



China Fire Safety Enterprise Group Holdings Limited

中國消防企業集團控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8201)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2004

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This announcement, for which the directors (the “Directors”) of China Fire Safety Enterprise Group Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this announcement is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

* For identification purpose only

HIGHLIGHTS

- Turnover of the Group for the year ended 31 December 2004 was RMB487 million, representing a growth of 72% compared to last year's turnover of RMB282 million.
- Net profit for the year increased 16% to RMB129 million.
- Revenue from installation services, maintenance services and production and sale of fire prevention and fighting equipment increased respectively by 294%, 8% and 12% to RMB230 million, RMB46 million and RMB202 million.
- Earnings per share was 6.4 RMB cents, jumped 14% from 5.6 RMB cents last year.
- The Board has resolved that subject to the completion of the first tranche of the subscription by UTFE in accordance with the subscription agreement as set out in the Company's circular dated 10 March 2005, 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 Board does not recommend the payment of a final dividend for the year ended 31 December 2004.

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'm 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 announcement, 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.

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

RESULTS

The board of Directors (the “**Board**”) of the Company is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 December 2004, together with the comparative figures for the corresponding period in 2003, as follows:

		Year ended 31 December	
	<i>Note</i>	2004	2003
		RMB'000	RMB'000
Turnover	2	486,720	282,475
Cost of sales		<u>(287,258)</u>	<u>(133,759)</u>
Gross Profit		199,462	148,716
Other operating income		1,500	4,169
Distribution costs		(6,159)	(1,842)
Administrative expenses		<u>(32,775)</u>	<u>(18,937)</u>
Profit from operations	3	162,028	132,106
Finance costs		<u>(117)</u>	<u>(229)</u>
Profit before taxation		161,911	131,877
Taxation	4	<u>(31,602)</u>	<u>(19,761)</u>
Profit before minority interests		130,309	112,116
Minority interests		<u>(1,220)</u>	<u>(401)</u>
Net profit for the year		<u><u>129,089</u></u>	<u><u>111,715</u></u>
Dividends	5		
- Ordinary		21,200	42,400
- Special		<u>98,495</u>	<u>-</u>
		<u><u>119,695</u></u>	<u><u>42,400</u></u>
Earnings per share (RMB cents)	6		
- Basic		<u><u>6.4</u></u>	<u><u>5.6</u></u>
- Diluted		<u><u>6.4</u></u>	<u><u>N/A</u></u>

Notes:

1 Basis of presentation

The Group’s audited consolidated results have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with the Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), the terms of HKFRS is inclusive of Statements of Standard Accounting Practice (“SSAP”) and interpretations approved by the HKICPA. There was no material change in the accounting policies adopted by the Group in preparing the results for the year ended 31 December 2004 as compared to 2003.

2 Turnover

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

	Year ended 31 December	
	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
	<u>486,720</u>	<u>282,475</u>

3 Profit from operations

Profit from operations has been arrived at after charging:

	Year ended 31 December	
	2004	2003
	RMB'000	RMB'000
Depreciation:		
Property, plant and equipment	16,038	9,564
Amortisation of goodwill included in administrative expenses	5,593	2,964
Amortisation of development costs included in cost of sales	1,010	255
	<u>1,010</u>	<u>255</u>

4 Taxation

	Year ended 31 December	
	2004	2003
	RMB'000	RMB'000
The charge comprises:		
Current tax		
The PRC - income tax	32,600	16,271
Deferred tax	(998)	3,490
	<u>31,602</u>	<u>19,761</u>

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 year 2002 and 2004 respectively.

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.

5 Dividends

	Year ended 31 December	
	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	<i>Note</i> 98,495	-
	119,695	42,400

Note: The Board has resolved that subject to the completion of the first tranche of the subscription by UTFE in accordance with the subscription agreement as set out in the Company's circular dated 10 March 2005, 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 Board does not recommend the payment of a final dividend for the year ended 31 December 2004 (2003:1 HK cent per share).

6 Earnings per share

	Year ended 31 December	
	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 purposes of diluted earnings per share	2,004,903	2,000,000

The shares issuable for the acquisition of a subsidiary are subject to profit warranty adjustment. As 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.

MOVEMENT IN RESERVES

	Share premium RMB'000	Special reserve RMB'000	Capital reserve RMB'000	Statutory surplus fund RMB'000	Statutory public welfare fund RMB'000	Statutory reserve fund RMB'000	Exchange reserve RMB'000	Accumulated profits RMB'000	Total RMB'000
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

SEGMENT INFORMATION

(a) Business segments

For management purposes, the Group is currently organized 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.

Segment information about these businesses is 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
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
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		

	Installation of fire prevention and fighting systems	Production and sale of fire prevention and fighting equipment	Provision of maintenance services	Elimination	Consolidated
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	<u>58,308</u>	<u>195,253</u>	<u>42,583</u>	<u>(13,669)</u>	<u>282,475</u>
Inter-segment sales are charged at prevailing market rates.					
RESULTS					
Segment results	26,507	73,997	38,758		139,262
Unallocated corporate expenses					<u>(7,156)</u>
Profit from operations					132,106
Finance					<u>(229)</u>
Profit before taxation					131,877
Taxation					<u>(19,761)</u>
Profit before minority interests					112,116
Minority interests					<u>(401)</u>
Net profit for the year					<u>111,715</u>
ASSETS					
Segment assets	69,853	331,998	14,437		416,288
Unallocated corporate assets					<u>64,314</u>
					<u>480,602</u>
LIABILITIES					
Segment liabilities	6,013	13,855	-		19,868
Unallocated corporate liabilities					<u>17,524</u>
					<u>37,392</u>
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	-		

(b) Geographical segments

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

The analyses of the carrying amount of segment assets and additions to property, plant and equipment, goodwill and intangible assets analysed by the geographical areas 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 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
PRC	567,377	416,401	23,489	50,145
Hong Kong	97,428	56,840	34,520	21
USA	557	7,361	13	450
Australia	1,126	-	754	-
	<u>666,488</u>	<u>480,602</u>	<u>58,776</u>	<u>50,616</u>

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 from the segment information above, 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 service 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"**) (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 tranche 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 1 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

Complete testing and launch of online monitoring system of fire prevention and fighting systems.

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.

Actual progress

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.

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

Commence operation of the acquired companies engaged in manufacturing or supplying fire retardant material and fire service equipment. Pursue further investment opportunities in them.

Continue the operation of specialized fire prevention and fighting systems installation projects for specialized industries.

Actual progress

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.

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

Commence operation of the research & development centre and complete research work on one project on fire prevention and fighting technology and commence another.

Actual progress

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

Commence mass production with the new production facilities in Fujian.

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.

Actual progress

The construction of the new production base in Fujian Province was completed and production commenced in September 2003.

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

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.

Continue operation of the improved sales offices and expand sales of the respective offices.

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.

Actual progress

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.

A display service centre has been set up in Beijing and will be in operation in the first quarter of 2005.

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

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.

Actual progress

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

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.

Actual progress

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" under Management Discussion and Analysis 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 HK\$(million)	Actual use of proceeds up to 31 December 2004 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		<u>130</u>	<u>95.7</u>

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 specialize 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.

IMPACT ON THE LETTER FROM THE JOINT INDEPENDENT FINANCIAL ADVISERS WHICH HAVE BEEN INCLUDED IN THE CIRCULAR OF THE COMPANY DATED 10 MARCH 2005 (THE “CIRCULAR”)

Terms used in this section shall have the same meaning ascribed to them in the Circular dated 10 March 2005. The Joint Independent Financial Advisers have confirmed that the financial results disclosed herein would not affect their advice as stipulated in the Circular. For the avoidance of doubt, the Joint Independent Financial Advisers should not be held responsible for the truthfulness, completeness and accuracy of the information contained herein.

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 had any interest or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (Cap. 571 of the Laws of Hong Kong) (“SFO”)) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or were required, pursuant to section 352 of the SFO to be entered in the register required to be kept therein or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

Long positions in ordinary shares of the Company

Name of Director	Capacity and types of interest	Number of issued shares of HK\$0.01 each of the Company held	Percentage of issued share capital of the Company
Mr. Jiang Xiong	Beneficial owner	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 “Placement”). The shares placed represented 4.58% of the Company’s issued share capital. Details of the Placement are contained in the Company’s announcement dated 14 October 2004.

On 1 February 2005, Mr. Jiang Xiong (“**Mr. Jiang**”) entered into an option agreement (the “**Option Agreement**”) with UTFE. Pursuant to the Option Agreement, Mr. Jiang grants an option (the “**Option**”) to UTFE which when exercised, will require Mr. Jiang to sell to UTFE the lower of :

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

Also on 1 February 2005, the Company entered into a subscription agreement (the “**Subscription Agreement**”) with UTFE, pursuant to which the Company will issue 825,000,000 new shares of the Company to 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 announcement and circular dated 2 February 2005 and 10 March 2005 respectively.

Options to subscribe for ordinary shares in the Company

Grantee	Date of grant	No. of shares issuable under the options granted	Exercise period	Exercise price (HK\$)	No. 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	1.00%
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%

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

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%

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 shown 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 type of interest	Number of issued share of HKD0.01 each of the Company held	Percentage of issued 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%
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 SFC, 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 182,660,000 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.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company, or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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 (the “Sponsor Agreement”), 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 was terminated upon the terms and conditions set out therein. The Sponsor Agreement expired on 31 December 2004.

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.

BOARD PRACTICES AND PROCEDURES

The Company has complied with the Board Practices and Procedures as set out in 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 Hon Sum resigned as an independent non-executive director and member of the audit committee. Subsequent thereto, Mr. Heng Kwo Seng was appointed as an independent non-executive director and audit committee member on 29 April 2004.

AUDIT COMMITTEE

The audit committee comprises three independent non-executive Directors, namely Mr. Liu Shi Pu, Mr. Heng Kwo 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.

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

Hong Kong, 23 March 2005

This announcement will remain on the GEM website at www.hkgem.com on the "Latest Company Announcement" page for at least seven days from the day of its posting.