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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)

ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2003

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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The Stock Exchange takes no responsibility for the contents of this announcement, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

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.

HIGHLIGHTS

- Turnover of the Group for the year ended 31 December 2003 was RMB282.5 million, representing a growth of 8.8% as compared to last year's turnover of RMB259.5 million.

- The Group suffered a short term set back in the second quarter of the year 2003 due to the outbreak of SARS although the management had taken prudent steps to minimize its impact. Business activities resumed to normal and saw an alleviation of the impact of SARS in the second half of 2003. Profit for the year ended 31 December 2003 decreased by RMB14.2 million (11.3%) to RMB111.7 million. With the growing construction industry, increasing awareness of public safety and tightening regulations in China, the management believes that the long term growth prospect of the Group remains strong.

- Earnings per share for the year ended 31 December 2003 was RMB5.6 cents (2002: RMB7.5 cents)

- The Board recommended a final dividend of 1 HK cent per share.

CHAIRMAN'S STATEMENT

Results for the year

The Group recorded a turnover of RMB282.5 million for 2003, an increase of 8.8% over 2002. Net profit for the year, on the other hand, decreased by 11.3% to RMB111.7 million. The drop in profit is principally due to the adverse effects of SARS (Severe Acute Respiratory Syndrome) and the intensifying competition in the market. The outbreak of SARS caused the suspension of most of our installation and maintenance projects in the second quarter of the year and slowed down the progress of our projects during the year. The cross -province travel restriction also affected our expansion plan. Whilst the release of cross-province sales restrictions in 2002 increased competition in the market driving the industry's profit margin down, the maintenance division experienced strong growth as a result of the marketing effort put in by the Group and the tighter fire safety regulations increasing demand for maintenance services. Taking into account the continuing economic growth in China and particularly in the construction industry, rising living standards, the growing recognition of the importance of protecting human life and properties, provide a strong foundation for the development of the industry and the Group. Management is optimistic about the future of the fire safety market.

Strategic alliances and investments

Our aim is to build a professional integrated fire safety business providing the whole range of fire prevention and fighting equipment and systems and a solid reputation in the national and international markets. We believe that acquiring businesses with clear market potential and collaborating with established businesses provides a strong basis for the Group's expansion

During the year, we concluded an MOU forming a strategic alliance with The Capital Group. Under the MOU, we have first priority for the provision of fire prevention and fighting products, as well as installation and maintenance services for The Capital Group's development projects, provided the terms we offer are the same as those offered by other fire safety product and service providers. We are glad that we have successfully won the first tender from The Capital Group in March 2004, to install fire prevention and fighting systems for the property development project of CEO Capital Development Tower (CEO 首創拓展大廈) in Beijing. As a result of this successful cooperation with the Capital Group, we are actively looking for other strategic partners. Negotiations with certain overseas enterprises are underway.

In February 2004, we acquired 55.44% interest in Beijing Chongzheng Huasheng Emergency Lighting System Ltd,. Co (北京崇正華盛應急照明系統有限公司). Chongzheng Huasheng adopted an innovative centralized electronic supplies technology for its emergency lighting products, a technology different from that which we currently employ, which will expand our emergency lighting series and widen our market coverage. In addition we are in negotiations to acquire all the equity interests of Sichuan Fire Safety Appliances Factory (四川消防機械總廠), a state-owned enterprise which manufactures and sells fire engines; designs, manufactures, sells and installs fire prevention and fighting equipment and provides installation and maintenance services for fire prevention and fighting systems,. Morita Corporation, one of our shareholders which manufactures and distributes of fire engines and fire fighting and prevention equipment in Japan, has also indicated their intention to cooperate with us in the project. No agreement has been signed at the stage. We will make further announcement as and when appropriate.

Corporate governance

The successful implementation of our strategic plan and our Group's future development require us to maintain a highly professional management team. We have expanded our Board to include three new members and their entry onto the Board will enhance the management of the Group, particularly in relation to corporate finance matters and corporate governance. We understand that good corporate management is essential to the sustained growth of the Group. Accordingly, we will continue to look for suitable talents to further strengthen the Board and concentrate on improving transparency and enhancing the corporate governance of the Group.

Appreciation

I would like to take this opportunity to express my deep gratitude towards our shareholders, partners, my fellow directors and staff for their support and hard work, which have been crucial to our success. I am confident that their endeavours will continue to help the Group achieve greater things in the years ahead.

Jiang Xiong
Chairman

19 March 2004

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 2003, together with the comparative figures for the corresponding period in 2002, as follows:

	Note	Year ended 31 December	
		2003	**2002**
		RMB'000	RMB'000
Turnover	*2*	282,475	259,519
Cost of sales		(133,759)	(99,814)
Gross Profit		148,716	159,705
Other revenue		4,169	959
Distribution costs		(1,842)	(1,706)
Administrative expenses		(18,937)	(16,348)
Profit from operations	*3*	132,106	142,610
Finance costs		(229)	(338)
Profit before taxation		131,877	142,272
Taxation	*4*	(19,761)	(16,100)
Profit before minority interests		112,116	126,172
Minority interests		(401)	(295)
Net profit for the year		111,715	125,877
Dividends	*5*	42,400	10,600
Earnings per share			
- Basic and diluted (RMB cents)	*6*	5.6	7.5

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 Society of Accountants (the "HKSA"), the terms of HKFRS is inclusive of Statements of Standard Accounting Practice ("SSAP") and interpretations approved by the HKSA. In current year, the Group has adopted, for the first time, the SSAP 12 (Revised) "Income Taxes" issued by HKSA which became effective on 1 January 2003. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognized in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. The adoption of this standard has no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

2 Turnover

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

	Year ended 31 December	
	2003	**2002**
	RMB'000	RMB'000
Revenue from installation contracts	60,269	87,358
Sale of goods	181,785	161,407
Provision of maintenance services	44,005	13,996
	286,059	262,761
Less: Sales tax	(3,584)	(3,242)
	282,475	259,519

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

3 Profit from operations

Profit from operations has been arrived at after charging:

	Year ended 31 December	
	2003	**2002**
	RMB'000	RMB'000
Depreciation:		
Property, plant and equipment	9,564	3,428
Amortisation of goodwill included in administrative expenses	2,964	2,965
Amortisation of development costs included in cost of sales	255	-

4 Taxation

	Year ended 31 December	
	2003	**2002**
	RMB'000	RMB'000
The charge comprises:		
Current tax		
The PRC - income tax	16,271	16,100
Deferred tax	3,490	-
	19,761	16,100

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

	2003		2002	
	RMB'000	%	RMB'000	%
Profit before taxation	131,877		142,272	
Tax at domestic income tax rate of 33% (2002: 33%)	43,519	33.0	46,950	33.0
Tax effect attributable to exempted profit	(27,293)	(20.7)	(33,778)	(23.7)
Tax effect of expenses that are not deductible in determining taxable profit	3,659	2.8	3,023	2.1
Tax effect of income that are not taxable in determining taxable profit	(124)	(0.1)	(95)	(0.1)
Tax expense and effective tax rate for the year	19,761	15.0	16,100	11.3

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.

With effect from year 2002, one of the subsidiaries of the Company, Fujian Wanyou Fire Fighting Science and Technology Co., Ltd., is entitled to the two year's exemption from income tax followed by three years of 50% tax reduction.

The Group's deferred tax liability mainly relates to the accounting difference between Hong Kong general accepted accounting principles and the PRC the general accepted accounting principles on profit recognition of installation contracts.

5 Dividends

	Year ended 31 December	
	2003	2002
	RMB'000	RMB'000
Interim dividend of 1.0 HK cent (2002: nil) per share paid	21,200	-
Final dividend of 1.0 HK cent (2002: 0.5 HK cent) per share proposed	21,200	10,600
	42,400	10,600

6 Earnings per share

The calculation of basic earnings per share is based on the net profit for the year of RMB111,715,000 (2002: RMB125,877,000) and on the 2,000,000,000 shares (2002: weighted average of 1,667,811,506) shares in issue.

There is no diluted earnings per share as there was no potential dilutive ordinary shares outstanding in 2003 and 2002.

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	Accumulated profits RMB'000	Total RMB'000
At 1 January 2002	-	-	-	7,080	7,493	1,888	7,972	24,433
Shares swap in accordance with a group reorganization in preparation for the listing of the Companies shares on the GEM of the Stock Exchange	-	(6,692)	-	-	-	-	-	(6,692)
Arising from issue of shares of a subsidiary	-	-	57,840	-	-	-	-	57,840
Premium arising from issue of shares for cash by means of placing	165,360	-	-	-	-	-	-	165,360
Expenses incurred in connection with the issue of shares	(25,440)	-	-	-	-	-	-	(25,440)
Transfer				3,006	1,502	10,271	(14,779)	-
Net profit for the year	-	-	-	-	-	-	125,877	125,877
At 31 December 2002	139,920	(6,692)	57,840	10,086	8,995	12,159	119,070	341,378
At 1 January 2003	139,920	(6,692)	57,840	10,086	8,995	12,159	119,070	341,378
Transfer	-	-	-	3,359	1,591	8,347	(13,297)	-
Net profit for the year	-	-	-	-	-	-	111,715	111,715
Dividends paid	-	-	-	-	-	-	(31,800)	(31,800)
At 31 December 2003	139,920	(6,692)	57,840	13,445	10,586	20,506	185,688	421,293

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, 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 RMB'000	Sale of fire prevention and fighting equipment RMB'000	Provision of maintenance services RMB'000	Elimination RMB'000	Consolidated RMB'000
For the year ended 31 December 2003					
TURNOVER					
External sales	58,308	181,584	42,583	-	282,475
Inter-segment sales	-	13,669	-	(13,669)	-
Total	58,308	195,253	42,583	(13,669)	282,475
Inter-segment sales are charged at prevailing market rates.					
RESULTS					
Segment results	26,507	73,997	38,758	-	139,262
Finance costs					(229)
Unallocated corporate expenses					(7,156)
Profit before taxation					131,877
Taxation					(19,761)
Profit before minority interests					112,116
Minority interests					(401)
Net profit for the year					111,715
As at 31 December 2003					
ASSETS					
Segment assets	69,853	331,998	14,437	-	416,288
Unallocated corporate assets					64,314
					480,602
LIABILITIES					
Segment liabilities	6,013	13,855	-	-	19,868
Unallocated corporate liabilities					17,524
					37,392
OTHER INFORMATION					
Additions of property, plant and equipment	16	48,429	-		
Depreciation and amortisation	3,430	9,246	-		
Loss on disposal of property, plant and equipment	-	734	-		

	Installation of fire prevention and fighting systems RMB'000	Sale of fire prevention and fighting equipment RMB'000	Provision of maintenance services RMB'000	Elimination RMB'000	Consolidated RMB'000
For the year ended 31 December 2002					
TURNOVER					
External sales	84,645	161,313	13,561	-	259,519
Inter-segment sales	-	19,040	-	(19,040)	-
Total	84,645	180,353	13,561	(19,040)	259,519

Inter-segment sales are charged at prevailing market rates.

	Installation of fire prevention and fighting systems RMB'000	Sale of fire prevention and fighting equipment RMB'000	Provision of maintenance services RMB'000	Elimination RMB'000	Consolidated RMB'000
RESULTS					
Segment results	38,652	95,370	11,306	-	145,328
Finance costs					(338)
Unallocated corporate expenses					(2,718)
Profit before taxation					142,272
Taxation					(16,100)
Profit before minority interests					126,172
Minority interests					(295)
Net profit for the year					125,877
As at 31 December 2002					
ASSETS					
Segment assets	96,047	216,146	1,185	-	313,378
Unallocated corporate assets					87,588
					400,966
LIABILITIES					
Segment liabilities	5,312	15,043	3,220	-	23,575
Unallocated corporate liabilities					14,251
					37,826
OTHER INFORMATION					
Additions of property, plant and equipment	2,623	79,707	-		
Depreciation and amortisation	2,974	3,401	-		

(b) Geographical segments

No geographical segment information in respect of the Group's operations has been presented as all 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 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 and intangible assets	
	2003	**2002**	**2003**	**2002**
	RMB'000	RMB'000	RMB'000	RMB'000
PRC	416,401	313,378	50,145	82,330
Hong Kong	56,840	87,588	21	113
USA	7,361	-	450	-
	480,602	400,966	50,616	82,443

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

The Group has experienced a year of acute challenges. The outbreak of SARS in the first half of the year hit the Group's performance significantly especially during the second quarter. Most of the safety system installation and maintenance projects were delayed or postponed. Fortunately, with the impacts of SARS subsiding in the second half of the year, the business activities of the Group returned to normal. Turnover for the year was RMB282.5 million, a 8.8% rise over the previous year's. The performance of maintenance sector is particularly impressive. Sales before sales tax for the year increased by almost 2.1 times to RMB44.0 million. Competition in the industry continued to squeeze the Group's profit margin. The Group's gross profit margin decreased from 61.5% for 2002 to 52.6% for the year under review.

The Group's turnover is generally divided into three categories: the sale of fire prevention and fighting equipment, provision of fire prevention and fighting system installation services and provision of fire prevention and fighting system maintenance services. An analysis of the Group's turnover by geographical regions is as follows:

	Year ended 31 December	
	2003	**2002**
	RMB'000	RMB'000
Sale of goods		
- Fujian Province	110,723	75,662
- Other Provinces	71,062	85,745
	181,785	161,407
Revenue from installation contracts		
- Fujian Province	58,634	87,358
- Other Provinces	1,635	-
	60,269	87,358
Provision of maintenance services		
- Fujian Province	44,005	13,996
	286,059	262,761
Less: Sales tax	(3,584)	(3,242)
	282,475	259,519

Sale of fire prevention and fighting equipment

The increase in sales of fire prevention and fighting equipment reflects the Group's outstanding product quality and reputation. This is particularly true in Fujian province where the Group has been established for more than 10 years. Customers' confidence in the Group's products increased after the Group went public in September 2002. However, sales in provinces outside Fujian decreased because of a change in marketing strategies of the Group. During the year, branches in provinces outside Fujian who had previously concentrated on sales of products were restructured and the business focus switched to installation projects. This switch in focus was done with the aim of extending the Group's presence outside of Fujian in installation projects. As a result, a number of projects are under negotiation and are expected to be confirmed in the first half of 2004. At the same time for product sales, the Group has contracted with new third party distributors and is seeking additional distributors to distribute the Group's products in provinces other than Fujian. The Group expects that revenue from sales of fire prevention and fighting equipment in other provinces will be improved in 2004.

Provision of fire prevention and fighting system installation services

The outbreak of SARS, caused a delay in the schedules of most of the Group's installation projects and progress slowed down. During the year, 18 projects were completed compared to 26 projects in 2002, causing the Group's revenue from provision of fire prevention and fighting system installation services before sales tax to drop by 31.0%. An analysis of the revenue from installation services, before sales tax, by nature of projects is as follows:

	Year ended 31 December	
	2003	**2002**
	RMB'000	RMB'000
Commercial buildings	13,040	37,263
Residential buildings	22,510	18,838
Government buildings	7,933	22,612
Public facilities	13,124	7,489
Industrial buildings	3,662	1,156
	60,269	87,358

After the lifting of the cross-provincial restriction on fire safety systems installation services in 2002, the Group restructured its branch offices to focus on installation services rather than products sales. As at 31 December 2003, many contracts for installation services outside Fujian were under negotiation. Most of them are expected to be confirmed in the first half year of 2004 and some have already been confirmed, such as the CEO Capital Development Tower (CEO 首創拓展大廈) in Beijing, the works of which are expected to be completed in the first half of 2004. The Directors believe that this increased marketing effort, combined with the reputation of the Group, will accelerate the development of the Group's business. Management anticipates an improvement in performance for installation services in the coming years.

Provision of fire prevention and fighting system maintenance services

Widely reported loss of life and property as a result of fire in the PRC has led to increased awareness of public safety and concern about the reliability of fire prevention and fighting systems. Regulations are being continuously tightened to reflect the importance and need to protect people's life and properties against the threat of fire. In May 2002, Regulation of Fire Safety Administration for Government Offices, Organizations, Corporations and Business Units came into effect. As a result, the Group's revenue from maintenance services for 2003 increased by 214% over that of 2002. Nevertheless, most of the maintenance contracts recognized in 2003 were one-off in nature. This is mainly due to the market's failure to recognize as yet the benefits of keeping fire fighting and prevention system under regular and continuous maintenance. The

Group plans to put more effort in promoting annual maintenance services which will generate a stable source of income for the Group.

Financial resources, liquidity, contingent liabilities and pledge of assets

As at 31 December 2003, the Group had cash and cash equivalent amounting to approximately RMB185.4 million (2002: RMB204.9 million) and a mortgage loan with outstanding balances totaling RMB3.7 million (2002: RMB4.4 million). The RMB denominated loan is provided by a PRC bank at fixed interest rate of approximately 8.07% per annum and is secured by one of the Group's land and buildings with a net book value of approximately RMB8.1 million. Save as disclosed herein, there were no other charges on the assets of the Group as at 31 December 2003.

As at 31 December 2003, current assets and current liabilities of the Group were approximately RMB317.4 million (2002: RMB273.8 million) and RMB30.9 million (2002: RMB34.1 million) respectively. The current ratio was kept at a high level of approximately 10.3 times (2002: 8.0 times), reflecting the abundance of 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 gearing ratio, representing long term liabilities divided by shareholders equity, was maintained at a very low level of approximately 1.50% (2002: 1.0%).

As mentioned, competition in the fire safety market is becoming competitive. Players are not competing in prices and profit margins only but also terms of credit. To maintain the Group's leading market share, longer credit periods are being given to customers and thus, the Group's trade receivables greatly increased from approximately RMB46.0 million as at 31 December 2002 to approximately RMB80.8 million as at 31 December 2003. Management has reviewed the status of each individual trade receivables regularly and considered that no provision for bad debts is required for the year under review.

Renminbi is adopted as the reporting currency by the Group. As the Group's assets, liabilities, sales and purchases are primarily denominated in Renminbi, 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 2003.

Research and development

The construction of the Group's own research and development centre was completed during the year. The centre will be reserved for researchers from science and academic institutions to test and fine tune their developed products. The Group has found it is most cost effective to collaborate with such institutions to develop new products, accordingly, emphasis will be placed on this kind of cooperation rather than relying on in-house research.

Investments and capital commitments

Subsequent to the year ended 31 December 2003, the Group entered into a sale and purchase agreement in February 2004 with certain independent third parties to acquire 55.44% interest in Beijing Chongzheng Huasheng Emergency Lighting System Ltd,. Co (北京崇正華盛應急照明系統有限公司) ("Chongzheng Huasheng"), a company established in the PRC, for a consideration of RMB3.8 million. Chongzheng

Huasheng is engaged in the provision of total solutions for fire safety emergency lighting systems and emergency electronic supplies in the PRC. It has adopted an innovative centralized electronic supplies technology for its emergency lighting products, which will not only enlarge the emergency lighting series of the Group but also give the Group an opportunity to step into the huge potential market for this advanced product. At the same time, the Group is looking for vertical and horizontal acquisition opportunities in order to strengthen its competitive advantages in the fire safety market. Several projects are under negotiation and agreements are expected to be reached in the first half of 2004. The Group plans to finance the projects from both the proceeds of the issuance of new shares in September 2002 as reserved for business collaborations and acquisitions and the funds generated from operations.

During the year under review, the Group signed a non-legal binding Memorandum of Understanding with an independent third party to acquire all the equity interests in Sichuan Fire Safety Appliances Factory (四川消防機械總廠) (the "Acquisition"), 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. Details of the Acquisition including consideration are subject to further negotiation. No agreement has been signed at the stage. Further announcement will be made as and when appropriate. As at 31 December 2003, the Group has paid a refundable deposit of RMB3,000,000 for the Acquisition. In January 2004, the Group received a non-legal binding letter of intent from Morita Corporation ("Morita") indicating that it will cooperate with the Group in various areas including technical consultation and equity participation in relation to the Acquisition. Morita is principally engaged in the manufacturing and distribution of fire engines and fire fighting and prevention equipment. It is listed on both the Tokyo Stock Exchange Limited and the Osaka Stock Exchange Limited. Morita is holding 1.168% of the issued share capital of the Company.

As at 31 December 2003, the Group had a commitment of approximately RMB1,340,000 to acquire certain technical know-how. Save as disclosed herein, the Group has no significant investment held or capital commitments as at 31 December 2003. During the year under review, the Group had no material acquisitions and disposal of subsidiaries.

Employees and remuneration policies

As at 31 December 2003, the Group had approximately 648 full-time employees (2002: 613). Staff costs, excluding directors' remuneration, for the year amounted to RMB22.7 million, a 7.0% decrease over the previous year's RMB24.4 million. The decrease in staff costs is mainly due to delay and postponement of installation service projects, therefore, fewer temporary workers were employed for the installation works. Despite the increase in number of staff, a number of them were employed after the opening of the production base in Fuzhou and thus not paid for the whole year. 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 the management and the staff.

Quality services and work safety are two fundamental elements of the Group's operations. A series of comprehensive in-house and on-the-job training are provided to staff to keep their technical skills and standards up to date.

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 2003 as set out in the prospectus of the Company dated 23 September 2002:

Development of new products with application of advanced technology

a. New products to be applied in the existing business

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

Expected progress	**Actual progress**
Finalise application programming and integrate hardware and software for online monitoring system of fire prevention and fighting systems.	The Group has identified a business partner engaged in online monitoring system and negotiation for cooperation is underway.
Start field experiment and commence negotiation with suppliers of the intelligent power supply safety protection monitoring and control system.	Field experiments have been successfully completed. Applications for quality attestation and production permit for the intelligent power supply safety protection monitoring and control system are in progress.
Apply production permit and start quality attestation for the intelligent fire detector operated by CPUs and crystal luminous emergency lighting system.	Production permit and quality certificate have been obtained for crystal luminous emergency lighting system. Large scale production is under planning. On the other hand, quality testing for the intelligent fire detector operated by CPUs is still ongoing.

b. New product lines and new types of services

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

Expected progress	Actual progress
Negotiate with targeted companies manufacturing or supplying fire retardant material and fire service equipment. Pursue investment opportunities in them.	Companies manufacturing and supplying fire retardant materials and fire service equipment have been identified and negotiations for cooperation are underway.
Bid for and commence fire prevention and fighting systems installation projects for specialized industries.	The Group has recruited experts in fire prevention and fighting systems installation projects for specialized industries to meet the future expansion in this sector.

Enhancement of the research and development team

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

Expected progress	Actual progress
Construction of the research & development centre, purchase equipment and facilities and commence research work on one project on fire prevention and fighting technology.	All construction works were completed and commenced operation at the end of June 2003. Currently the R&D team is identifying research projects with the aim of improving production efficiencies and reducing costs.

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

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

Expected progress	Actual progress
Complete the construction of new production facilities. Install and complete the testing of new production equipment and commence trial production.	The construction of the new production base in Fujian Province was completed and production commenced in September 2003.

Expansion of sales and distribution network

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

Expected progress	**Actual progress**
Commence operations of 5 new sales offices in Shenyang, Shijiazhong, Xi'an, Wuhan and Chengdu of the PRC. Decorate and purchase equipment for the 5 sales offices selected 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. Decorate the display service centres in Beijing and Shenyang, purchase new equipment and hire experienced sales personnel. Search for appropriate display service centres in Xian and Chengdu of the PRC.	As the Group will focus on the small to medium-sized cities with high GDP per capita, the Group requires more time to evaluate the performance of existing sales and distribution networks. Due to the outbreak of SARS in the PRC, travelling among provinces was restricted in the second quarter of 2003. The decoration and purchase of new equipment for the existing sales offices and new sales offices was delayed. The Group is in the process of selecting more appropriate locations for new sales offices and display centres in the PRC in accordance with the Group's sales strategies and future expansion plans.

Marketing, promotion and brand building

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

Expected progress	**Actual progress**
Evaluate the effects of the previous marketing plans. Advertise the Group's products on journals and magazines. Organise and attend conferences and seminars relating to fire prevention and fighting technology.	In view of the nature of products, the Board considered that placing commercials on television and radio was not cost effective. Therefore the Group advertised its principal products in many fire safety journals, magazines and fire safety websites in the PRC. Effectiveness of the promotion campaigns is reviewed regularly to ensure that they are cost effective. Conferences and seminars relating to fire prevention and fighting technology have been organized and the Group intends to participate in many trade fairs and seminars in the PRC.

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

The Group has identified potential enterprises in fire retardant materials and similar product sectors and negotiation are underway.

In February 2004, the Group acquired Beijing Chongzheng Huasheng Emergency Lighting System Ltd,. Co (北京崇正華盛應急照明系統有限公司), the pioneer in emergency lighting technology in the PRC which has over 10 years' experience in the provision of total solutions for emergency lighting systems and emergency electronic supplies in the fire safety industry. It has adopted an innovative centralized electronic supplies technology for its emergency lighting products, which will not only enlarge emergency lighting series of the Group but also give the Group an opportunity to step into the huge potential market for this advanced product.

At the same time, the Group is looking for vertical and horizontal acquisition opportunities in order to 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 2003 are as follows:

	Notes	Total planned use of proceeds as set in the Prospectus HK$(million)	Planned use of proceeds as set in the Prospectus up to 31 December 2003 HK$(million)	Actual use of proceeds up to 31 December 2003 HK$(million)
Development of new products	1	20.0	16.0	11.3
Establishment of a research and development centre	2	10.0	9.0	8.0
Establishment of new production bases and the purchase of new equipment and facilities	2	50.0	30.0	45.3
Expansion of sales and distribution network	3	20.0	18.0	0.7
Marketing, promotion and brand building	4	10.0	8.0	1.3
Business collaborations and acquisitions	5	20.0	-	-
Total		130.0	81.0	66.6

Notes:

1 The proceeds was mainly used for development of moulds for the new crystal luminous emergency lighting products, fire detectors and monitoring and control system. The anticipated amount and actual amount spent was different because development of the intelligent power supply safety protection monitoring and control system was still in progress.

2 The constructions of the research and development centre and new production base was completed during the year. Included in the planned use of proceeds was RMB20 million for establishing a new production base in Western China. However, the Directors believed that it is more cost effective to acquire a company with market potential in the region than to build the Group's own new production base, and it is more beneficial to expand the scale of the production base in Fuzhou. Therefore, part of the proceeds originally planned for investing in the Western region was switched to the construction of the Fuzhou new production base.

3 With the Group's new strategy in branch operations, most of the existing branches are undergoing restructuring to switch the business focus from product sales to installation projects. At the same time, the Group is also searching for new distributors to strengthen the Group's product sales, especially in

provinces outside Fujian. A large part of the expenditure for the expansion of sales and distribution network is anticipated to be incurred in the coming year.

4 The expenditure in marketing, promotion and brand building was less than expected because the Group was very selective in participating in exhibitions and conferences such that only those considered highly effective will be attended. The Group is planning to take part in the exhibitions to be held in Beijing and Shanghai in the first half of 2004.

5 No investment had been made up to 31 December 2003 but several possible investments are under negotiation. The Directors believed that negotiation for some of them will be completed in the first half of 2004.

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

Save as disclosed below, as of 31 December 2003, none of the Directors or chief executive has any interest or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (Cap. 571 of the Laws of Hong Kong) ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or were required, pursuant to section 352 of the SFO to be entered in the register required to be kept therein or which were required, pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

Long positions

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	49.08%
Mr. Jiang Qing	Beneficial owner	100,000,000	5.00%

Mr. Jiang Xiong, an executive Director and the chairman of the Company, entered into a sale and purchase agreement on 3 October 2003 to place a total of 200,000,000 shares of the Company to investors at HK$0.35 per share (the "Placement"). The shares placed under the Placement represent 10% of the existing issued share capital of the Company, comprising (i) 100,000,000 shares to The Hong Kong Beijing Finance and Investment Limited ("Beijing Finance"), an independent third party which is not connected with any of the directors, chief executive, substantial shareholders or management shareholders of the Company or any of their respective associates (as such terms are defined in the GEM Listing Rules); and (ii) 100,000,000 shares to Cantus Limited, which prior to the Placement held 160,000,000 shares, representing 8% of the existing issued share capital of the Company, each at a price of HK$0.35 per share. The Placement was completed on 10 October 2003. In addition, on 8 October 2003, Mr. Jiang Xiong transferred 100,000,000 shares of the Company to Mr. Jiang Qing, an executive Director and a brother of Mr. Jiang Xiong (the "Transfer"), at a nominal consideration of HK$1. The shares transferred represent 5% of the existing issued share capital of the Company.

After the Placement and the Transfer, the number of shares held by Mr. Jiang Xiong was reduced to 981,600,000, representing 49.08% of the existing issued share capital of the Company. Mr. Jiang Xiong has undertaken (a) not to reduce his holding of shares in the Company for a period of three months from 8 October, 2003; and (b) for a further period of nine months immediately thereafter, not to reduce his shareholding in the Company such that he would cease to be a controlling shareholder of the Company (as defined in the Hong Kong Code on Takeovers and Mergers), unless with the prior consent of CLSA Limited, Cantus Limited and Beijing Finance.

INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 31 December 2003, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of certain directors, the following shareholders had notified the Company of their relevant interests in the issued share capital of the Company.

<u>Long positions</u>

Name of shareholder	Capacity and type of interest	Number of issued shares of HK$0.01 each of the Company held	Percentage of issued capital of the Company
Cantus Limited	Beneficial owner	262,650,000	13.13%
Aria Investment Partners L.P.	Interest of a controlled corporation *(Note 1)*	262,650,000	13.13%
CLSA Private Equity Management Limited	Investment Manager *(Note 2)*	262,650,000	13.13%
CLSA (S.E.A.) Limited	Interest of a controlled corporation *(Note 3)*	262,650,000	13.13%
Credit Lyonnais Securities Asia BV	Interest of a controlled corporation *(Note 4)*	262,650,000	13.13%
Credit Lyonnais Capital Markets Asia BV	Interest of a controlled corporation *(Note 5)*	262,650,000	13.13%
Credit Lyonnais Capital Markets International SASU	Interest of a controlled corporation *(Note 6)*	262,650,000	13.13%
Credit Lyonnais S.A.	Interest of a controlled corporation *(Note 7)*	262,650,000	13.13%
Credit Agricole S.A.	Interest of a controlled corporation *(Note 8)*	262,650,000	13.13%
SAS Rue la Boetie	Interest of a controlled corporation *(Note 9)*	262,650,000	13.13%
The Hong Kong Beijing Finance and Investment Limited	Beneficial owner	100,000,000	5.00%
Beijing Capital Group Limited	Interest of a controlled corporation *(Note 10)*	100,000,000	5.00%
The People's Government of Beijing Municipality	Interest of a controlled entity *(Note 11)*	100,000,000	5.00%

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 262,650,000 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 (S.E.A.) 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 262,650,000 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. Credit Lyonnais Securities Asia BV is indirectly interested in the entire issued share capital of CLSA Private Equity Management Limited and is deemed or taken to be interested in the 262,650,000 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. Credit Lyonnais Capital Markets Asia BV is beneficially interested in 65% of the share capital of Credit Lyonnais Securities Asia BV and is deemed or taken to be interested in the 262,650,000 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 Credit Lyonnais Capital Markets Asia BV and is deemed or taken to be interested in the 262,650,000 shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Note 2 above.

7. Credit Lyonnais S.A. 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 262,650,000 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 Agricole S.A. is beneficially interested in 94.82% of the issued share capital of Credit Lyonnais S.A. and is deemed or taken to be interested in the 262,650,000 shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Note 2 above.

9. SAS Rue La Boetie is beneficially interested in 51.5% of the issued share capital of Credit Agricole S.A. and is deemed or taken to be interested in the 262,650,000 shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Note 2 above.

10. Beijing Capital Group Limited is beneficially interested in the entire issued share capital of The Hong Kong Beijing Finance and Investment Limited and is deemed or taken to be interested in the 100,000,000 shares in which The Hong Kong Beijing Finance and Investment Limited has declared an interest for the purpose of the SFO.

11. The People's Government of Beijing Municipality is beneficially interested in the entire registered capital of Beijing Capital Group Limited and is deemed or taken to be interested in the 100,000,000 shares in which Beijing Capital Group Limited has declared an interest for the purpose of the SFO as mentioned in Note 8 above.

On 30 October 2003, Beijing Finance executed a charge (the "Charge") in favour of Credit Lyonnais. The Charge was executed as security for Beijing Finance's obligations under a loan agreement dated 30 October,2003 between Beijing Finance and Credit Lyonnais. Pursuant to the Charge, Beijing Finance charged as beneficial owner the 100,000,000 ordinary shares in the Company held by it in favour of Credit Lyonnais.

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 2003.

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) had any interest in a business which competes or may compete with the businesses of the Group or had any other conflicts of interest, which any such person has or may have with the Group.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company, or any of its subsidiaries was a party and in which a Director 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 updated and notified by the Company's sponsor, Core Pacific-Yamaichi Capital Limited ("CPY Capital"), as at 31 December 2003, neither CPY Capital nor its directors, employees or associates (as referred to Note 3 to Rule 6.35 of the GEM Listing Rules) had any interest in the share capital of the Company. Pursuant to the sponsor agreement dated 20 September 2002 entered into between the Company and CPY Capital, CPY Capital has received and will receive fees for acting as the Company's retained sponsor for the remaining period up to 31 December 2004 or until the sponsor agreement is terminated upon the terms and conditions set out therein.

SHARE OPTION SCHEME

The Company's share option scheme was adopted pursuant to a resolution passed on 20 September 2002 (the "Scheme") for the primary purpose of providing incentives to directors and eligible employees, and will expire in January 2012. Under the Scheme, the Board may grant options to full-time employees, including directors (executive and non-executive) of the Company and its subsidiaries, to subscribe for shares in the Company.

Subject to the condition that the total number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes of the Company must not exceed 30% of the shares of the Company in issue form time to time, the total number of shares in respect of which options may be granted under the Scheme when aggregated with any shares subject to any other schemes is not permitted to exceed 10% of the shares of the Company as at the date of approval of the Scheme without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in aggregate within a 12-month period is not permitted to exceed 1% of the shares of the Company in issue, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in any one year exceeding the higher of 0.1% of the Company's shares in issue and with a value in excess of HK$5 million must be approved by the Company's shareholders in general meeting taken on a poll.

Options granted must be taken up within 21 days of the date of grant, upon payment of HK$1 per option. Options may be exercised at any time from the date of acceptance of the share option to such date as determined by the Board but in any event not exceeding 10 years. The exercise price is determined by the Directors and will not be less than the higher of the closing price of the Company's shares on the date of grant, the average closing prices of the shares for the five business days immediately preceding the date of grant and the nominal value of the Company's shares.

No option was granted by the Company during the period from the adoption of the Scheme to 31 December 2003.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year ended 31 December 2003, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company.

BOARD PRACTICES AND PROCEDURES

Throughout the year ended 31 December 2003, the Company has complied with the code of best practice as set out in Rules 5.28 to 5.39 of the GEM Listing Rules.

AUDIT COMMITTEE

The audit committee comprises two members – Mr. Liu Shi Pu and Mr. Wong Hon Sum, both of whom are Independent Non-executive Directors. 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 will also be 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 interim financial reports and to meet with the external auditors and participate in the reappointment and assessment of the performance of the external auditors.

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

Hong Kong, 19 March 2004

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.

* *For identification purpose only*