# 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 2006

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* For identification purpose only

**HIGHLIGHTS**

- Turnover of the Group for the year ended 31 December 2006 grew 17% to RMB970 million.

- Profit attributable to equity holders of the Company for the year decreased 33% to RMB116 million.

- Basic earnings per share dropped 44% to 4.24 RMB cents.

- Impairment loss on tooling and moulds of RMB23 million and write-off of product development costs of RMB4 million were recognised for the year as the national standards of the underlying products changed.

- The Board does not recommend the payment of a final dividend for the year ended 31 December 2006.

## CHAIRMAN'S STATEMENT

### Results for the year

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

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

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

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

**Strategic Alliance**

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

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

**Looking forward**

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

**Appreciation**

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

**Jiang Xiong**
*Chairman*

26 March 2007

The board of Directors (the "**Board**") of the Company is pleased to announce the audited consolidated income statement and consolidated balance sheet of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2006, together with the comparative figures for the corresponding period in 2005, as follows:

**CONSOLIDATED INCOME STATEMENT**

| | *Note* | **Year ended 31 December** **2006** RMB'000 | **2005** RMB'000 |
|---|---|---|---|
| Turnover | *2* | 969,705 | 829,627 |
| Cost of sales | | (696,151) | (543,871) |
| **Gross Profit** | | 273,554 | 285,756 |
| Other income | | 13,390 | 4,846 |
| Selling and distribution costs | | (25,441) | (10,770) |
| Administrative expenses | | (78,859) | (59,281) |
| Other expenses | 3 | (26,472) | - |
| Finance costs | | (3,507) | (1,280) |
| Profit before taxation | | 152,665 | 219,271 |
| Taxation | *4* | (44,468) | (44,655) |
| **Profit for the year** | *5* | 108,197 | 174,616 |
| Attributable to: | | | |
| Equity holders of the Company | | 115,815 | 172,929 |
| Minority interests | | (7,618) | 1,687 |
| | | 108,197 | 174,616 |
| **Earnings per share (RMB cents)** | *6* | | |
| **- Basic** | | 4.24 | 7.59 |
| **- Diluted** | | 4.17 | 7.44 |

## CONSOLIDATED BALANCE SHEET

| | Note | **At 31 December 2006 RMB'000** | At 31 December 2005 RMB'000 |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | | **116,899** | 166,633 |
| Prepaid lease payments | | **59,092** | 23,301 |
| Investment properties | | **22,359** | - |
| Goodwill | | **59,207** | 62,543 |
| Development costs | | **100** | 5,455 |
| Deferred tax assets | *4* | **4,602** | - |
| | | **262,259** | 257,932 |
| Current assets | | | |
| Inventories | | **63,784** | 52,277 |
| Retention receivables | | **9,264** | 5,034 |
| Amounts due from contract customers | | **60,684** | 35,527 |
| Trade receivables | *8* | **382,731** | 264,233 |
| Deposits, prepayments and other receivables | | **27,378** | 36,087 |
| Prepaid lease payments | | **521** | 521 |
| Pledged bank deposits | | **24,283** | 22,442 |
| Bank balances and cash | | **642,278** | 420,013 |
| | | **1,210,923** | 836,134 |
| Current liabilities | | | |
| Trade and other payables | *9* | **203,702** | 191,281 |
| Amounts due to contract customers | | **13,676** | 13,401 |
| Amount due to a jointly controlled entity | | **245** | - |
| Amount due to minority shareholders | | **3,483** | 7,695 |
| Tax liabilities | | **7,660** | 20,362 |
| Bank borrowings | | **51,484** | 24,367 |
| Obligation under a finance lease - amount due within one year | | **34** | 32 |
| | | **280,284** | 257,138 |
| Net current assets | | **930,639** | 578,996 |
| Total assets less current liabilities | | **1,192,898** | 836,928 |
| Non-current liabilities | | | |
| Deferred tax liabilities | *4* | **3,962** | 3,142 |
| Obligation under a finance lease - amount due after one year | | **104** | 142 |
| | | **4,066** | 3,284 |
| Net assets | | **1,188,832** | 833,644 |

| | | | |
|---|---|---|---|
| Capital and reserves | | | |
| Share capital | | **30,168** | 25,186 |
| Reserves | *10* | **1,132,430** | 780,456 |
| Equity attributable to equity holders of the Company | | **1,162,598** | 805,642 |
| Minority interests | | **26,234** | 28,002 |
| Total equity | | **1,188,832** | 833,644 |

Notes:

## 1 Basis of presentation

The Group's audited consolidated financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). In the current year, the Group has applied, for the first time, a number of new HKFRSs which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

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

## 3 Other expenses

| | Year ended 31 December | |
|---|---|---|
| | **2006** | 2005 |
| | **RMB'000** | RMB'000 |
| Impairment loss recognized on property, plant and equipment | **22,697** | - |
| Write-off of product development costs | **3,775** | - |
| | **26,472** | - |

## 4 Taxation

| | | Year ended 31 December | |
|---|---|---|---|
| | | **2006** | 2005 |
| | *Note* | **RMB'000** | RMB'000 |
| The charge comprises: | | | |
| Current tax | | | |
| PRC Enterprise Income Tax | | **44,292** | 43,346 |
| Hong Kong Profits Tax | | **-** | 659 |
| | | **44,292** | 44,005 |
| Underprovision in prior year: | | | |
| PRC Enterprise Income Tax | | **5,416** | - |
| Hong Kong Profits Tax | | **12** | - |
| | | **5,428** | - |
| Deferred tax | *a* | **(5,252)** | 650 |
| | | **44,468** | 44,655 |

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

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

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

Note a. Deferred taxation

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

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

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

| | **Year ended 31 December** | |
|---|---|---|
| | **2006** | 2005 |
| | **RMB'000** | RMB'000 |
| Deferred tax assets | **(4,602)** | - |
| Deferred tax liabilities | **3,962** | 3,142 |
| | **(640)** | 3,142 |

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

note ii: The amounts mainly represent temporary differences arising on allowances for doubtful debts.

## 5 Profit for the year

Profit for the year has been arrived at after charging:

| | Year ended 31 December | |
|---|---|---|
| | **2006** | 2005 |
| | **RMB'000** | RMB'000 |
| Depreciation of property, plant and equipment | | |
| Owned assets | **20,293** | 18,171 |
| Assets held under a finance lease | **46** | 16 |
| Amortisation of prepaid lease payments | **521** | 188 |
| Amortisation of development costs included in cost of sales | **1,700** | 1,680 |
| Allowances for bad and doubtful debts | **8,936** | - |

## 6 Earnings per share

| | Year ended 31 December | |
|---|---|---|
| | **2006** | 2005 |
| | **RMB'000** | RMB'000 |
| Earnings for the purpose of basic and diluted earnings per share | **115,815** | 172,929 |
| | **'000** | '000 |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **2,730,266** | 2,277,490 |
| Effect of dilutive potential ordinary shares: | | |
| Share options | **11,864** | 10,000 |
| Second tranche subscription (Note) | **32,391** | 38,097 |
| Weighted average number of ordinary shares for the purposes of diluted earnings per share | **2,774,521** | 2,325,587 |

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

## 7 Dividends

Dividends recognized as distributions during the year:

| | Year ended 31 December | |
|---|---|---|
| | **2006** | 2005 |
| | **RMB'000** | RMB'000 |
| 2005 interim dividend paid of 1 HK cent per share on 2,376,000,000 shares (2006: nil) | - | 24,710 |
| 2005 final dividend paid of 1.3 HK cent per share on 2,845,000,000 shares (2006: nil ) | **38,464** | - |
| | **38,464** | 24,710 |
| 2005 special dividend paid of 4.6 HK cents per share on 2,020,000,000 shares (2006: nil) | - | 98,495 |
| | **38,464** | 123,205 |

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

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

## 8 Trade receivables

The credit period allowed by the Group to its customers is normally ranging from 30 to180 days.
The aged analysis of trade receivables is as follows:

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

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

## 9 Trade and other payables

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

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

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

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

## 10 Movement in reserves

| | Share premium RMB'000 | Special reserve RMB'000 | Capital reserve RMB'000 | Property revaluation reserve RMB'000 | Statutory surplus fund RMB'000 | Statutory public welfare fund RMB'000 | Statutory reserve fund RMB'000 | Exchange reserve RMB'000 | Retained profits RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2005 | 151,368 | (6,692) | 57,840 | - | 18,405 | 13,155 | 31,677 | 94 | 253,677 | 519,524 |
| Exchange difference arising on translation of foreign operations recognised directly in equity | - | - | - | - | - | - | - | (2,639) | - | (2,639) |
| Realisation of exchange reserve on disposal of a subsidiary | - | - | - | - | - | - | - | (116) | - | (116) |
| Issue of new shares | 213,963 | - | - | - | - | - | - | - | - | 213,963 |
| Profit for the year | - | - | - | - | - | - | - | - | 172,929 | 172,929 |
| Transfer | - | - | - | - | 6,738 | 3,639 | 12,532 | - | (22,909) | - |
| Dividends paid | - | - | - | - | - | - | - | - | (123,205) | (123,205) |
| At 1 January 2006 | 365,331 | (6,692) | 57,840 | - | 25,143 | 16,794 | 44,209 | (2,661) | 280,492 | 780,456 |
| **Exchange difference arising on translation of foreign operations recognised directly in equity** | - | - | - | - | - | - | - | **(9,328)** | - | **(9,328)** |
| **Increase in fair value of leasehold properties transferred to investment properties** | - | - | - | **4,455** | - | - | - | - | - | **4,455** |
| **Deferred tax liability arising on revaluation on properties** | - | - | - | **(1,470)** | - | - | - | - | - | **(1,470)** |
| **Realisation of exchange reserve on disposal of a subsidiary** | - | - | - | - | - | - | - | **(66)** | - | **(66)** |
| **Issue of new shares** | **281,032** | - | - | - | - | - | - | - | - | **281,032** |
| **Profit for the year** | - | - | - | - | - | - | - | - | **115,815** | **115,815** |
| **Transfer** | - | - | - | - | **5,107** | **3,327** | **4,994** | - | **(13,428)** | - |
| **Dividends paid** | - | - | - | - | - | - | - | - | **(38,464)** | **(38,464)** |
| **At 31 December 2006** | **646,363** | **(6,692)** | **57,840** | **2,985** | **30,250** | **20,121** | **49,203** | **(12,055)** | **344,415** | **1,132,430** |

## SEGMENT INFORMATION

(a) Business segments

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

Segment information on these businesses is as follows:

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

| | Installation of fire prevention and fighting systems RMB'000 | Production and sale of fire engines, fire prevention and fighting equipment RMB'000 | Trading of fire engines, fire prevention and fighting and rescue equipment RMB'000 | Provision of maintenance services RMB'000 | Elimination RMB'000 | Consolidated RMB'000 |
|---|---|---|---|---|---|---|
| For the year ended 31 December 2005 | | | | | | |
| TURNOVER | | | | | | |
| External sales | 363,063 | 314,120 | 98,176 | 54,268 | - | 829,627 |
| Inter-segment sales | - | 68,533 | - | - | (68,533) | - |
| Total | 363,063 | 382,653 | 98,176 | 54,268 | (68,533) | 829,627 |

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

| | Installation of fire prevention and fighting systems RMB'000 | Production and sale of fire engines, fire prevention and fighting equipment RMB'000 | Trading of fire engines, fire prevention and fighting and rescue equipment RMB'000 | Provision of maintenance services RMB'000 | Elimination RMB'000 | Consolidated RMB'000 |
|---|---|---|---|---|---|---|
| RESULTS | | | | | | |
| Segment results | 110,767 | 71,921 | 5,361 | 42,666 | | 230,715 |
| Unallocated income | | | | | | 3,858 |
| Unallocated corporate expenses | | | | | | (14,022) |
| Finance costs | | | | | | (1,280) |
| Profit before taxation | | | | | | 219,271 |
| Taxation | | | | | | (44,655) |
| Profit for the year | | | | | | 174,616 |
| ASSETS | | | | | | |
| Segment assets | 176,398 | 374,258 | 71,216 | 27,347 | | 649,219 |
| Unallocated corporate assets | | | | | | 444,847 |
| | | | | | | 1,094,066 |
| LIABILITIES | | | | | | |
| Segment liabilities | 59,909 | 110,343 | 30,934 | 1,375 | | 202,561 |
| Unallocated corporate liabilities | | | | | | 57,861 |
| | | | | | | 260,422 |
| OTHER INFORMATION | | | | | | |
| Capital expenditure (exclude goodwill) | 1,145 | 39,142 | 524 | 9,337 | | |
| Depreciation and amortisation | 639 | 18,019 | 91 | 981 | | |
| Loss on disposal of property, plant and equipment | - | 9 | 65 | - | | |

(b) Geographical segments

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

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

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

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business review

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

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

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

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

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

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

The rise in revenue was mainly brought by the consolidation of the full year result of Sichuan Morita Fire Safety Appliances Co., Ltd. ("**Sichuan Morita**") which amounted to RMB202 million as compared to the

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

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

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

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

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

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

Revenue from the trading of fire engines, fire prevention and fighting and rescue equipment for the year decreased by 89% to approximately RMB11 million and it turned from a profit of RMB5 million for 2005 to a loss of RMB4 million for the year under review.

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

**Financial resources, liquidity, contingent liabilities and pledge of assets**

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

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

Provisions of RMB9 million were made for the year on receivables aged over 1 year. The Group has a minimal gearing ratio as its long-term interest bearing liabilities as at year end date was only RMB0.1 million (2005: RMB0.1 million) in comparison with the Group's shareholders equity of RMB1,163 million (RMB806 million).

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

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

**Acquisitions, disposals and capital commitments**

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

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

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

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

*Capital commitments*

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

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

**Employees and remuneration policies**

As at 31 December 2006, the Group had approximately 1,529 full-time employees (2005: 1,370). Staff costs, excluding directors' remuneration, for the year amounted to RMB49 million, a 5% increase over the previous year's RMB47 million. The rise in number of staff was mainly due to additional workers employed by Sichuan Morita to meet the increase in orders. Remuneration of employees was determined mainly on the basis of their performance. All full-time employees are entitled to medical contributions, provident funds and retirement plans. The Group provides a series of comprehensive in-house and on-the-job training to staff to keep their technical skills and standards up to date for quality services and to enhance work safety.

**Strategic partners**

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

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

Save as disclosed below, as of 31 December 2006, 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 (Note 1)<br>Deemed Interest (Note 2) | 981,600,000<br>825,000,000 | 63.28%<br>(Note 3) |
| Mr. Jiang Qing | Beneficial owner | 7,500,000 | 0.26% |

***Note:***

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

2. Mr. Jiang has a short position in the shares to be sold under the Option Agreement. On the other hand, UTFE has a long position in the option shares under the Option Agreement and therefore Mr. Jiang is deemed to have a long position in the option shares in its capacity as a party to the Option Agreement to which Section 317(1)(a) of the SFO applies.

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

Short positions in ordinary shares of the Company

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

a. such number of shares 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.

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

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

Options to subscribe for ordinary shares in the Company

| Grantee | Date of grant | No. of shares issuable under the options granted | Exercise period | Exercise price (HK$) | No. of shares issuable under the options granted as at 1.1.2006 | 31.12.2006 | 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 | 20,000,000 | 0.70% |
| Mr. Chen Shu Quan | 25 May 2004 | 5,000,000 | 25 May 2004 – 24 May 2014 | 0.44 *(Note)* | 5,000,000 | - | |
| Mr. Chan Siu Tat | 25 May 2004 | 5,000,000 | 25 May 2004 – 24 May 2014 | 0.44 *(Note)* | 5,000,000 | - | |
| | | | | | 30,000,000 | 20,000,000 | |

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

Mr. Chan Siu Tat and Mr. Chen Shu Quan exercised all their options on 13 July 2006 and 11 October 2006 respectively, upon which 5,000,000 shares were issued to each of them. Mr. Chan and Mr. Chen resigned as executive directors of the Company respectively on 15 August 2006 and 3 November 2006.

Interest in a subsidiary

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

## INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 31 December 2006, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shown that other than the interests disclosed above in respect of certain directors, the following shareholders have notified the Company of their relevant interests in the issued share capital of the Company.

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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 |
|---|---|---|---|
| UTFE | Beneficial owner<br>Deemed Interest (Note 1) | 825,000,000<br>981,600,000 | 63.28%<br>(Note 2) |
| Otis Elevator Company | Interest of a controlled corporation (Note 3) | 1,806,600,000 | 63.28% |
| Carrier Corporation | Interest of a controlled corporation (Note 4) | 1,806,600,000 | 63.28% |
| United Technologies Corporation | Interest of a controlled corporation (Note 5) | 1,806,600,000 | 63.28% |

*Notes:*

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

2. UTFE has a long position in the shares to be sold under the Option Agreement. Pursuant to the Option Agreement, Mr. Jiang grants the option to UTFE which when exercised, will require Mr. Jiang to sell to UTFE the lower of : (a) such number of shares as are required to be sold by Mr. Jiang to UTFE to enable UTFE to beneficially hold, in addition to any other shares held by UTFE at the relevant time, in aggregate, 51% of the voting rights of the Company immediately following completion of the exercise of the option under the Option Agreement; and (b) all the shares held by Mr. Jiang at the time when UTFE exercises the option. The percentage figure as stated is calculated without taking into account the long position in the shares to be sold under the Option Agreement.

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

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

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

Short positions in ordinary shares of the Company

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

Other than as disclosed above, the Company has not been notified of any other interests or short position in the issued share capital of the Company as at 31 December 2006.

## 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.

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year ended 31 December 2006, neither the Company nor any of its subsidiaries purchased, cancelled or redeemed any listed securities of the Company. Save the issue of shares pursuant to the Subscription Agreement, the Company has not sold any listed securities of the Company.

## COPORATE GOVERNANCE

*Corporate governance practices*

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

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

The details of such deviation have been disclosed in the relevant paragraphs below and in the Corporate Governance Report in the 2006 annual report to be dispatched to the shareholders and posted on the web-site of the Stock Exchange in accordance with the GEM Listing Rules.

*Directors' securities transactions*

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all directors, all directors confirmed they have complied with the required standard set out in the required standard of dealings and the code of conduct regarding securities transactions by directors adopted by the Company.

*Board of directors*

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

There were four board meetings held during the year which, besides the approval of the Company's quarterly, interim and annual reports, were mainly related to strategic decisions. Day to day operational decisions were delegated to the management team of the Company. Attendance of each director is set out below:

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

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

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

*Auditors' remuneration*

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

*Chairman and chief executive officer*

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

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

*Non-executive directors*

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

*Remuneration of directors*

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

*Nomination of directors*

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

*Audit Committee*

The audit committee comprises three independent non-executive Directors, Mr. Heng, Mr. Pu Rong Sheng ("Mr. Pu") and Dr. Loke. Dr. Loke was appointed as an independent non-executive directors and members of the audit committee on 1 August 2006. Mr. Liu Shi Pu ("Mr. Liu") was a member of the audit committee for the period up to 1 August 2006. The primary duties of the audit committee are to review the Company's annual report and accounts, half-yearly reports and quarterly reports and to provide advice and comments thereon to the Board. The audit committee is also responsible for reviewing and supervising the financial reporting process and internal control procedures of the Group.

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

| Name of Members | No. of meetings attended |
|---|---|
| Mr. Heng Kwo Seng (Chairman) | 4/4 |
| Mr. Pu Rong Sheng | 4/4 |
| Dr. Loke Yu * | 2/2 |
| Mr. Liu Shi Pu * | 2/2 |

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

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

**RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

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

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

Hong Kong, 26 March 2007

As at the date of this announcement, the Company's Executive Directors are Mr. Jiang Xiong, Mr. Jiang Qing, Mr. Shi Jia Hao, Mr Wang De Feng, Ms. Weng Xiu Xia and Ms. Zhang Hai Yan; the Non-Executive Directors are Mr. Paul Winnowski, Ms. Xi Zheng Zheng and Mr. Harinath Krishnamurthy (alternate Director to Mr. Paul Winnowski); and the Independent Non-Executive Directors are Mr. Heng Kwoo Seng, Mr. Pu Rong Sheng and Dr. Loke Yu

*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.*