equipment
北京市崇正華盛應急設備系統有限公司 Beijing City Chongzheng Huasheng Emergency Appliances System Co., Ltd./ limited liability enterprise	PRC	RMB4,870,000	–	55.44%	Production and sale of fire prevention and fighting equipment
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./wholly foreign-owned enterprise	PRC	HK$50,500,000	–	100%	Production and sale of fire prevention and fighting equipment

44. PARTICULARS OF PRINCIPAL 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		Principal activities
			Directly	Indirectly	
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./ wholly foreign-owned enterprise	PRC	HK$20,000,000	–	100%	Production and sale of fire prevention and fighting equipment
福州盛安消防安全服務有限公司 Fuzhou Shengan Fire Safety Services Co., Ltd./limited liability enterprise	PRC	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

44. PARTICULARS OF PRINCIPAL 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		Principal activities
			Directly	Indirectly	
江西省盛安城市安全信息發展有限公司 Jiangxi Shengan City Safety Communications Development Company Limited/limited liability enterprise	PRC	RMB15,500,000	–	51.61%	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
南昌市盛安消防安全遠程監控有限公司 Nanchang Shengan Fire Safety Monitoring Co., Ltd./limited liability enterprise	PRC	RMB1,000,000	–	85%	Development of network based monitoring system for fire prevention and fighting system and operation of remote automatic monitoring centre
深圳市恒生照明有限公司 Shenzhen Hocen Emergency Lightings Co., Ltd./limited liability enterprise	PRC	RMB1,500,000	–	51%	Production and sale of fire prevention and fighting equipment
四川森田消防裝備製造有限公司 Sichuan Morita Fire Safety Appliances Company Limited/sino-foreign equity joint venture	PRC	RMB80,640,000	–	75%	Production and sale of fire engines and fire prevention and fighting equipment

44. PARTICULARS OF PRINCIPAL 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		Principal activities
			Directly	Indirectly	
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
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

Notes:

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

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.

45. 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% (2006: 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 2007 amounted to RMB3,042,000 (2006: RMB3,629,000).

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 RMB148,000 (2006: RMB107,000).

46. RELATED PARTY TRANSACTIONS

Save as the related party information disclosed in note 27 in the consolidated financial statements, the Group has the following transactions with its related parties during the year.

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

FINANCIAL SUMMARY

	For the year ended 31 December				
	2003	2004	2005	2006	**2007**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
RESULTS					
Turnover	282,475	486,720	829,627	969,705	**1,146,124**
Profit before taxation	131,877	161,911	219,271	152,665	**226,820**
Taxation	(19,761)	(31,602)	(44,655)	(44,468)	**(52,752)**
Profit for the year	112,116	130,309	174,616	108,197	**174,068**
Attributable to:					
Equity holders of the Company	111,715	129,089	172,929	115,815	**175,350**
Minority interests	401	1,220	1,687	(7,618)	**(1,282)**
	112,116	130,309	174,616	108,197	**174,068**
Earnings per share (RMB cents)					
Basic	5.59	6.44	7.59	4.24	**6.14**
Diluted	N/A	6.44	7.44	4.17	**6.13**

	At 31 December				
	2003	2004	2005	2006	**2007**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
ASSETS AND LIABILITIES					
Total assets	480,602	666,488	1,094,066	1,473,182	**1,812,070**
Total liabilities	(37,392)	(118,984)	(260,422)	(284,350)	**(446,613)**
	443,210	547,504	833,644	1,188,832	**1,365,457**
Equity attributable to equity holders of the Company	442,493	540,936	805,642	1,162,598	**1,338,371**
Minority interests	717	6,568	28,002	26,234	**27,086**
Total equity	443,210	547,504	833,644	1,188,832	**1,365,457**