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: 445)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

HIGHLIGHTS

- Turnover of the Group for the year ended 31 December 2008 grew 6% to RMB1,216 million. Net profit, on the other hand, dropped 56% to RMB77 million.

  Included in the net profit for the year was an impairment loss in respect of goodwill recognised for the segment of trading of fire engines, fire prevention and fighting and rescue equipment amounted to RMB15 million. The impairment was made because of the decrease in demand for imported fire engines in China.

- Earnings per share decreased 54% to RMB2.82 cents.

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

* *For identification purpose*

CHAIRMAN'S STATEMENT

Review

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

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

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

Looking forward

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

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

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

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

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

Appreciation

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

Jiang Xiong
Chairman

16 April 2009

The board of Directors (the "**Board**") of the Company is pleased to announce the audited consolidated income statement and consolidated balance sheet of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2008, together with the comparative figures for the corresponding period in 2007, as follows:

CONSOLIDATED INCOME STATEMENT

		Year ended 31 December	
	Notes	**2008**	**2007**
		RMB'000	RMB'000
Turnover	*2*	**1,216,448**	1,146,124
Cost of sales		**(986,547)**	(833,594)
Gross Profit		**229,901**	312,530
Other income	*3*	**12,048**	24,562
Selling and distribution costs		**(28,410)**	(20,992)
Administrative expenses		**(80,031)**	(82,225)
Share of profits of associates		**3,836**	124
Other expenses	*4*	**(17,782)**	(2,559)
Finance costs		**(4,828)**	(4,620)
Profit before taxation		**114,734**	226,820
Taxation	*5*	**(38,083)**	(52,752)
Profit for the year	*6*	**76,651**	174,068
Attributable to:			
Equity holders of the Company		**80,433**	175,350
Minority interests		**(3,782)**	(1,282)
		76,651	174,068
Earnings per share (RMB cents)	*7*		
- Basic		**2.82**	6.14
- Diluted		**2.82**	6.13

CONSOLIDATED BALANCE SHEET

	Notes	**At 31 December 2008 RMB'000**	At 31 December 2007 RMB'000
Non-current assets			
Property, plant and equipment		**243,710**	138,961
Prepaid lease payments		**41,225**	56,664
Goodwill		**45,411**	61,879
Interests in associates		**70,173**	18,124
Other intangible assets		**1,523**	1,800
Available-for-sale investment		**-**	44,100
Deferred tax assets		**502**	502
		402,544	322,030
Current assets			
Inventories		**102,443**	128,587
Trade and bills receivables	*9*	**391,322**	374,664
Amounts due from contract customers		**129,946**	240,510
Retention receivables		**20,316**	5,674
Deposits, prepayments and other receivables		**31,994**	31,075
Amount due from a jointly controlled entity		**6,040**	4,761
Amount due from an associate		**431**	-
Prepaid lease payments		**855**	476
Derivative financial instruments		**214**	-
Pledged bank deposits		**8,422**	22,559
Bank balances and cash		**777,634**	661,934
		1,469,617	1,470,240
Assets classified as held for sale		**25,751**	19,800
		1,495,368	1,490,040
Current liabilities			
Trade and other payables	*10*	**337,736**	312,369
Amounts due to contract customers		**12,370**	29,928
Amounts due to minority shareholders		**4,676**	4,792
Tax liabilities		**26,274**	17,608
Bank borrowings		**63,471**	70,935
Obligations under a finance lease - amount due within one year		**46**	46
		444,573	435,678
Net current assets		**1,050,795**	1,054,362
Total assets less current liabilities		**1,453,339**	1,376,392
Non-current liabilities			
Deferred tax liabilities		**6,620**	10,742
Obligations under a finance lease - amount due after one year		**138**	193
		6,758	10,935
Net assets		**1,446,581**	1,365,457

	At 31 December 2008 RMB'000	At 31 December 2007 RMB'000
Capital and reserves		
Share capital	**30,168**	30,168
Reserves	**1,388,799**	1,308,203
Equity attributable to equity holders of the Company	**1,418,967**	1,338,371
Minority interests	**27,614**	27,086
Total equity	**1,446,581**	1,365,457

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2008

	Attributable to equity holders of the Company												
	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000	Capital reserve RMB'000	Property revaluation reserve RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Statutory reserve fund RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	Total RMB'000	Minority interests RMB'000	Total RMB'000
At 1 January 2007	30,168	646,363	(6,692)	57,840	2,985	30,250	20,121	49,203	(1,055)	333,415	1,162,598	26,234	1,188,832
Exchange differences arising on translation of foreign operations recognised directly in equity	-	-	-	-	-	-	-	-	436	-	436	202	638
Realisation of exchange reserve on disposal of a subsidiary	-	-	-	-	-	-	-	-	(13)	-	(13)	-	(13)
Profit for the year	-	-	-	-	-	-	-	-	-	175,350	175,350	(1,282)	174,068
Total recognised income (expense) for the year	-	-	-	-	-	-	-	-	423	175,350	175,773	(1,080)	174,693
Transfer	-	-	-	-	-	488	244	31,440	-	(32,172)	-	-	-
Capital contribution from minority shareholders	-	-	-	-	-	-	-	-	-	-	-	154	154
Acquired on acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	526	526
Disposal of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	1,252	1,252
At 31 December 2007	30,168	646,363	(6,692)	57,840	2,985	30,738	20,365	80,643	(632)	476,593	1,338,371	27,086	1,365,457
Exchange differences arising on translation of foreign operations recognised directly in equity	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**163**	**-**	**163**	**158**	**321**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**80,433**	**80,433**	**(3,782)**	**76,651**
Realisation of property revaluation reserve on disposal of the relevant investment properties that were reclassified as assets held for sale	**-**	**-**	**-**	**-**	**(2,985)**	**-**	**-**	**-**	**-**	**2,985**	**-**	**-**	**-**
Total recognised income (expense) for the year	**-**	**-**	**-**	**-**	**(2,985)**	**-**	**-**	**-**	**163**	**83,418**	**80,596**	**(3,624)**	**76,972**
Transfer	**-**	**-**	**-**	**-**	**-**	**5,156**	**2,578**	**1,784**	**-**	**(9,518)**	**-**	**-**	**-**
Capital contribution from minority shareholders	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,602**	**3,602**
Disposal of a subsidiary	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**259**	**259**
Changes in minority interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**291**	**291**
At 31 December 2008	**30,168**	**646,363**	**(6,692)**	**57,840**	**-**	**35,894**	**22,943**	**82,427**	**(469)**	**550,493**	**1,418,967**	**27,614**	**1,446,581**

Notes:

1 Basis of presentation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and by the Hong Kong Companies Ordinance. In the current year, the Group has applied, for the first time, a number of new HKFRSs which are effective for accounting periods beginning on or after 1 January 2008. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

2 Turnover

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

	Year ended 31 December	
	2008	2007
	RMB'000	RMB'000
Revenue from installation contracts	**469,969**	466,376
Sale of goods	**654,719**	600,204
Provision of maintenance services	**91,266**	79,495
Others	**494**	49
	1,216,448	1,146,124

3 Other income

	Year ended 31 December	
	2008	2007
	RMB'000	RMB'000
Interest income	**7,747**	8,734
Rental income	**987**	1,148
Gain on disposal of a subsidiary	**170**	9,357
Gain on disposal of leasehold land	**-**	372
Changes in fair value of investments held for trading	**-**	2,669
Others	**3,144**	2,282
	12,048	24,562

4 Other expenses

	Year ended 31 December	
	2008	2007
	RMB’000	RMB’000
Impairment loss recognised in respect of goodwill	**15,283**	-
Fair value loss on derivative financial instruments	**2,499**	-
Changes in fair value of investment properties	**-**	2,559
	17,782	2,559

5 Taxation

		Year ended 31 December	
		2008	2007
	Note	**RMB’000**	RMB’000
The charge comprises:			
Current tax			
PRC Enterprise Income Tax		**39,516**	41,676
Under(over)provision in prior years			
PRC Enterprise Income Tax		**2,870**	1
Hong Kong Profits Tax		**(181)**	195
		2,689	196
Deferred tax	*a*		
Current year		**(4,122)**	11,687
Effect of change in tax rate		**-**	(807)
		(4,122)	10,880
		38,083	52,752

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

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

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

Note a. Deferred taxation

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

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

note i: The amount represents the temporary difference arising on the profit recognition of installation contracts between Hong Kong generally accepted accounting principles in which revenue and costs of installation contract are recognised in the consolidated income statement by reference to the stage of completion of the contract activities and the taxable income of the PRC subsidiaries which recognise revenue of installation contracts upon completion.

note ii: The amount mainly represents temporary differences arising on allowances for bad and doubtful debts.

6 Profit for the year

Profit for the year has been arrived at after charging:

	Year ended 31 December	
	2008	2007
	RMB'000	RMB'000
Depreciation of property, plant and equipment		
Owned assets	**11,742**	14,649
Assets held under a finance lease	**80**	54
Amortisation of prepaid lease payments	**381**	506
Amortisation of other intangible assets	**277**	177
Allowance of bad and doubtful debts	**3,511**	5,568

7 Earnings per share

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

	Year ended 31 December	
	2008	2007
	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)	**80,433**	175,350
	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,855,000**	2,855,000
Effect of dilutive potential ordinary shares:		
Share options (Note)	**-**	4,094
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**2,855,000**	2,859,094

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

8 Dividends

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

9 Trade and bills receivables

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

The Group allows an average credit period of 30 days to 180 days to its trade customers.

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

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

10 Trade and other payables

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

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

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

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

SEGMENT INFORMATION

(a) Business segments

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

Segment information about these businesses are as follows:

	Installation of fire prevention and fighting systems 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 2008								
TURNOVER								
External sales	469,969	247,670	265,581	141,468	91,266	494	-	1,216,448
Inter-segment sales	-	-	24,949	-	-	-	(24,949)	-
Total	469,969	247,670	290,530	141,468	91,266	494	(24,949)	1,216,448

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

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

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

	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.

	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	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
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	-	-		

(b) Geographical segments

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

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

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

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

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

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

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

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

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

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

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

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

Trading of fire engines, fire prevention and fighting and rescue equipment
Revenue from the trading of fire engines, fire prevention and fighting and rescue equipment for the year increased by 107% to approximately RMB141 million. The segment incurred a loss of RMB20 million for the year (2007: loss of RMB3 million).

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

Financial resources, liquidity, contingent liabilities and pledge of assets

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

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

Renminbi is the functional currency and adopted as the reporting currency by the Group. The majority of the Group's assets, liabilities, sales and purchases are primarily denominated in Renminbi and Hong Kong dollar. During the year, as Hong Kong dollar has depreciated against Renminbi, there was an exchange loss of RMB3.9 million included in the administrative expenses arose from the translation of some of the Group's Hong Kong dollar denominated assets (mainly Hong Kong dollar bank deposits) into Renminbi. The Group has entered into foreign currency forward exchange contracts to minimize exposure to exchange rate volatility arising from receivables and payables involving currencies other than Renminbi and Hong Kong dollar. There were losses arising from changes in fair value of currency derivatives amounting to RMB2.5 million during the year.

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

Investments and capital commitments

Investments

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

Capital commitments

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

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

Dividends

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

Employees and remuneration policies

As at 31 December 2008, the Group had approximately 1,279 full-time employees (2007: 1,551). Staff costs, excluding directors' remuneration, for the year amounted to RMB39 million, decrease by 28% over the previous year's RMB54.4 million. A number of staff were laid off at the beginning of the year due to the phasing out of the Group's fire detection and alarm systems as explained in "*Production and sale of fire prevention and fighting equipment*" under the Business review section above, leading to the decrease in staff costs. All full-time employees are entitled to medical contributions, provident funds and retirement plans. The Group provides a series of comprehensive in-house and on-the-job training to staff to keep their technical skills and standards up to date for quality services and to enhance work safety.

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

Save as disclosed below, as of 31 December 2008, none of the Directors or chief executive has any interest or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (Cap. 571 of the Laws of Hong Kong) ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or were required, pursuant to section 352 of the SFO to be entered in the register required to be kept therein or which were required, pursuant to the Model

Code for Securities Transactions by Directors of Listed Companies of the 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 interest**	**Number of issued shares of HK$0.01 each of the Company held**	**Percentage of issued share capital of the Company**
Mr. Jiang Xiong	Beneficial owner (Note 1) Deemed interest (Note 2)	981,600,000 825,000,000	63.28% (Note 3)
Mr. Jiang Qing	Beneficial owner	7,500,000	0.26%

Note:

1. Mr. Jiang Xiong ("Mr. Jiang") is beneficially interested in 981,600,000 shares. By virtue of the option agreement entered into between Mr. Jiang and United Technologies Far East Limited ("UTFE"), a subsidiary of 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 his capacity as a party to the Option Agreement to which Section 317(1)(a) of the SFO applies.

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

Short positions in ordinary shares of the Company

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

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

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

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

Options to subscribe for ordinary shares in the Company

Grantee	Date of grant	Number of shares issuable under the options granted	Exercisable period	Exercise price (HK$)	Number of shares issuable under the options outstanding as at 1 January and 31 December 2008	Percentage of issued share capital of the Company
Mr. Jiang Qing	25 May 2004	20,000,000	25 May 2004 – 24 May 2014	0.44	20,000,000	0.70%

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

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

INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 31 December 2008, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of certain directors of the Company, 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%

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 held by UTFE at the relevant time, in aggregate, 51% of the voting rights of the Company immediately following completion of the exercise of the option under the Option Agreement; and (b) all the shares held by Mr. Jiang at the time when UTFE exercises the option. The percentage figure as stated is calculated without taking into account the long position in the shares to be sold under the Option Agreement.

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

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

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

Short positions in ordinary shares of the Company

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

Other than as disclosed above, the Company has not been notified of any other interests or short position in the issued share capital of the Company as at 31 December 2008.

COMPETING INTERESTS

None of the directors of the Company or the management shareholder of the Company and their respective associates (as defined in the Listing Rules) had any interest in a business which competes or may compete with the business of the Group or had any other conflicts of interest, which any such person has or may have with the Group.

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.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

COPORATE GOVERNANCE

Corporate governance practices

Throughout the year ended 31 December 2008, the Company has complied with the code provisions set out in the Code on Corporate Governance Practices set out in Appendix 14 of the Listing Rules, except for the following:

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

The details of such deviation have been disclosed in the relevant paragraphs below and in the Corporate Governance Report in the 2008 annual report to be dispatched to the shareholders and posted on the web-site of the Stock Exchange in accordance with the Listing Rules.

Directors' securities transactions

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

Board of directors

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

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

Attendance of each director is set out below:

Name of directors	No. of meetings attended
Executive directors	
Mr. Jiang Xiong (Chairman)	2/3
Mr. Jiang Qing (Chief Executive Officer)	3/3
Mr. Shi Jia Hao	3/3
Mr. Wang De Feng	3/3
Ms. Weng Xiu Xia	3/3
Ms. Zhang Hai Yan	3/3
Non-executive directors	
Mr. Doug Wright	3/3

Ms. Xi Zheng Zheng	3/3
Independent non-executive directors	
Mr. Heng Kwoo Seng	3/3
Dr. Loke Yu	3/3
Mr. Sun Jian Guo	2/3

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

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

Auditor's remuneration

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

Chairman and chief executive officer

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

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

Non-executive directors

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

Remuneration of directors

The remuneration committee comprises Mr. Heng Kwoo Seng ("Mr. Heng"), Dr. Loke Yu, both are independent non-executive directors of the Company, and Mr. Jiang Qing who is an executive director and Chief Executive Officer of the Company. The primary duties of the committee are to formulate policy and structure of remuneration of directors and senior management of the Group and to provide advice and recommendations thereon to the Board. During the year, the remuneration committee held one meeting, in which all members were present, to review all of the directors' remuneration packages. Mr. Heng Ja Wei, who was appointed as an independent non-executive director of the Company on 4 March 2009, joined the remuneration committee since appointment to take the place vacated by Mr. Heng who resigned as an independent non-executive director of the Company on 28 February 2009.

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

Audit Committee
The audit committee comprises three independent non-executive directors, Mr. Heng Kwoo Seng ("Mr. Heng"), Dr. Loke Yu and Mr. Sun Jian Guo. The primary duties of the audit committee are to review the Company's annual report and accounts, half-yearly reports and quarterly reports and to provide advice and comments thereon to the Board. The audit committee is also responsible for reviewing and supervising the financial reporting process and internal control procedures of the Group.

During the year, the audit committee held three meetings to review and comment on the Company's quarterly, interim and annual financial reports and to meet with the external auditors and participate in the reappointment and assessment of the performance of the external auditors. Attendance of each member of the audit committee is set out below:

Name of Members	No. of meetings attended
Mr. Heng Kwoo Seng (Chairman)	3/3
Dr. Loke Yu	3/3
Mr. Sun Jian Guo	2/3

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

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

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

By order of the Board
China Fire Safety Enterprise Group Holdings Limited
Jiang Xiong
Chairman

Hong Kong, 16 April 2009

As at the date of this announcement, the Company’s Executive Directors are Mr. Jiang Xiong, Mr. Jiang Qing, Mr. Shi Jia Hao, Mr. Wang De Feng, Ms. Weng Xiu Xia and Ms. Zhang Hai Yan; the Non-Executive Directors are Mr. Doug Wright, Ms. Xi Zheng Zheng and Mr. Harinath Krishnamurthy (alternate Director to Mr. Doug Wright); and the Independent Non-Executive Directors are Dr. Loke Yu, Mr. Sun Jian Guo and Mr. Heng Ja Wei.

This announcement is available for viewing on the website of the Stock Exchange at www.hkexnews.hk as well as the website of the Company (www.chinafire.com.cn).