CFE

China Fire Safety Enterprise Group Holdings Limited

中國消防企業集團控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

2004

ANNUAL REPORT

* *For identification purpose only*

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CORPORATE INFORMATION

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Chen Shu Quan
Chan Siu Tat

NON-EXECUTIVE DIRECTORS

Richard Owen Pyvis
Josephine Price

INDEPENDENT NON-EXECUTIVE DIRECTORS

Liu Shi Pu
Heng Kwoo Seng
Xiang Yu Fu

COMPLIANCE OFFICER

Jiang Qing

QUALIFIED ACCOUNTANT

Li Ching Wah

COMPANY SECRETARY

Li Ching Wah

AUTHORIZED REPRESENTATIVES

Chan Siu Tat
Li Ching Wah

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Liu Shi Pu
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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

The Group achieved its highest turnover and net profit since its listing in 2002. Turnover and net profit for the year were RMB487 million and RMB129 million respectively, increased 72% and 16% respectively over those of last year. Earnings per share recorded at 6.4 RMB cents, a growth of 14% over last year's 5.6 RMB cents.

Of our three major business segments, the performance of installation services was especially outstanding. Besides the active property market and increasing government expenditure on infrastructure in Fujian, it is the result of our strategic move in setting up branch offices in different major cities in past few years. As at the end of the year, we had nearly 30 branch offices in different regions in China contributing over 15% to our revenue in installation services. Although we have to bear the lower profit margin at the development stage, we can see a growing recognition of our brand nationwide. These, together with our acquisitions in different regions including Beijing, Jiangxi and Sichuan, have substantially widen our market coverage. On the product side, we have expanded, from a simple product mix comprising only emergency lightings and smoke and fire detectors, to a whole range of fire prevention and fighting equipment and systems including fire engines, fire extinguishers, sprinkler systems, network based monitoring systems and other rescue tools used by fire brigades. This is also our strategy to combat the intensifying competition which has exerted tremendous pressure on the pricing of our products.

Through the acquisitions during the year, we have moved a great step towards our aim of building a professional integrated fire safety business.

STRATEGIC ALLIANCE

I am delighted that we are going to have two strategic partners, Morita Corporation ("**Morita**") and United Technologies Corporation ("**UTC**"), joining our Group in 2005.

Morita is a famous, world class manufacturer and distributor of fire engines and other fire fighting and prevention equipment. Its shares are listed on both Tokyo and Osaka Stock Exchange. It is the largest fire engines manufacturer in Japan occupying approximately 50% of the market for fire engines. Its ladder trucks and airport rescue and fire fighting vehicle also have about 80% of Japan's market share. Morita is one of our existing shareholders and has been supporting us since our company went listing on the Stock Exchange in 2002. As disclosed in "Acquisition and Capital commitments" under Management Discussion Analysis section to this report, Morita is to invest and own 25% of the equity interests in Sichuan Fire Appliances Factory ("**Sichuan Fire Factory**") upon completion of our acquisition of the Sichuan Fire Factory. The completion is subject to the fulfillment of certain regulatory conditions and are expected to be fulfilled in the coming few months. Sichuan Fire Factory, a state-owned enterprise, though with clear potential by its long history and reputation in China faces lots of challenges in technological aspects, changing market conditions, increasing competition and other obstacles in its restructuring process. Morita's participation would greatly benefit Sichuan Fire Factory as its team will lead the way of upgrading the technological level and modernizing the operations of Sichuan Fire Factory. Soon we will have a new brand named "Sichuan Morita" which denotes our cooperation results.

Chairman's Statement

UTC, through its wholly owned subsidiary, United Technologies Far East Limited ("**UTFE**"), is to become one of our substantial shareholders. UTC is one of the largest corporations in the US with sales over US$37 billion in 2004. Its products include Carrier heating and cooling, Chubb security and fire systems, Hamilton Sundstrand aerospace systems and industrial products, Otis elevators and escalators, Pratt & Whitney aircraft engines, Sikorsky helicopters and UTC Power fuel cells. Chubb, a business unit of UTC, is a world leading provider of products and services for the electronic security industry and fire protection industry. With UTC and Chubb's involvement in our Group, the Group can gain from the synergetic effects with Chubb's operation. Chubb could increase its geographical reach to China while we could advance our technology through cooperation with them. Moreover, by leveraging on their global customer base, our products could reach the international market.

We expect that the intensifying competition will induce consolidation of market participants in China. We are confident that we can maintain and expand our market presence with the input from and leverage gained from the involvement of these well-respected international companies which is prominent in the fire safety industry worldwide.

APPRECIATION

I would like to thank all our staff for their dedication and good works and to my fellow directors for their valuable contributions.

Jiang Xiong
Chairman

23 March 2005

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Overall performance

For the year ended 31 December 2004, turnover of the Group grew at 72% to approximately RMB487 million. Net profit for the year also jumped 16% to approximately RMB129 million, giving per share earnings of 6.4 RMB cents, a 14% increase over that of last year.

Installation of fire prevention and fighting systems

As shown in the segment information set out in note 5 to the financial statements, performance of the installation of fire prevention and fighting systems segment were particularly impressive. Revenue for the year reached RMB230 million, increased by RMB171 million or 294% over that of last year. It has contributed profit of RMB69 million, represented a 162% growth over last year.

Revenue increased on the back of increased investment by the Fujian government in infrastructure, the prosperous property market and more importantly, the Group's strategic move to set up branch offices in major cities nationwide. As at the end of the year, there were nearly 30 branch offices set up and in operation in cities and provinces like Beijing, Jiangsu, Jiangxi, Sichuan, Shannxi, Inner Mongolia and Hainan etc.. Although profit margin earned in these markets is intentionally set lower at the current set up stage such that the Group can capture a larger market share, higher returns are expected in the future when the Group stands firm in the new markets. Additional offices are being set up to further expand the Group's presence all over the nation and to capture more business opportunities arising from large-scale projects such as the Olympic Games.

Provision of fire prevention and fighting system maintenance services

The maintenance services sector performed steadily during the year. Revenue and contributed profit for the year were RMB46 million and RMB40 million respectively, as compared to RMB43 million and RMB39 million correspondingly for last year, slightly increased by 8% and 3% respectively.

The Group is launching its network based monitoring system of fire prevention and fighting systems which allow users to have their fire prevention and fighting systems securely monitored all the time in a remote automatic monitoring centre. It greatly improves the condition of the fire prevention and fighting systems and keeps them maintain in a good ready-for-use standard. Given the rising concern of personal safety and enhancing rules and regulations, the Group anticipates that there will be great demand of such high quality and advance system and will further improve the performance of the Group's maintenance services sector.

Production and sale of fire prevention and fighting equipment

Revenue from production and sales of fire prevention and fighting equipment increased by RMB21 million or 12% to RMB202 million although contributed profit slightly dropped by 5% to RMB71 million. The gross profit percentage has also slightly decreased by 5%.

Sales of fire prevention and fighting equipment, in terms of quantity, has in fact increased substantially. It reflects the customers' ascertainment on the Group's outstanding product quality and reputation. However, the ever-intensifying competition has exerted great pressure on the Group's product pricing, leading to the profit decrease. In response, the Group has not only diversified its product variety through acquisitions but improves its production method and other means to reduce the costs of production to maintain its competitiveness.

The Group's subsidiary in Beijing, Beijing Chongzheng Huasheng Emergency Lighting System Co., Ltd ("**Chongzheng Huasheng**") (北京崇正華盛應急照明系統有限責任公司), which specializing in centralized electronic supplies technology for emergency lighting products, has contributed to the Group revenue of approximately RMB18 million and profit of approximately RMB2 million. As the company adopts an innovative technology that is considered to be the protocol for emergency lightings in the future and with relatively few suppliers in the market, it is expected to contribute substantially to the Group's results in the coming years.

Others

Besides Chongzheng Huasheng, other subsidiaries acquired during the year (as detailed in the "Acquisition and Capital commitments" section below) have also been integrating into the Group's operations. Jiangxi Shengan City Safety Communications Development Co. Ltd. ("**Shengan City Safety**") (江西盛安城市安全信息發展有限公司) has set up its first batch of monitoring centres in Jiangxi and Fujian, both of which will soon be put into operation. Another subsidiary Tung Shing Trade Development Company Limited ("**Tung Shing**") which was acquired in November 2004, has generated the Group revenue of RMB8 million for the year. Its contribution is anticipated to be significantly increased based on its orders obtained on hand.

FINANCIAL RESOURCES, LIQUIDITY, CONTINGENT LIABILITIES AND PLEDGE OF ASSETS

As at 31 December 2004, the Group had cash and bank balances amounted to approximately RMB247 million (2003: RMB185 million) of which RMB 2 million were pledged to secure certain banking facilities granted to a subsidiary of the Group. Outstanding balances of short term bank loan, trust receipt loans and bank overdraft as at the year end date were RMB0.6 million, RMB3 million and RMB9 million respectively. The bank 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. Save as disclosed herein, there were no other charges on the assets of the Group as at 31 December 2004.

As at 31 December 2004, current assets and current liabilities of the Group were approximately RMB424 million (2003: RMB317 million) and RMB111 million (2003: RMB31 million) respectively. The current ratio was approximately 3.8 times (2003: 10.2 times), reflecting sufficient financial resources to meet the Group's liabilities. For the year under review, majority of the Group's source of funds was generated from operating activities. The Group has a zero debt to asset ratio as it has no long-term interest bearing liabilities as at year end date (gearing ratio for 2003: 0.7%).

Renminbi is adopted as the reporting currency by the Group. As the Group's assets, liabilities, sales and purchases are primarily denominated in Renminbi and Hong Kong dollar, the Group's exposure to foreign currencies fluctuation is minimal, and therefore, no hedging against foreign currencies exposure is considered necessary. The Group had no material contingent liabilities as at 31 December 2004.

ACQUISITIONS AND CAPITAL COMMITMENTS

During the year, the Group has the following acquisitions:

1. On 26 February 2004, the Group entered into an agreement to acquire 55.44% equity interest in Chongzheng Huasheng, a company specializing in centralized electronic supplies technology for emergency lighting products, at cash consideration of RMB3,800,000.

2. On 11 August 2004, the Group entered into an agreement to acquire 51.61% equity interest in Shengan City Safety, a company specializing in the development and operation of network based monitoring system of fire prevention and fighting system and remote automatic monitoring centre at cash consideration of RMB7,000,000.

3. On 24 September 2004, the Group entered into an agreement with an independent third party to acquire all the equity interests in Sichuan Fire Safety Appliances Factory ("**Sichuan Fire Factory**") (四川消防機械總廠) at cash consideration of RMB81,000,000. Sichuan Fire Factory is a state-owned enterprise principally engaged in the manufacturing and sale of fire engines, design, manufacturing, sale and installation of fire prevention and fighting equipment and provision of installation and maintenance services of fire prevention and fighting systems. The consideration is to be paid in two tranches. As at 31 December 2004, the Group had paid the first tranch of consideration of RMB32,400,000. The balance of RMB48,600,000 will be settled upon fulfillment of certain conditions as stipulated in the agreement.

4. On 8 November 2004, the Group entered into an agreement to acquire 51% of the total issued ordinary shares and 100% of the total issued non-voting deferred shares of Tung Shing, a company engaging in distribution and sale of fire engines and fire fighting and rescue tools in the PRC, Hong Kong, Macau and Taiwan, at a consideration of HK$40,800,000 of which HK$16,800,000 were settled in cash and the remaining by issuance of 30,000,000 new shares of the Company at maximum, subject to a profit guarantee adjustment as stipulated in the agreement.

On 14 January 2005, the Group entered into an agreement to sell 25% equity interest in Sichuan Fire Factory to Morita Corporation ("**Morita**"), subject to the completion of the Group in acquiring Sichuan Fire Factory (as noted in No. 3 above) and restructuring of Sichuan Fire Factory into a limited liability company, at cash consideration of RMB20,750,000. Morita is a shareholder of the Company holding 1.156% of the issued share capital of the Company and is a renowned manufacturer and distributor of fire engines and fire prevention and fighting equipment. Its fire engines occupy approximately 50% of the market share in Japan and its ladder trucks and airport rescue and fire fighting vehicle have about 80% of Japan's market share. Morita will send engineers and technicians to Sichuan Fire Factory to lead works on standard upgrade, quality improvement and production restructuring matters. They may also move the productions of certain models of their fire engines to Sichuan Fire Factory. The participation of Morita would definitely benefit Sichuan Fire Factory by allowing it to expand into higher end markets.

Apart from the remaining consideration to be paid as stated in No. 3 above, as at 31 December 2004, the Group had commitment of approximately RMB4,397,000 to acquire certain land and buildings and RMB6,000,000 to acquire certain plant and equipment.

Save as disclosed herein, the Group has no significant capital commitment, investments, acquisitions or disposals of subsidiaries as at 31 December 2004.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2004, the Group had approximately 900 full-time employees (2003: 648). Staff costs, excluding directors' remuneration, for the year amounted to RMB37 million, a 64% increase over the previous year's RMB23 million. The increase in staff costs is mainly due to more temporary workers employed for the installation works with the boost in the contracts for installation services and the increase in number of staff from the new subsidiaries. All full-time employees are entitled to medical contributions, provident funds and retirement plans. Employees, especially those on the front line, are rewarded on a performance basis. Staff performance appraisals are conducted on a half-yearly basis to evaluate performance of each staff and to provide a means of communication between management and staff.

The Group provides a series of comprehensive in-house and on-the-job training to staff to keep their technical skills and standards up to date for quality services and to enhance work safety.

STRATEGIC INVESTORS

Apart from the cooperation with Morita in the Sichuan Fire Factory project as disclosed in "Acquisitions and Capital commitments" above, another strategic partner is going to strengthen the Group's shareholder base. On 1 February 2005, the Company entered into a subscription agreement with United Technology Far East Limited ("**UTFE**"), an indirect wholly owned subsidiary of United Technologies Corporation ("**UTC**"). Pursuant to the agreement, UTFE will subscribe for shares of the Company in two tranches at a subscription price of HK$0.577 per share. UTFE will eventually hold 29% of the company's enlarged share capital in around one year from the date of the agreement subject to the fulfillment of the conditions as stipulated in the agreement. UTFE will appoint two non-executive directors to the Company after the first tranche of subscription.

UTC is listed on the New York Stock Exchange. It generated revenue of US$37 billion in 2004. UTC's products include Carrier heating and cooling (HVAC), Chubb fire and security systems and products, Hamilton Sundstrand aerospace systems and industrial products, Otis elevators and escalators, Pratt & Whitney aircraft engines, Sikorsky helicopters and UTC Power fuel cells. UTC acquired Chubb plc in July 2003. Chubb is a leading provider of products and services for the electronic security industry and fire protection industry in United Kingdom, France, Hong Kong, Australia, Canada and South Africa. UTC's involvement with the Group will assist the Group considerably with its strategic planning and expansion in the fire safety industry. Firstly, by leveraging on UTC's customer base, the Group could increase its geographical reach on a global basis. In addition, the Group could advance its technology through cooperation with Chubb: Chubb has extensive experience in rolling out network based monitoring systems in France, Australia and in Hong Kong where it has almost monopolized the market for the past 15 years. Its experience would benefit the Group in further enhancing and launching its network based monitoring system for fire prevention and fighting systems. Furthermore, the manufacturing operations of Chubb and Kidde (a subsidiary of Chubb, also famous for its high standard fire protection products) may eventually outsource to the Group.

The Group believes that China's continuing development over the coming years will give rise to growing demand for increasingly sophisticated and high quality fire safety systems and solutions which the Group, with support from major international companies in the fire safety industry, will be uniquely placed to supply.

COMPARISON OF THE BUSINESS PLANS AND ACTUAL PROGRESS

Set out below is a summary of the actual business progress of the Group as measured against the business objectives up to 31 December 2004 as set out in the prospectus of the Company dated 23 September 2002:

Development of new products with application of advanced technology

a. *New products to be applied in the existing business*

The Group will apply advanced technology in various new products in the existing business which comprises online monitoring system of fire prevention and fighting systems, intelligent power supply safety protection monitoring and control system, intelligent fire detector operated by CPUs and crystal luminous emergency lighting system.

Expected progress	**Actual progress**
Complete testing and launch of online monitoring system of fire prevention and fighting systems.	The Group has acquired 51.61% equity interests of Shengan City Safety which specializes in the research and development of network based monitoring system for fire prevention and fighting maintenance systems and operates remote automatic monitoring centre. The Group considered that it is more effective and efficient to cooperate with a company with relevant operating experience than self-development.
Launch the intelligent power supply safety protection monitoring and control system. Produce and launch intelligent fire detector operated by CPUs and crystal luminous emergency lighting system.	Production and sale of intelligent fire detector operated by CPUs and crystal luminous emergency lighting system commenced.

b. *New product lines and new types of services*

The Group will also develop new product lines and new types of services, fire retardant materials, fire service equipment and fire services installation project for specialized industries, in order to provide more comprehensive services to customers and seize the opportunities in the growing fire safety market.

Expected progress	**Actual progress**
Commence operation of the acquired companies engaged in manufacturing or supplying fire retardant material and fire service equipment. Pursue further investment opportunities in them.	The Group has entered into an agreement to acquire 100% equity interests of Sichuan Fire Factory. One of the principal activities of Sichuan Fire Safety is manufacturing and sale of fire engines and fire fighting equipment. It has also acquired 51% of equity interests in Tung Shing, the principal activities of which is trading of fire engines, fire fighting equipment and rescue tools in the Greater China region. The acquisition will widen the Group's product and service ranges and allowed the Group entering into new markets and serving new customers such as fire stations and the petro-chemical industry.
Continue the operation of specialized fire prevention and fighting systems installation projects for specialized industries.	The Group has trained up a professional team specialized in industrial installation services. The Group has obtained certain projects in relation to some specialized industries such as the General Electric Asia Hydro-electric Equipments Co. Ltd. (美國通用電氣亞洲水電設備有限公司) and China Sanyo Electrical Appliances and Chemical Co. Ltd. (中國三洋電器化學有限公司).

Enhancement of the research and development team

The Group intends to further expand the existing research and development team by establishing a research and development centre equipped with more advanced equipment and a laboratory specialized in upgrading the technological level of its products.

Expected progress	**Actual progress**
Commence operation of the research & development centre and complete research work on one project on fire prevention and fighting technology and commence another.	All construction works were completed and operation commenced at the end of June 2003.

Establishment of new production bases and purchase of new equipment and facilities

In order to meet future production needs and increase the production capacity, new production base is planned to be established in Fujian Province.

Expected progress	Actual progress
Commence mass production with the new production facilities in Fujian.	The construction of the new production base in Fujian Province was completed and production commenced in September 2003.
Commence the preparation work and design of the new production facilities in western part of China. Formulate plan to purchase new production equipment for the new production facilities.	The acquisition of Sichuan Fire Safety in September 2004, will generate the Group additional production capacities in the western part of China.

Expansion of sales and distribution network

The Group places great emphasis on building and expansion of its sales network by establishment of branch offices and demonstration services centre in key regional markets.

Expected progress	Actual progress
Commence operations of 5 new sales offices in Shenyang, Shijiazhong, Xi'an, Wuhan and Chengdu of the PRC. Commence operations of the 5 new sales office in heifei, Changsha, Chongqing, Wenzhou and Guangzhou.	The Group currently has 29 branch offices and over 80 distributors in different cities. All of the branch offices have commenced operations and some have even obtained certain installation projects with part of the revenue already recognized in the period.
Continue operation of the improved sales offices and expand sales of the respective offices.	A display service centre has been set up in Beijing and will be in operation in the first quarter of 2005.
Continue operation of the display service centre in Shanghai.	
Commence operation of the display service centres in Beijing and Shenyang.	
Commence operation of the display service centres in Xian and Chengdu.	

Marketing, promotion and brand building

The Group plans to strengthen its reputation through advertisements, formation of alliances with professional associations and academic institutions and participation in various trade shows and exhibitions.

Expected progress	Actual progress
Continue to design new promotional activities for the principal products of the Group. Advertise the Group's products on journals and magazines. Organise and attend conferences and seminars relating to fire prevention and fighting technology.	In view of the nature of products, the Board considered that placing commercials on television and radio was not cost effective. Therefore the Group advertised its principal products in many fire safety journals, magazines and fire safety websites in the PRC. Effectiveness of the promotion campaigns is reviewed regularly to ensure their cost effectiveness. The Group has participated in fire safety equipment exhibition held in Beijing in October 2004, which is one of the largest national exhibitions of such kind in China.

Business collaborations and acquisitions

Potential business collaborations and acquisitions will intensify the growth of the Group. Accordingly, vertical and horizontal acquisition activities will run concurrently with other operations strategies of the Group.

Expected progress	Actual progress
Identify potential manufacturing enterprises in the PRC which engaged in the sector of fire service equipment and fire retardant materials and acquire the companies which reach mutual agreement with the Group. Identify potential enterprises in the PRC, Hong Kong, Singapore and Japan which engaged in the similar product sector complementary to the Group. Explore and evaluate the opportunities to establish co-operation arrangement, collaboration or alliances with the companies identified. Negotiate with the management of the companies identified and develop collaboration or alliances or acquisitions with the companies identified.	During the year, the Group has acquired or entered into agreement to acquire four different subsidiaries engaged in different aspect of the fire safety industry (details are contained in "Acquisitions and Capital commitments" section). At the same time, the Group will look for other investment opportunities with high potential to further strengthen its competitive advantages in the fire safety market.

Proceeds from issuance of new shares

The net proceeds from the Company's placement of new shares in September 2002 amounted to approximately HK$136 million of which HK$6 million will be used as working capital. The proceeds applied up to 31 December 2004 are as follows:

	Note	Total planned use of proceeds as set in the Prospectus	Actual use of proceeds up to 31 December 2004
		HK$(million)	*HK$(million)*
Development of new products	*1*	20	20
Establishment of a research and development centre	*2*	10	8
Establishment of new production bases and the purchase of new equipment and facilities	*2*	50	45.3
Expansion of sales and distribution network	*3*	20	0.9
Marketing, promotion and brand building	*4*	10	1.5
Business collaborations and acquisitions	*5*	20	20
Total		130	95.7

Notes:

1. The proceeds were mainly used for development of moulds for the new crystal luminous emergency lighting products, fire detectors and monitoring and control system. Of the proceeds assigned for this category, RMB7,000,000 (equivalent to approximately HK$6,604,000) was used for the acquisition of Shengan City Safety, which specializes in the network based monitoring system of fire prevention and fighting systems and operation of remote automatic monitoring center. The Group considered that it is more effective and efficient to cooperate with a company with relevant operating experience than self-development.

2. The constructions of the research and development centre and new production base was completed in 2003.

3. Less-than-expected amount were spent in expansion of sales and distribution network because majority of the establishment costs of new branches were borne by respective local sub-contractors in a way to qualify themselves to obtain sub-contracting works of the Group.

4. The expenditure in marketing, promotion and brand building was less than expected because the Group is very cautious in spending on marketing and promotion and will participate in those highly effective conferences only. The Group considered that reputation in product and service quality is the most effective means in promotion.

5. Part of the proceeds were used to acquire Chongzheng Huasheng at cash consideration of RMB3,800,000 and the remaining for acquiring Sichuan Fire Factory. Apart from those disclosed herein, considerations for other investments were settled by operating cash of the Company.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. JIANG Xiong, aged 37, is the Chairman, chief executive officer and executive Director of the Group. He is responsible for the strategic planning and the overall development of the Group and joined the Group in January 1994. He has over 10 years of experience in the fire services and maintenance industry in the PRC. In April 1996, he was awarded the title "Fuzhou Outstanding Entrepreneur" (福州市優秀私營企業家). In May 1996, Mr. Jiang was awarded one of the "Ten Most Outstanding Youths in Fuzhou" and in November 1997 he was appointed as "member of the Ninth Standing Committee of Fuzhou City People's Political Consultative Conference" (中國人民政治協商會議第九屆福建省福州市常務委員會委員). In May 1999, he was given the award of "Fujian Outstanding Entrepreneur" (福建省優秀青年企業家). In November 2001, he was also appointed as Vice Secretary-General of Fire Committee of International Police Foundation (世界警察基金會消防行業委員會副秘書長), a non-profit organisation for the promotion of police goodwill and development of police science. Mr. Jiang is a qualified engineer in the PRC and obtained the qualification of senior economist from the Human Resources Office of Fujian Provincial Government (福建省人事廳) in January 2004.

Mr. JIANG Qing, aged 40, is an executive Director and chief operating officer of the Group. He joined the Group in April 1995 and has over 10 years of experience in the building construction industry and fire prevention and fighting systems installation. Prior to joining the Group in April 1995, Mr. Jiang was an assistant executive of Fujian Construction and Development Limited (福建省建設發展總公司), a company engaged in property development, from February 1993 to April 1995 and he was mainly responsible for the management and administration for construction projects. Mr. Jiang received the professional certificate from Fujian Technical Institute of Construction (福建建築高等專科學校) in September 2000 and is a qualified engineer in the PRC and obtained the qualification of senior economist from the Human Resources Office of Fujian Provincial Government (福建省人事廳) in January 2004. He is responsible for the corporate management and overall operation of the Group. He is the elder brother of Mr. Jiang Xiong.

Mr. CHEN Shu Quan, aged 60, is an executive Director and is responsible for the overall administration of the Group. Mr. Chen joined the Group in January 1997 and has over 10 years of administration and management experience in Fujian governmental entities. Before joining the Group, he was the vice director (副局長) of Departmental Affairs Administration Office of Fujian Provincial Government (福建省政府機關事務管理局省政府辦公廳) from 1986 to 1997 and was mainly responsible for the planning, management and administration affairs of government properties.

Mr. CHAN Siu Tat, aged 35, is an executive director of the Company and responsible for treasury and financial planning of the Group. He is also the chief financial officer of the Group. He joined the Group in April 2002. Prior to joining the Group, Mr. Chan was the financial controller of a trading and manufacturing group, in which he was also a deputy general manager of its PRC manufacturing base. Prior to that, Mr. Chan had around five years auditing experience with an international accountants firm. Mr. Chan graduated from The Hong Kong University of Science and Technology with a major in Accounting. He is an associate member of Hong Kong Institute of Certified Public Accountants and a fellow member of The Association Chartered of Certified Accountants.

Non-executive Directors

Mr. Richard Owen PYVIS, aged 55, is a non-executive director of the Company. He has studied and worked in Japan and Hong Kong since early 1970's. The former Chief Executive Officer of CLSA Group, he has a background in commercial banking, venture capital, and debt restructuring in senior managerial roles. He sits on a number of public and private boards, is an Executive Committee member of the Hong Kong General Chamber of Commerce – Hong Kong Coalition of Services Industries, a member of the Hong Kong Securities Institute, read Economics (Japanese Studies) of the University of Western Australia, and has studied in Japan, IMI and Insead.

Ms. Josephine PRICE, aged 51, is a non-executive director of the Company. She is the managing director of CLSA Private Equity Limited. She joined CLSA in 1995 to set up its private equity activities from NatWest Markets where she had been a regional corporate finance director. She has been based in Hong Kong for over 20 years. She is a graduate of the University of Kent at Canterbury, a member of the Law Societies of England & Wales and Hong Kong, a member of the Hong Kong Securities Institute, a Fellow of the Hong Kong Institute of Directors and non-executive director of various public and private companies.

Independent non-executive Directors

Mr. LIU Shi Pu, aged 70, is an independent non-executive Director. Mr. Liu has over 41 years of working experience in the Ministry of Public Security and worked for the Public Security Bureau of Lou Yang City (洛陽市) and He Nan Province (河南省) during the years 1952 to 1985. During the years 1985 and 1990, he was appointed as the Vice Chancellor of Public Security Bureau of He Nan Province (河南省公安廳副廳長). From 1991 to 1993, he was promoted as the Office Supervisor of the Ministry of Public Security of the PRC (中華人民共和國公安部辦公廳主任). In 1993, Mr. Liu was appointed as the Chairman of Fire Prevention and Fighting Bureau of the Ministry of Public Security of the PRC (中華人民共和國公安部消防局局長(少將)). In February 1996, he retired from his position. From August 1997 to September 2001, Mr. Liu was the Vice-chairman of General Affairs of the PRC Fire Prevention and Fighting Association (中華人民共和國消防協會常務副理事長). He was appointed as a director of the Company in May 2002. Mr. Liu does not hold position in any other company, apart from being an independent non-executive director of the Company.

Mr. HENG Kwoo Seng, aged 56, was appointed as an independent non-executive Director of the Company in April 2004. Mr. Heng is the managing partner of Morison Heng, Chartered Accountants and Certified Public Accountants. He is a fellow member of The Institute of Chartered Accountants in England & Wales, an associate member of The Hong Kong Institute of Certified Public Accountants. Mr. Heng is the Vice Chairman of The Hong Kong Hainan Commercial Association. He is also director of the following companies listed on the Main Board of the Stock Exchange: Lee & Man Paper Manufacturing Limited, Lee & Man Holding Limited, Tack Fat Group International Limited, The Thai-Asia Fund Limited, The Thai Asset Fund Limited, Soundwill Holdings Limited and Winfair Investment Company Limited.

Mr. XIANG Yu Fu, aged 36, was appointed as an independent non-executive Director of the Company in September 2004. Mr. Xiang is the vice president and chief executive officer of China Sifang Holding Co. Ltd. (中國四方控股有限公司) and a director of Shenzhen Tongsheng Guarantee Co. Ltd. (深圳市通盛擔保有限公司). Mr. Xiang holds a Degree of Doctor of Philosophy in Economics and Finance Investment from the American World University. Apart from the Company, Mr. Xiang is not a director of any other listed company.

SENIOR MANAGEMENT

Ms. GUO Tieying, aged 47, a graduate from黑龍江行政幹部管理學院, is the vice president of the Group's marketing and business expansion division. Ms. Guo joined the Group in September 2004, responsible for the Group's business development. Since 1983, Ms. Guo has served the Border Defense Bureau of the Ministry of Public Security of the PRC (中國公安部邊防局)、中國武裝警察總部總隊and Fire Safety Industry Administrative Office of the Ministry of Public Security (消防行業管理辦公室), responsible for personnel, administrative and management of party affairs. Until joining the Group, she has worked for華夏消防(集團)公司 and China Huandao Group Corporation (中國寰島集團公司). At present, Ms. Guo is studying a postgraduate course at the Capital University of Economics and Business (首都經貿大學).

Mr. JIN Wei, aged 49, a graduate from Dalian Jiaotong University (大連鐵道學院) with Bachelor degree in Engineering. Mr. Jin joined the Group in January 2005, responsible for the operations and sales management of the Group's network based monitoring system of fire prevention and fighting systems and remote automatic monitoring center. Mr. Jin has extensive experience in project management, whereas he had worked with北京二七車輛廠 of the Ministry of Railway of the PRC, 國家土地管理局勘測規劃院and國務院貧困地區幹部培訓中心from 1982 to 1996, responsible for the planning of various projects. Afterwards, Mr. Jin had joined the Beijing branch office of華夏消防(集團)公司as manager, responsible for the fire services installation, product development and import and export trades.

Mr. LI Jin, aged 50, is the general manager of the Group's fire prevention and fighting systems installation division. 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. He joined the Group in May 2001 and is responsible for the supervision of the Group's fire prevention and fighting systems installation project. Mr. Li is a qualified engineer in the PRC.

Directors and Senior Management

Mr. ZHUO Fuquan, aged 59, a graduate from the Department of Physics in Xiamen University. He has served Fujian Hitachi Television Co. Ltd. (福建日立電視機有限公司) for a long period, where he has taken up the post of the chief of the design department and sales department, which are responsible for the design and sales of products for export and domestic sales. Mr. Zhuo also has extensive experience in technologies, productions, sales and operations management in the IT industry. He joined the Group in November 2003 as the General Manager of Fuzhou Wanyou Fire Fighting Science and Technology Co., Ltd. (福建萬友消防科技有限公司), responsible for the company's overall operation.

Mr. LIN Dan, aged 39, a graduate from the Department of Earth and Space Sciences (地球與空間科學系) of the University of Science and Technology of China (中國科技大學). At present, he is a committee member of the Professional Committee of Intelligent Building of Fujian Province (福建省智能化專業委員會) and an expert in tender of Constructions Committee of Fuzhou City (福州市建築委員會招投標專家). He was the general manager of Zhong Min Technology Development Co. 中閩科技開發公司, and has engaged in project management and engineering supervisions for a long period. He joined the Group in October 2003 as the Deputy Manager of Fujian Wanyou Fire Engineering Group Company Limited (福建萬友消防工程集團有限公司), responsible for the overall operation of the Group's fire prevention and fighting systems installation.

Mr. CAI Jun, aged 41, a graduate from the Department of Mechanical Engineering of the Southwest Jiaotong University (西南交通大學). He is now 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. Cai is the Chairman of Beijing Chongzheng Huasheng Emergency Lighting System Ltd., Co. (北京市崇正華盛應急照明系統有限責任公司), a subsidiary acquired by the Company in March 2004.

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

Mr. FENG Quanhui, aged 42, a graduate from the department of electronics of South China University of Technology (華南工學院). He is a qualified senior engineer and was awarded the first class manager qualification (一級項目經理資格) by the Construction Office of Fujian Province (福建省建設廳). Mr. Feng has many years of experience in fire services installation, and is now the general manager of Jiangxi Shengan City Safety Communications Development Co. Ltd. (江西盛安城市安全信息發展有限公司), a subsidiary acquired by the Company in July 2004, responsible for its management and business development.

Mr. CHAN Chun Wo, aged 54, a graduate from 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 fire services and rescuing equipments. Mr. Chan is the Managing Director of Tung Shing Trade Development Company Limited (東城貿易發展有限公司), a subsidiary acquired by the Company in November 2004, responsible for its management and business development.

Mr. FANG Yu, aged 38, a graduate from Beijing Textile Engineering College (北京紡織工程學院). He was a general manager of Beijing Xiulonghai Co., Ltd. (北京鑫龍海輕體隔牆板有限公司) and has extensive experience in the manufacturing and sale of fire retardant materials, Mr. Fang joined the Group in November 2003, and is currently a chief representative of the Beijing branch of Fujian Wanyou Fire Engineering Group Company Limited (福建萬友消防工程集團有限公司).

Mr. LU Wei, aged 31. He joined the Group in 1998 and has worked as a manager of advertising planning department and the deputy manager of the marketing department. Mr. Lu is now responsible for the management of the Group's branch offices in South China Region.

REPORT OF THE DIRECTORS

The Directors present their annual report and the audited financial statements for the year ended 31 December 2004.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 37 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2004 are set out in the consolidated income statement on page 29.

An interim dividend of 1 HK cent per share, amounting to HK$20,000,000 (equivalent to RMB21,200,000), was paid during the year.

The Directors have resolved that subject to the completion of the first tranche of the subscription agreement as set out in note 40 to the financial statements, a special interim dividend of 4.6 HK cents per share will be declared to the shareholders on the register of members on 21 March 2005. The dividend will amount to HK$92,920,000 (equivalent to RMB98,495,200).

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2004 (2003: 1 HK cent per share).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements during the year in the property, plant and equipment of the Group are set out in note 14 to the financial statements.

SHARE CAPITAL

Details of the movements during the year of the share capital of the Company are set out in note 30 to the financial statements.

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in note 32 to the financial statements.

DONATIONS

During the year, the Group made no charitable and other donations.

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. Chen Shu Quan
Mr. Chan Siu Tat

Non-executive Directors

Mr. Richard Owen Pyvis
Ms. Josephine Price

Independent Non-executive Directors

Mr. Liu Shi Pu	
Mr. Heng Kwoo Seng	(appointed on 29 April 2004)
Mr. Xiang Yu Fu	(appointed on 30 September 2004)
Mr. Wong Hon Sum	(resigned on 29 March 2004)

In accordance with provisions of the Company's Articles of Association, Messrs. Heng Kwoo Seng, Xiang Yu Fu, Jiang Qing and Liu Shi Pu retire from office and, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

Other than Mr. Chan Siu Tat, each of the executive Directors has entered into a service agreement with the Company for a period of three years commencing on 30 September 2002. Mr. Chan Siu Tat has entered into a service agreement with the Company for a period of three years commencing 16 October 2003.

The term of office of each of the non-executive Directors and independent non-executive 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, 2004, none of the Directors or chief executive has any interest or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (Cap. 571 of the Laws of Hong Kong) ("SFO")) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or were required, pursuant to section 352 of the SFO to be entered in the register required to be kept therein or which were required, pursuant to Rules 5.46 to 5.67 of the Rules Governing the Listing of Securities on the Growth Enterprise Market (the "GEM") of the Stock Exchange (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 ("Mr. Jiang")	Beneficial owner	981,600,000	48.59%
Mr. Jiang Qing	Beneficial owner	7,500,000	0.37%

On 14 October 2004, Mr. Jiang Qing entered into a placing agreement with a placing agent to place 92.5 million shares of the Company to the placees. The shares placed represented 4.58% of the Company's issued share capital.

On 1 February 2005, Mr. Jiang entered into an option agreement with UTFE. Pursuant to the option agreement, Mr. Jiang grants an 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.

Also on 1 February 2005, the Company entered into a subscription agreement with UTFE, pursuant to which the Company will issue 825,000,000 new shares of the Company to UTFE (on the basis that there will be no alternation in the Company's issued share capital other than the share subscriptions by UTFE) at a price of HK$0.577 per share.

Mr. Jiang has a short position, and is deemed to have a long position in the shares to be sold under the Option Agreement. Under the SFO, Mr. Jiang is considered to have a long position in the 825,000,000 shares to be issued to UTFE pursuant to the subscription agreement.

Details of the option agreement and the subscription agreement are set out in the Company's circular dated 10 March 2005.

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 granted as at 31 December 2004	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 *(Note)*	20,000,000	0.99%
Mr. Chen Shu Quan	25 May 2004	5,000,000	25 May 2004 - 24 May 2014	0.44 *(Note)*	5,000,000	0.25%
Mr. Chan Siu Tat	25 May 2004	5,000,000	25 May 2004 - 24 May 2014	0.44 *(Note)*	5,000,000	0.25%
					30,000,000	

Note: The closing price of shares of the Company immediately before the date on which the option was granted was HK$0.465.

There was no option outstanding as at 1 January 2004. All options granted are vested on the date of acceptance, i.e. 25 May 2004. The financial impact of the options granted are not recognized in the financial statements until they are exercised. The Directors considered that it is not appropriate to state the value of the options granted during the period on the ground that a number of variables which are crucial for the valuation of option value cannot be reasonably determined. Accordingly, the Directors believe that any valuation of the options based on a large number of speculative assumptions would not be meaningful and may be misleading to the shareholders.

Interest in a subsidiary

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

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than options granted under the Company's share option scheme mentioned 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 2004, 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 share capital of the Company
Cantus Limited	Beneficial owner	182,650,000	9.04%
Aria Investment Partners L.P.	Interest of a controlled corporation *(Note 1)*	182,650,000	9.04%
CLSA Private Equity Management Limited	Investment Manager *(Note 2)*	182,650,000	9.04%
CLSA Funds Limited	Interest of a controlled corporation *(Note 3)*	182,650,000	9.04%
CLSA B.V.	Interest of a controlled corporation *(Note 4)*	182,650,000	9.04%

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
Calyon Capital Markets Asia B.V.	Interest of a controlled corporation *(Note 5)*	182,650,000	9.04%
Credit Lyonnais Capital Markets International SASU	Interest of a controlled corporation *(Note 6)*	182,650,000	9.04%
Credit Agricola Indosuez	Interest of a controlled corporation *(Note 7)*	182,650,000	9.04%
Credit Agricola S.A.	Interest of a controlled corporation *(Note 8)*	182,650,000	9.04%
SAS Rue La Boetie	Interest of a controlled corporation *(Note 9)*	182,650,000	9.04%

Notes:

1. Aria Investment Partners L.P. is beneficially interested in the entire issued share capital of Cantus Limited and is deemed or taken to be interested in the 182,650,000 shares in which Cantus Limited has declared an interest for the purpose of the SFO.

2. CLSA Private Equity Management Limited is the investment manager of Aria Investment Partners L.P.

3. CLSA Funds Limited is beneficially interested in the entire issued share capital of CLSA Private Equity Management Limited and is deemed or taken to be interested in the 182,650,000 shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Note 2 above.

4. CLSA B.V. is beneficially interested in the entire issued share capital of CLSA Funds Limited and is deemed or taken to be interested in the 182,650,000 shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Note 2 above.

5. Calyon Capital Markets Asia B.V. is beneficially interested in 65% of the share capital of CLSA B.V. and is deemed or taken to be interested in the 182,650,000 shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Note 2 above.

6. Credit Lyonnais Capital Markets International SASU is beneficially interested in the entire issued share capital of Calyon Capital Markets Asia B.V. and is deemed or taken to be interested in the 182,650,000 shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO, as mentioned in Note 2 above.

7. Credit Agricola Indosuez is beneficially interested in the entire issued share capital of Credit Lyonnais Capital Markets International SASU and is deemed or taken to be interested in the 182,650,000 shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Note 2 above.

8. Credit Agricola S.A. is beneficially interested in the entire issued share capital of Credit Agricola Indosuez and is deemed or taken to be interested in the 182,650,000 shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Note 2 above.

9. SAS Rue La Boetie is beneficially interested in 51.5% of the issued share capital of Credit Agricola S.A. and is deemed or taken to be interested in the 182,650,000 shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Note 2 above.

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 2004.

SHARE OPTIONS

Particulars of the Company's share option scheme and options granted during the year are set out in note 31 to the financial statements.

AUDIT COMMITTEE

The audit committee comprises three independent non-executive directors, namely Mr. Liu Shi Pu, Mr. Heng Kwoo Seng ("Mr. Heng") and Mr. Xiang Yu Fu ("Mr. Xiang"). Mr. Heng and Mr. Xiang were appointed as independent non-executive Directors and members of the audit committee on 29 April 2004 and 30 September 2004 respectively. Mr. Wong Hon Sum ("Mr. Wong") was a member of the audit committee for the period up to 28 March 2004. Mr. Wong, who for personal reasons, resigned as an independent non-executive Director and a member of the audit committee on 29 March 2004. 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 draft 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. The Group's results for the year have been reviewed by the audit committee.

RETIREMENT BENEFIT SCHEMES

The Group complies with the Mandatory Provident Fund Ordinance in making mandatory contributions for its staff in Hong Kong and staff retirement fund for those staff in the People's Republic of China.

BOARD PRACTICES AND PROCEDURES

The Company has complied with Rules 5.34 to 5.45 of the GEM Listing Rules throughout the year ended 31 December 2004, except that there was only one independent non-executive Director in the audit committee between the period 29 March 2004 to 28 April 2004 when Mr. Wong resigned as an independent non-executive Director and member of the audit committee. Subsequent thereto, Mr. Heng was appointed as an independent non-executive Director and audit committee member on 29 April 2004.

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.

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.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the executive Directors on the basis of their merit, qualifications and competence.

The emoluments of the Directors of the Company are decided by the Board of Directors, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to Directors and eligible employees, details of the scheme is set out in note 31 to the financial statements.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year ended 31 December 2004, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company.

POST BALANCE SHEET EVENTS

Details of the post balance sheet events of the Group are set out in note 40 to the financial statements.

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.

SPONSOR'S INTERESTS

As at 31 December 2004, as notified and updated by Core Pacific-Yamaichi Capital Limited ("CPY Capital"), a director of CPY Capital, an associate (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) of CPY Capital, held 100,000 shares in the Company. Save as disclosed herein, neither CPY Capital nor its directors or employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interest in the share capital of the Company as at 31 December 2004.

Pursuant to the sponsor agreement dated 20 September 2002 entered into between the Company and CPY Capital, CPY Capital received fees for acting as the Company's retained sponsor for the period up to 31 December 2004 or until the sponsor agreement is terminated upon the terms and conditions set out therein. The sponsor agreement expired on 31 December 2004.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2004, the aggregate turnover attributable to the five largest customers of the Group is less than 30% of the Group's turnover.

For the year ended 31 December 2004, purchases attributable to the Group's largest supplier accounted for approximately 9.7% of the Group's total purchases and aggregate purchases attributable to the five largest suppliers of the Group accounted for approximately 37.6% of the Group's total purchases.

To the knowledge of the Directors, none of the Directors, or their respective associates, or shareholders owning more than 5% of the Company's issued share capital had any beneficial interests in any of the five largest suppliers.

AUDITORS

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

On behalf of the Board

Jiang Xiong
CHAIRMAN

23 March 2005

REPORT OF THE AUDITORS

Deloitte.
德勤

德勤・關黃陳方會計師行
香港
中環干諾道中111號
永安中心26樓

Deloitte Touche Tohmatsu
26/F Wing On Centre
111 Connaught Road Central
Hong Kong

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

We have audited the financial statements on pages 29 to 71 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements 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.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2004 and of the profit and cash flows of the Group for the year then ended 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

23 March 2005

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2004

	NOTES	2004 RMB'000	2003 RMB'000
Turnover	4	**486,720**	282,475
Cost of sales		**(287,258)**	(133,759)
Gross profit		**199,462**	148,716
Other operating income	6	**1,500**	4,169
Distribution costs		**(6,159)**	(1,842)
Administrative expenses		**(32,775)**	(18,937)
Profit from operations	7	**162,028**	132,106
Finance costs	8	**(117)**	(229)
Profit before taxation		**161,911**	131,877
Taxation	11	**(31,602)**	(19,761)
Profit before minority interests		**130,309**	112,116
Minority interests		**(1,220)**	(401)
Net profit for the year		**129,089**	111,715
Dividends	12		
Ordinary		**21,200**	42,400
Special		**98,495**	–
		119,695	42,400
Earnings per share (RMB cents)	13		
Basic		**6.4**	5.6
Dilute		**6.4**	N/A

CONSOLIDATED BALANCE SHEET

At 31 December 2004

	NOTES	**2004 RMB'000**	2003 RMB'000
Non-current assets			
Property, plant and equipment	14	**141,588**	154,474
Retention receivables	15	**1,460**	269
Goodwill	16	**50,329**	6,998
Development costs	17	**7,135**	1,445
Deposit paid for acquisition of a subsidiary	19	**32,400**	–
Deposit paid for purchase of plant and equipment	20	**10,000**	–
		242,912	163,186
Current assets			
Inventories	21	**9,220**	4,228
Retention receivables	15	**1,585**	2,008
Amounts due from contract customers	22	**20,766**	30,523
Trade debtors	23	**123,657**	80,831
Deposits, prepayments and other receivables	24	**21,099**	14,382
Pledged bank deposits	39	**2,123**	–
Bank balances and cash		**245,126**	185,444
		423,576	317,416
Current liabilities			
Trade and other payables	25	**59,506**	21,727
Amounts due to contract customers	22	**3,257**	–
Amounts due to minority shareholders	26	**9,036**	–
Tax liabilities	27	**26,415**	8,457
Bank borrowings – due within one year	28	**12,448**	731
		110,662	30,915
Net current assets		**312,914**	286,501
Total assets less current liabilities		**555,826**	449,687
Non-current liabilities			
Amount payable on acquisition of a subsidiary	33	**5,830**	–
Bank borrowings – due after one year	28	**–**	2,987
Deferred tax liabilities	29	**2,492**	3,490
Minority interests		**6,568**	717
		540,936	442,493
Capital and reserves			
Share capital	30	**21,412**	21,200
Reserves	32	**519,524**	421,293
		540,936	442,493

The financial statements on pages 29 to 71 were approved and authorised for issue by the Board of Directors on 23 March 2005 and are signed on its behalf by:

Jiang Xiong
DIRECTOR

Jiang Qing
DIRECTOR

BALANCE SHEET

At 31 December 2004

	NOTES	2004 RMB'000	2003 RMB'000
Non-current assets			
Investments in subsidiaries	18	**187,575**	187,569
Current assets			
Amounts due from subsidiaries		**226,103**	104,133
Bank balances and cash		**34,705**	56,413
		260,808	160,546
Current liability			
Trade and other payables		**5,164**	5,164
Net current assets		**255,644**	155,382
		443,219	342,951
Capital and reserves			
Share capital	30	**21,412**	21,200
Reserves	32	**421,807**	321,751
		443,219	342,951

Jiang Xiong
DIRECTOR

Jiang Qing
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2004

	Share capital	Share premium	Special reserve	Capital reserve	Statutory surplus reserve	Statutory public welfare fund	Statutory reserve fund	Exchange reserve	Accumulated profits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2003	21,200	139,920	(6,692)	57,840	10,086	8,995	12,159	–	119,070	362,578
Net profit for the year	–	–	–	–	–	–	–	–	111,715	111,715
Transfer	–	–	–	–	3,181	1,591	8,525	–	(13,297)	–
Dividends paid	–	–	–	–	–	–	–	–	(31,800)	(31,800)
At 1 January 2004	21,200	139,920	(6,692)	57,840	13,267	10,586	20,684	–	185,688	442,493
Exchange difference not recognised in the income statement	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**94**	**–**	**94**
Issue of new shares	**212**	**11,448**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**11,660**
Net profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**129,089**	**129,089**
Transfer	**–**	**–**	**–**	**–**	**5,138**	**2,569**	**10,993**	**–**	**(18,700)**	**–**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(42,400)**	**(42,400)**
At 31 December 2004	**21,412**	**151,368**	**(6,692)**	**57,840**	**18,405**	**13,155**	**31,677**	**94**	**253,677**	**540,936**

CONSOLIDATED CASH FLOW STATEMENTS

For the year ended 31 December 2004

	NOTES	2004 RMB'000	2003 RMB'000
Cash flows from operating activities			
Profit before taxation		**161,911**	131,877
Adjustments for:			
Depreciation		**16,038**	9,564
Loss on disposal of property, plant and equipment		**–**	734
Amortisation of goodwill		**5,593**	2,964
Amortisation of development costs		**1,010**	255
Interest income		**(1,352)**	(1,355)
Interest expenses		**117**	229
Operating cash flows before movements in working capital		**183,317**	144,268
Decrease (increase) in inventories		**1,442**	(771)
(Increase) decrease in retention receivables		**(768)**	916
Decrease (increase) in amounts due from contract customers		**9,757**	(29,414)
Increase in trade debtors		**(32,787)**	(34,837)
Increase in deposits, prepayments and other receivables		**(3,704)**	(7,390)
Increase in trade and other payables		**20,381**	6,792
Increase (decrease) in amounts due to contract customers		**3,257**	(56)
Cash generated from operations		**180,895**	79,508
Interest paid		**(117)**	(229)
Income tax paid		**(24,228)**	(15,500)
Net cash from operating activities		**156,550**	63,779
Investing activities			
Purchase of property, plant and equipment		**(1,949)**	(44,766)
Deposit for acquisition of plant and equipment paid		**(10,000)**	(5,360)
Deposit for acquisition of a subsidiary paid		**(32,400)**	–
Additions of development costs		**(6,700)**	(1,700)
Payment for acquisition of subsidiaries	33	**(20,943)**	–
Increase in pledged bank deposits		**(2,123)**	–
Interest received		**1,352**	1,355
Net cash used in investing activities		**(72,763)**	(50,471)

Consolidated Cash Flow Statements

For the year ended 31 December 2004

	2004	2003
	RMB'000	RMB'000
Financing activities		
Repayment of bank loans	(3,718)	(731)
Dividends paid	(42,400)	(31,800)
Dividends paid to minority shareholders	–	(246)
Capital contributions from minority shareholders	1,009	–
Advances from minority shareholders	9,036	–
New bank loan raised	41	–
Increase in bill payable	2,877	–
Net cash used in financing activities	(33,155)	(32,777)
Net increase (decrease) in cash and cash equivalents	50,632	(19,469)
Cash and cash equivalents at the beginning of the year	185,444	204,913
Exchange difference	94	–
	236,170	185,444
Cash and cash equivalents at the end of the year, representing:		
Bank balances and cash	245,126	185,444
Bank overdraft	(8,956)	–
	236,170	185,444

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

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 Company is an investment holding company and the principal activities of the subsidiaries are set out in note 37 to the financial statements.

2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants (the "HKICPA") issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards ("HKFRSs") (herein collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention.

The principal accounting policies which conform with accounting principles generally accepted in Hong Kong are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

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.

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

Goodwill is capitalised and amortised on a straight-line basis over its useful economic life.

On disposal of a subsidiary, the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposal.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Revenue recognition

Revenue on installation contracts is recognised using the percentage of completion method by reference to the value of work 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 bank deposits is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

Property, plant and equipment

Property, plant and equipment other than construction in progress are stated at cost less accumulated depreciation and impairment losses.

Property, plant and equipment in the course of construction/renovation for production, rental or administrative purpose, or for purposes not yet determined, are classified as construction in progress and carried at cost, less any identified impairment loss. Cost includes construction/renovation expenditure, professional fees and, for qualifying assets, borrowing costs capitalised and other relevant expenses directly attributable to such projects. No provision for depreciation is made on construction in progress until such time when construction/renovation work is completed and costs of construction/renovation are transferred to the appropriate category of property, plant and equipment.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress, using the straight line method, over their estimated useful lives which are as follows:

Leasehold land	Over the unexpired term of the relevant lease
Leasehold buildings	20 - 30 years
Other assets	5 - 10 years

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

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.

When no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense 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.

Installation contracts

When the outcome of an installation contract can be estimated reliably, revenue and costs are recognised in the income statement by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Installation contracts *(Continued)*

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

Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. 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. Impairment loss is recognised as an expense immediately.

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

Taxation

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

The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods 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 the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, 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 profits 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 negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, 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 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.

Operating leases

Leases are classified as finance leases when the terms of the leases transfer substantially all the risks and rewards of ownership of the assets concerned to the Group.

All other leases are classified as operating leases and the annual rentals are charged to the income statement on a straight-line basis over the relevant lease term.

Retirement benefit schemes

The retirement benefit costs charged to the income statement represent the contributions payable in respect of the current year to the Group's Mandatory Provident Fund Scheme and the state - sponsored retirement plan for its employees in Hong Kong and the People's Republic of China ("PRC"), respectively.

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. All other borrowing costs are recognised as an expense in the period in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange ruling on dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at the rates ruling on the balance sheet date. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

4. TURNOVER

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

	2004	2003
	RMB'000	*RMB'000*
Revenue from installation contracts	**229,807**	58,308
Sale of goods	**210,765**	181,584
Provision of maintenance services	**46,148**	42,583
	486,720	282,475

Sales tax represents various local taxes levied on the invoiced value of goods sold and services rendered.

5. SEGMENT INFORMATION

(a) Business segments

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

5. SEGMENT INFORMATION *(Continued)*

(a) Business segments *(Continued)*

Segment information about these businesses are as follows:

	Installation of fire prevention and fighting systems	Production and sale of fire prevention and fighting equipment	Provision of maintenance services	Others	Elimination	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
For the year ended 31 December 2004						
TURNOVER						
External sales	229,807	202,469	46,148	8,296	–	486,720
Inter-segment sales	–	52,697	–	–	(52,697)	–
Total	229,807	255,166	46,148	8,296	(52,697)	486,720

Inter-segment sales are charged at agreed prices.

RESULTS						
Segment results	69,328	70,628	40,066	(3,222)		176,800
Unallocated corporate expenses						(14,772)
Profit from operations						162,028
Finance costs						(117)
Profit before taxation						161,911
Taxation						(31,602)
Profit before minority interests						130,309
Minority interests						(1,220)
Net profit for the year						129,089

5. SEGMENT INFORMATION *(Continued)*

(a) Business segments *(Continued)*

	Installation of fire prevention and fighting systems	Production and sale of fire prevention and fighting equipment	Provision of maintenance services	Others	Elimination	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS						
Segment assets	93,600	256,326	980	61,498		412,404
Unallocated corporate assets						254,084
						666,488
LIABILITIES						
Segment liabilities	29,633	18,502	434	20,917		69,486
Unallocated corporate liabilities						49,498
						118,984
OTHER INFORMATION						
Additions of capital expenditure	10	11,355	2	46,637		
Depreciation and amortisation	3,342	16,969	93	2,126		

5. SEGMENT INFORMATION *(Continued)*

(a) Business segments *(Continued)*

	Installation of fire prevention and fighting systems	Production and sale of fire prevention and fighting equipment	Provision of maintenance services	Elimination	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
For the year ended 31 December 2003					
TURNOVER					
External sales	58,308	181,584	42,583	–	282,475
Inter-segment sales	–	13,669	–	(13,669)	–
Total	58,308	195,253	42,583	(13,669)	282,475

Inter-segment sales are charged at prevailing market rates.

	Installation of fire prevention and fighting systems	Production and sale of fire prevention and fighting equipment	Provision of maintenance services	Elimination	Consolidated
RESULTS					
Segment results	26,507	73,997	38,758	–	139,262
Unallocated corporate expenses					(7,156)
Profit from operations					132,106
Finance costs					(229)
Profit before taxation					131,877
Taxation					(19,761)
Profit before minority interests					112,116
Minority interests					(401)
Net profit for the year					111,715

5. SEGMENT INFORMATION *(Continued)*

(a) Business segments *(Continued)*

	Installation of fire prevention and fighting systems	Production and sale of fire prevention and fighting equipment	Provision of maintenance services	Elimination	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2003					
ASSETS					
Segment assets	69,853	331,998	14,437	–	416,288
Unallocated corporate assets					64,314
					480,602
LIABILITIES					
Segment liabilities	6,013	13,855	–	–	19,868
Unallocated corporate liabilities					17,524
					37,392
OTHER INFORMATION					
Additions of capital expenditure	16	48,429	–		
Depreciation and amortisation	3,430	9,246	–		
Loss on disposal of property, plant and equipment	–	734	–		

5. SEGMENT INFORMATION *(Continued)*

(b) Geographical segments *(Continued)*

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

The analysis of the carrying amount of segment assets and additions to property, plant and equipment, goodwill 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, goodwill and intangible assets**	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
PRC	**567,377**	416,401	**23,489**	50,145
Hong Kong	**97,428**	56,840	**34,520**	21
United States of America	**557**	7,361	**13**	450
Australia	**1,126**	–	**754**	–
	666,488	480,602	**58,776**	50,616

6. OTHER OPERATING INCOME

	2004	2003
	RMB'000	*RMB'000*
Interest income	**1,352**	1,355
Others	**148**	2,814
	1,500	4,169

7. PROFIT FROM OPERATIONS

	2004 RMB'000	2003 RMB'000
Profit from operations has been arrived at after charging:		
Depreciation:		
Property, plant and equipment	16,038	9,564
Loss on disposal of property, plant and equipment	–	734
Auditors' remuneration	1,272	697
Amortisation of goodwill included in administrative expenses	5,593	2,964
Amortisation of development costs included in cost of sales	1,010	255
Operating lease rentals in respect of rented premises	1,227	642
Research and development expenditure *(Note)*	2,097	557
Cost of inventories charged as expense	127,927	108,316
Staff costs, including directors' remuneration	43,733	23,062
Retirement benefit scheme contributions, including those included in directors' remuneration	737	1,236
Total staff costs	44,470	24,298

Note: The amount included staff cost of RMB311,000 (2003: RMB244,000) and depreciation on property, plant and equipment of RMB270,000 (2003: RMB73,000). These amounts are also included in the respective disclosure items under this note 7.

8. FINANCE COSTS

	2004 RMB'000	2003 RMB'000
Interest on:		
Bank borrowings wholly repayable within five years	98	1
Bank borrowings not wholly repayable within five years	19	228
	117	229

9. DIRECTORS' EMOLUMENTS

	2004	2003
	RMB'000	*RMB'000*
Fees		
Executive Directors	**254**	–
Non-executive Directors	**–**	–
Independent non-executive Directors	**265**	212
	519	212
Other emoluments (Executive Directors):		
Salaries and other benefits	**2,133**	1,398
Discretionary bonus	**4,542**	–
Retirement benefit scheme contributions	**13**	5
	6,688	1,403
	7,207	1,615

Notes to the Financial Statements

For the year ended 31 December 2004

9. DIRECTORS' EMOLUMENTS *(Continued)*

	2004					2003				
	Fees	Salaries and other benefits	Discretionary bonus	Retirement benefits	Total	Fees	Salaries and other benefits	Discretionary bonus	Retirement benefits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive										
Mr. Jiang Xiong	–	413	3,151	–	3,564	–	413	–	–	413
Mr. Jiang Qing	–	413	805	–	1,218	–	413	–	–	413
Mr. Chen Shu Quan	–	413	586	–	999	–	413	–	–	413
Mr. Chan Siu Tat	254	894	–	13	1,161	–	159	–	5	164
Non-executive										
Mr. Richard Owen Pyvis	–	–	–	–	–	–	–	–	–	–
Ms. Josephine Price	–	–	–	–	–	–	–	–	–	–
Independent non-executive										
Mr. Liu Shi Pu	106	–	–	–	106	106	–	–	–	106
Mr. Heng Kwoo Seng	106	–	–	–	106	–	–	–	–	–
Mr. Xiang Yu Fu	53	–	–	–	53	–	–	–	–	–
Mr. Wong Hon Sum	–	–	–	–	–	106	–	–	–	106
	519	2,133	4,542	13	7,207	212	1,398	–	5	1,615

10. EMPLOYEES' EMOLUMENTS

The five highest paid individuals included four (2003: four) directors and one (2003: one) employee of the Company. The emoluments of the five highest paid individuals of the Company were as follows:

	2004	2003
	RMB'000	*RMB'000*
Fees	**254**	212
Salaries and other benefits	**2,601**	2,121
Discretionary bonus	**4,542**	–
Retirement benefit scheme contributions	**25**	52
	7,422	2,385

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

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

11. TAXATION

	2004	2003
	RMB'000	*RMB'000*
The charge comprises:		
Current tax		
The PRC – income tax	**32,600**	16,271
Deferred tax	**(998)**	3,490
	31,602	19,761

11. TAXATION *(Continued)*

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

	2004		2003	
	RMB'000	***%***	*RMB'000*	*%*
Profit before taxation	**161,911**		131,877	
Tax at the domestic income tax rate of 33% (2003: 33%)	**53,430**	**33.0**	43,519	33.0
Tax effect attributable to exempted profit	**(126)**	**(0.1)**	(27,293)	(20.7)
Tax effect attributable to tax concessionary profit	**(29,705)**	**(18.3)**	–	–
Tax effect of expenses that are not deductible in determining taxable profit	**8,006**	**4.9**	3,659	2.8
Tax effect of income that are not taxable in determining taxable profit	**(3)**	**(0.0)**	(124)	(0.1)
Tax expense and effective tax rate for the year	**31,602**	**19.5**	19,761	15.0

No provision for Hong Kong Profits Tax has been made as the Group's taxable income neither arises in, nor is derived from Hong Kong.

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

Fujian Wanyou Fire Fighting Science and Technology Co., Ltd. and Fuzhou Wanyou Fire Fighting Science and Technology Co, Ltd., both subsidiaries of the Company, are entitled to the two year's exemption from income tax followed by three years of 50% tax reduction with effect from the year 2002 and 2004 respectively.

Details of deferred taxation are set out in note 29.

12. DIVIDENDS

	2004	2003
	RMB'000	*RMB'000*
Interim dividend of 1 HK cent (2003: 1 HK cent) per share paid	**21,200**	21,200
No final dividend (2003: 1 HK cent per share) proposed	**–**	21,200
Ordinary	**21,200**	42,400
Special	**98,495**	–
	119,695	42,400

The Directors have resolved that subject to the completion of the first tranche of the subscription agreement as set out in note 40, a special interim dividend of 4.6 HK cents will be declared to the shareholders on the register of members on 21 March 2005. The dividend will amount to HK$92,920,000 (equivalent to RMB98,495,200).

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2004 (2003: 1 HK cent per share).

13. EARNINGS PER SHARE

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

	THE GROUP	
	2004	2003
	RMB'000	*RMB'000*
Earnings for the purpose of basic and diluted earnings per share	**129,089**	111,715
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,002,959**	2,000,000
Effect of dilutive potential ordinary shares:		
Share options	**1,944**	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,004,903**	2,000,000

Note: The shares issuable for the acquisition of a subsidiary as mentioned in note 33 are subject to profit warranty adjustment. At the conditions are not satisfied at the end of the period, the Company has no dilutive potential ordinary shares in respect of the acquisition as at 31 December 2004.

14. PROPERTY, PLANT AND EQUIPMENT

THE GROUP

	Land and buildings	Plant and equipment	Tooling and moulds	Furniture and fixtures	Computers	Motor vehicles	Leasehold improve-ments	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
COST								
At 1 January 2004	66,635	51,790	36,360	7,159	853	4,328	1,968	169,093
Additions	–	200	–	29	791	859	70	1,949
Acquired from acquisition of subsidiaries	–	491	–	54	376	255	27	1,203
At 31 December 2004	66,635	52,481	36,360	7,242	2,020	5,442	2,065	172,245
DEPRECIATION								
At 1 January 2004	934	9,038	1,804	877	210	1,576	180	14,619
Provided for the year	2,129	8,354	3,911	386	148	711	399	16,038
At 31 December 2004	3,063	17,392	5,715	1,263	358	2,287	579	30,657
NET BOOK VALUES								
At 31 December 2004	**63,572**	**35,089**	**30,645**	**5,979**	**1,662**	**3,155**	**1,486**	**141,588**
At 31 December 2003	65,701	42,752	34,556	6,282	643	2,752	1,788	154,474

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

15. RETENTION RECEIVABLES

The amount of the Group represents retention money in respect of the progress payments receivable on the contract works and are normally receivable one year after completion of the relevant contract. Retention receivables within twelve months is classified as current assets.

16. GOODWILL

	THE GROUP
	RMB'000
AT COST	
At 1 January 2004	14,823
Arising on acquisition of subsidiaries	48,924
At 31 December 2004	63,747
AMORTISATION	
At 1 January 2004	7,825
Provided for the year	5,593
At 31 December 2004	13,418
NET BOOK VALUES	
At 31 December 2004	50,329
At 31 December 2003	6,998

The goodwill is amortised over 5 years.

17. DEVELOPMENT COSTS

	THE GROUP
	RMB'000
AT COST	
At 1 January 2004	1,700
Addition	6,700
At 31 December 2004	8,400
AMORTISATION	
At 1 January 2004	255
Provided for the year	1,010
At 31 December 2004	1,265
NET BOOK VALUES	
At 31 December 2004	7,135
At 31 December 2003	1,445

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

18. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2004	2003
	RMB'000	*RMB'000*
Unlisted shares	**187,575**	187,569

The carrying value of the unlisted shares is based on the fair values of the underlying net assets of the subsidiaries at the time they became members of the Group under the group reorganisation with the subsequent additions stated at cost.

Details of the subsidiaries are set out in note 37.

19. DEPOSIT PAID FOR ACQUISITION OF A SUBSIDIARY

The deposit represents part of the consideration of RMB81,000,000 payable in accordance with terms of the agreement for the acquisition of 100% equity interest of Sichuan Fire Safety Appliances Factory entered into on 24 September 2004. Pursuant to the agreement, completion of the acquisition is subject to the fulfilment of certain conditions divided into two phases. Details of the acquisition and conditions are set out in the circular of the Company dated 14 December 2004. As at the date of approval of the financial statements, the conditions of the first phase have been fulfilled and those of the second phase are still outstanding.

20. DEPOSIT PAID FOR PURCHASE OF PLANT AND EQUIPMENT

The deposit represents part of the consideration of RMB16,000,000 payable for acquisition of plant and equipment.

21. INVENTORIES

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

	THE GROUP	
	2004	2003
	RMB'000	*RMB'000*
Raw materials	**793**	842
Work-in-progress	**863**	1,125
Finished goods	**7,564**	2,261
	9,220	4,228

22. AMOUNTS DUE FROM/TO CONTRACT CUSTOMERS

	THE GROUP	
	2004	2003
	RMB'000	*RMB'000*
Contract costs incurred plus net profits recognised less recognised losses	**268,377**	63,333
Less: Progress billings	**(250,868)**	(32,810)
	17,509	30,523
Comprising:		
Amounts due from contract customers	**20,766**	30,523
Amounts due to contract customers	**3,257**	–
	17,509	30,523

23. TRADE DEBTORS

The credit period allowed by the Group to its customers is normally 30 – 90 days.

The aged analysis of trade debtors is as follows:

	THE GROUP	
	2004	2003
	RMB'000	*RMB'000*
0 - 90 days	**88,152**	57,384
91 - 180 days	**11,585**	13,336
181 - 360 days	**22,973**	4,479
Over 360 days	**947**	5,632
	123,657	80,831

24. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	THE GROUP	
	2004	2003
	RMB'000	*RMB'000*
Deposit for acquisition of technical know-how	**–**	5,360
Prepayments and other receivables	**15,216**	9,022
Purchase deposits	**5,883**	–
	21,099	14,382

25. TRADE AND OTHER PAYABLES

	THE GROUP	
	2004	2003
	RMB'000	*RMB'000*
Trade creditors	**32,550**	5,289
Accrued costs and charges	**21,044**	15,185
Receipts in advance	**5,912**	1,253
	59,506	21,727

25. TRADE AND OTHER PAYABLES *(Continued)*

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

	2004	2003
	RMB'000	*RMB'000*
Within 30 days	**1,683**	4,933
31 - 60 days	**465**	59
61 - 90 days	**388**	285
Over 90 days	**30,014**	12
	32,550	5,289

26. AMOUNTS DUE TO MINORITY SHAREHOLDERS

The amounts due to minority shareholders are unsecured, interest free and with no fixed repayment term.

27. TAX LIABILITIES

	THE GROUP	
	2004	2003
	RMB'000	*RMB'000*
Value added tax	**13,118**	3,287
Sales tax and other levies	**1,058**	1,303
Income tax	**12,239**	3,867
	26,415	8,457

28. BANKS BORROWINGS

	THE GROUP	
	2004	2003
	RMB'000	*RMB'000*
Mortgage loan, secured	**–**	3,718
Bills payable	**2,877**	–
Short term bank loan (note below)	**615**	–
Bank overdraft (note below)	**8,956**	–
	12,448	3,718
The maturity of the above borrowings is as follows:		
Within one year	**12,448**	731
More than one year, but not exceeding two years	**–**	731
More than two years, but not exceeding five years	**–**	2,194
More than five years	**–**	62
	12,448	3,718
Less: Amount due within one year shown under current liabilities	**(12,448)**	(731)
Amount due after one year	**–**	2,987

Note: The short term bank loan and overdraft are secured on the personal assets and guarantee of a minority shareholder of a subsidiary.

29. DEFERRED TAX LIABILITIES

The Group's deferred tax liability mainly relates to the accounting difference between Hong Kong generally accepted accounting principles and the PRC generally accepted accounting principles on profit recognition of installation contracts. The movement of deferred tax liability during the current and prior year is as follows:

	Profit recognition of installation contracts
	RMB'000
At 1 January 2003	–
Charge to income for the year	3,490
At 1 January 2004	**3,490**
Credit to income for the year	**(998)**
At 31 December 2004	**2,492**

30. SHARE CAPITAL

	No. of shares	*HK$'000*
Authorised:		
Shares of HK$0.01 each		
As at 1 January 2003, 1 January 2004 and 31 December 2004	10,000,000,000	100,000

	No. of shares	*HK$'000*
Issued and fully paid:		
Shares of HK$0.01 each		
At 1 January 2003 and 1 January 2004	2,000,000,000	20,000
Issue of new shares *(Note)*	20,000,000	200
At 31 December 2004	2,020,000,000	20,200

	2004	2003
	RMB'000	*RMB'000*
Shown in the financial statements as	**21,412**	21,200

Note: On 8 November 2004, the Company issued 20,000,000 shares as part of the consideration to acquire a subsidiary at HK$0.55 per share. Details of the acquisition is set out in the circular of the Company dated 5 October 2004. These shares issued rank pari passu in all respects with other shares in issue.

31. 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 9.9% of the issued share capital of the Company as at 31 December 2004. 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 option 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 be not 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.

31. SHARE OPTION SCHEME *(Continued)*

The options granted under the Scheme during the year are as follows:

Grantee	Capacity	Date of grant	Number of shares issuable under the options granted	Exercisable period	Exercise price	Number of shares issuable under the options granted as at 31 December 2004	Percentage of issued share capital of the Company
					HK$		
Mr. Jiang Qing	Director	25 May 2004	20,000,000	25 May 2004 to 24 May 2014	0.44	20,000,000	0.99%
Mr. Chen Shu Quan	Director	25 May 2004	5,000,000	25 May 2004 to 24 May 2014	0.44	5,000,000	0.25%
Mr. Chan Siu Tat	Director	25 May 2004	5,000,000	25 May 2004 to 24 May 2014	0.44	5,000,000	0.25%
						30,000,000	

There was no option outstanding as at 1 January 2004. All options granted are vested on the date of acceptance, i.e. 25 May 2004. The financial impact of the options granted are not recognised in the financial statements until they are exercised.

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

Total consideration of HK$3 was received for the option granted during the year.

32. RESERVES

	Share premium	Special reserve	Capital reserve	Statutory surplus reserve	Statutory public welfare fund	Statutory reserve fund	Exchange reserve	Accumu-lated profits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
THE GROUP									
At 1 January 2003	139,920	(6,692)	57,840	10,086	8,995	12,159	–	119,070	341,378
Net profit for the year	–	–	–	–	–	–	–	111,715	111,715
Transfer	–	–	–	3,181	1,591	8,525	–	(13,297)	–
Dividends paid	–	–	–	–	–	–	–	(31,800)	(31,800)
At 1 January 2004	139,920	(6,692)	57,840	13,267	10,586	20,684	–	185,688	421,293
Exchange difference	–	–	–	–	–	–	94	–	94
Issue of new shares	11,448	–	–	–	–	–	–	–	11,448
Net profit for the year	–	–	–	–	–	–	–	129,089	129,089
Transfer	–	–	–	5,138	2,569	10,993	–	(18,700)	–
Dividends paid	–	–	–	–	–	–	–	(42,400)	(42,400)
At 31 December 2004	**151,368**	**(6,692)**	**57,840**	**18,405**	**13,155**	**31,677**	**94**	**253,677**	**519,524**

	Share premium	Contributed surplus	Accumulated profits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
THE COMPANY				
At 1 January 2003	139,920	170,607	42,664	353,191
Net profit for the year	–	–	360	360
Dividends paid	–	–	(31,800)	(31,800)
At 1 January 2004	139,920	170,607	11,224	321,751
Issue of new shares	11,448	–	–	11,448
Net profit for the year	–	–	131,008	131,008
Dividends paid	–	–	(42,400)	(42,400)
At 31 December 2004	**151,368**	**170,607**	**99,832**	**421,807**

32. RESERVES *(Continued)*

(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 out of their respective profits after taxation in accordance with the relevant PRC accounting rules and financial regulations before appropriation of profits 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 aforesaid 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. Individual employees only have the right to use these facilities, the titles to which will remain with the group companies. The statutory public welfare fund forms part of the equity and is non-distributable other than in liquidation.

(c) Statutory reserve fund

In accordance with the Law of the PRC on foreign enterprises, wholly foreign-owned enterprises are required to transfer an amount of not less than 10% of its profit after tax to the statutory reserve fund, which may be used for making up losses and capitalisation into capital.

(d) Contributed surplus

The contributed surplus of the Company represents the difference between the fair values of the underlying net assets of the subsidiaries at the date on which they were acquired by the Company and the nominal amount of the Company's shares issued under the group reorganisation.

(e) 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.

32. RESERVES *(Continued)*

(f) Capital reserve

The capital reserve represents the share premium arising from the issue of shares of a subsidiary to three investors in accordance with the group reorganisation.

(g) The Company's reserves available for distribution to shareholders as at 31 December 2004 represents the aggregate of share premium, contributed surplus and accumulated profits of RMB421,807,000 (2003: RMB321,751,000).

33. ACQUISITION OF SUBSIDIARIES

During the year, the Group acquired three subsidiaries for an aggregate consideration of RMB37,507,000. The acquisitions have been accounted for by the acquisition method of accounting. The amount of goodwill arising as a result of the acquisitions was RMB48,924,000.

	2004
	RMB'000
Property, plant and equipment	**1,203**
Inventories	**6,434**
Trade debtors	**10,039**
Deposits, prepayments and other receivables	**3,013**
Bank balances and cash	**7,584**
Trade and other payables	**(26,984)**
Bank overdraft	**(8,510)**
Bank borrowings	**(574)**
Minority interests	**(3,622)**
Net assets acquired	**(11,417)**
Goodwill	**48,924**
Total consideration	**37,507**
Satisfied by:	
Shares of the Company issued	**11,660**
Deferred consideration *(Note)*	**5,830**
Cash	**20,017**
	37,507

Note: The deferred consideration represents shares of the Company to be issued for the acquisition of a subsidiary. The shares to be issued are subject to the profit warranty adjustment in respect of the profits of the subsidiary for the two years ending 31 December 2006.

The value of shares to be issued is based on the assumption that the profit warranty is achieved.

33. ACQUISITION OF SUBSIDIARIES *(Continued)*

Net cash outflow arising on acquisition:

	2004 *RMB'000*
Cash consideration	**(20,017)**
Bank balances and cash acquired	**7,584**
Bank overdraft acquired	**(8,510)**
Net outflow of cash and cash equivalents in respect of the purchase of subsidiaries	**(20,943)**

The details of the subsidiaries acquired are the following:

Name of subsidiaries	Date of acquisition	Percentage of issued ordinary share capital/ registered capital acquired
北京崇正華盛應急照明系統有限責任公司 Beijing Chongzheng Huasheng Emergency Lighting System Co. Ltd.	12 April 2004	55.44%
江西盛安城市安全信息發展有限公司 Jiangxi Shengan City Safety Communications Development Company Limited	20 August 2004	51.61%
Tung Shing Trade Development Company Limited	8 November 2004	51%

The subsidiaries acquired during the year contributed RMB26,518,000 to the Group's turnover and RMB430,000 to the Group's profits.

34. MAJOR NON-CASH TRANSACTION

On 8 November 2004, the Company issued 20,000,000 new shares of HK$0.01 each as part of the consideration to acquire a subsidiary, Tung Shing Trade Development Company Limited.

35. CAPITAL COMMITMENTS

	THE GROUP	
	2004	2003
	RMB'000	*RMB'000*
Capital expenditure contracted for but not provided in the financial statements in respect of:		
– acquisition of a subsidiary	**48,600**	–
– acquisition of technical know-how	**–**	1,340
– acquisition of land and buildings	**4,397**	–
– acquisition of plant and equipment	**6,000**	–
	58,997	1,340

36. OPERATING LEASE COMMITMENTS

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

	2004	2003
	RMB'000	*RMB'000*
Amounts payable:		
Within one year	**1,865**	768
In the second to fifth year inclusive	**1,480**	320
	3,345	1,088

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 lease commitments disclosed above included an amount of RMB345,000 (2003: nil) in respect of operating lease arrangements made by the Group on behalf of certain subcontractors.

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37. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries at 31 December 2004 are as follows:

Name/kind of legal entity	Place/ country of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company Directly	Indirectly	Principal activities
Wang Sing Technology Limited/limited liability company	British Virgin Islands	US$4,984,359	100%	–	Investment holding
Wan You Holding USA Inc/ limited liability company	State of New York, United States of America	200 *(note 1)*	100%	–	Sale of fire prevention and fighting equipment
Australia Fire Safety Science Technology Development Centre Pty Ltd/limited liability company	Canberra, Australia	A$1,000	100%	–	Inactive
Allied Best Holdings Limited/ limited liability company	British Virgin Islands	US$1	–	100%	Investment holding
Loyal Asset Investment Holdings Limited/ limited liability company	British Virgin Islands	US$1	–	100%	Investment holding
Xin Long Hai Investment Limited/limited liability company	British Virgin Islands	US$1	–	100%	Inactive
Fujian Wanyou Fire Fighting Science and Technology Co., Ltd./wholly foreign-owned enterprise	PRC	HK$50,500,000	–	100%	Production and sale of fire prevention and fighting equipment
福建萬友消防工程集團有限公司 Fujian Wanyou Fire Engineering Group Company Limited/ limited liability enterprise	PRC	RMB50,000,000	–	99.4%	Provision of fire prevention and fighting system installation services and maintenance services

37. PARTICULARS OF SUBSIDIARIES *(Continued)*

Name/kind of legal entity	Place/ country of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company		Principal activities
			Directly	Indirectly	
Fuzhou Wanyou Fire Fighting Science and Technology Co., Ltd./wholly foreign-owned enterprise	PRC	HK$20,000,000	–	100%	Production and sale of fire prevention and fighting equipment
Wang You Fire Technology Limited/limited liability company	State of Delaware, United States of America	US$200	–	100%	Inactive
China Alliance Security Holdings Company Limited/limited liability company	Hong Kong	HK$100	–	100%	Inactive
Morita-CFE Investment Company Limited/ limited liability company	Hong Kong	HK$1,000	–	100%	Inactive
北京集寶盛安安全防護技術發展有限公司 Beijing Jibao Shengan Security Technology Development Company Limited/limited liability enterprise	PRC	RMB10,010,000	–	99.9%	Development of network based monitoring system for fire prevention and fighting system and operation of remote automatic monitoring centre
北京崇正華盛應急照明系統有限責任公司 Beijing Chongzheng Huasheng Emergency Lighting System Co. Ltd./ limited liability enterprise	PRC	RMB2,000,000	–	55.44%	Production and sale of fire prevention and fighting equipment

Notes to the Financial Statements

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37. PARTICULARS OF SUBSIDIARIES *(Continued)*

Name/kind of legal entity	Place/ country of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company Directly	Indirectly	Principal activities
江西盛安城市安全信息發展有限公司 Jiangxi Shengan City Safety Communications Development Company Limited/limited liability enterprise	PRC	RMB15,500,000	–	51.61%	Development of network based monitoring system for fire prevention and fighting system and operation of remote automatic monitoring centre
福建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%	Development of network based monitoring system for fire prevention and fighting system and operation of remote automatic monitoring centre
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

Notes:

1. These are nil paid shares.

2. Other than Wang Sing Technology Limited, Loyal Asset Investment Holdings Limited, Allied Best Holding Limited and Xin Long Hai Investment Limited which operate in Hong Kong, all operating subsidiaries operate in their country of incorporation or establishment.

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

38. RETIREMENT BENEFIT SCHEMES

The group companies operating in the PRC participate in defined contribution retirement schemes organized by the relevant local government authorities in 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%(2003: 18%) 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 2004 amounted to RMB699,000 (2003: RMB1,179,000).

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 total retirement benefit scheme contributions amounting to RMB737,000 (2003: RMB1,236,000).

39. PLEDGE OF ASSETS

At 31 December 2004, bank deposits of approximately RMB2,123,000 (2003: nil) of the Group have been pledged to a bank to secure the banking facilities granted to a subsidiary.

As at 31 December 2003, land and buildings of approximately RMB8,072,000 were pledged to secure a mortgage loan of the Group (2004: nil).

40. POST BALANCE SHEET EVENTS

(a) On 14 January 2005, the Group entered into an agreement to dispose of 25% interest in Sichuan Fire Safety Appliances Factory to a shareholder of the Company, who holds approximately 1.156% interest in the Company and is a manufacturer and distributor of fire engines, for a consideration of RMB20,750,000. The completion of the disposal is subject to the completion of the restructuring of Sichuan Fire Safety Appliances Factory. It is not expected that there will be any gain or loss from the disposal.

(b) On 1 February 2005, the Company entered into a subscription agreement with United Technologies Far East Limited ("UTFE"), which is a subsidiary of United Technologies Corporation, a company listed on the New York Stock Exchange and a Director of the Company, Mr. Jiang Xiong also entered into an option agreement with UTFE. Under the subscription agreement, subject to certain conditions, which include, among others, the granting of the waiver by the executive directors of the Securities and Futures Commission pursuant to Note 1 on dispensations from Rule 26 of the Hong Kong Code on Takeovers and Mergers to make a mandatory general offer and the approval of the shareholders of the Company, UTFE will subscribe shares of the Company in two tranches at a subscription price of HK$0.577 per share. Under the first tranche, UTFE will subscribe such number of new shares of the Company as representing approximately 15% of the issued share capital of the Company as enlarged by the issue of the new shares under the first tranche. Under the second tranche, UTFE, subject to certain conditions, will, on the earlier of (a) the seventh business day after a notice has been served by the Company on UTFE during the period commencing from the date falling six months after the first tranche completion date, requiring UTFE to proceed with the completion of the second tranche subscription and (b) the first anniversary of the first tranche completion date, subscribe such number of new shares of the Company as representing approximately 16.49% of the issued share capital of the Company as enlarged by the issue of the new shares under the subscription agreement. As at the date of the approval of the financial statements, the conditions for the first tranche are not fulfilled or waived.

Under the option agreement, Mr. Jiang Xiong will sell to UTFE the option shares, being the lower of (a) such number of shares as are required to be sold by Mr. Jiang Xiong to UTFE to enable UTFE to beneficially hold 51% of voting rights of the Company immediately following the completion of the exercise of the option and (b) all the shares of the Company then held by Mr. Jiang Xiong at the time of service by UTFE of the notice to exercise the option, during the period commencing from the third anniversary of the first tranche subscription completion date to eighth anniversary of the first tranche subscription completion date at an option exercise price determined with reference to the profit and debts of the Company.

In the event that UTFE exercises the option, it will make a general offer for the shares of the Company in compliance with the Hong Kong Code on Takeovers and Mergers.

Details of the above subscription agreement and option agreement are set out in the circular of the Company dated 10 March 2005.

FINANCIAL SUMMARY

	For the year ended 31 December				
	2000	2001	2002	2003	**2004**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***
RESULTS					
Turnover	84,007	193,988	259,519	282,475	**486,720**
Profit before taxation	44,643	106,512	142,272	131,877	**161,911**
Taxation	(184)	(7,728)	(16,100)	(19,761)	**(31,602)**
Profit before minority interests	44,459	98,784	126,172	112,116	**130,309**
Minority interests	(3,000)	(4,941)	(295)	(401)	**(1,220)**
Net profit for the year	41,459	93,843	125,877	111,715	**129,089**
Earnings per share *(RMB cents)*					
Basic	3.0	6.8	7.5	5.6	**6.4**

	At 31 December				
	2000	2001	2002	2003	**2004**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***
ASSETS AND LIABILITIES					
Total assets	53,446	123,619	400,966	480,602	**666,488**
Total liabilities	(20,299)	(88,880)	(37,826)	(37,392)	**(118,984)**
Minority interests	(4,156)	(121)	(562)	(717)	**(6,568)**
Shareholders' funds	28,991	34,618	362,578	442,493	**540,936**

Notes:

1. The results for each of the two years ended 31 December 2001 were extracted from the prospectus of the Company dated 23 September 2002. The earnings per share for these two years were computed based on 1,381,600,000 shares that would have been in issue throughout the two years on the assumption that the group reorganisation has been completed on 1 January 2000.

2. Assets, liabilities and minority interests of the Group as at 31 December 2000 and 2001 were extracted from the prospectus of the Company dated 23 September 2002.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of China Fire Safety Enterprise Group Holdings Limited (the "Company") will be held at Chater Room III, Function Room Level, The Ritz Carlton Hong Kong, 3 Connaught Road Central, Hong Kong on 28 April 2005 (Thursday) at 3:00 p.m. for the following purposes:

1. To receive and consider the audited consolidated financial statements of the Company and its subsidiaries (together, the "Group") and the report of the directors and auditors for the year ended 31 December 2004;

2. To re-elect retiring directors of the Company ("the "Directors") and authorise the board of Directors (the "Board") to fix their remuneration;

3. To re-appoint the auditors Messrs. Deloitte Touche Tohmatsu and authorise the Board to fix their remuneration; and

By way of special business, to consider and, if thought fit, pass with or without amendments, the following resolution as ordinary resolution;

ORDINARY RESOLUTIONS

4. "**THAT**:

   (a) subject to paragraph (c) of this Resolution, the Directors be and are hereby granted an unconditional general mandate to exercise during the Relevant Period (as hereinafter defined in this Resolution) all the power of the Company to allot, issue and deal with additional shares in the Company (the "Shares") and to allot, issue or grant securities convertible or exchangeable into Shares, or options, warrants or similar rights to subscribe for or acquire Shares or such convertible or exchangeable securities, and to make or grant offers, agreements and options in respect thereof;

   (b) the mandate referred to in paragraph (a) of this Resolution shall authorise the Directors during the Relevant Period to make or grant offers, agreements, options and rights of exchange or conversion which might require the exercise of such power after the end of the Relevant Period;

   (c) the aggregate nominal amount of share capital of the Company allotted, issued or dealt with or agreed conditionally or unconditionally to be allotted, issued or dealt with (whether pursuant to options or otherwise) by the Directors pursuant to the mandate referred to in paragraph (a), otherwise than pursuant to

      (i) a Rights Issue;

      (ii) the exercise of rights of subscription or conversion under the terms of any options, warrants or similar rights or convertible securities issued by the Company or any securities which are convertible or exchangeable into Shares;

(iii) the exercise of the subscription rights under options granted under any option scheme or similar arrangement of the Company for the time being adopted for the grant or issue to officers or employees of the Company or any of its subsidiaries or any eligible participants under such scheme or arrangement of Shares or rights to acquire Shares; or

(iv) any scrip dividend or similar arrangement providing for the allotment and issue of Shares or other securities of the Company in lieu of the whole or part of a dividend on Shares in accordance with the articles of association of the Company,

shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this Resolution and the said approval in paragraph (a) of this Resolution shall be limited accordingly;

(d) for the purposes of this Resolution:

"Relevant Period" means the period from the passing of this Resolution up to:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or the articles of association of the Company to be held; or

(iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting,

whichever is the earliest; and

"Rights Issue" means an offer of Shares or other securities of the Company open for a period fixed by the Directors to holders of Shares registered on the register of shareholders of the Company on a fixed record date in proportion to their then holdings of such Shares as at that date (subject to such exclusions or other arrangements as the Directors may in their absolute discretion deem necessary, desirable or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of or the requirements of any recognised regulatory body or any stock exchange in, any territory applicable to the Company)."

5. "**THAT**:

(a) subject to paragraph (b) of this Resolution, the exercise by the Directors all powers of the Company during the Relevant Period (as hereinafter defined in this Resolution) to repurchase its own shares (the "Shares"), be and is hereby generally and unconditionally approved;

(b) the aggregate nominal amount of Shares which may be repurchased by the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") or any other stock exchange recognised by the Securities and Futures Commission of Hong Kong and the Stock Exchange for this purpose pursuant to the approval in paragraph (a) of this Resolution shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this Resolution, and the said approval shall be limited accordingly; and

(c) for the purpose of this Resolution:

"Relevant Period" means the period from the passing of this Resolution up to:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or the articles of association of the Company to be held; and

(iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting,

whichever is the earliest."

6. "**THAT** conditional upon the passing of Ordinary Resolutions No. 4 and 5 set out in the notice, of which this Resolution forms part, the aggregate nominal amount of share capital of the Company that may be allotted, issued or dealt with or agreed conditionally or unconditionally to be allotted, issued or dealt with by the Directors pursuant to and in accordance with the mandate granted under Ordinary Resolution No. 4 be and is hereby increased and extended by the addition thereto of the aggregate nominal amount of the shares in the Company repurchased by the Company pursuant to and in accordance with the mandate granted under Ordinary Resolution No. 5 since the granting of such repurchase mandate, provided that such amount shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this Resolution."

By Order of the Board
China Fire Safety Enterprise Group Holdings Limited
Li Ching Wah
Company Secretary

Hong Kong, 29 March 2005

Notice of Annual General Meeting

Registered Office:
Century Yard, Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
Grand Cayman
British West Indies

Head office and principal place of business in the PRC:
8th Floor
Gaojing Trade Centre
No.158 Wu Yi Bei Road
Fuzhou City
Fujian Province, PRC

Principal place of business in Hong Kong:
Suite 907, 9/F, ICBC Tower
3 Garden Road
Central
Hong Kong

Notes:

1. A member of the Company entitled to attend and vote at the Annual General Meeting convened is entitled to appoint one or more proxies to attend and vote on his behalf. A proxy need not be a member of the Company.

2. In case of a joint holding, the form of proxy may be signed by any joint holder, but if more than one joint holder is present at the meeting, whether in person or by proxy, that one of the joint holders whose name stands first on the register of members in respect of the relevant joint holding shall alone be entitled to vote in respect thereof.

3. To be valid, the form of proxy together with any power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority must be deposited with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for the holding of the Annual General Meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude a member from attending and voting in person.

4. A form of proxy for the meeting will be enclosed with the Annual Report.