

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

This Circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities of China Fire Safety Enterprise Group Holdings Limited.

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China Fire Safety Enterprise Group Holdings Limited, you should at once hand this circular to the purchasers or the transferees or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchasers or the transferees.

The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) takes no responsibility for the contents of this circular, 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 circular.



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)

**MAJOR TRANSACTION
ACQUISITION OF 100% OF THE EQUITY
INTEREST OF SICHUAN FIRE SAFETY
APPLIANCES FACTORY**

This circular will remain on the GEM website at www.hkgem.com on the “Latest Company Announcements” page for at least 7 days from the date of its posting.

CHARACTERISTICS OF GEM

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 of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

CONTENTS

	<i>Page</i>
Definitions	1
Letter from the Board	4
Appendix I – Financial Information of the Group	13
Appendix II – Financial Information of the Enlarged Group	46
Appendix III – Accountants’ Report on the Financial Information of the Target Group	51
Appendix IV – General information	82

DEFINITIONS

In this circular, unless the context otherwise requires, the following words and expressions have the following meanings:

“Acquisition”	the acquisition of 100% of the equity interest of Sichuan Fire Factory, by the Purchasers from the Vendor pursuant to the Agreement
“Agreement”	the transfer of shareholding of state-owned assets agreement (國有股權轉讓協議) dated 24th September, 2004 and entered into between the Purchasers and the Vendor
“Allied Best”	Allied Best Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and is an indirect wholly owned subsidiary of the Company
“Associate”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	China Fire Safety Enterprise Group Holdings Limited, a company incorporated in the Cayman Islands with limited liability, whose shares are listed on the Growth Enterprise Market of the Stock Exchange
“Consideration”	consideration for the Acquisition
“Director(s)”	the director(s) of the Company
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange
“Group”	the Company and its subsidiaries

DEFINITIONS

“Independent Third Party(ies)”	independent third party(ies), who is/are not connected with the Company and any of the directors, chief executives, substantial shareholders or management shareholders (as such term is defined in the GEM Listing Rules) of the Company and their subsidiaries or their respective associates (as such term is defined in the GEM Listing Rules)
“Latest Practicable Date”	7th December, 2004, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Loyal Assets”	Loyal Assets Investment Holdings Limited, a company incorporated in the British Virgin Islands and is an indirect wholly owned subsidiary of the Company
“PRC”	The People’s Republic of China
“Purchaser 1” or “Wanyou Engineering”	Fujian Wanyou Fire Engineering Group Company Limited (福建萬友消防工程集團有限公司), a limited liability company established in the PRC on 23rd December, 1996 and an indirect subsidiary, in which the Company holds 99.3% of equity interests. The remaining 0.7% is held by Ms. Liu Mei Jin (劉梅金女士), an Independent Third Party
“Purchaser 2” or “Shengan City Safety”	Jiangxi Shengan City Safety Communications Development Co. Ltd. (江西盛安城市安全信息發展有限公司), a limited liability company established in the PRC in June 1998 and an indirect subsidiary, in which the Company holds 51.61% of equity interests since August 2004. The other 43.23% is held by Mr. Fung Quan Hui (馮權輝先生) and the remaining 5.16% is held by Mr. Deng Ping Tao (鄧評韜先生), both of them are Independent Third Parties (except that Mr. Fung Quan Hui (馮權輝先生) is a substantial shareholder of Purchaser 2, a subsidiary of the Company)
“Purchasers”	Purchaser 1 and Purchaser 2

DEFINITIONS

“Restructured Company”	The new limited liability company after completion of the Restructuring
“Restructuring”	The restructuring of Sichuan Fire Factory after the Acquisition such that it becomes a limited liability company
“RMB”	Renminbi, the lawful currency of the PRC
“SASAC”	State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會)
“Shareholders” or “Members”	shareholders of the Company
“Shares”	shares of HK\$0.01 each in the capital of the Company
“Sichuan Fire Factory”	Sichuan Fire Safety Appliances Factory (四川消防機械總廠), a state owned enterprise originally founded in the PRC in 1963
“Sichuan Group”	Sichuan Fire Factory and its subsidiaries
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Vendor”	Hua Xia Fire Safety (Group) Company Limited (華夏消防(集團)有限責任公司), a state owned enterprise, directly under the administration of the Ministry of Public Security. It was founded in 1960’s and has a registered capital of RMB100 million. It is principally engaged in the design, development, production and sale of fire engines and fire prevention and fighting products; fire safety system installation and maintenance services; and real estate development and property management. It is wholly owned by China Huan Dao (Group) Company (中國寰島(集團)公司), a state owned enterprise established in 1992 with registered capital of RMB200 million. Its principal business activities comprise real estate, tourism, hotel, financial services, technology development, manufacturing and trading
“%”	per cent.

LETTER FROM THE BOARD

CFE

CHINA FIRE SAFETY ENTERPRISE GROUP HOLDINGS LIMITED
中國消防企業集團控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8201)

Executive Directors:

Jiang Xiong (Chairman)
Jiang Qing
Chen Shu Quan
Chan Siu Tat

Non-executive Directors:

Richard Owen Pyvis
Josephine Price

Independent non-executive Directors:

Liu Shi Pu
Heng Kwoo Seng
Xiang Yu Fu

Registered Office:

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

*Head office and principal place
of business in PRC*

8th Floor
Gaojing Trade Centre
No.158 Wu Yi Bei Road
Fuzhou City
Fujian Province, PRC

*Principal place of business
in Hong Kong*

Suite 907, 9th Floor
ICBC Tower
3 Garden Road
Central
Hong Kong

14th December, 2004

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION
ACQUISITION OF 100% OF THE EQUITY INTEREST OF
SICHUAN FIRE SAFETY APPLIANCES FACTORY

1. INTRODUCTION

On 30th September, 2004 the Directors announced that on 24th September, 2004 the Purchasers, which are the Company's indirect subsidiaries, entered into the Agreement

* for identification purpose only

LETTER FROM THE BOARD

with the Vendor (which is an Independent Third Party) in relation to the acquisition of 100% of the equity interest of Sichuan Fire Factory held by the Vendor at a consideration of RMB81,000,000, which will be wholly satisfied in cash in 2 tranches by the Purchasers.

The Acquisition constitutes a major transaction under Chapter 19 of the GEM Listing Rules. On 24th September, 2004, the Company received a written approval on the Agreement from a closely allied group of shareholders, namely Mr. Jiang Xiong and Mr. Jiang Qing, who are brothers and also directors of the Company, and who have no interest in the Agreement or any transaction contemplated thereunder other than through their shareholding interests in the Company and who as at 24th September, 2004 held 49.08% and 5% respectively in the nominal value of the securities in the Company that carry voting rights. No shareholder is required to abstain from voting on the relevant resolution should an extraordinary general meeting be held. As Mr. Jiang Xiong and Mr. Jiang Qing together held more than 50% in the nominal value of the securities in the Company that carry voting rights, pursuant to Rule 19.44 of the GEM Listing Rules, no extraordinary general meeting is required to be held to consider the Acquisition.

This circular is to provide you with, among others, additional information relating to the Acquisition.

2. AGREEMENT DATED 24TH SEPTEMBER, 2004

Parties:

Vendor : Hua Xia Fire Safety (Group) Company Limited (華夏消防(集團)有限責任公司), which is wholly owned by China Huan Dao (Group) Company (中國寰島(集團)公司). Hua Xia Fire Safety (Group) Company Limited and China Huan Dao (Group) Company, who and whose ultimate beneficial owners are to the best of the Directors' knowledge, information and belief having made all reasonable enquiry, are Independent Third Parties

Purchasers : Fujian Wanyou Fire Engineering Group Company Limited (福建萬友消防工程集團有限公司), ("Purchaser 1") and Jiangxi Shengan City Safety Communications Development Company Limited (江西盛安城市安全信息發展有限公司), ("Purchaser 2") both are indirect subsidiaries of the Company

Assets to be acquired:

Pursuant to the Agreement, Purchaser 1 and Purchaser 2 have agreed to acquire from the Vendor 95% and 5% respectively of the equity interest of Sichuan Fire Factory. Sichuan Fire Factory is a state owned enterprise originally founded in the PRC in 1963, with a registered capital of RMB15,158,000 and a paid up capital of RMB9,599,000 respectively. The Sichuan Group is principally engaged in the manufacturing and sale of fire engines; design, manufacturing, sale and installation of fire fighting and prevention equipment; and provision of installation and maintenance services of fire prevention systems.

LETTER FROM THE BOARD

Consideration and terms of payment:

The Consideration payable by the Purchasers is RMB81,000,000 (out of which Purchaser 1 to pay pro rata RMB76,950,000 for 95% equity interest of Sichuan Fire Factory and Purchaser 2 to pay pro rata RMB4,050,000 for 5% equity interest of Sichuan Fire Factory), which will be wholly satisfied in cash, RMB21,200,000 of which will be financed out of the proceeds from placement of new shares by the Company in September 2002 and the remaining out of the Group's internal resources. The current intended use of the proceeds is in line with disclosure made in September 2002. Sichuan Fire Factory will become a subsidiary of the Company after completion of the Acquisition. The Consideration will be settled in the following manners:

1. 40% of the Consideration (i.e. RMB32,400,000. Out of this RMB32,400,000, RMB13,000,000 has been paid as down payment. So the amount to be paid will be RMB19,400,000) will be settled within 5 working days after:
 - Delivery by the Vendor to Purchaser 1 documents evidencing the approval by China Huan Dao (Group) Company (中國寰島(集團)公司) of the transfer of equity interest in Sichuan Fire Factory;
 - Delivery by the Vendor to Purchaser 1 document evidencing the approval of the Agreement by China Huan Dao (Group Company) Limited (中國寰島(集團)公司);
 - Delivery by the Vendor to Purchaser 1 written confirmations by financial institution creditors of the Sichuan Group approving the Restructuring;
 - Delivery by the Vendor to Purchaser 1 document evidencing the approval by China Huan Dao (Group) Company (中國寰島(集團)公司) of the Restructuring;
 - Delivery by the Vendor to Purchaser 1 settlement arrangement (職工安置方案) in respect of compensation to be paid by the Vendor to Sichuan Group's employees (as a result of the Restructuring) which have been signed by the employees representatives of Sichuan Group and approved by the general meetings of employees representatives of Sichuan Group (職工代表大會); and
 - Delivery by the Vendor to Purchaser 1 document evidencing after the execution of the Agreement, China Huan Dao (Group Company) Limited (中國寰島(集團)公司) has passed a resolution to submit a proposal to SASAC for the cancellation of Sichuan Group's state-owned property rights.

As at the Latest Practicable Date, all of the above conditions have been fulfilled.

LETTER FROM THE BOARD

2. 60% of the Consideration (i.e. RMB48,600,000) will be paid within 5 working days after:
- All the conditions in number 1 above have been fulfilled;
 - Delivery by the Vendor to Purchaser 1 approval by SASAC of cancellation of Sichuan Group's state-owned property rights;
 - New business license (營業執照) has been obtained for the Restructured Company;
 - All land use rights and property rights of the Sichuan Group which have been valued by Sichuan Zhong Tian Hua Assets Appraisal Company Limited (四川中天華資產評估有限公司) have been transferred and registered in the name of the Restructured Company;
 - All operations and business certificates (業務及經營許可證) of the Sichuan Group have been transferred and registered in the name of the Restructured Company;
 - China Huan Dao (Group) Company (中國寰島(集團)公司) has settled all the amount it owes to Sichuan Group as loan advances amounted to approximately RMB5,547,000; and
 - Delivery by the Vendor to Purchaser 1 signed confirmations by the employees of Sichuan Group agreeing to the compensation amount to be paid to them by the Vendor under the Sichuan Group's compensation arrangement with the employees. It is not a condition precedent of the Acquisition that the employees have actually received the compensation from the Vendor. However, it is a term of the Agreement that upon receiving the Consideration from the Purchasers, the Vendor, in its use of the Consideration, will give priority in paying the compensation to the employees.

As at the Latest Practicable Date, none of the above conditions have been fulfilled.

There is no long stop date for the fulfillment of the above conditions precedent.

In the event that the Acquisition fails to complete due to default by the Vendor, the Consideration including the down payment of RMB13,000,000 will be refunded to the Purchasers with interest of 0.0002% per day from the date of down payment to the refund date. If the actual loss of the Purchasers as a result of the Vendor's default is greater than the above interest amount, the Vendor shall pay the difference to the Purchasers.

LETTER FROM THE BOARD

In the event that the Acquisition fails to complete due to default by the Purchasers, the Vendor shall return the down payment and other Consideration paid after deducting the actual loss of the Vendor as a result of the Purchasers' default.

The Consideration is arrived at after arm's length negotiation and is based on the net asset value of RMB70,185,500 of Sichuan Group as at 30th April, 2003 valued by Sichuan Zhong Tian Hua Assets Appraisal Company Limited (四川中天華資產評估有限公司), a qualified independent appraiser in the PRC and recognized by SASAC, according to the valuation standards generally accepted in PRC and the audited increment in the net asset value of the Sichuan Group amounted to RMB9,423,300 from 30th April, 2003 to 29th February, 2004 which was made according to PRC accounting standards and the Directors' view of the future prospects of the Sichuan Group. The Directors believe that the Acquisition would enlarge the Group's product range and give the Group an opportunity to step into the huge market for fire engines and other fire fighting equipment such as fire extinguishing system in which the Group has not been involved to date. Furthermore the Group can utilize the extensive sales network already established by the Sichuan Group, and thereby extend its market coverage outside Fujian, especially in the Southwest region in the PRC. Based on the above factors, the Directors consider the pricing of the Acquisition to be reasonable.

The Vendor has guaranteed that each of the total debt to total assets ratio and the current debt to current assets ratio based on the value of the net assets as computed by the Purchasers according to the PRC valuation standards and accounting standards, as handed over to the Purchasers upon completion of the Acquisition when compared to the respective total debt to total assets ratio and the current debt to current assets ratio based the net asset value of Sichuan Group as at 30th April, 2003 valued by Sichuan Zhong Tian Hua Assets Appraisal Company Limited (四川中天華資產評估有限公司), plus the audited increment in net assets from 30th April, 2003 to 29th February, 2004 would not be higher than 2%. If the above comparison produces a figure higher than 2%, it may amount to a material breach of the term of the Agreement and the Purchasers may either (i) rescind the Agreement (with the consequence that the Consideration including the down payment of RMB13,000,000 be refunded to the Purchasers with interest of 0.0002% per day from the date of down payment to the refund date. If the actual loss of the Purchasers as a result of the Vendor's breach is greater than the above interest amount, the Vendor shall pay the difference to the Purchasers); or (ii) choose to continue with the Agreement and the Vendor shall compensate the Purchasers their loss as a result of the Vendor's breach.

As at 31st December, 2003, the audited consolidated total asset and net assets of the Sichuan Group amounted to approximately RMB222,961,000 and RMB78,647,000 respectively. For the year ended 31st December, 2003, its audited consolidated profits before and after tax were approximately

LETTER FROM THE BOARD

RMB1,288,000 and RMB1,117,000 respectively and the audited consolidated turnover for the Sichuan Group was approximately RMB145,894,000. For the year ended 31st December, 2002, the audited consolidated profits before and after tax and turnover for the Sichuan Group were approximately RMB220,000, RMB179,000 and RMB117,800,000 respectively. All the above figures were prepared according to the PRC accounting standards. There are differences between net assets amount shown above and that in the Accountants' Report in Appendix III to this Circular. The differences are mainly due to provisions made for obsolete stocks and long-outstanding receivables. Notwithstanding these differences, the Directors consider the Consideration is fair and reasonable based on the factors as stated in the second paragraph of page 8 of this circular. They also believe that the Restructuring will turnaround the Sichuan Group.

3. BUSINESS OF THE COMPANY

The Group is a total solution provider of fire prevention and fighting systems in the PRC, specialising in system design, development, manufacturing, sales, installation and maintenance.

4. SICHUAN FIRE FACTORY AND REASONS FOR THE ACQUISITION

Sichuan Fire Factory is a state owned enterprise originally founded in the PRC in 1963, with paid up capital of RMB9,599,000. It has two wholly owned subsidiaries, namely, Sichuan Fire Protection Engineering Company (四川消防工程公司) ("**Sichuan Engineering**") and Sichuan Fire Safety Appliances Factory 14th Factory (四川消防機械總廠第十四分廠) ("**Sichuan 14th Factory**"). The Sichuan Group is principally engaged in the manufacturing and sale of fire engines; the design, manufacturing, sale and installation of fire fighting and prevention equipment; and provision of installation and maintenance services of fire prevention systems. The Sichuan Group has 41 models of fire engines and 78 types of other fire-fighting products registered with or approved by the National Development and Reform Commission (國家發展與改革委員會). They are sold nationwide in the PRC and in some countries in the Southeast Asia. The Sichuan Group's fire-fighting products mainly comprise fire extinguishing systems (with water, foam, carbon dioxide and powder). Sichuan Engineering has obtained Class I Certificate for contractors of professional fire prevention and fighting systems installation (消防設施工程專業承包一級資質證書) and is awarded Sichuan Construction Engineering Grade A Enterprise and ISO9001 certificate.

The Vendor is a state owned enterprise, directly under the administration of the Ministry of Public Security. It was founded in 1960's and has a registered capital of RMB100 million. It is principally engaged in the design, development, production and sale of fire engines and fire prevention and fighting products; fire safety system installation and maintenance services; and real estate development and property management. It is wholly owned by China Huan Dao (Group) Company (中國寰島(集團)公司), a state owned enterprise established in 1992 with registered capital of RMB200 million. Its principal business activities comprise real estate, tourism, hotel, financial services, technology development, manufacturing and trading.

LETTER FROM THE BOARD

The Directors believe that the Acquisition would enlarge the Group's product range and give the Group an opportunity to step into the huge market for fire engines and other fire fighting equipment such as fire extinguishing system in which the Group has not been involved to date. Furthermore the Group can utilize the extensive sales network already established by the Sichuan Group, and thereby extend its market coverage outside Fujian, especially in the Southwest region in the PRC.

The Group has entered into a non-legal binding letter of intent with Morita Corporation ("**Morita**") in January 2004, a shareholder of the Company holding 1.168% of the issued share capital, indicating that it will cooperate with the Group in various aspects including technical consultation and invest in the Restructured Company. Morita is not a connected person of the Company and apart from the relationship disclosed herein, and the fact that the Group is the sole distributor of Morita in Fujian and Zhejiang to market Morita's fire engines to relevant five stations, there is no other relationship which the Company considers need to be disclosed. Morita is principally engaged in the manufacturing and distribution of fire engines and fire prevention and fighting equipment. It is listed on both the Tokyo Stock Exchange Limited and the Osaka Stock Exchange Limited. In October 2004, the Group received another notification from Morita reiterating their intention to participate in the Sichuan Group. The participation of Morita in the Restructured Company by providing technical consultation and investing in the Restructured Company would strengthen the technical standards and improve quality of Sichuan Group's fire engines. It would also help the Sichuan Group to expand into markets for high end products. The Directors believe that the Acquisition would create a synergistic effect that enhances the growth of the Group.

It is intended that the Group will form the majority of the board and where necessary, retain the incumbent senior management team of the Sichuan Fire Factory.

In view of the above, the Directors consider that the terms and conditions of the Acquisition are fair and reasonable and are in the interests of the Company and the Shareholders taken as a whole.

As disclosed in the prospectus of the Company dated 23rd September, 2002, its business objectives include acquisitions of manufacturing enterprises engaged in fire service equipment so as to give the Company a speedy foray into the production and manufacture of this sector. The Directors consider that the acquisition of interest in Sichuan Fire Factory is in line with the business objectives of the Company.

5. MANAGEMENT DISCUSSION ON SICHUAN GROUP

The Sichuan Group suffered losses for most of the period covered by the accountants report (as stated in Appendix III) mainly because of the large burden of staff costs. Staff costs for the year ended 31st December, 2001, 2002, 2003 and for the six months ended 30th June, 2003 and 2004 (the "**Relevant Periods**") were respectively RMB15.5 million, RMB20.4 million, RMB21.5 million, RMB10.0 million and RMB10.3 million. Nearly half of the employees were unproductive (including retired staff). Therefore, restructuring so as to streamline the operations and improve efficiency is the first task after the Acquisition.

LETTER FROM THE BOARD

Except for certain pieces of land amounted to RMB12.2 million granted by the provincial government to the Sichuan Group, which are required to be transferred back to the government after the Restructuring, there will be no material financial impact of the Restructuring on the Sichuan Group.

The Sichuan Group has financed its operations partly by short term bank borrowings. Bank borrowings as at 31st December, 2001, 2002, 2003 and 30th June, 2004 (the “**Relevant Dates**”) were respectively RMB2 million, RMB14.9 million, RMB18.9 million and RMB18.9 million. The loans were short term in nature and secured by certain land and buildings of the Sichuan Group with net book value amounted to RMB10.1 million as at 30th June, 2004. The current ratio was at quite a low level of respectively 1.24 times, 1.16 times, 1.13 times and 1.09 times as at the Relevant Dates. Management of accounts receivables and inventories are critical to Sichuan Group’s operation financing. Renminbi is adopted as the reporting currency by the Sichuan Group. As the Sichuan Group’s assets, liabilities, sales and purchases are primarily denominated in Renminbi, its exposure to foreign currencies fluctuation is minimal, and therefore, no hedging against foreign currencies export is considered necessary.

Except for the land and buildings pledged to secured the short term bank loans as mentioned above and cash restricted for housing funds payable to relevant statutory authorities amounted to correspondingly RMB2.3 million, RMB3.2 million, RMB6.0 million and RMB5.1 million as at the Relevant Dates, the Sichuan Group has no other material charge over assets as at 30th June, 2004. Moreover, the Sichuan Group has neither material capital commitment nor contingent liabilities as at 30th June, 2004. The Sichuan Group has no significant investment held or material acquisitions and disposal of subsidiaries as at Relevant Dates or during the Relevant Periods and there are no such plans at the current stage.

6. FINANCIAL EFFECT OF THE ACQUISITION TO THE GROUP

The Directors confirm that the Acquisition will not have any material adverse effect on the working capital position of the Group or have any negative impact on the assets and liabilities of the Group. And in view of the range of products offered by the Sichuan Group and their extensive sales network established, the Directors believe that the Acquisition will have a positive impact on the earnings of the Group in the future.

7. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

Turnover of the Group for the six months ended 30th June, 2004 was RMB222.4 million, doubled that of the corresponding period last year. Profits attributable to shareholders for the six months ended 30th June, 2004 was RMB62.1 million, an increase of 29.2%, giving per share earnings of RMB3.1 cents. Turnover rose in all 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.

LETTER FROM THE BOARD

In August 2004, the Group acquired Shengan City Safety, its soon-to-be-launched network based monitoring system of fire prevention and fighting systems is expected to strengthen the Group's maintenance services and generate for the Group a stable source of income. The monitoring system also allowed the Group in a better position to compete by providing the Group with detailed information about conditions of the safety systems of each building. Furthermore, the acquisition of Chongzheng Huasheng Emergency Lighting System Ltd., Co. in February 2004 and the acquisitions of Tung Shing Trade Development Company Limited and Sichuan Fire Factory not only enrich the Group's product variety but allow the Group to step into the huge markets for fire engines, emergency lightings with centralized supplies and other fire fighting and rescue equipment. The acquisitions also allow the Group to widen its operating regions.

Synergistic effects to be generated with the newly acquired companies as members of the Group are expected to bring positive impact on the performance of the Group.

8. GENERAL

The Acquisition constitutes a major transaction under Chapter 19 of the GEM Listing Rules. On 24th September, 2004, the Company received a written approval on the Agreement from a closely allied group of shareholders of the Company, namely Mr. Jiang Xiong and Mr. Jiang Qing, who are brothers and also directors of the Company, and who have no interest in the Agreement or any transaction contemplated thereunder other than through their equity interests in the Company. As at 24th September, 2004, Mr. Jiang Xiong and Mr. Jiang Qing respectively held 981,600,000 Shares and 100,000,000 Shares, representing 49.08% and 5% of the issued share capital of the Company. Mr. Jiang Xiong and Mr. Jiang Qing are brothers. No shareholder is required to abstain from voting on the relevant resolution should an extraordinary general meeting be held. As Mr. Jiang Xiong and Mr. Jiang Qing together held more than 50% in the nominal value of the securities in the Company that carry voting rights, no extraordinary general meeting is required to be held to consider the Acquisition contemplated under the Agreement pursuant to Rule 19.44 of the GEM Listing Rules.

This circular is to provide additional information relating to the Acquisition.

9. ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendix to this circular.

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

1. SUMMARY OF FINANCIAL INFORMATION

A summary of the consolidated income statement and the consolidated balance sheet of the Group for the last three financial years extracted from the annual reports of the Company for year ended 31st December, 2002 and 2003 is set out below:

Consolidated Income Statement

	For the year ended 31st December,		
	2003 RMB'000	2002 RMB'000	2001 RMB'000
Turnover	282,475	259,519	193,988
Cost of sales	<u>(133,759)</u>	<u>(99,814)</u>	<u>(76,716)</u>
Gross profit	148,716	159,705	117,272
Other operating income	4,169	959	31
Distribution costs	(1,842)	(1,706)	(162)
Administrative expenses	<u>(18,937)</u>	<u>(16,348)</u>	<u>(10,386)</u>
Profit from operations	132,106	142,610	106,755
Finance costs	<u>(229)</u>	<u>(338)</u>	<u>(243)</u>
Profit before taxation	131,877	142,272	106,512
Taxation	<u>(19,761)</u>	<u>(16,100)</u>	<u>(7,728)</u>
Profit before minority interests	112,116	126,172	98,784
Minority interests	<u>(401)</u>	<u>(295)</u>	<u>(4,941)</u>
Net profit for the year	<u><u>111,715</u></u>	<u><u>125,877</u></u>	<u><u>93,843</u></u>
Dividends	<u><u>42,400</u></u>	<u><u>10,600</u></u>	<u><u>88,216</u></u>
Earnings per share			
Basic (RMB cents)	<u><u>5.6</u></u>	<u><u>7.5</u></u>	<u><u>6.8</u></u>

Consolidated Balance Sheet

	At 31st December,		
	2003 RMB'000	2002 RMB'000	2001 RMB'000
Non-current assets			
Property, plant and equipment	154,474	115,856	36,841
Retention receivables	269	1,331	50
Goodwill	6,998	9,962	12,927
Development costs	1,445	–	–
	<u>163,186</u>	<u>127,149</u>	<u>49,818</u>
Current assets			
Other investments	–	–	920
Inventories	4,228	3,457	2,950
Retention receivables	2,008	1,862	2,597
Amounts due from contract customers	30,523	1,109	3,111
Trade debtors	80,831	45,994	3,616
Prepayments and other receivables	14,382	16,482	2,269
Amount due from related parties	–	–	502
Bank balances and cash	185,444	204,913	57,836
	<u>317,416</u>	<u>273,817</u>	<u>73,801</u>
Current liabilities			
Trade and other payables	21,727	26,161	12,910
Amounts due to contract customers	–	56	3,194
Amounts due to related parties	–	–	51,474
Tax liabilities	8,457	7,160	17,302
Mortgage loan – due within one year	731	731	4,000
	<u>30,915</u>	<u>34,108</u>	<u>88,880</u>
Net current assets/(liabilities)	<u>286,501</u>	<u>239,709</u>	<u>(15,079)</u>
Total assets less current liabilities	449,687	366,858	34,739
Non-current liabilities			
Mortgage loan – due after one year	2,987	3,718	–
Deferred tax liabilities	3,490	–	–
Minority interests	717	562	121
	<u>442,493</u>	<u>362,578</u>	<u>34,618</u>
Capital and reserves			
Share capital	21,200	21,200	10,185
Reserves	421,293	341,378	24,433
	<u>442,493</u>	<u>362,578</u>	<u>34,618</u>

2. SUMMARY OF AUDITED FINANCIAL STATEMENTS

Set out below are the audited consolidated income statement, consolidated balance sheet, consolidated statement of changes in equity and consolidated cash flow statement and notes to financial statements of the Group extracted from the annual report of the Company for the year ended 31st December, 2003.

Consolidated Income Statement

For the year ended 31st December, 2003

	NOTES	2003 RMB'000	2002 RMB'000
Turnover	3	282,475	259,519
Cost of sales		<u>(133,759)</u>	<u>(99,814)</u>
Gross profit		148,716	159,705
Other operating income	5	4,169	959
Distribution costs		(1,842)	(1,706)
Administrative expenses		<u>(18,937)</u>	<u>(16,348)</u>
Profit from operations	6	132,106	142,610
Finance costs	7	<u>(229)</u>	<u>(338)</u>
Profit before taxation		131,877	142,272
Taxation	10	<u>(19,761)</u>	<u>(16,100)</u>
Profit before minority interests		112,116	126,172
Minority interests		<u>(401)</u>	<u>(295)</u>
Net profit for the year		<u><u>111,715</u></u>	<u><u>125,877</u></u>
Dividends	11	<u><u>42,400</u></u>	<u><u>10,600</u></u>
Earnings per share	12		
Basic (RMB cents)		<u><u>5.6</u></u>	<u><u>7.5</u></u>

Consolidated Balance Sheet*At 31st December, 2003*

	NOTES	2003 RMB'000	2002 RMB'000
Non-current assets			
Property, plant and equipment	13	154,474	115,856
Retention receivables	14	269	1,331
Goodwill	15	6,998	9,962
Development costs	16	1,445	–
		<u>163,186</u>	<u>127,149</u>
Current assets			
Inventories	17	4,228	3,457
Retention receivables	14	2,008	1,862
Amounts due from contract customers	18	30,523	1,109
Trade debtors	19	80,831	45,994
Prepayments and other receivables	20	14,382	16,482
Bank balances and cash		185,444	204,913
		<u>317,416</u>	<u>273,817</u>
Current liabilities			
Trade and other payables	21	21,727	26,161
Amounts due to contract customers	18	–	56
Tax liabilities	22	8,457	7,160
Mortgage loan – due within one year	23	731	731
		<u>30,915</u>	<u>34,108</u>
Net current assets		<u>286,501</u>	<u>239,709</u>
Total assets less current liabilities		449,687	366,858
Non-current liabilities			
Mortgage loan – due after one year	23	2,987	3,718
Deferred tax liabilities	24	3,490	–
Minority interests		<u>717</u>	<u>562</u>
		<u>442,493</u>	<u>362,578</u>
Capital and reserves			
Share capital	25	21,200	21,200
Reserves	27	421,293	341,378
		<u>442,493</u>	<u>362,578</u>

Consolidated Statement of Changes in Equity*For the year ended 31st December, 2003*

	Share capital of subsidiaries	Share comprising the Group	Share premium	Special reserve	Capital reserve	Statutory surplus reserve	Statutory public welfare fund	Statutory reserve fund	Accumulated profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1st January, 2002	-	10,185	-	-	-	7,080	7,493	1,888	7,972	34,618
Increase in share capital in accordance with the group reorganisation in preparation for listing of the Company's shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("Group Reorganisation")	-	83	-	-	-	-	-	-	-	83
Shares swap in accordance with the Group Reorganisation	16,960	(10,268)	-	(6,692)	-	-	-	-	-	-
Issue of shares for cash by a subsidiary	-	-	-	-	57,840	-	-	-	-	57,840
Issue of shares for cash by means of placing	4,240	-	165,360	-	-	-	-	-	-	169,600
Expenses incurred in connection with the issue of shares	-	-	(25,440)	-	-	-	-	-	-	(25,440)
Net profit for the year	-	-	-	-	-	-	-	-	125,877	125,877
Transfer	-	-	-	-	-	3,006	1,502	10,271	(14,779)	-
At 31st December, 2002	21,200	-	139,920	(6,692)	57,840	10,086	8,995	12,159	119,070	362,578
Net profit for the year	-	-	-	-	-	-	-	-	111,715	111,715
Transfer	-	-	-	-	-	3,181	1,591	8,525	(13,297)	-
Dividends paid	-	-	-	-	-	-	-	-	(31,800)	(31,800)
At 31st December, 2003	<u>21,200</u>	<u>-</u>	<u>139,920</u>	<u>(6,692)</u>	<u>57,840</u>	<u>13,267</u>	<u>10,586</u>	<u>20,684</u>	<u>185,688</u>	<u>442,493</u>

Consolidated Cash Flow Statement*For the year ended 31st December, 2003*

	2003 RMB'000	2002 RMB'000
Cash flows from operating activities		
Profit before taxation	131,877	142,272
Adjustments for:		
Depreciation	9,564	3,428
Loss on disposal of property, plant and equipment	734	–
Amortisation of goodwill	2,964	2,965
Amortisation of development costs	255	–
Interest income	(1,355)	(956)
Interest expenses	229	338
	<hr/>	<hr/>
Operating cash flows before movements in working capital	144,268	148,047
Increase in inventories	(771)	(507)
Decrease (increase) in retention receivables	916	(546)
(Increase) decrease in amounts due from contract customers	(29,414)	2,002
Increase in trade debtors	(34,837)	(42,378)
(Increase) decrease in prepayments and other receivables	(7,390)	637
Decrease in amounts due from related parties	–	502
Increase (decrease) in trade and other payables	6,792	(5,188)
Decrease in amounts due to contract customers	(56)	(3,138)
Decrease in amounts due to related parties	–	(51,474)
	<hr/>	<hr/>
Cash generated from operations	79,508	47,957
Interest paid	(229)	(338)
Income tax paid	(15,500)	(17,231)
	<hr/>	<hr/>
Net cash from operating activities	63,779	30,388
	<hr/>	<hr/>
Investing activities		
Purchase of property, plant and equipment	(44,766)	(71,743)
Deposits for acquisition of property, plant and equipment paid	–	(14,850)
Deposit for acquisition of technical know-how paid	(5,360)	–
Additions of development costs	(1,700)	–
Payments for acquisition of additional interests in a subsidiary	–	(1,272)
Proceeds from disposal of other investments	–	920
Interest received	1,355	956
	<hr/>	<hr/>
Net cash used in investing activities	(50,471)	(85,989)
	<hr/>	<hr/>

	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
Financing activities		
Repayment of bank loans	(731)	(4,671)
Dividends paid	(31,800)	–
Dividends paid to minority shareholders	(246)	(83)
Proceeds from issue of shares less issue expenses	–	144,160
Capital contributions from minority shareholders	–	229
New bank loans raised	–	5,120
Proceeds from issue of shares in a subsidiary pursuant to Group Reorganisation	–	57,923
	<hr/>	<hr/>
Net cash (used in) from financing activities	(32,777)	202,678
	<hr/>	<hr/>
Net (decrease) increase in cash and cash equivalents	(19,469)	147,077
Cash and cash equivalents at the beginning of the year	204,913	57,836
	<hr/>	<hr/>
Cash and cash equivalents at the end of the year, representing bank balances and cash	185,444	204,913
	<hr/> <hr/>	<hr/> <hr/>

Notes to Financial Statements

1. GENERAL

The Company is incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company and the principal activities of the Group are the production and sale of fire prevention and fighting equipment and the provision of installation and maintenance services for fire prevention and fighting systems.

2. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

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

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

Goodwill

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

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

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

Investments in subsidiaries

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

Revenue recognition

Revenue on installation contracts is recognised using the percentage of completion method by reference to the value of work carried out during the year.

Sales of goods are recognised when goods are delivered and title has passed.

Service income is recognised when services are provided.

Interest income from bank deposits is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

Property, plant and equipment

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

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

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

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

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

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight line basis over its estimated useful life.

When no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Installation contracts

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

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

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

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Impairment of assets

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

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

Taxation

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

The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Operating leases

Rentals under operating leases are charged to the income statement on a straight line basis over the term of the relevant lease.

Retirement benefit schemes

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised as an expense in the period in which they are incurred.

Foreign currencies

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

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

3. 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, and is analysed as follows:

	2003 RMB'000	2002 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
	<u>286,059</u>	<u>262,761</u>
Less: Sales tax	(3,584)	(3,242)
	<u><u>282,475</u></u>	<u><u>259,519</u></u>

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

4. SEGMENT INFORMATION**(a) Business segments**

For management purposes, the Group is currently organised into the following operating divisions – installation of fire prevention and fighting systems, 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.

APPENDIX I
FINANCIAL INFORMATION OF THE GROUP

Segment information about these businesses are as follows:

	Installation of fire prevention and fighting systems <i>RMB'000</i>	Sale of fire prevention and fighting equipment <i>RMB'000</i>	Provision of maintenance services <i>RMB'000</i>	Elimination <i>RMB'000</i>	Consolidated <i>RMB'000</i>
For the year ended 31st 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
At 31st 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	–		

APPENDIX I
FINANCIAL INFORMATION OF THE GROUP

	Installation of fire prevention and fighting systems <i>RMB'000</i>	Sale of fire prevention and fighting equipment <i>RMB'000</i>	Provision of maintenance services <i>RMB'000</i>	Elimination <i>RMB'000</i>	Consolidated <i>RMB'000</i>
For the year ended 31st December, 2002					
TURNOVER					
External sales	84,645	161,313	13,561	–	259,519
Inter-segment sales	–	19,040	–	(19,040)	–
Total	<u>84,645</u>	<u>180,353</u>	<u>13,561</u>	<u>(19,040)</u>	<u>259,519</u>
Inter-segment sales are charged at prevailing market rates.					
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					<u>125,877</u>

	Installation of fire prevention and fighting systems <i>RMB'000</i>	Sale of fire prevention and fighting equipment <i>RMB'000</i>	Provision of maintenance services <i>RMB'000</i>	Elimination <i>RMB'000</i>	Consolidated <i>RMB'000</i>
At 31st December, 2002					
ASSETS					
Segment assets	<u>96,047</u>	<u>216,146</u>	<u>1,185</u>	–	313,378
Unallocated corporate assets					87,588
					<u>400,966</u>
LIABILITIES					
Segment liabilities	<u>5,312</u>	<u>15,043</u>	<u>3,220</u>	–	23,575
Unallocated corporate liabilities					14,251
					<u>37,826</u>
OTHER INFORMATION					
Additions of property, plant and equipment	2,623	79,707	–		
Depreciation and amortisation	<u>2,974</u>	<u>3,401</u>	<u>–</u>		

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

	Carrying amount of segment assets		Additions to property, plant and equipment and intangible assets	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
PRC	416,401	313,378	50,145	82,330
Hong Kong	56,840	87,588	21	113
United States of America	7,361	–	450	–
	<u>480,602</u>	<u>400,966</u>	<u>50,616</u>	<u>82,443</u>

5. OTHER OPERATING INCOME

	2003 RMB'000	2002 RMB'000
Interest income	1,355	956
Others	2,814	3
	<u>4,169</u>	<u>959</u>

6. PROFIT FROM OPERATIONS

	2003 RMB'000	2002 RMB'000
Profit from operations has been arrived at after charging:		
Depreciation:		
Property, plant and equipment	9,564	3,428
Loss on disposal of property, plant and equipment	734	–
Auditors' remuneration	697	670
Amortisation of goodwill included in administrative expenses	2,964	2,965
Allowance for doubtful debts	–	168
Amortisation of development costs included in cost of sales	255	–
Operating lease rentals in respect of rented premises	642	475
Research and development expenditure (Note)	557	1,112
Cost of inventories charged as expense	108,316	67,948
Staff costs, including directors' remuneration	23,062	23,566
Retirement benefit scheme contributions, including those included in directors' remuneration	1,236	1,421
Total staff costs	<u>24,298</u>	<u>24,987</u>
and crediting:		
Allowance for doubtful debts written back	–	418

Note: The amount included staff cost of RMB244,000 (2002: Nil) and depreciation on property, plant and equipment of RMB73,000 (2002: Nil). These amounts are also included in the respective disclosure items under this note 6.

7. FINANCE COSTS

	2003 RMB'000	2002 RMB'000
Interest on bank borrowings wholly repayable within five years	1	129
Interest on bank borrowings not wholly repayable within five years	228	209
	<u>229</u>	<u>338</u>

8. DIRECTORS' EMOLUMENTS

	2003 RMB'000	2002 RMB'000
Fees		
Executive	–	–
Non-executive	–	–
Independent non-executive	212	212
	<u>212</u>	<u>212</u>
Other emoluments (executive directors):		
Salaries and other benefits	1,398	390
Retirement benefit scheme contributions	5	16
	<u>1,403</u>	<u>406</u>
	<u>1,615</u>	<u>618</u>

Emoluments of the directors were as follows:

Executive		
Director A	413	139
Director B	413	128
Director C	413	139
Director D	164	–
Non-executive		
Director E	–	–
Director F	–	–
Independent non-executive		
Director G	106	106
Director H	106	106
	<u>106</u>	<u>106</u>

9. EMPLOYEES' EMOLUMENTS

The five highest paid individuals included four (2002: three) directors and one (2002: two) employee of the Company. The emoluments of the five highest paid individuals of the Company were as follows:

	2003 RMB'000	2002 RMB'000
Salaries and other benefits	2,333	1,254
Retirement benefit scheme contributions	52	51
	<u>2,385</u>	<u>1,305</u>

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

The emoluments of each of the five highest paid individuals are below HK\$1 million.

10. TAXATION

	2003 RMB'000	2002 RMB'000
The charge comprises:		
Current tax		
The PRC – income tax	16,271	16,100
Deferred tax	3,490	–
	<u>19,761</u>	<u>16,100</u>

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

	2003		2002	
	RMB'000	%	RMB'000	%
Profit before taxation	<u>131,877</u>		<u>142,272</u>	
Tax at the 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	<u>19,761</u>	<u>15.0</u>	<u>16,100</u>	<u>11.3</u>

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

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

With effective from the year 2002, one of the subsidiary, 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.

Details of deferred taxation are set out in note 24.

11. DIVIDENDS

	2003 RMB'000	2002 RMB'000
Interim dividend of 1 HK cent (2002: nil) per share paid	21,200	–
Final dividend of 1 HK cent (2002: 0.5 HK cent) per share proposed	<u>21,200</u>	<u>10,600</u>
	<u><u>42,400</u></u>	<u><u>10,600</u></u>

12. EARNINGS PER SHARE

The calculation of the 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 (2002: weighted average of 1,667,811,506) shares in issue.

13. PROPERTY, PLANT AND EQUIPMENT

THE GROUP

	Land and buildings RMB'000	Plant and equipment RMB'000	Tooling and moulds RMB'000	Furniture and fixtures RMB'000	Computers RMB'000	Motor vehicles RMB'000	Leasehold improve- ments RMB'000	Construction in progress RMB'000	Total RMB'000
COST									
At 1st January, 2003	10,142	22,312	36,360	8,133	774	4,051	–	39,545	121,317
Additions	–	26,599	–	166	79	277	688	21,107	48,916
Disposals	–	–	–	(1,140)	–	–	–	–	(1,140)
Transferred from construction in progress	<u>56,493</u>	<u>2,879</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>1,280</u>	<u>(60,652)</u>	<u>–</u>
At 31st December, 2003	<u>66,635</u>	<u>51,790</u>	<u>36,360</u>	<u>7,159</u>	<u>853</u>	<u>4,328</u>	<u>1,968</u>	<u>–</u>	<u>169,093</u>
DEPRECIATION									
At 1st January, 2003	302	3,182	174	723	115	965	–	–	5,461
Provided for the year	632	5,856	1,630	560	95	611	180	–	9,564
Disposals	–	–	–	(406)	–	–	–	–	(406)
At 31st December, 2003	<u>934</u>	<u>9,038</u>	<u>1,804</u>	<u>877</u>	<u>210</u>	<u>1,576</u>	<u>180</u>	<u>–</u>	<u>14,619</u>
NET BOOK VALUES									
At 31st December, 2003	<u><u>65,701</u></u>	<u><u>42,752</u></u>	<u><u>34,556</u></u>	<u><u>6,282</u></u>	<u><u>643</u></u>	<u><u>2,752</u></u>	<u><u>1,788</u></u>	<u><u>–</u></u>	<u><u>154,474</u></u>
At 31st December, 2002	<u><u>9,840</u></u>	<u><u>19,130</u></u>	<u><u>36,186</u></u>	<u><u>7,410</u></u>	<u><u>659</u></u>	<u><u>3,086</u></u>	<u><u>–</u></u>	<u><u>39,545</u></u>	<u><u>115,856</u></u>

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

At 31st December, 2003, the net book value of land and buildings under mortgage amounts to approximately RMB8,072,000 (2002: RMB8,328,000).

14. RETENTION RECEIVABLES

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

15. GOODWILL

	<i>RMB'000</i>
AT COST	
At 1st January, 2002 and 31st December, 2003	14,823
AMORTISATION	
At 1st January, 2003	4,861
Provided for the year	2,964
At 31st December, 2003	7,825
NET BOOK VALUES	
At 31st December, 2003	6,998
At 31st December, 2002	9,962

The goodwill is amortised over 5 years.

16. DEVELOPMENT COSTS

	<i>RMB'000</i>
AT COST	
Incurred during the year and at 31st December, 2003	1,700
AMORTISATION	
Provided for the year and at 31st December, 2003	255
NET BOOK VALUE	
At 31st December, 2003	1,445

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

17. INVENTORIES

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

	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	842	1,086
Work-in-progress	1,125	347
Finished goods	2,261	2,024
	4,228	3,457

18. AMOUNTS DUE FROM (TO) CONTRACT CUSTOMERS

	2003 RMB'000	2002 RMB'000
Contract costs incurred plus net profits recognised less recognised losses	63,333	88,965
Less: Progress billings	<u>(32,810)</u>	<u>(87,912)</u>
	<u>30,523</u>	<u>1,053</u>
Comprising:		
Amounts due from contract customers	30,523	1,109
Amounts due to contract customers	<u>–</u>	<u>(56)</u>
	<u>30,523</u>	<u>1,053</u>

19. TRADE DEBTORS

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

The aged analysis of trade debtors is as follows:

	2003 RMB'000	2002 RMB'000
0 – 90 days	57,384	45,257
91 – 180 days	13,336	57
181 – 360 days	4,479	680
Over 360 days	<u>5,632</u>	<u>–</u>
	<u>80,831</u>	<u>45,994</u>

20. PREPAYMENTS AND OTHER RECEIVABLES

	2003 RMB'000	2002 RMB'000
Deposits paid for purchase of property, plant and equipment	–	14,850
Deposit for acquisition of technical know-how	5,360	–
Prepayments and other receivables	11,326	3,936
Less: Allowance for doubtful debts	<u>(2,304)</u>	<u>(2,304)</u>
	<u>14,382</u>	<u>16,482</u>

21. TRADE AND OTHER PAYABLES

	2003 RMB'000	2002 RMB'000
Trade creditors	5,289	625
Amount payable on acquisition of property, plant and equipment	–	10,700
Accrued costs and charges	15,185	11,617
Receipts in advance	<u>1,253</u>	<u>3,219</u>
	<u>21,727</u>	<u>26,161</u>

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

	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
Within 30 days	4,933	326
31 – 60 days	59	139
61 – 90 days	285	–
Over 90 days	12	160
	<u>5,289</u>	<u>625</u>
22. TAX LIABILITIES		
	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
Value added tax	3,287	2,851
Sales tax and other levies	1,303	1,213
Income tax	3,867	3,096
	<u>8,457</u>	<u>7,160</u>
23. MORTGAGE LOAN		
	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
Mortgage loan, secured	<u>3,718</u>	<u>4,449</u>
The maturity of the above secured mortgage loan is as follows:		
Within one year	731	731
More than one year, but not exceeding two years	731	731
More than two years, but not exceeding five years	2,194	2,194
More than five years	62	793
	<u>3,718</u>	<u>4,449</u>
<i>Less: Amount due within one year shown under current liabilities</i>	<u>(731)</u>	<u>(731)</u>
Amount due after one year	<u>2,987</u>	<u>3,718</u>
24. DEFERRED TAX LIABILITIES		

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

25. SHARE CAPITAL

Authorised

	<i>No. of shares</i>	<i>HK\$'000</i>
Shares of HK\$0.01 each on incorporation	<u>38,000,000</u>	<u>380</u>
Shares of HK\$0.10 each Consolidation (<i>Note a below</i>)	<u>3,800,000</u>	<u>380</u>
Shares of HK\$0.01 each Subdivision (<i>Note b below</i>)	38,000,000	380
Increase of share capital (<i>Note c below</i>)	<u>9,962,000,000</u>	<u>99,620</u>
Balance as at 31st December, 2002 and 31st December, 2003	<u>10,000,000,000</u>	<u>100,000</u>

Notes:

- (a) On 3rd January, 2002, pursuant to a resolution in writing passed by the subscriber of the Company, the nominal value of every share of the Company was changed from HK\$0.01 to HK\$0.10 each.
- (b) Pursuant to the resolution in writing passed on 11th March, 2002 by the sole shareholder of the Company, each of the authorised, existing issued and unissued shares of HK\$0.10 of the Company was sub-divided into 10 shares of HK\$0.01 each.
- (c) Pursuant to the written resolution passed on 12th July, 2002 by the sole shareholder of the Company, the authorised share capital of the Company was increased from HK\$380,000 to HK\$100,000,000 by the creation of 9,962,000,000 additional shares of HK\$0.01 each.

Issued and fully paid

	<i>No. of shares</i>	<i>HK\$'000</i>
Shares of HK\$0.10 each Issued on 19th February, 2002	<u>1</u>	<u>-</u>
Shares of HK\$0.01 each Subdivision (<i>Note b above</i>)	10	-
Issue of shares in accordance with the Group Reorganisation on 20th September, 2002	1,599,999,990	16,000
Placing of new shares on 27th September, 2002	<u>400,000,000</u>	<u>4,000</u>
Balance as at 31st December, 2002 and 31st December, 2003	<u>2,000,000,000</u>	<u>20,000</u>

Shown in the financial statements as

	<i>RMB'000</i>
Balance as at 31st December, 2002 and 31st December, 2003	<u>21,200</u>

Notes:

- (a) The Company was incorporated on 3rd January, 2002 with an authorised share capital of HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each. On 19th February, 2002, one share of HK\$0.10 was issued fully paid and allotted to the subscriber of the Company.
- (b) On 20th September, 2002, the Company issued a total number of 1,599,999,990 new shares of HK\$0.01 each for shares in a subsidiary, Wang Sing Technology Limited, pursuant to the Group Reorganisation.
- (c) On 27th September, 2002, the Company issued a total of 400,000,000 new shares of HK\$0.01 each at a price of HK\$0.40 per share by way of placing.

All the shares which were issued during the period rank pari passu in all respects.

26. SHARE OPTION SCHEME

The Company's share option scheme was adopted pursuant to a resolution passed on 20th September, 2002 (the "Scheme") for the primary purpose of providing incentives to directors and eligible employees, and will remain valid for a period of 10 years commencing on 20th September, 2002. Under the Scheme, the board of directors of the Company may grant options to full-time employees, including directors (executive and non-executive) of the Company and its subsidiaries, to subscribe for shares in the Company.

Subject to the condition that the total number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes of the Company must not exceed 30% of the shares of the Company in issue from time to time, the total number of shares in respect of which options may be granted under the Scheme when aggregated with any shares subject to any other schemes is not permitted to exceed 10% of the shares of the Company as at the date of adoption of the Scheme, i.e. 160,000,000 shares of the Company as at 31st December, 2003, 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 any 12-month period is not permitted to exceed 1% of the shares of the Company in issue, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in any one year exceeding the higher of 0.1% of the Company's shares in issue and with a value in excess of HK\$5 million must be approved by the Company's shareholders.

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

No option has been granted by the Company during the period from the adoption of the Scheme to 31st December, 2003.

27. RESERVES

	Share premium RMB'000	Special reserve RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Statutory reserve fund RMB'000	Accumu- lated profits RMB'000	Total RMB'000
At 1st January, 2002	-	-	-	7,080	7,493	1,888	7,972	24,433
Shares swap in accordance with the Group Reorganisation	-	(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)
Net profit for the year	-	-	-	-	-	-	125,877	125,877
Transfer	-	-	-	3,006	1,502	10,271	(14,779)	-
At 31st December, 2002	139,920	(6,692)	57,840	10,086	8,995	12,159	119,070	341,378
Net profit for the year	-	-	-	-	-	-	111,715	111,715
Transfer	-	-	-	3,181	1,591	8,525	(13,297)	-
Dividends paid	-	-	-	-	-	-	(31,800)	(31,800)
At 31st December, 2003	139,920	(6,692)	57,840	13,267	10,586	20,684	185,688	421,293

(a) Statutory surplus reserve

Pursuant to the articles of association of group companies established in the PRC, the group companies are required to appropriate 10% or an amount to be determined by the directors out of their respective profits after taxation in accordance with the relevant PRC accounting rules and financial regulations before appropriation of profits each year to the statutory surplus reserve until their balances reach 50% of their respective registered capital. In normal circumstances, the statutory surplus reserve shall only be used for making up losses, capitalisation into capital and expansion of their respective production facilities and operations.

(b) Statutory public welfare fund

Pursuant to the articles of association of the group companies established in the PRC, these companies are required to appropriate from their respective aforesaid profits after taxation at the rate of 5% to 10% or an amount to be determined by the directors to the statutory public welfare fund. The statutory public welfare fund can only be utilised on capital items for employees collective welfare. Individual employees only have the right to use these facilities, the titles to which will remain with the group companies. The statutory public welfare fund forms part of the equity and is non-distributable other than in liquidation.

(c) Statutory reserve fund

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

(d) Special reserve

The special reserve represents the difference between the nominal value of the shares of the acquired subsidiaries and the nominal value of the Company's shares issued for the acquisition under the Group Reorganisation.

(e) Capital reserve

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

28. MAJOR NON-CASH TRANSACTION

On 20th September, 2002, the Company issued an aggregate of 1,599,999,990 new shares of HK\$0.01 each as consideration for the exchange of investment in a subsidiary held by a director and third parties for the purpose of listing of its shares on the Stock Exchange.

29. CAPITAL COMMITMENTS

	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
Capital expenditure contracted for but not provided in the financial statements in respect of:		
– acquisition of moulds and equipment	–	10,917
– acquisition of technical know-how	1,340	3,350
– leasehold improvements	–	10,500
	<u>1,340</u>	<u>24,767</u>

30. OPERATING LEASE COMMITMENTS

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

	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
Amounts payable:		
Within one year	768	522
In the second to fifth year inclusive	320	964
Over five years	–	1,615
	<u>1,088</u>	<u>3,101</u>

Operating lease payments represent rentals payable by the Group for certain of its office and sales offices. Leases are negotiated for an average term of 2 years and rentals are fixed for an average of 2 years.

31. RETIREMENT BENEFIT SCHEMES

The group companies operating in the PRC participate in defined contribution retirement schemes organized by the relevant local government authorities in the PRC. All eligible PRC employees are entitled to an annual pension equal to a fixed portion of their ending basic salaries at their retirement dates. The Group is required to make specific contributions to the retirement schemes at a rate of 18% (2002: 18%) of basic salary of its eligible PRC employees and have no further obligation for post-retirement benefits beyond the annual contributions made. Pursuant to these arrangements, the retirement plan contributions paid for the year ended 31st December, 2003 amounted to RMB1,179,000 (2002: RMB1,370,000).

In accordance with the relevant mandatory provident fund laws and regulations of Hong Kong, the Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") for all qualifying Hong Kong employees. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent MPF service provider. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the MPF Scheme at rates specified in the rules. The only obligation of the Group with respect of MPF Scheme is to make the required contributions under the MPF Scheme. The retirement benefit scheme contributions arising from the MPF Scheme charged to the income statement represent contributions payable to the funds by the Group at rates specified in the rules of the MPF Scheme.

During the year ended 31st December, 2003, the Group made total retirement benefit scheme contributions amounting to RMB1,236,000 (2002: RMB1,421,000).

3. SUMMARY OF UNAUDITED INTERIM FINANCIAL STATEMENTS

Set out below are the unaudited consolidated income statement, consolidated balance sheet, condensed consolidated statement of changes in equity and condensed consolidated cash flow statement, together with the notes to the financial statements of the Group extracted from the interim report of the Company for the six months ended 30th June, 2004.

Consolidated Income Statement

	NOTES	(Unaudited) For the six months ended 30th June,	
		2004 RMB'000	2003 RMB'000
Turnover	2	222,363	110,914
Cost of sales		(126,537)	(50,200)
Gross Profit		95,826	60,714
Other operating income		577	722
Distribution costs		(1,763)	(789)
Administrative expenses		(15,476)	(7,783)
Profit from operations	3	79,164	52,864
Finance costs		(19)	(114)
Taxation	4	79,145 (15,560)	52,750 (4,610)
Profit after taxation		63,585	48,140
Minority interests		(1,527)	(109)
Net profit for the period		<u>62,058</u>	<u>48,031</u>
Interim dividend declared	5	<u>21,200</u>	<u>21,200</u>
Earnings per share			
– Basic and diluted (RMB cents)	6	<u>3.10</u>	<u>2.40</u>

Consolidated Balance Sheet

		(Unaudited) At 30th June, 2004 RMB'000	(Audited) At 31st December, 2003 RMB'000
	NOTE		
Non-current assets			
Property, plant and equipment	7	147,787	154,474
Retention receivables		1,779	269
Goodwill		9,566	6,998
Development costs		1,275	1,445
		<u>160,407</u>	<u>163,186</u>
Current assets			
Inventories		3,877	4,228
Retention receivables		201	2,008
Amounts due from contract customers		30,000	30,523
Trade debtors	8	60,445	80,831
Prepayments and other receivables	9	41,389	14,382
Bank balances and cash		234,405	185,444
		<u>370,317</u>	<u>317,416</u>
Current liabilities			
Trade and other payables	10	23,507	21,727
Tax liabilities		13,811	8,457
Short term borrowing		2,870	–
Mortgage loan – due within one year		–	731
		<u>40,188</u>	<u>30,915</u>
Net current assets		<u>330,129</u>	<u>286,501</u>
Total assets less current liabilities		<u>490,536</u>	<u>449,687</u>
Non-current liabilities			
Mortgage loan – due after one year		–	2,987
Deferred tax liabilities		5,313	3,490
Minority interests		1,872	717
		<u>483,351</u>	<u>442,493</u>
Capital and reserves			
Share capital		21,200	21,200
Reserves	11	462,151	421,293
		<u>483,351</u>	<u>442,493</u>

Condensed Consolidated Statement of Changes in Equity

	(Unaudited)	
	For the six months ended 30th June,	
	2004	2003
	RMB'000	RMB'000
Total equity at 1st January,	442,493	362,578
Final dividend paid	(21,200)	(10,600)
Profit for the period	62,058	48,031
	<u>483,351</u>	<u>400,009</u>

Condensed Consolidated Cash Flow Statement

	(Unaudited)	
	For the six months ended 30th June,	
	2004	2003
	RMB'000	RMB'000
Net cash from operating activities	94,407	33,763
Net cash used in investing activities	(20,562)	(37,286)
Net cash used in financing activities	(24,884)	(10,966)
Net increase (decrease) in cash and cash equivalents	48,961	(14,489)
Cash and cash equivalent at 1st January,	185,444	204,913
Cash and cash equivalent at 30th June,	<u>234,405</u>	<u>190,424</u>

Notes:

1. Basis of presentation

The Group's unaudited 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. The accounting policies adopted in preparing the unaudited consolidated results for the six months ended 30th June, 2004 are consistent with those in the preparation of the Group's annual financial statements for the year ended 31st December, 2003.

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 period, and is analysed as follows:

	(Unaudited)	
	For the six months ended 30th June,	
	2004	2003
	RMB'000	RMB'000
Sale of goods	83,870	61,855
Revenue from installation contracts	123,637	36,863
Provision of maintenance services	18,554	13,675
	<u>226,061</u>	<u>112,393</u>
Less: Sales tax	(3,698)	(1,479)
	<u>222,363</u>	<u>110,914</u>

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:

	(Unaudited)	
	For the six months ended 30th June,	
	2004	2003
	RMB'000	RMB'000
Depreciation:		
Property, plant and equipment	7,929	2,993
Amortization of goodwill included in administrative expenses	1,695	1,482
Amortization of development costs included in cost of sales	170	-
	<u>170</u>	<u>-</u>

4. Taxation

	(Unaudited)	
	For the six months ended 30th June,	
	2004	2003
	RMB'000	RMB'000
The charge comprises:		
Current tax		
Income tax in the People's Republic of China ("PRC")	13,737	4,610
Deferred tax	1,823	-
	<u>15,560</u>	<u>4,610</u>

No provision for Hong Kong Profits Tax has been made as the Group's taxable income neither arises in, nor is derived from Hong Kong. Income tax on profits arising from the PRC has been provided based on the prevailing tax rates applicable to the respective companies.

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**

The Board declared an interim dividend for the six months ended 30th June, 2004 of 1 HK cent per share based on 2,000,000,000 shares in issue (2003: 1 HK cent per share giving a total of HK\$20,000,000).

6. **Earnings per share**

The calculation of basic earnings per share for the six months ended 30th June, 2004 were based on the unaudited consolidated net profit of RMB62,058,000 (unaudited consolidated net profit for the six months ended 30th June, 2003: RMB48,031,000) and on the 2,000,000,000 shares in issue.

The share options outstanding did not have a material dilutive effect on the basic earnings per share.

7. **Property, plant and equipment**

	(Unaudited) At 30th June, 2004 RMB'000	(Audited) At 31st December, 2003 RMB'000
At the beginning of the period/year	154,474	115,856
Additions	1,242	48,916
Disposals	–	(734)
Depreciation	(7,929)	(9,564)
	<u>147,787</u>	<u>154,474</u>
At the end of the period/year	<u>147,787</u>	<u>154,474</u>

8. **Trade debtors**

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

The aged analysis of trade debtors is as follows:

	(Unaudited) At 30th June, 2004 RMB'000	(Audited) At 31st December, 2003 RMB'000
0-90 days	42,550	57,384
91-180 days	11,010	13,336
180-360 days	3,964	4,479
Over 360 days	2,921	5,632
	<u>60,445</u>	<u>80,831</u>

9. Prepayments and other receivables

	(Unaudited) At 30th June, 2004 RMB'000	(Audited) At 31st December, 2003 RMB'000
Deposit for acquisition of technical know-how	6,700	5,360
Deposit for acquisition of a potential subsidiary	13,000	3,000
Prepayments and other receivables	23,993	8,326
Less: Allowance for doubtful debts	(2,304)	(2,304)
	<u>41,389</u>	<u>14,382</u>

10. Trade and other payables

	(Unaudited) At 30th June, 2004 RMB'000	(Audited) At 31st December, 2003 RMB'000
Trade creditors	7,885	5,289
Accrued costs and charges	15,146	15,185
Receipts in advance	476	1,253
	<u>23,507</u>	<u>21,727</u>

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

	(Unaudited) At 30th June, 2004 RMB'000	(Audited) At 31st December, 2003 RMB'000
Within 30 days	2,450	4,933
31-60 days	1,365	59
61-90 days	3,258	285
Over 90 days	812	12
	<u>7,885</u>	<u>5,289</u>

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 six months ended 30th June, 2004					
TURNOVER					
External sales	120,740	83,664	17,959	–	222,363
Inter-segment sales	–	5,601	–	(5,601)	–
	<u>120,740</u>	<u>89,265</u>	<u>17,959</u>	<u>(5,601)</u>	<u>222,363</u>
Total	<u>120,740</u>	<u>89,265</u>	<u>17,959</u>	<u>(5,601)</u>	<u>222,363</u>
Inter-segment sales are charged at prevailing market rates.					
RESULTS					
Segment results	42,362	29,445	16,182	–	87,989
Finance costs					(19)
Unallocated corporate expenses					<u>(8,825)</u>
Profit before taxation					79,145
Taxation					<u>(15,560)</u>
Profit before minority interests					63,585
Minority interests					<u>(1,527)</u>
Net profit for the period					<u>62,058</u>

	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 six months ended 30th June, 2003					
TURNOVER					
External sales	35,795	61,855	13,264	-	110,914
Inter-segment sales	-	3,715	-	(3,715)	-
Total	<u>35,795</u>	<u>65,570</u>	<u>13,264</u>	<u>(3,715)</u>	<u>110,914</u>
Inter-segment sales are charged at prevailing market rates.					
RESULTS					
Segment results	14,482	29,123	11,810	-	55,415
Finance costs					(114)
Unallocated corporate expenses					<u>(2,551)</u>
Profit before taxation					52,750
Taxation					<u>(4,610)</u>
Profit before minority interests					48,140
Minority interests					<u>(109)</u>
Net profit for the period					<u><u>48,031</u></u>

(b) *Geographical segments*

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



德勤·關黃陳方會計師行
香港中環干諾道中111號
永安中心26樓

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

14th December, 2004

The Directors
China Fire Safety Enterprise Group Holdings Limited

Dear Sirs,

We report on the pro forma financial information (the “Pro Forma Financial Information”) as set out in Section 1 of Appendix II to the circular issued by China Fire Safety Enterprise Group Holdings Limited (the “Company”) dated 14th December, 2004 in connection with the acquisition of 100% of the equity interest of Sichuan Fire Safety Appliances Factory (the “Sichuan Group”) (the “Acquisition”). The Pro Forma Financial Information relating to the pro forma statements of assets and liabilities of the Company and its subsidiaries (the “Group”) and the Sichuan Group after the Acquisition has been prepared by the Directors of the Company, for illustration purposes only, to illustrate the effect of the Acquisition as if the Acquisition had taken place on 30th June, 2004.

Responsibilities

It is the responsibility solely of the Directors of the Company to prepare the Pro Forma Financial Information in accordance with paragraph 31 of Chapter 7 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”).

It is our responsibility to form an opinion as required by the GEM Listing Rules on the Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 “Reporting on pro forma financial information pursuant to the Listing Rules” issued by the Auditing Practices Board in the United Kingdom, where applicable. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro Forma Financial Information with the Directors of the Company.

Our work does not constitute an audit or review made in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants, and accordingly, we do not express any such assurance on the Pro Forma Financial Information.

The Pro Forma Financial Information has been prepared on the basis set out in Section 1 of Appendix II to the circular for illustration purposes only and, because of its nature, it may not be indicative of the Group's financial position as at 30th June, 2004, or at any future date.

Opinion

In our opinion:

- (a) the Pro Forma Financial Information has been properly compiled on the basis as stated;
- (b) such basis is consistent with the accounting policies of the Company; and
- (c) the adjustments are appropriate for the purposes of the Pro Forma Financial Information as disclosed pursuant to paragraph 31 of Chapter 7 of the GEM Listing Rules.

Yours faithfully,

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

APPENDIX II FINANCIAL INFORMATION OF THE ENLARGED GROUP

1. UNAUDITED PROFORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

The following is a summary of the unaudited proforma statement of assets and liabilities of the Enlarged Group, assuming that the transactions had been completed as at 30th June, 2004 for the purpose of illustrating how the transaction might have affected the financial position of the Group.

The unaudited proforma statement of assets and liabilities of the Enlarged Group is prepared based on the unaudited consolidated balance sheet of the Group as at 30th June, 2004 extracted from the interim report of the Company for the six months ended 30th June, 2004 and the Sichuan Group (before the Restructuring) as at 30th June, 2004 extracted from the Accountants' Report set out in Appendix III of this circular and adjusted for the transactions resulting from the Acquisition. The restructuring of Sichuan Fire Factory involves the transformation of Sichuan Fire Factory from a state owned enterprise into a limited liability company after the Acquisition. Except for certain pieces of land amounted to RMB12.2 million granted by the provincial government to the Sichuan Group, which are required to be transferred back to the government after the Restructuring, there will be no material financial impact of the Restructuring on the Sichuan Group.

The unaudited pro forma statement of assets and liabilities is prepared to provide financial information on the Enlarged Group as a result of completion of the Acquisition. As it is prepared for illustrative purpose only, it may not purport to represent what the assets and liabilities of the Enlarged Group shall be on the actual completion of the Acquisition.

	The Group RMB'000	Sichuan Group RMB'000	Total RMB'000	Pro forma adjustments RMB'000	Enlarged Group RMB'000
Non-current assets					
Property, plant and equipment	147,787	48,403	196,190	(12,194) ⁽²⁾	183,996
Retention receivables	1,779	-	1,779		1,779
Goodwill	9,566	-	9,566	36,743 ⁽³⁾	46,309
Development costs	1,275	-	1,275		1,275
Investment in securities	-	505	505		505
	160,407	48,908	209,315		233,864
Current assets					
Inventories	3,877	29,585	33,462		33,462
Retention receivables	201	-	201		201
Amounts due from contract customers	30,000	728	30,728		30,728
Trade debtors	60,445	32,480	92,925		92,925
Prepayments and other receivables	41,389	9,179	50,568		50,568
Amount due from related companies	-	5,017	5,017		5,017
Investment in securities	-	100	100		100
Restricted bank balances	-	5,101	5,101		5,101
Bank balances and cash	234,405	13,891	248,296	(81,000) ⁽¹⁾	167,296
	370,317	96,081	466,398		385,398

APPENDIX II FINANCIAL INFORMATION OF THE ENLARGED GROUP

	The Group RMB'000	Sichuan Group RMB'000	Total RMB'000	Pro forma adjustments RMB'000	Enlarged Group RMB'000
Current liabilities					
Trade and other payables	23,507	53,191	76,698		76,698
Amount due to contract customers	–	3,770	3,770		3,770
Tax liabilities	13,811	12,647	26,458		26,458
Short term borrowing	2,870	–	2,870		2,870
Bank borrowing – due within one year	–	18,930	18,930		18,930
	<u>40,188</u>	<u>88,538</u>	<u>128,726</u>		<u>128,726</u>
Net current assets	<u>330,129</u>	<u>7,543</u>	<u>337,672</u>		<u>256,672</u>
Total assets less current liabilities	<u>490,536</u>	<u>56,451</u>	<u>546,987</u>		<u>490,536</u>
Non-current liabilities					
Deferred tax liabilities	5,313	–	5,313		5,313
Minority interests	<u>1,872</u>	<u>–</u>	<u>1,872</u>		<u>1,872</u>
Net assets	<u><u>483,351</u></u>	<u><u>56,451</u></u>	<u><u>539,802</u></u>		<u><u>483,351</u></u>

Note 1: The adjustment represents the consideration of RMB81,000,000 paid.

Note 2: The adjustment represents the carrying amount of certain pieces of land granted by the provincial government to the Sichuan Group, which are required to be transferred back to the government after the Restructuring.

Note 3: The adjustment represents goodwill arising from the acquisition of the Sichuan Group, which is the excess of consideration paid over the net carrying amount of assets and liabilities of the Sichuan Group acquired.

2. INDEBTEDNESS

At the close of business on 31st October, 2004, being the latest practicable date for the purpose of ascertaining the information contained in this indebtedness prior to the printing of this circular, the Enlarged Group had outstanding secured bank loans of approximately RMB14 million in aggregate.

As at 31st October, 2004, certain land and buildings with a net book value of approximately RMB10.1 million of the Group were pledged as security for banking facilities granted to the Enlarged Group.

APPENDIX II FINANCIAL INFORMATION OF THE ENLARGED GROUP

Save as aforesaid or as otherwise mentioned herein and apart from intra-Group liabilities, the Enlarged Group did not, at the close of business on 31st October, 2004, have any outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, charges or debentures, mortgages, loans, or other similar indebtedness or any finance lease commitments, hire purchase commitments, liabilities under acceptances (other than normal trade bills), acceptance credits or any guarantees or other contingent liabilities.

3. WORKING CAPITAL

The Directors are of the opinion that after taking into account the Group's cash and bank balances as well as the liquidity of its securities, the Enlarged Group will have sufficient working capital for its present requirements following the completion of the Acquisition.

4. MATERIAL ADVERSE CHANGE

Save as disclosed in this circular, the Directors are not aware of any material adverse change in the financial position of the Group since 31st December, 2003, the date to which the latest published audited consolidated financial statements of the Group were made up.



德勤·關黃陳方會計師行
香港中環干諾道中111號
永安中心26樓

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

14th December, 2004

The Directors
China Fire Safety Enterprise Group Holdings Limited

Dear Sirs,

We set out below our report on the financial information (“Financial Information”) relating to Sichuan Fire Safety Appliances Factory (“Sichuan Fire Factory”) and its subsidiaries (hereinafter collectively referred to as the “Sichuan Group”) for the three years ended 31st December, 2001, 2002 and 2003 and six months ended 30th June, 2004 (the “Relevant Period”) for inclusion in a circular dated 14th December, 2004 (the “Circular”) in connection with a major transaction for the acquisition of 100% of the equity interest of Sichuan Fire Safety Appliances Factory which, together with its subsidiaries, are principally engaged in the manufacturing and sale of fire engines, design, manufacturing, sale and installation of fire fighting and prevention equipment; and provision of installation and maintenance services of fire prevention systems by China Fire Safety Enterprise Group Holdings Limited. Sichuan Fire Factory is a state owned enterprise established in the People’s Republic of China (“PRC”) and was established in the PRC in 1984 with paid up capital of RMB9,599,000.

As at 30th June, 2004, Sichuan Fire Factory had the following subsidiaries, particulars of which are as follows:

Name	Place and date of establishment	Statutory auditors	Registered and paid up capital	Proportion of equity interest held directly by the Sichuan Fire Factory	Principal activities
四川消防工程公司 Sichuan Fire Protection Engineering Company	PRC 14th July, 1984	四川興業會計師事務所有限公司 (translated as Sichuan Xingye CPA Co. Ltd.)	RMB2,753,000	100%	Design, manufacturing, sale and installation of fire fighting and prevention equipment
四川消防機械總廠第十四分廠 Sichuan Fire Safety Appliance Factory 14th Branch	PRC 19th October, 1990	四川利翔會計師事務所有限責任公司 (translated as Sichuan Lixiang CPA Co. Ltd.)	RMB2,293,000	100%	Provision of installation and maintenance services of fire prevention systems

The statutory financial statements of Sichuan Fire Factory for each of the three years ended 31st December, 2001, 2002 and 2003 were audited by 海南眾信會計師事務所 (translated as Hainan Congxin CPA). Hainan Congxin CPA, Sichuan Xingye CPA Co. Ltd. and Sichuan Lixiang CPA Co. Ltd. are certified public accountants registered in the PRC. As a basis for forming an opinion on the Financial Information of the Sichuan Group for the purposes of this report, we have carried out independent audit procedures in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants on the financial statements of Sichuan Fire Factory and its subsidiaries for the Relevant Period, which were prepared in accordance with accounting principles generally accepted in Hong Kong.

We have examined the audited financial statements (the "Underlying Financial Statements") of the Sichuan Group for the Relevant Period. Our examination was made in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" as recommended by the Hong Kong Institute of Certified Public Accountants. The Financial Information of the Sichuan Group for the Relevant Period set out in this report has been prepared from the Underlying Financial Statements.

The Underlying Financial Statements are the responsibility of the management of those companies who approve their issue. The directors of China Fire Safety Enterprise Group Holdings Limited are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Sichuan Group as at 31st December, 2001, 31st December, 2002, 31st December, 2003 and 30th June, 2004 and of the consolidated results and cash flow of the Sichuan Group for the Relevant Period.

(A) FINANCIAL INFORMATION

Consolidated income statement

	Notes	Six months ended 30th June,		Year ended 31st December,		
		2004 RMB'000	2003 RMB'000	2003 RMB'000	2002 RMB'000	2001 RMB'000
		(Unaudited)				
Turnover	2	62,994	51,526	158,659	127,716	108,452
Cost of sales		(52,340)	(45,313)	(132,146)	(106,290)	(86,899)
Gross profit		10,654	6,213	26,513	21,426	21,553
Other operating income	3	256	3,636	5,564	1,654	1,317
Distribution costs		(2,441)	(1,899)	(6,107)	(5,711)	(2,322)
Administrative expenses		(12,744)	(11,698)	(31,800)	(24,633)	(17,073)
(Loss) profit from operations	4	(4,275)	(3,748)	(5,830)	(7,264)	3,475
Finance costs	5	(597)	(460)	(986)	(480)	(531)
(Loss) profit before taxation		(4,872)	(4,208)	(6,816)	(7,744)	2,944
Income tax	6	508	950	270	381	(1,791)
Net (loss) profit for the period/year		<u>(4,364)</u>	<u>(3,258)</u>	<u>(6,546)</u>	<u>(7,363)</u>	<u>1,153</u>

Consolidated balance sheet

		At 30th June,		At 31st December,	
		2004	2003	2002	2001
	Notes	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets					
Property, plant and equipment	7	48,403	48,851	52,187	56,201
Investments in securities	9	505	505	505	505
		<u>48,908</u>	<u>49,356</u>	<u>52,692</u>	<u>56,706</u>
Current assets					
Inventories	10	29,585	16,957	26,341	19,287
Trade and other receivables	11	41,659	55,664	42,434	59,269
Amounts due from contract customers	12	728	1,920	5,686	3,262
Amounts due from related companies	13	5,017	10,017	10,001	7,030
Investments in securities	9	100	100	50	–
Restricted bank balances	14	5,101	5,994	3,179	2,286
Bank balances and cash		13,891	14,127	28,255	8,550
		<u>96,081</u>	<u>104,779</u>	<u>115,946</u>	<u>99,684</u>
Current liabilities					
Trade and other payables	15	53,191	57,885	64,988	55,813
Amounts due to contract customers	12	3,770	3,165	7,503	9,442
Tax liabilities	17	12,647	12,832	12,906	12,841
Bank borrowings					
– due within one year	18	18,930	18,930	14,930	2,000
		<u>88,538</u>	<u>92,812</u>	<u>100,327</u>	<u>80,096</u>
Net current assets		<u>7,543</u>	<u>11,967</u>	<u>15,619</u>	<u>19,588</u>
Total assets less current liabilities		56,451	61,323	68,311	76,294
Non-current liabilities					
Deferred tax liabilities	21	–	508	950	1,570
		<u>56,451</u>	<u>60,815</u>	<u>67,361</u>	<u>74,724</u>
Capital and reserves					
Paid-in capital	19	9,599	9,599	9,599	9,599
Reserves		46,852	51,216	57,762	65,125
		<u>56,451</u>	<u>60,815</u>	<u>67,361</u>	<u>74,724</u>

Balance sheet

	Notes	At 30th June,	At 31st December,		
		2004	2003	2002	2001
		RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets					
Property, plant and equipment	7	45,273	45,435	47,121	52,772
Interest in subsidiaries	8	5,047	5,047	5,047	2,848
Investments in securities	9	505	505	505	505
		<u>50,825</u>	<u>50,987</u>	<u>52,673</u>	<u>56,125</u>
Current assets					
Inventories	10	29,535	16,846	26,220	19,204
Trade and other receivables	11	34,771	45,730	22,660	38,690
Amounts due from related companies	13	5,000	10,000	10,001	7,030
Amount due from subsidiaries	16	5,293	5,477	5,786	7,184
Investments in securities	9	100	100	50	–
Restricted bank balances	14	5,048	5,941	3,179	2,285
Bank balances and cash		11,936	12,057	21,342	7,119
		<u>91,683</u>	<u>96,151</u>	<u>89,238</u>	<u>81,512</u>
Current liabilities					
Trade and other payables	15	43,813	44,173	40,322	42,911
Amounts due to a subsidiary	16	–	432	157	120
Tax liabilities	17	12,647	12,774	12,906	12,797
Bank borrowings due within one year	18	18,930	18,930	14,930	2,000
		<u>75,390</u>	<u>76,309</u>	<u>68,315</u>	<u>57,828</u>
Net current assets		<u>16,293</u>	<u>19,842</u>	<u>20,923</u>	<u>23,684</u>
Total assets less current liabilities		67,118	70,829	73,596	79,809
Non-current liabilities					
Deferred tax liabilities	21	–	508	950	1,570
		<u>67,118</u>	<u>70,321</u>	<u>72,646</u>	<u>78,239</u>
Capital and reserves					
Paid-in capital	19	9,599	9,599	9,599	9,599
Reserves	20	57,519	60,722	63,047	68,640
		<u>67,118</u>	<u>70,321</u>	<u>72,646</u>	<u>78,239</u>

Consolidated statement of changes in equity

	Paid-in capital RMB'000	Capital surplus RMB'000 (Note 20)	Statutory surplus reserve RMB'000 (Note 20)	Statutory public welfare fund RMB'000 (Note 20)	Retained profits RMB'000	Total RMB'000
At 1st January, 2001	9,599	42,247	1,605	268	19,852	73,571
Profit for the year	-	-	-	-	1,153	1,153
Transfer	-	-	95	95	(190)	-
At 31st December, 2001	9,599	42,247	1,700	363	20,815	74,724
Loss for the year	-	-	-	-	(7,363)	(7,363)
Transfer	-	-	9	10	(19)	-
At 31st December, 2002	9,599	42,247	1,709	373	13,433	67,361
Loss for the year	-	-	-	-	(6,546)	(6,546)
Transfer	-	-	110	109	(219)	-
At 31st December, 2003	9,599	42,247	1,819	482	6,668	60,815
Loss for the period	-	-	-	-	(4,364)	(4,364)
At 30th June, 2004	<u>9,599</u>	<u>42,247</u>	<u>1,819</u>	<u>482</u>	<u>2,304</u>	<u>56,451</u>
At 1st January, 2003	9,599	42,247	1,709	373	13,433	67,361
Loss for the period (unaudited)	-	-	-	-	(3,258)	(3,258)
At 30th June, 2003	<u>9,599</u>	<u>42,247</u>	<u>1,709</u>	<u>373</u>	<u>10,175</u>	<u>64,103</u>

Consolidated cash flow statement

	Six months		Year ended 31st December,		
	ended 30th June,		2003	2002	2001
	2004	2003	RMB'000	RMB'000	RMB'000
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)				
OPERATING ACTIVITIES					
(Loss) profit from operations	(4,275)	(3,748)	(5,830)	(7,264)	3,475
Adjustments for:					
Depreciation and amortisation					
of property, plant and equipment	1,247	1,301	3,083	3,637	1,770
Loss on disposal of property,					
plant and equipment	–	99	1,407	165	64
Allowance for bad and doubtful debt	372	1,424	1,468	1,665	746
Interest income	(56)	(64)	(235)	(120)	(217)
Operating cash flows before					
movements in working capital	(2,712)	(988)	(107)	(1,917)	5,838
(Increase) decrease in inventories	(12,628)	(3,166)	9,384	(7,054)	(1,283)
Decrease (increase) in trade and					
other receivables	13,633	(1,057)	(14,698)	15,170	(8,236)
Decrease (increase) in amounts					
due from contract customers	1,192	1,400	3,766	(2,424)	(3,262)
Decrease (increase) in amount					
due from related companies	5,000	(2,760)	(16)	(2,971)	(6,000)
Decrease (increase) in restricted					
bank balances	893	(1,672)	(2,815)	(893)	(569)
(Decrease) increase in trade and					
other payables	(4,694)	2,764	(7,103)	9,175	23,692
Increase (decrease) in amounts due					
to contract customers	605	(1,849)	(4,338)	(1,939)	9,442
Cash generated from (used in)					
operations	1,289	(7,328)	(15,927)	7,147	19,622
Income taxes paid	(185)	(92)	(246)	(174)	(104)
Interest paid	(597)	(460)	(986)	(480)	(531)
NET CASH FROM (USED IN)					
OPERATING ACTIVITIES	507	(7,880)	(17,159)	6,493	18,987

	Six months		Year ended 31st December,		
	ended 30th June, 2004	2003	2003	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)				
INVESTING ACTIVITIES					
Interest received	56	64	235	120	217
Proceeds on disposal of property, plant and equipment	–	–	386	7,318	984
Purchase of property, plant and equipment	(799)	(799)	(1,540)	(7,106)	(15,559)
Purchase of investment in securities	–	(50)	(50)	(50)	–
NET CASH (USED IN) FROM INVESTING ACTIVITIES	<u>(743)</u>	<u>(785)</u>	<u>(969)</u>	<u>282</u>	<u>(14,358)</u>
FINANCING ACTIVITIES					
Repayment of borrowings	(8,000)	(8,000)	(14,930)	(4,000)	(25,966)
New borrowings raised	8,000	8,000	18,930	16,930	9,100
NET CASH FROM (USED IN) FINANCING ACTIVITIES	<u>–</u>	<u>–</u>	<u>4,000</u>	<u>12,930</u>	<u>(16,866)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	<u>(236)</u>	<u>(8,665)</u>	<u>(14,128)</u>	<u>19,705</u>	<u>(12,237)</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD/YEAR	<u>14,127</u>	<u>28,255</u>	<u>28,255</u>	<u>8,550</u>	<u>20,787</u>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD/YEAR, REPRESENTING BANK BALANCES AND CASH	<u><u>13,891</u></u>	<u><u>19,590</u></u>	<u><u>14,127</u></u>	<u><u>28,255</u></u>	<u><u>8,550</u></u>

Notes to the Financial Information

1. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information set out in this report has been prepared under the historical cost convention.

The principal accounting policies which have been adopted in preparing the Financial Information set out in this report and which conform with accounting principles generally accepted in Hong Kong are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of Sichuan Fire Factory and its subsidiaries made up to the balance sheet date each period/year.

The results of subsidiaries acquired or disposed of during the period/year are included in the consolidated income statement from the effective dates of acquisition or up to the effective dates of disposal, as appropriate.

Interest in subsidiaries

Investments in subsidiaries are included in Sichuan Fire Factory's balance sheet at cost less any identified impairment loss.

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the Sichuan Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity debt security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the period/year.

Revenue recognition

Revenue on installation contracts is recognised using the percentage of completion method by reference to the value of work carried out during the period/year.

Sales of goods are recognised when goods are delivered and title has passed.

Service income is recognised when services are provided.

Interest income from bank deposits is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

1. SIGNIFICANT ACCOUNTING POLICIES – *continued***Property, plant and equipment**

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

Construction in progress is stated at cost which includes all construction costs and other direct costs attributable to such projects. Construction in progress is not depreciated until completion of construction. Costs on completed construction work are transferred to the appropriate categories of property, plant and equipment.

Depreciation is provided to write off the costs of items of property, plant and equipment other than construction in progress over their estimated useful lives, and after taking into account their estimated residual values, using the straight-line method, over the following years:

Land without lease term	Nil
Leasehold land	Over the term of the lease
Buildings and structure	30 to 40 years
Plant and machinery	5 to 22 years
Motor vehicles	7 to 10 years

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

Impairment

At each balance sheet date, the Sichuan Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Sichuan Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

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

Leasing

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Taxation

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

1. SIGNIFICANT ACCOUNTING POLICIES – continued

The tax currently payable is based on taxable profit for the period/year. Taxable profit differs from net profit as reported in the income statements because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Sichuan Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Government grants

Grants related to expense items are recognised in the same period as those expenses charged to the income statement and are reported separately as other income.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Installation contracts

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

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

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Retirement benefit costs

Payments to defined contribution retirement benefit scheme are charged as an expense as they fall due.

2. TURNOVER AND SEGMENT INFORMATION

Turnover represents the net amounts received and receivable for goods sold and services rendered to outside customers, less returns and sales tax, and revenue arising on installation contracts during the Relevant Period.

Business segments

For management purpose, the Sichuan Group is currently organised into four operating divisions – sales of fire engines, sales of fire fighting and prevention equipment, installation contracts and maintenance services. These divisions are the basis on which the Sichuan Group reports its primary segment information.

Principal activities are as follows:

- Sales of fire engines – design, manufacturing and sale of fire engines.
- Sales of fire fighting and prevention equipment – design, manufacturing and sale of fire fighting and prevention equipment.
- Installation contracts – installation of fire fighting and prevention equipment and systems.
- Maintenance services – maintenance services of fire prevention systems

Six months ended 30th June, 2004

	Sales of fire engines RMB'000	Sales of fire fighting and prevention equipment RMB'000	Installation contracts RMB'000	Maintenance services RMB'000	Eliminations RMB'000	Consolidated RMB'000
TURNOVER						
External sales	38,112	12,077	11,691	1,114	-	62,994
Inter-segment sales	-	2,531	-	-	(2,531)	-
Total	<u>38,112</u>	<u>14,608</u>	<u>11,691</u>	<u>1,114</u>	<u>(2,531)</u>	<u>62,994</u>
Inter-segment sales are charged at prevailing market rates.						
Segment results	<u>6,643</u>	<u>3,523</u>	<u>359</u>	<u>129</u>	<u>-</u>	10,654
Finance costs						(597)
Other operating income						256
Unallocated expenses						<u>(15,185)</u>
Loss before taxation						(4,872)
Income tax credit						<u>508</u>
Net loss for the period						<u><u>(4,364)</u></u>

2. TURNOVER AND SEGMENT INFORMATION – *continued*

At 30th June, 2004

	Sales of fire engines, fire fighting and prevention equipment RMB'000	Installation contracts RMB'000	Maintenance services RMB'000	Consolidated RMB'000
ASSETS				
Segment assets	108,813	8,800	819	118,432
Unallocated assets				26,557
				<u>144,989</u>
LIABILITIES				
Segment liabilities	24,923	20,664	2,034	47,621
Unallocated liabilities				40,917
				<u>88,538</u>
OTHER INFORMATION				
Capital additions of property, plant and equipment	799	–	–	799
Depreciation and amortisation	1,091	156	–	1,247
Allowance for bad and doubtful debts	113	225	34	372

Note: Segment information of segment assets and liabilities, depreciation and amortisation of property, plant and equipment and allowance for bad and doubtful debts in respect of sales of fire engines and sales of fire fighting and prevention equipment segments have been aggregated as it is not practicable to allocate between these two segments.

2. TURNOVER AND SEGMENT INFORMATION – *continued*

Six months ended 30th June, 2003

	Sales of fire engines RMB'000 (Unaudited)	Sales of fire fighting and prevention equipment RMB'000 (Unaudited)	Installation contracts RMB'000 (Unaudited)	Maintenance services RMB'000 (Unaudited)	Eliminations RMB'000 (Unaudited)	Consolidated RMB'000 (Unaudited)
TURNOVER						
External sales	22,603	15,991	11,066	1,866	-	51,526
Inter-segment sales	-	1,672	-	-	(1,672)	-
Total	<u>22,603</u>	<u>17,663</u>	<u>11,066</u>	<u>1,866</u>	<u>(1,672)</u>	<u>51,526</u>
Inter-segment sales are charged at prevailing market rates.						
Segment results	<u>2,653</u>	<u>3,172</u>	<u>(303)</u>	<u>691</u>	<u>-</u>	6,213
Finance costs						(460)
Other operating income						3,636
Unallocated expenses						<u>(13,597)</u>
Net loss for the period						(4,208)
Income tax credit						<u>950</u>
Net loss for the period						<u>(3,258)</u>

	Sales of fire engines, fire fighting and prevention equipment RMB'000	Installation contracts RMB'000	Maintenance services RMB'000	Consolidated RMB'000
OTHER INFORMATION				
Depreciation and amortisation	898	273	130	1,301
Loss on disposal of property, plant and equipment	9	90	-	99
Allowance for bad and doubtful debts	554	815	55	1,424

Note: Segment information of depreciation and amortisation of property, plant and equipment, loss on disposal of property, plant and equipment and allowance for bad and doubtful debts in respect of sales of fire engines and sales of fire fighting and prevention equipment segments have been aggregated as it is not practicable to allocate between these two segments.

2. TURNOVER AND SEGMENT INFORMATION – *continued*

Year ended 31st December, 2003

	Sales of fire engines RMB'000	Sales of fire fighting and prevention equipment RMB'000	Installation contracts RMB'000	Maintenance services RMB'000	Eliminations RMB'000	Consolidated RMB'000
TURNOVER						
External sales	84,435	39,292	32,209	2,723	-	158,659
Inter-segment sales	-	6,678	-	-	(6,678)	-
Total	<u>84,435</u>	<u>45,970</u>	<u>32,209</u>	<u>2,723</u>	<u>(6,678)</u>	<u>158,659</u>
Inter-segment sales are charged at prevailing market rates.						
Segment results	<u>13,144</u>	<u>11,745</u>	<u>1,174</u>	<u>450</u>	<u>-</u>	26,513
Finance costs						(986)
Other operating income						5,564
Unallocated expenses						<u>(37,907)</u>
Loss before taxation						(6,816)
Income tax credit						<u>270</u>
Net loss for the year						<u>(6,546)</u>

At 31st December, 2003

	Sales of fire engines, fire fighting and prevention equipment RMB'000	Installation contracts RMB'000	Maintenance services RMB'000	Consolidated RMB'000
ASSETS				
Segment assets	108,622	12,241	785	121,648
Unallocated assets				<u>32,487</u>
				<u>154,135</u>
LIABILITIES				
Segment liabilities	26,559	8,089	1,659	36,307
Unallocated liabilities				<u>57,013</u>
				<u>93,320</u>
OTHER INFORMATION				
Capital additions of property, plant and equipment	726	814	-	1,540
Depreciation and amortisation	2,536	547	-	3,083
Loss on disposal of property, plant and equipment	445	962	-	1,407
Allowance for bad and doubtful debts	554	866	48	1,468

2. TURNOVER AND SEGMENT INFORMATION – *continued*

Note: Segment information of segment assets and liabilities, depreciation and amortisation of property, plant and equipment, loss on disposal of property, plant and equipment, and allowance for bad and doubtful debts in respect of sales of fire engines and sales of fire fighting and prevention equipment segments have been aggregated as it is not practicable to allocate between these two segments.

Year ended 31st December, 2002

	Sales of fire engines RMB'000	Sales of fire fighting and prevention equipment RMB'000	Installation contracts RMB'000	Maintenance services RMB'000	Eliminations RMB'000	Consolidated RMB'000
TURNOVER						
External sales	58,053	27,156	39,582	2,925	-	127,716
Inter-segment sales	-	5,943	-	-	(5,943)	-
Total	<u>58,053</u>	<u>33,099</u>	<u>39,582</u>	<u>2,925</u>	<u>(5,943)</u>	<u>127,716</u>
Inter-segment sales are charged at prevailing market rates.						
Segment results	<u>10,776</u>	<u>8,928</u>	<u>1,237</u>	<u>485</u>	<u>-</u>	21,426
Finance costs						(480)
Other operating income						1,654
Unallocated expenses						<u>(30,344)</u>
Loss before taxation						(7,744)
Income tax credit						<u>381</u>
Net loss for the year						<u><u>(7,363)</u></u>

2. TURNOVER AND SEGMENT INFORMATION – *continued*

At 31st December, 2002

	Sales of fire engines, fire fighting and prevention equipment RMB'000	Installation contracts RMB'000	Maintenance services RMB'000	Consolidated RMB'000
ASSETS				
Segment assets	96,956	25,361	597	122,914
Unallocated assets				45,724
				<u>168,638</u>
LIABILITIES				
Segment liabilities	22,377	24,708	1,104	48,189
Unallocated liabilities				53,088
				<u>101,277</u>
OTHER INFORMATION				
Capital additions of property, plant and equipment	7,091	15	–	7,106
Depreciation and amortisation	3,487	150	–	3,637
Loss on disposal of property, plant and equipment	8	157	–	165
Allowance for bad and doubtful debts	1,571	–	94	1,665

Note: Segment information of segment assets and liabilities, depreciation and amortisation of property, plant and equipment, loss on disposal of property, plant and equipment and allowance for bad and doubtful debts in respect of sales of fire engines and sales of fire fighting and prevention equipment segments have been aggregated as it is not practicable to allocate between these two segments.

2. TURNOVER AND SEGMENT INFORMATION – *continued*

Year ended 31st December, 2001

	Sales of fire engines RMB'000	Sales of fire fighting and prevention equipment RMB'000	Installation contracts RMB'000	Maintenance services RMB'000	Eliminations RMB'000	Consolidated RMB'000
TURNOVER						
External sales	53,821	28,932	22,520	3,179	-	108,452
Inter-segment sales	-	3,160	-	-	(3,160)	-
Total	<u>53,821</u>	<u>32,092</u>	<u>22,520</u>	<u>3,179</u>	<u>(3,160)</u>	<u>108,452</u>
Inter-segment sales are charged at prevailing market rates.						
Segment results	<u>13,259</u>	<u>6,752</u>	<u>780</u>	<u>762</u>	<u>-</u>	21,553
Finance costs						(531)
Other operating income						1,317
Unallocated expenses						<u>(19,395)</u>
Profit before taxation						2,944
Income tax expense						<u>(1,791)</u>
Net profit for the year						<u>1,153</u>

At 31st December, 2001

	Sales of fire engines, fire fighting and prevention equipment RMB'000	Installation contracts RMB'000	Maintenance services RMB'000	Consolidated RMB'000
ASSETS				
Segment assets	96,002	19,394	789	116,185
Unallocated assets				<u>40,205</u>
				<u>156,390</u>
LIABILITIES				
Segment liabilities	18,506	15,229	1,170	34,905
Unallocated liabilities				<u>46,761</u>
				<u>81,666</u>
OTHER INFORMATION				
Capital additions of property, plant and equipment	15,116	443	-	15,559
Depreciation and amortisation	1,643	127	-	1,770
Loss on disposal of property, plant and equipment	-	64	-	64
Allowance for bad and doubtful debts	661	-	85	746

2. TURNOVER AND SEGMENT INFORMATION – *continued*

Note: Segment information of segment assets and liabilities, depreciation and amortisation of property, plant and equipment, and allowance for bad and doubtful debts in respect of sales of fire engines and sales of fire fighting and prevention equipment segments have been aggregated as it is not practicable to allocate between these two segments.

Geographical segments

No geographical segments have been presented as the Sichuan Group operated in the PRC during the Relevant Period and all assets are located in the PRC.

3. OTHER OPERATING INCOME

	Six months ended 30th June,		Year ended 31st December,		
	2004	2003	2003	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)				
Interest on bank deposits	56	64	235	120	217
Government grants	–	3,540	5,148	1,040	800
Others	200	32	181	494	300
	256	3,636	5,564	1,654	1,317

Note: The government grants represent grants for compensation of loss incurred by the Sichuan Group and for financing the technical advancement of the Sichuan Group.

4. (LOSS) PROFIT FROM OPERATIONS

(Loss) profit from operations has been arrived at after charging:

	Six months ended 30th June,		Year ended 31st December,		
	2004	2003	2003	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)				
Depreciation and amortisation of property, plant and equipment	1,247	1,301	3,083	3,637	1,770
Auditors' remuneration	46	120	171	100	68
Directors' remuneration	–	–	–	–	–
Staff costs	10,276	10,011	21,466	20,434	15,453
Loss on disposal of property, plant and equipment	–	99	1,407	165	64
Allowance for bad and doubtful debt, net	372	1,424	1,468	1,665	746
	372	1,424	1,468	1,665	746

5. FINANCE COSTS

	Six months ended 30th June,		Year ended 31st December,		
	2004	2003	2003	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)				
Interest on – bank borrowings wholly repayable within five years	597	460	986	480	531
	597	460	986	480	531

6. INCOME TAX

	Six months ended 30th June,		Year ended 31st December,		
	2004	2003	2003	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)				
PRC income tax					
Current tax	-	-	172	41	117
Underprovision in prior year	-	-	-	198	104
Deferred tax (note 21)	(508)	(950)	(442)	(620)	1,570
	<u>(508)</u>	<u>(950)</u>	<u>(442)</u>	<u>(620)</u>	<u>1,570</u>
Tax (credit) expense	<u>(508)</u>	<u>(950)</u>	<u>(270)</u>	<u>(381)</u>	<u>1,791</u>

The PRC income tax is provided at the rate of 33% on the profits determined in accordance with relevant PRC accounting rules and financial regulations.

The charge for the Relevant Period can be reconciled to the (loss) profit before taxation per the consolidated income statement as follows:

	Six months ended 30th June,				Year ended 31st December,					
	2004		2003		2003		2002		2001	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(Unaudited)									
(Loss) profit before taxation	<u>(4,872)</u>		<u>(4,208)</u>		<u>(6,816)</u>		<u>(7,744)</u>		<u>2,944</u>	
Taxation at the income tax rate of 33%	(1,608)	33.0	(1,389)	33.0	(2,249)	33.0	(2,556)	33.0	972	33.0
Tax effect of expense not deductible for tax purpose	832	(17.1)	740	(17.6)	3,510	(51.5)	2,185	(28.2)	461	15.7
Tax effect of income not taxable for tax purpose	-	-	(1,168)	27.8	(1,733)	25.4	(392)	5.1	(264)	(9.0)
Underprovision in respect of prior year	-	-	-	-	-	-	198	(2.6)	104	3.5
Tax effect of deductible temporary difference not recognised	308	(6.3)	816	(19.4)	553	(8.1)	495	(6.4)	18	0.6
Tax effect of tax losses not recognised	-	-	51	(1.2)	-	-	-	-	500	17.0
Utilisation of tax loss previously not recognised	<u>(40)</u>	0.8	<u>-</u>	-	<u>(351)</u>	5.1	<u>(311)</u>	4.0	<u>-</u>	-
Tax (credit) expense and the effective tax rate for the period/year	<u>(508)</u>	10.4	<u>(950)</u>	22.6	<u>(270)</u>	3.9	<u>(381)</u>	4.9	<u>1,791</u>	60.8

Details of deferred taxation for the Relevant Period are set out in note 21.

7. PROPERTY, PLANT AND EQUIPMENT

THE SICHUAN GROUP

	Land in the PRC RMB'000	Buildings and structure RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST						
At 1st January, 2001	21,134	17,345	7,507	4,839	5,358	56,183
Additions	1,022	-	798	1,821	11,918	15,559
Disposals	-	(1,953)	(751)	(550)	-	(3,254)
At 31st December, 2001	22,156	15,392	7,554	6,110	17,276	68,488
Additions	-	-	2,762	2,477	1,867	7,106
Transfers	-	4,588	584	-	(5,172)	-
Disposals	-	(7,807)	(2,603)	(1,795)	-	(12,205)
At 31st December, 2002	22,156	12,173	8,297	6,792	13,971	63,389
Additions	-	398	551	401	190	1,540
Transfers	(3,065)	14,536	2,310	-	(13,781)	-
Disposals	-	(1,242)	(4,436)	(896)	-	(6,574)
At 31st December, 2003	19,091	25,865	6,722	6,297	380	58,355
Additions	-	-	423	-	376	799
Transfers	-	-	44	-	(44)	-
At 30th June, 2004	19,091	25,865	7,189	6,297	712	59,154
DEPRECIATION, AMORTISATION AND IMPAIRMENT						
At 1st January, 2001	-	7,073	4,375	1,275	-	12,723
Provided for the year	120	608	526	516	-	1,770
Eliminated on disposals	-	(1,356)	(430)	(420)	-	(2,206)
At 31st December, 2001	120	6,325	4,471	1,371	-	12,287
Provided for the year	120	432	1,904	1,181	-	3,637
Eliminated on disposals	-	(2,692)	(924)	(1,106)	-	(4,722)
At 31st December, 2002	240	4,065	5,451	1,446	-	11,202
Provided for the year	120	1,456	807	700	-	3,083
Eliminated on disposals	-	(1,107)	(3,225)	(449)	-	(4,781)
At 31st December, 2003	360	4,414	3,033	1,697	-	9,504
Provided for the period	60	566	336	285	-	1,247
At 30th June, 2004	420	4,980	3,369	1,982	-	10,751
NET BOOK VALUES						
At 30th June, 2004	18,671	20,885	3,820	4,315	712	48,403
At 31st December, 2003	18,731	21,451	3,689	4,600	380	48,851
At 31st December, 2002	21,916	8,108	2,846	5,346	13,971	52,187
At 31st December, 2001	22,036	9,067	3,083	4,739	17,276	56,201

7. PROPERTY, PLANT AND EQUIPMENT – *continued*

SICHUAN FIRE FACTORY

	Land in the PRC RMB'000	Buildings and structure RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST						
At 1st January, 2001	21,134	12,896	6,564	3,460	5,358	49,412
Additions	1,022	–	711	1,465	11,918	15,116
Disposals	–	(1,953)	(664)	(389)	–	(3,006)
At 31st December, 2001	22,156	10,943	6,611	4,536	17,276	61,522
Additions	–	–	228	907	1,867	3,002
Transfers	–	4,588	584	–	(5,172)	–
Disposals	–	(7,807)	(2,583)	(1,570)	–	(11,960)
At 31st December, 2002	22,156	7,724	4,840	3,873	13,971	52,564
Additions	–	–	482	55	190	727
Transfers	(3,065)	14,536	2,310	–	(13,781)	–
Disposals	–	(1,242)	(2,040)	–	–	(3,282)
At 31st December, 2003	19,091	21,018	5,592	3,928	380	50,009
Additions	–	–	422	–	376	798
Transfers	–	–	44	–	(44)	–
At 30th June, 2004	19,091	21,018	6,058	3,928	712	50,807
DEPRECIATION, AMORTISATION AND IMPAIRMENT						
At 1st January, 2001	–	4,734	3,886	915	–	9,535
Provided for the year	120	385	375	415	–	1,295
Eliminated on disposals	–	(1,356)	(345)	(379)	–	(2,080)
At 31st December, 2001	120	3,763	3,916	951	–	8,750
Provided for the year	120	208	370	641	–	1,339
Eliminated on disposals	–	(2,692)	(924)	(1,030)	–	(4,646)
At 31st December, 2002	240	1,279	3,362	562	–	5,443
Provided for the year	120	835	539	389	–	1,883
Eliminated on disposals	–	(1,107)	(1,645)	–	–	(2,752)
At 31st December, 2003	360	1,007	2,256	951	–	4,574
Provided for the period	60	456	270	174	–	960
At 30th June, 2004	420	1,463	2,526	1,125	–	5,534
NET BOOK VALUES						
At 30th June, 2004	18,671	19,555	3,532	2,803	712	45,273
At 31st December, 2003	18,731	20,011	3,336	2,977	380	45,435
At 31st December, 2002	21,916	6,445	1,478	3,311	13,971	47,121
At 31st December, 2001	22,036	7,180	2,695	3,585	17,276	52,772

7. PROPERTY, PLANT AND EQUIPMENT – *continued*

Notes:

- (1) The land of the Sichuan Group comprises land granted by the provincial government without lease term and land acquired with lease term and their costs at the respective balance sheet dates are as follows:

	At 30th June,		At 31st December,	
	2004	2003	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000
Land without lease term	13,856	13,856	16,921	16,921
Land under medium-term	5,235	5,235	5,235	5,235
	<u>19,091</u>	<u>19,091</u>	<u>22,156</u>	<u>22,156</u>

No depreciation was provided for the land under medium term acquired in 2000 as the land was acquired in December 2000.

- (2) Certain pieces of land of the Sichuan Group were granted from the provincial government of Sichuan, the PRC for restricted use purpose and their carrying amounts at the respective balance sheet dates were as follows:

	At 30th June,		At 31st December,	
	2004	2003	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000
Land	<u>13,856</u>	<u>13,856</u>	<u>16,921</u>	<u>16,921</u>

In addition, should the Sichuan Group undergo any capital restructure, some of the aforesaid land have to be transferred back to the provincial government. The carrying amounts of those land at the respective balance sheet dates were as follows:

	At 30th June,		At 31st December,	
	2004	2003	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000
Land	<u>12,194</u>	<u>12,194</u>	<u>15,259</u>	<u>15,259</u>

8. INTEREST IN SUBSIDIARIES

SICHUAN FIRE FACTORY

	At 30th June,		At 31st December,	
	2004	2003	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000
Unlisted capital contribution, at cost	<u>5,047</u>	<u>5,047</u>	<u>5,047</u>	<u>2,848</u>

9. INVESTMENTS IN SECURITIES

	THE SICHUAN GROUP AND SICHUAN FIRE FACTORY			
	At 30th June,	At 31st December,		
	2004	2003	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000
At cost				
Unlisted equity securities				
– other investments (<i>Note</i>)	505	505	505	505
At market value				
Listed debt securities				
– other investments	100	100	50	–
Carrying amount analysed for reporting purposes as:				
Current	100	100	50	–
Non-current	505	505	505	505

Note: Included in unlisted equity securities is the Sichuan Group's holding of 27.8% interests in 集寶消防工程公司 Ji Bao Fire Protection Engineering Company ("Ji Bao"), a company incorporated in the PRC, with a carrying value of RMB455,000, RMB455,000, RMB455,000 and RMB455,000 as at 30th June, 2004, 31st December, 2003, 2002 and 2001 respectively. Ji Bao is not accounted for as an associate of the Sichuan Group as the Sichuan Group has no significant influence over its operating and financial decisions.

10. INVENTORIES

	THE SICHUAN GROUP			
	At 30th June,	At 31st December,		
	2004	2003	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	6,502	6,226	7,598	7,488
Work in progress	16,176	7,894	6,021	3,703
Finished goods	6,907	2,837	12,722	8,096
	29,585	16,957	26,341	19,287
SICHUAN FIRE FACTORY				
	At 30th June,	At 31st December,		
	2004	2003	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	6,476	6,138	7,480	7,414
Work in progress	16,176	7,892	6,021	3,698
Finished goods	6,883	2,816	12,719	8,092
	29,535	16,846	26,220	19,204

All inventories are stated at cost.

11. TRADE AND OTHER RECEIVABLES

The Sichuan Group and Sichuan Fire Factory normally allow an average credit period of 360 days to its trade customers.

The aged analysis of trade receivables is as follows:

	THE SICHUAN GROUP			
	At 30th June,	At 31st December,		
	2004 RMB'000	2003 RMB'000	2002 RMB'000	2001 RMB'000
Within 1 year	30,481	41,644	20,464	32,115
1 – 2 years	1,710	2,541	5,216	1,114
2 – 3 years	289	306	1,612	963
Over 3 years	–	281	1,522	222
	<u>32,480</u>	<u>44,772</u>	<u>28,814</u>	<u>34,414</u>
Trade receivables	32,480	44,772	28,814	34,414
Other receivables and deposits	<u>9,179</u>	<u>10,892</u>	<u>13,620</u>	<u>24,855</u>
	<u>41,659</u>	<u>55,664</u>	<u>42,434</u>	<u>59,269</u>
	<u>41,659</u>	<u>55,664</u>	<u>42,434</u>	<u>59,269</u>

	SICHUAN FIRE FACTORY			
	At 30th June,	At 31st December,		
	2004 RMB'000	2003 RMB'000	2002 RMB'000	2001 RMB'000
Within 1 year	28,266	36,099	13,980	18,428
1 – 2 years	938	1,412	1,379	965
2 – 3 years	–	2	1,511	38
Over 3 years	–	281	624	222
	<u>29,204</u>	<u>37,794</u>	<u>17,494</u>	<u>19,653</u>
Trade receivables	29,204	37,794	17,494	19,653
Other receivables and deposits	<u>5,567</u>	<u>7,936</u>	<u>5,166</u>	<u>19,037</u>
	<u>34,771</u>	<u>45,730</u>	<u>22,660</u>	<u>38,690</u>
	<u>34,771</u>	<u>45,730</u>	<u>22,660</u>	<u>38,690</u>

12. AMOUNTS DUE FROM/TO CONTRACT CUSTOMERS

	THE SICHUAN GROUP			
	At 30th June, 2004 RMB'000	2003 RMB'000	At 31st December, 2002 RMB'000	2001 RMB'000
Contract costs incurred plus recognised profits less recognised losses	13,131	24,170	29,111	11,200
Less: progress billings	(16,173)	(25,415)	(30,928)	(17,380)
	<u>(3,042)</u>	<u>(1,245)</u>	<u>(1,817)</u>	<u>(6,180)</u>
Comprising:				
Amounts due from contract customers	728	1,920	5,686	3,262
Amounts due to contract customers	(3,770)	(3,165)	(7,503)	(9,442)
	<u>(3,042)</u>	<u>(1,245)</u>	<u>(1,817)</u>	<u>(6,180)</u>

13. AMOUNTS DUE FROM RELATED COMPANIES

	THE SICHUAN GROUP			
	At 30th June, 2004 RMB'000	2003 RMB'000	At 31st December, 2002 RMB'000	2001 RMB'000
China Huan Dao (Group) Company ("Huan Dao")	-	-	-	6,500
Hua Xia Fire Safety (Group) Company Limited ("Hua Xia")	17	17	-	530
寰島西南投資公司	5,000	10,000	10,001	-
Total	<u>5,017</u>	<u>10,017</u>	<u>10,001</u>	<u>7,030</u>
	SICHUAN FIRE FACTORY			
	At 30th June, 2004 RMB'000	2003 RMB'000	At 31st December, 2002 RMB'000	2001 RMB'000
Huan Dao	-	-	-	6,500
Hua Xia	-	-	-	530
寰島西南投資公司	5,000	10,000	10,001	-
Total	<u>5,000</u>	<u>10,000</u>	<u>10,001</u>	<u>7,030</u>

Huan Dao is the ultimate holding company of Sichuan Fire Factory. Hua Xia and 寰島西南投資公司 are subsidiaries of Huan Dao. The balances are unsecured, interest free and have no fixed repayment terms.

14. RESTRICTED BANK BALANCES

THE SICHUAN GROUP AND SICHUAN FIRE FACTORY

Restricted bank balances represent housing funds payable to the relevant PRC government authorities and therefore the usage is limited.

15. TRADE AND OTHER PAYABLES

An aged analysis of trade payables is as follows:

	THE SICHUAN GROUP			
	At 30th June, 2004 RMB'000	2003 RMB'000	At 31st December, 2002 RMB'000	2001 RMB'000
Within 1 year	21,731	26,553	35,311	19,965
1 – 2 years	2,140	3,409	1,742	952
2 – 3 years	906	2,347	299	122
Over 3 years	2,576	524	557	1,013
	<u>27,353</u>	<u>32,833</u>	<u>37,909</u>	<u>22,052</u>
Trade payables	27,353	32,833	37,909	22,052
Other payables	25,838	25,052	27,079	33,761
	<u>53,191</u>	<u>57,885</u>	<u>64,988</u>	<u>55,813</u>
	SICHUAN FIRE FACTORY			
	At 30th June, 2004 RMB'000	2003 RMB'000	At 31st December, 2002 RMB'000	2001 RMB'000
Within 1 year	18,994	18,551	18,697	13,535
1 – 2 years	1,919	3,329	1,661	885
2 – 3 years	876	2,308	241	116
Over 3 years	2,564	523	534	995
	<u>24,353</u>	<u>24,711</u>	<u>21,133</u>	<u>15,531</u>
Trade payables	24,353	24,711	21,133	15,531
Other payables	19,460	19,462	19,189	27,380
	<u>43,813</u>	<u>44,173</u>	<u>40,322</u>	<u>42,911</u>

16. AMOUNTS DUE FROM/TO SUBSIDIARIES

SICHUAN FIRE FACTORY

The amounts are unsecured, interest-free and have no fixed repayment terms.

17. TAX LIABILITIES

THE SICHUAN GROUP AND SICHUAN FIRE FACTORY

The balances include the income tax of RMB12,724,000 payable in relation to the disposal of a piece of land in 2000 but not yet settled.

18. BANK BORROWINGS – DUE WITHIN ONE YEAR

	THE SICHUAN GROUP AND SICHUAN FIRE FACTORY			
	At 30th June,	At 31st December,		
	2004	2003	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000
Secured bank loans repayable within one year or on demand	18,930	18,930	14,930	2,000

19. PAID-IN CAPITAL

Sichuan Fire Factory was established on 27th October, 1984 with a registered capital of RMB15,158,000. The paid-in capital is RMB9,599,000 and there were no movements in the registered capital and paid-in capital of Sichuan Fire Factory during the Relevant Period.

20. RESERVES

SICHUAN FIRE FACTORY

	Capital surplus	Statutory surplus reserve	Statutory public welfare fund	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note a)	(Note b)	(Note c)		
At 1st January, 2001	42,247	1,495	111	22,500	66,353
Profit for the year	–	–	–	2,287	2,287
Transfer	–	95	95	(190)	–
At 31st December, 2001	42,247	1,590	206	24,597	68,640
Loss for the year	–	–	–	(5,593)	(5,593)
Transfer	–	9	10	(19)	–
At 31st December, 2002	42,247	1,599	216	18,985	63,047
Loss for the year	–	–	–	(2,325)	(2,325)
Transfer	–	110	109	(219)	–
At 31st December, 2003	42,247	1,709	325	16,441	60,722
Loss for the period	–	–	–	(3,203)	(3,203)
At 30th June, 2004	42,247	1,709	325	13,238	57,519
At 1st January, 2003	42,247	1,600	216	18,984	63,047
Loss for the period (unaudited)	–	–	–	(1,125)	(1,125)
At 30th June, 2003	42,247	1,600	216	17,859	61,922

20. RESERVES – *continued*

THE SICHUAN GROUP AND SICHUAN FIRE FACTORY

(a) Capital surplus

The capital surplus represents the difference between the valuation of the land injected by the provincial government of Sichuan, the PRC and the nominal amount of the paid-in capital of Sichuan Fire Factory. The capital surplus is not distributable other than in liquidation.

(b) Statutory surplus reserve

The Company Law of the PRC requires Sichuan Fire Factory and its subsidiaries to make appropriation of 10% of their respective profits after taxation in accordance with the relevant PRC accounting rules and financial regulations before appropriation of profits each year to the statutory surplus reserve until the balance reaches 50% of their respective registered capital. In normal circumstances, the statutory surplus reserve shall only be used for making up losses, capitalisation into registered capital and expansion of the Sichuan Group companies' production and operation. For the capitalisation of statutory surplus reserve into registered capital, the remaining amount of such reserve shall not be less than 25% of the registered capital.

(c) Statutory public welfare fund

Pursuant to the Company Law of the PRC, Sichuan Fire Factory and its subsidiaries are required to appropriate from their respective aforesaid profits after taxation at the rate of 10% to the statutory public welfare fund. The statutory public welfare fund can only be utilised on capital items for employees collective welfare. Individual employees only have the right to use these facilities, the title to which will remain with the Sichuan Group companies. The statutory public welfare fund forms part of the equity but it is not distributable other than in liquidation.

21. DEFERRED TAXATION

The following are the major deferred tax liabilities arising from the revenue recognition of sales of fire engines recognised and movements thereon during the Relevant Period:

THE SICHUAN GROUP AND SICHUAN FIRE FACTORY

	<i>RMB'000</i>
At 1st January, 2001	–
Charge to income for the year	1,570
At 1st January, 2002	1,570
Credit to income for the year	(620)
At 1st January, 2003	950
Credit to income for the year	(442)
At 1st January, 2004	508
Credit to income for the period	(508)
At 30th June, 2004	–

21. DEFERRED TAXATION – *continued*

At the respective balance sheet dates, the Sichuan Group has deferred tax assets not recognised as follows:

	At 30th June,		At 31st December,	
	2004	2003	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000
Deductible temporary difference	4,163	3,229	1,554	55
Tax losses	3,219	3,341	4,403	5,376
	<u>7,382</u>	<u>6,570</u>	<u>5,957</u>	<u>5,431</u>

No deferred tax asset has been recognised in relation to such deductible temporary differences and tax losses due to the unpredictability of future profit streams.

The tax losses will expire as follows:

	At 30th June,		At 31st December,	
	2004	2003	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000
Year of expiry				
2002	–	–	–	973
2003	–	–	490	490
2004	179	301	873	873
2005	1,525	1,525	1,525	1,525
2006	1,515	1,515	1,515	1,515
	<u>3,219</u>	<u>3,341</u>	<u>4,403</u>	<u>5,376</u>

22. RETIREMENT BENEFIT SCHEMES

The employees of the Sichuan Group are members of state-managed retirement benefit schemes operated by the local government of Chengdu, the PRC and the Sichuan Group is required to contribute a certain percentage of their payroll costs to the retirement benefit schemes to fund the retirement benefits of the employees. The only obligation of the Sichuan Group with respect to the retirement benefit schemes is to make the specified contributions under the scheme.

The total contributions incurred by the Sichuan Group during the Relevant Period were as following:

	Six months ended 30th June,		Year ended 31st December,		
	2004	2003	2003	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)				
Retirement benefit scheme contributions	<u>916</u>	<u>876</u>	<u>1,752</u>	<u>1,368</u>	<u>1,263</u>

There were no forfeited contributions of the Sichuan Group for the Relevant Period. No forfeited contributions are available to reduce the contribution payable by the Sichuan Group in the future years.

23. PLEDGE OF ASSETS

THE SICHUAN GROUP AND SICHUAN FIRE FACTORY

At 30th June, 2004, 31st December, 2003, 2002 and 2001, the Sichuan Group's and Sichuan Fire Factory's land and buildings with an aggregate net book value of RMB10,092,000, RMB10,229,000, RMB10,561,000, and RMB10,523,000 respectively were pledged to a bank to secure the banking facilities granted to the Sichuan Group.

24. RELATED PARTY TRANSACTIONS AND BALANCES

The significant transactions with related parties during the Relevant Period and significant balances with them at the respective balance sheet dates are as follows:

(I) Transactions

	Six months ended 30th June,		Year ended 31st December,		
	2004	2003	2003	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)				
Management fee paid	-	-	900	740	740

The management fee was paid to Hua Xia and was determined by Hua Xia.

(II) Balances

Details of balances of related companies with the Sichuan Group and Sichuan Fire Factory are set out in note 13.

25. POST BALANCE SHEET EVENT

Sichuan Fire Factory and its subsidiaries are now in the process of application for change of the legal status from state owned enterprises to enterprises with limited liabilities. Should their status change, the Sichuan Group's land as mentioned under note 7 above will have to be transferred back to the provincial government of Sichuan, the PRC.

(B) SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by any companies of the Sichuan Group in respect of any period subsequent to 30th June, 2004.

Yours faithfully,

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular and confirm having made all reasonable enquiries, that to the best of their knowledge and belief:

- (a) the information contained in this circular is accurate and complete in all material respects and not misleading;
- (b) there are no other matters the omission of which would make any statement in this circular misleading; and
- (c) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

2. DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at the Latest Practicable Date, the interest or short position of each of the Directors, chief executives and their associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance the "SFO") as 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 and short positions which they have taken or deemed to have under such provisions of the SFO), or which are required to be recorded in the register maintained by the Company pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange, were as follows:

(a) The Company

Long positions in ordinary shares and the underlying shares of equity derivatives

Name of Directors	Name of Shares	Nature of interests/ holding capacity	Approximate percentage of interests (%)
Jiang Xiong	981,600,000	Personal/beneficiary	49.08%
Jiang Qing	7,500,000	Personal/beneficiary	0.38%

Options to subscribe for ordinary shares in the Company

Name of Directors	Date of grant	Exercise Period	Exercise Price HKD	Number of share options outstanding as at the Latest Practicable Date	Approximate percentage of shares of the Company (%)
Jiang Qing	25th May, 2004	25th May, 2004 – 24th May, 2014	0.44 (Note)	20,000,000	1.00%
Chen Shu Quan	25th May, 2004	25th May, 2004 – 24th May, 2014	0.44 (Note)	5,000,000	0.25%
Chan Siu Tat	25th May, 2004	25th May, 2004 – 24th May, 2014	0.44 (Note)	5,000,000	0.25%

Note: The closing price of shares of the Company immediately before the date on which the option was granted was HKD0.465.

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors or chief executive of the Company or their respective associates has any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as 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 and short positions which they have taken or deemed to have under such provisions of the SFO), or which are required to be recorded in the register maintained by the Company pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange.

3. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and there was no litigation, arbitration or claim of material important known by the Directors to be pending or threatened against any member of the Group.

4. INTEREST UNDER SFO AND SUBSTANTIAL SHAREHOLDERS

So far as is known to any Director or chief executive of the Company, as at the Latest Practicable Date, the following persons (other than a Director or chief executive of the Company) had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group were as follows:

(a) Long positions in ordinary shares

Name of shareholder	Capacity and type of interest	Number of issued share of HKD0.01 each of the Company held	Percentage of issued capital of the Company
Cantus Limited	Beneficial owner	182,650,000	9.13%
Aria Investment Partners L.P.	Interest of a controlled corporation (Note 1)	182,650,000	9.13%
CLSA Private Equity Management Limited	Investment Manager (Note 2)	182,650,000	9.13%
CLSA Funds Limited	Interest of a controlled corporation (Note 3)	182,650,000	9.13%
CLSA B.V.	Interest of a controlled corporation (Note 4)	182,650,000	9.13%
Calyon Capital Markets Asia B.V.	Interest of a controlled corporation (Note 5)	182,650,000	9.13%
Credit Lyonnais Capital Markets International SASU	Interest of a controlled corporation (Note 6)	182,650,000	9.13%
Credit Agricole Indosuez	Interest of a controlled corporation (Note 7)	182,650,000	9.13%

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
Credit Agricole S.A.	Interest of a controlled corporation (Note 8)	182,650,000	9.13%
SAS Rue Ia Boetie	Interest of a controlled corporation (Note 9)	182,650,000	9.13%
The Hong Kong Beijing Finance and Investment Limited (“Beijing Finance”)	Beneficial owner	100,000,000	5.00%
The Capital Group	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 182,650,000 shares in which Cantus Limited has declared an interest for the purpose of the SFO.
2. CLSA Private Equity Management Limited is the investment manager of Aria Investment Partners, L.P.
3. CLSA Funds Limited is beneficially interested in the entire issued share capital of CLSA Private Equity Management Limited and is deemed or taken to be interested in the 182,650,000 shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Note 2 above.
4. CLSA B.V. is beneficially interested in the entire issued share capital of CLSA Fund Limited and is deemed or taken to be interested in the 182,650,000 shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Note 2 above.
5. Calyon Capital Markets Asia B.V. is beneficially interested in 65% of the share capital of CLSA B.V. and is deemed or taken to be interested in the 182,650,000 shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Note 2 above.
6. Credit Lyonnais Capital Markets International SASU is beneficially interested in the entire issued share capital of Calyon Capital Markets Asia B.V. and is deemed or taken to be interested in the 182,650,000 shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFC, as mentioned in Note 2 above.

7. Credit Agricole Indosuez is beneficially interested in the entire issued share capital of Credit Lyonnais Capital Markets International SASU and is deemed or taken to be interested in the 182,650,000 shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Note 2 above.
8. Credit Agricole S.A. is beneficially interested in the entire issued share capital of Credit Agricole Indosuez and is deemed or taken to be interested in the 182,650,000 shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Note 2 above.
9. SAS Rue La Boetie is beneficially interested in 51.5% of the issued share capital of Credit Agricole S.A. and is deemed or taken to be interested in the 182,650,000 shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Note 2 above.
10. The Capital Group is beneficially interested in the entire issued share capital of Beijing Finance and is deemed or taken to be interested in the 100,000,000 shares in which Beijing Finance 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 at The Capital Group and is deemed or taken to be interested in the 100,000,000 shares in which The Capital Group has declared an interest for the purpose of the SFO as mentioned in Note 10 above.

The Shares held by Beijing Finance were charged in favour of Credit Lyonnais as security for Beijing Finance's obligations under a loan agreement with Credit Lyonnais dated 30th October, 2003.

(b) Short positions in ordinary shares

No person held short positions in the Shares and underlying shares of the Company as recorded in the register maintained by the Company pursuant to section 336 of the SFO.

Save as disclosed herein, the Directors are not aware of any other person who, at the Latest Practicable Date, had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

5. SERVICE CONTRACTS

Other than Mr. Chan Siu Tat, each of the Executive Directors has entered into a service agreement with the Company for a period of three years commencing on 30th September, 2002. Mr. Chan Siu Tat has entered into a service agreement with the Company for a period of three years commencing 16th October, 2003. The emoluments received by the Executive Directors for 2002, 2003 and 2004 (up to 30th September) are as follows:

	Basic salaries and retirement benefits	Discretionary bonus paid
	<i>HK\$'000</i>	<i>HK\$'000</i>
2002	406	–
2003	1,324	–
2004 (up to 30th September)	1,570	4,283

The term of office of each of the Non-executive Directors and Independent Non-executive Directors is the period to his/her retirement by rotation in accordance with the Company's Articles of Association.

Save as above, no Director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

6. COMPETING INTEREST

As at the Latest Practicable Date, so far as the Directors are aware of, none of themselves or the management shareholders of the Company (as defined in the GEM Listing Rules) or their respective associates had any interest in a business which competes or may compete with the business of the Group.

7. DIRECTORS' INTERESTS IN GROUP ASSETS

As at the Latest Practicable Date, none of the Directors has any direct or indirect interest in any assets which have been, since the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

8. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Group within the two years preceding the date of this circular and are or may be material:

- (a) a share transfer agreement (in Chinese) 《股權轉讓協議》 dated 26th February, 2004 entered into between Loyal Asset and Mr. Su Bo (蘇波先生) and Mr. Lin Jianyong (林健永先生), pursuant to which Loyal Asset acquired 55.44% equity interest in Chongzheng Huasheng Emergency Lighting System Ltd., Co. (崇正華盛應急照明系統有限責任公司) at a consideration of RMB3,800,000.
- (b) a share transfer agreement (in Chinese) 《股權轉讓協議》 dated 11th August, 2004 entered into between Wanyou Engineering and Mr. Feng Quan Hui (馮權輝先生) and Mr. Deng Ping Tao (鄧評韜先生), pursuant to which Wanyou Engineering acquired 51.61% equity interest in Shengan City Safety at a consideration of RMB7,000,000.
- (c) a sales and purchase agreement (in Chinese) 《部份已發行股本買賣協議》 dated 8th September, 2004 entered into between Allied Best and Mr. Chan Chun Ho (陳振和先生), Ms. Wong Oi Kam (黃愛琴女士) and Emperor Group Holdings Limited, pursuant to which Allied Best acquired 51% of the total issued ordinary shares and 100% of the total issued non-voting deferred shares of Tung Shing Trade Development Company Limited, at a consideration of HK\$40,800,000.
- (d) the Agreement the subject of this circular.

9. OTHER ACQUISITIONS SINCE THE LATEST PUBLISHED AUDITED ACCOUNTS OF THE GROUP

Besides the Acquisition the subject of this circular, the Group has also acquired the following subsidiaries since the latest published audited accounts of the Group:

- (a) 55.44% of the equity interests of Beijing Chongzheng Huasheng Emergency Lighting System Ltd., Co. (北京崇正華盛應急照明系統有限公司) at a cash consideration of RMB3,800,000. The company is principally engaged in the provision of total solutions for fire safety emergency lighting systems and emergency electric supplies in the PRC. It has adopted an innovative centralized electric supplies technology for its emergency lighting products.
- (b) 51.61% of the equity interests of Shengan City Safety at a cash consideration of RMB7,000,000. The company is principally engaged in the research and development of network based monitoring system for fire prevention and fighting systems. It also provides system integration, and maintenance service including the enhancement and repair and maintenance of such fire prevention and fighting systems. Shengan City Safety has established and is operating the only remote automatic monitoring center of fire prevention and fighting

system (消防遠程自動網絡監控中心) in the Jiangxi province. It is granted the right to establish and operate remote monitoring center of fire prevention and fighting system in the Jiangxi province by the Jiangxi Fire Safety Association (江西省消防協會) and Jiangxi General Bureau of Fire Services (江西省公安消防總隊) in 2004. It has obtained 7 national patents for its network products in the PRC.

- (c) 51% equity interests of Tung Shing Trade Development Company Limited (“**Tung Shing**”) at a consideration of HKD40,800,000, of which HKD16,800,000 is satisfied in cash and the remaining by Shares in two tranches. The first lot of 20,000,000 Shares has been allotted and issued on 8th November, 2004 and the second lot will be allotted and issued at HKD0.8 per Share or at such price adjusted pursuant to the acquisition agreement, whichever is higher. The Shares will be issued within one month of the issuance of the audited account of Tung Shing for the year 2006 subject to the profit guarantee adjustment as provided in the acquisition agreement.

Tung Shing is principally engaged in distribution and sale of fire engines and fire fighting and rescue tools in the Mainland, Hong Kong, Macau and Taiwan. It has obtained 16 exclusive distribution rights and 16 non-exclusive distribution rights of fire fighting and rescue equipment from manufacturers in Europe, the US and Asia and is a registered supplier to the Government of Hong Kong for certain categories of fire fighting and rescue tools. It offers over 80 models of fire engines and more than 4,700 types of fire fighting and rescue tools as various as real fire simulation training system, radiation measuring instruments, thermal image cameras, cutting machines, pneumatic line thrower, life detector system, breathing apparatus and lifting bags etc.

10. EXPERT AND CONSENT

The following is the qualification of the accountant who has given its opinions included in Appendix III:

Name	Qualification
Deloitte Touche Tohmatsu	Certified Public Accountants

As at the Latest Practicable Date, Deloitte Touche Tohmatsu does not have any shareholding in any Shares or any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any shares in any member of the Group.

As at the Latest Practicable Date, Deloitte Touche Tohmatsu did not have any direct or indirect interest in any assets which have been since 31st December, 2003, the date to which the latest published audited account of the Group were made up, acquired or disposed of by, or leased to, or which are proposed to be acquired or disposed of by, or leased to, the Company or any member of the Group.

Deloitte Touche Tohmatsu has given and has not withdrawn its written consent to the issue of this circular with inclusion of its letter dated 14th December, 2004 and the references to its name included herein in the form and context in which they respectively appear.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the principal place of business of the Company in Hong Kong at Suite 907, 9th Floor, ICBC Tower, 3 Garden Road, Central, Hong Kong on weekday other than public holidays up to and including 5th January, 2005:

- (a) memorandum and articles of association of the Company;
- (b) the Directors' service contracts as referred to in section headed "Service Contracts" in this appendix;
- (c) the contracts as disclosed in section headed "Material Contracts" in this appendix;
- (d) the rule of the share option scheme;
- (e) report on valuing net assets of Sichuan Group as at 30th April, 2003 by Sichuan Zhong Tian Hua Assets Appraisal Company Limited (四川中天華資產評估有限公司);
- (f) the 2002 and 2003 annual reports of the Company for the two financial years ended 31 December 2002 and 2003 respectively;
- (g) the circular for a disclosable transaction in relation to the acquisition of 51% of the total issued ordinary shares and 100% of the total issued non-voting deferred shares of Tung Shing Trade Development Company Limited;
- (h) the accountants' report on the financial information of the Sichuan Group;
- (i) the report from Deloitte Touche Tohmatsu on the unaudited proforma statement of assets and liabilities of the enlarged group;
- (j) the letter of consent from Deloitte Touche Tohmatsu referred to in the section headed "Expert and Consent" in this appendix; and
- (k) the written approval given by Mr. Jiang Xiong and Mr. Jiang Qing in relation to the Acquisition dated 24th September, 2004.

12. GENERAL

- (a) The head office and principal place of business of the Company in the PRC is at 8th Floor, Gaojing Trade Centre, No. 158 Wu Yi Bei Road, Fuzhou City, Fujian Province, PRC. The principal place of business of the Company in Hong Kong is at Suite 907, 9th Floor, ICBC Tower, 3 Garden Road, Central, Hong Kong. The Hong Kong branch share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong.
- (b) The compliance officer of the Company is Mr. Jiang Qing, an executive Director. Mr. Jiang is a qualified engineering in the PRC and obtained the qualification of senior economist from the Human Resources Office of Fujian Provincial Government (福建省人事廳) in January 2004.
- (c) The qualified accountant and company secretary of the Company is Ms. Li Ching Wah. Ms. Li is an associate member of the Hong Kong Society of Accountants.
- (d) The Company has established an audit committee with written terms of reference in compliance with Rules 5.23 to 5.24 of the GEM Listing Rules. The primary duties of the audit committee are to review the Company's annual reports and accounts, half-yearly reports and quarterly reports and to provide advice and comments thereon to the Directors. The audit committee comprises Mr. Liu Shi Pu, Mr. Heng Kwo Seng and Mr. Xiang Yu Fu, all of whom are independent non-executive Directors of the Company.

Mr. LIU Shi Pu, aged 69, is an independent non-executive Director. Mr. Liu has over 41 years of working experience in the Ministry of Public Security and worked for the Public Security Bureau of Lou Yang City (洛陽市) and Henan Province (河南省) during the years 1952 to 1985. During the years 1985 and 1990, he was appointed as the Vice Chancellor of Public Security Bureau of He Nan Province (河南省公安廳副廳長). From 1991 to 1993, he was promoted as the Office Supervisor of the Ministry of Public Security of the PRC (中華人民共和國公安部辦公廳主任). In 1993, Mr. Liu was appointed as the Chairman of Fire Prevention and Fighting Bureau of the Ministry of Public Security of the PRC (中華人民共和國公安部消防局局長(少將)). In February 1996, he retired from his position. From August 1997 to September 2001, Mr. Liu was the Vice-chairman of General Affairs of the PRC Fire Prevention and Fighting Association (中華人民共和國消防協會常務副理事長). He was appointed as a director of the Company in May 2002. Aside from the Company, Mr. Liu is not a director of any other listed company.

Mr. HENG Kwo Seng, aged 56, is the managing partner of Morison Heng, Chartered Accountants and Certified Public Accountants. He is a fellow member of The Institute of Chartered Accountants in England & Wales, an

associate member of The Hong Kong Society of Accountants and independent non-executive directors of various public companies. Mr. Heng is also the Vice Chairman of The Hong Kong Hainan Commercial Association. He is also a director of a number of other listed companies in Hong Kong.

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

- (e) At any general meeting a resolution put to the vote of a meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is duly demanded:
- (i) by the chairman of such meeting; or
 - (ii) by at least three Members present in person or in the case of a Member being a corporation by its duly authorized representative or by proxy for the time being entitled to vote at the meeting; or
 - (iii) by a Member or Members present in person or in the case of a Member being a corporation by its duly authorized representative or by proxy and representing not less than one-tenth of the total voting rights of all Members having the right to vote at the meeting; or
 - (iv) by a Member or Members present in person or in the case of a Member being a corporation by its duly authorized representative or by proxy and holding Shares conferring a right to vote at the meeting on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all Shares conferring that right.

A demand by a person as proxy for a Member or in the case of a Member being a corporation by its duly authorised representative shall be deemed to be the same as a demand by a Member.

Unless a poll is duly demanded and the demand is not withdrawn, a declaration by the Chairman that a resolution has on a show of hands been carried, or carried unanimously, or by a particular majority, or not carried by a particular majority, or lost, and an entry to that effect made in the minute book of the Company shall be conclusive evidence of that fact without proof of the number or proportion of the votes recorded for or against the resolution.