CFE

China Fire Safety Enterprise Group Holdings Limited

中國消防企業集團控股有限公司*

(formerly known as Wanyou Fire Safety Technology Holdings Limtied

萬友消防科技控股有限公司)

(Incorporated in the Cayman Islands with limited liability)

ANNUAL REPORT 2003

* *For identification purpose only*

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Contents

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Jiang Xiong, Chairman
Jiang Qing
Chen Shu Quan
Chan Siu Tat FCCA, AHKSA

NON-EXECUTIVE DIRECTORS

Richard Owen Pyvis
Josephine Price

INDEPENDENT NON-EXECUTIVE DIRECTORS

Liu Shi Pu
Wong Hon Sum

COMPLIANCE OFFICER

Jiang Qing

QUALIFIED ACCOUNTANT

Li Ching Wah AHKSA

COMPANY SECRETARY

Li Ching Wah AHKSA

AUTHORIZED REPRESENTATIVES

Chan Siu Tat FCCA, AHKSA
Li Ching Wah AHKSA

MEMBERS OF AUDIT COMMITTEE

Liu Shi Pu
Wong Hong Sum

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STOCK EXCHANGE LISTING

The Growth Enterprise Market of the Stock Exchange of Hong Kong Limited

STOCK CODE

8201

CHAIRMAN'S STATEMENT

RESULTS FOR THE YEAR

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

STRATEGIC ALLIANCES AND INVESTMENTS

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

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

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

Chairman's Statement

CORPORATE GOVERNANCE

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

APPRECIATION

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

Jiang Xiong
Chairman

Hong Kong, 19 March 2004

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

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

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

Management Discussion and Analysis

SALES OF FIRE PREVENTION AND FIGHTING EQUIPMENT

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

PROVISION OF FIRE PREVENTION AND FIGHTING SYSTEM INSTALLATION SERVICES

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

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

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

PROVISION OF FIRE PREVENTION AND FIGHTING SYSTEM MAINTENANCE SERVICES

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

FINANCIAL RESOURCES, LIQUIDITY, CONTINGENT LIABILITIES AND PLEDGE OF ASSETS

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

As at 31 December 2003, current assets and current liabilities of the Group were approximately RMB317.4 million (2002: RMB273.8 million) and RMB30.9 million (2002: RMB34.1 million) respectively. The current ratio was kept at a high level of approximately 10.3 times (2002: 8.0 times), reflecting the abundance of financial resources to meet the Group's liabilities. For the year under review, majority of the Group's source of funds was generated from operating activities. The gearing ratio, representing long term liabilities divided by shareholders equity, was maintained at a very low level of approximately 1.50% (2002: 1.0%).

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

Renminbi is adopted as the reporting currency by the Group. As the Group's assets, liabilities, sales and purchases are primarily denominated in Renminbi, the Group's exposure to foreign currencies fluctuation is minimal, and therefore, no hedging against foreign currencies exposure is considered necessary. The Group had no material contingent liabilities as at 31 December 2003.

Management Discussion and Analysis

RESEARCH AND DEVELOPMENT

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

INVESTMENTS AND CAPITAL COMMITMENTS

Subsequent to the year ended 31 December 2003, the Group entered into a sale and purchase agreement in February 2004 with certain independent third parties to acquire 55.44% interest in Beijing Chongzheng Huasheng Emergency Lighting System Ltd,. Co (北京崇正華盛應急照明系統有限公司) ("Chongzheng Huasheng"), a company established in the PRC, for a consideration of RMB3.8 million. Chongzheng Huasheng is engaged in the provision of total solutions for fire safety emergency lighting systems and emergency electronic supplies in the PRC. It has adopted an innovative centralized electronic supplies technology for its emergency lighting products, which will not only enlarge the emergency lighting series of the Group but also give the Group an opportunity to step into the huge potential market for this advanced product. At the same time, the Group is looking for vertical and horizontal acquisition opportunities in order to strengthen its competitive advantages in the fire safety market. Several projects are under negotiation and agreements are expected to be reached in the first half of 2004. The Group plans to finance the projects from both the proceeds of the issuance of new shares in September 2002 as reserved for business collaborations and acquisitions and the funds generated from operations.

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

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

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2003, the Group had approximately 648 full-time employees (2002: 613). Staff costs, excluding directors' remuneration, for the year amounted to RMB22.7 million, a 7.0% decrease over the previous year's RMB24.4 million. The decrease in staff costs is mainly due to delay and postponement of installation service projects, therefore, fewer temporary workers were employed for the installation works. Despite the increase in number of staff, a number of them were employed after the opening of the production base in Fuzhou and thus not paid for the whole year. All full-time employees are entitled to medical contributions, provident funds and retirement plans. Employees, especially those on the front line, are rewarded on a performance basis. Staff performance appraisals are conducted on a half-yearly basis to evaluate performance of each staff and to provide a means of communication between the management and the staff.

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

Management Discussion and Analysis

COMPARISON OF THE BUSINESS PLANS AND ACTUAL PROGRESS

Set out below is a summary of the actual business progress of the Group as measured against the business objectives up to 31 December 2003 as set out in the prospectus of the Company dated 23 September 2002:

Development of new products with application of advanced technology

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

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

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

COMPARISON OF THE BUSINESS PLANS AND ACTUAL PROGRESS *(Continued)*

Development of new products with application of advanced technology *(Continued)*

b. New product lines and new types of services

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

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

Enhancement of the research and development team

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

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

Management Discussion and Analysis

COMPARISON OF THE BUSINESS PLANS AND ACTUAL PROGRESS *(Continued)*

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

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

Expected progress

Complete the construction of new production facilities. Install and complete the testing of new production equipment and commence trial production.

Actual progress

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

Expansion of sales and distribution network

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

Expected progress

Commence operations of 5 new sales offices in Shenyang, Shijiazhong, Xi'an, Wuhan and Chengdu of the PRC.

Decorate and purchase equipment for the 5 sales offices selected in Heifei, Changsha, Chongqing, Wenzhou and Guangzhou.

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

Continue operation of the display service centre in Shanghai.

Decorate the display service centres in Beijing and Shenyang, purchase new equipment and hire experienced sales personnel.

Search for appropriate display service centres in Xian and Chengdu of the PRC.

Actual progress

As the Group will focus on the small to medium-sized cities with high GDP per capita, the Group requires more time to evaluate the performance of existing sales and distribution networks.

Due to the outbreak of SARS in the PRC, travelling among provinces was restricted in the second quarter of 2003. The decoration and purchase of new equipment for the existing sales offices and new sales offices was delayed. The Group is in the process of selecting more appropriate locations for new sales offices and display centres in the PRC in accordance with the Group's sales strategies and future expansion plans.

COMPARISON OF THE BUSINESS PLANS AND ACTUAL PROGRESS *(Continued)*

Marketing, promotion and brand building

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

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

Management Discussion and Analysis

COMPARISON OF THE BUSINESS PLANS AND ACTUAL PROGRESS *(Continued)*

Business collaborations and acquisitions

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

Expected progress

Identify potential manufacturing enterprises in the PRC which engaged in the sector of fire service equipment and fire retardant materials and acquire the companies which reach mutual agreement with the Group.

Identify potential enterprises in the PRC, Hong Kong, Singapore and Japan which engaged in the similar product sector complementary to the Group.

Explore and evaluate the opportunities to establish co-operation arrangement, collaboration or alliances with the companies identified.

Negotiate with the management of the companies identified and develop collaboration or alliances or acquisitions with the companies identified.

Actual progress

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

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

At the same time, the Group is looking for vertical and horizontal acquisition opportunities in order to strengthen its competitive advantages in the fire safety market.

PROCEEDS FROM ISSUANCE OF NEW SHARES

The net proceeds from the Company's placement of new shares in September 2002 amounted to approximately HK$136 million of which HK$6 million will be used as working capital. The proceeds applied up to 31 December 2003 are as follows:

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

Notes:

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

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

3. With the Group's new strategy in branch operations, most of the existing branches are undergoing restructuring to switch the business focus from product sales to installation projects. At the same time, the Group is also searching for new distributors to strengthen the Group's product sales, especially in provinces outside Fujian. A large part of the expenditure for the expansion of sales and distribution network is anticipated to be incurred in the coming year.

Management Discussion and Analysis

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

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

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. JIANG Xiong, aged 36, is the Chairman, chief executive officer and executive Director of the Group. He is responsible for the strategic planning and the overall development of the Group and joined the Group in January 1994. He has over 9 years of experience in the fire services and maintenance industry in the PRC. In April 1996, he was awarded the title "Fuzhou Outstanding Entrepreneur" (福州市優秀私營企業家). In May 1996, Mr. Jiang was awarded one of the "Ten Most Outstanding Youths in Fuzhou" and in November 1997 he was appointed as "member of the Ninth Standing Committee of Fuzhou City People's Political Consultative Conference" (中國人民政治協商會議第九屆福建省福州市常務委員會委員). In May 1999, he was given the award of "Fujian Outstanding Entrepreneur" (福建省優秀青年企業家). In November 2001, he was also appointed as Vice Secretary-General of Fire Committee of International Police Foundation (世界警察基金會消防行業委員會副秘書長), a non-profit organisation for the promotion of police goodwill and development of police science. Mr. Jiang is a qualified engineer in the PRC and obtained the qualification of senior economist from the Human Resources Office of Fujian Provincial Government（福建省人事廳）in January 2004.

Mr. JIANG Qing, aged 39, is an executive Director and chief operating officer of the Group. He joined the Group in April 1995 and has over 10 years of experience in the building construction industry and fire prevention and fighting systems installation. Prior to joining the Group in April 1995, Mr. Jiang was an assistant executive of Fujian Construction and Development Limited (福建省建設發展總公司), a company engaged in property development, from February 1993 to April 1995 and he was mainly responsible for the management and administration for construction projects. Mr. Jiang received the professional certificate from Fujian Technical Institute of Construction (福建建築高等專科學校) in September 2000 and is a qualified engineer in the PRC and obtained the qualification of senior economist from the Human Resources Office of Fujian Provincial Government（福建省人事廳）in January 2004. He is responsible for the corporate management and overall operation of the Group. He is the elder brother of Mr. Jiang Xiong.

Mr. CHEN Shu Quan, aged 59, is an executive Director and is responsible for the overall administration of the Group. Mr. Chen joined the Group in January 1997 and has over 11 years of administration and management experience in Fujian governmental entities. Before joining the Group, he was the vice director (副局長) of Departmental Affairs Administration Office of Fujian Provincial Government (福建省政府機關事務管理局省政府辦公廳) from 1986 to 1997 and was mainly responsible for the planning, management and administration affairs of government properties.

Mr. CHAN Siu Tat, aged 34, was appointed as an executive director of the Company in October 2003. He is also the chief financial officer of the Group. He joined the Group in April 2002 and is responsible for treasury and financial planning of the Group. Prior to joining the Group, Mr. Chan was the financial controller of a trading and manufacturing group, in which he was also a deputy general manager of its PRC manufacturing base. Prior to that, Mr. Chan had around five years auditing experience with an international accountants firm. Mr. Chan graduated from The Hong Kong University of Science and Technology with a major in Accounting. He is an associate member of Hong Kong Society of Accountants and a fellow member of The Association Chartered of Certified Accountants.

Non-executive Directors

Mr. Richard Owen Pyvis, aged 54, was appointed as a non-executive director of the Company in October 2003. He has studied and worked in Japan and Hong Kong since early 1970's. The former Chief Executive Officer of CLSA Group, he has a background in commercial banking, venture capital, and debt restructuring in senior managerial roles. He sits on a number of public and private boards, is an Executive Committee member of the Hong Kong General Chamber of Commerce – Hong Kong Coalition of Services Industries, a member of the Hong Kong Securities Institute, read Economics (Japanese Studies) of the University of Western Australia, and has studied in Japan, IMI and Insead.

Directors and Senior Management

Ms. Josephine Price, aged 50, was appointed as a non-executive director of the Company in October 2003. She is the managing director of CLSA Private Equity Limited. She joined CLSA in 1995 to set up its private equity activities from NatWest Markets where she had been a regional corporate finance director. She has been based in Hong Kong for over 20 years. She is a graduate of the University of Kent at Canterbury, a member of the Law Societies of England & Wales and Hong Kong, a member of the Hong Kong Securities Institute, a Fellow of the Hong Kong Institute of Directors and non-executive director of various public and private companies.

Independent non-executive Directors

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

Mr. WONG Hon Sum, aged 46, is an independent non-executive Director and is a certified public accountant practising in Hong Kong. He holds a bachelor degree in accounting from the Hong Kong Polytechnic University. He has over 19 years of finance and accounting experience in Hong Kong. Mr. Wong is a fellow member of both Hong Kong Society of Accountants and The Association Chartered of Certified Accountants. Mr. Wong is also an associate of The Taxation Institute of Hong Kong and a member of Hong Kong Securities Institute. He was appointed as a director of the Company in May 2002. Mr. Wong is the director of Jovian Communications Group Limited which is engaged in the financial communication business. Mr. Wong is also the independent non-executive director of Interchina Holdings Company Limited.

SENIOR MANAGEMENT

Mr. LI Jin, aged 49, is the general manager of the Group's fire prevention and fighting systems installation division. Mr. Li has over 21 years of experience in working for the fire services department of Fujian Province from 1974 to 2001. He retired from the fire services department of Fujian Province in 2001. He was also awarded Third Class Honour (三等功) for his contribution when he served in the fire services department in 1999. He joined the Group in May 2001 and is responsible for the supervision of the Group's fire prevention and fighting systems installation project. Mr. Li is a qualified engineer in the PRC.

Mr. ZHUO Fuquan, aged 58, a graduate from the Department of Physics in Xiamen University. He has served Fujian Hitachi Television Co. Ltd. (福建日立電視機有限公司) for a long period, where he has taken up the post of the chief of the design department and sales department, which are responsible for the design and sales of products for export and domestic sales. Mr. Zhuo also has extensive experience in technologies, productions, sales and operations management in the IT industry. He joined the Group in November 2003 as the General Manager of Fuzhou Wanyou Fire Fighting Science and Technology Co., Ltd. (福建萬友消防科技有限公司), responsible for the company's overall operation.

Mr. LIN Dan, aged 38, a graduate from the Department of Earth and Space Sciences (地球與空間科學系) of the University of Science and Technology of China (中國科技大學). At present, he is a committee member of the Professional Committee of Intelligent Building of Fujian Province (福建省智能化專業委員會) and an expert in tender of Constructions Committee of Fuzhou City (福州市建築委員會招投標專家). He was the general manager of Zhong Min Technology Development Co. 中閩科技開發公司, and has engaged in project management and engineering supervisions for a long period. He joined the Group in October 2003 as the Deputy Manager of Fujian Wanyou Fire Engineering Group Company Limited (福建萬友消防工程集團有限公司), responsible for the overall operation of the Group's fire prevention and fighting systems installation.

Mr. Yan Lijun, aged 42, a graduate from the Department of Business Management of the Machinery Department's Executives Institute of Management (機械部幹部管理學院). He was the Manager of the Domestic Trade Department of China Wires and Cables Import and Export Co. (中國電線電纜進出口公司) and the Deputy Manager of Shandong Tzbo Disheng Electric Co. Ltd. (山東淄博迪生電源有限公司) and gained extensive experiences in business management. He joined the Group in December 2003 as the General Manager of Fujian Wanyou Fire Engineering Group Company Limited (福建萬友消防工程集團有限公司), responsible for its management.

Mr. Fang Yu, aged 37, a graduate from Beijing Textile Engineering College (北京紡織工程學院). He was a general manager of Beijing Xiulonghai Co., Ltd. (北京鑫龍海輕體隔牆板有限公司) and has extensive experience in the manufacturing and sale of fire retardant materials, Mr. Fang joined the Group in November 2003, and is currently a chief representative of the Beijing branch of Fujian Wanyou Fire Engineering Group Company Limited (福建萬友消防工程集團有限公司).

Mr. LIN Dong, aged 33, a graduate from the Department of Financial Accounting of Wuhan University (武漢大學). Mr. Lin joined the Group in October 2003 as the Deputy Chief Accountant of the Group, assisting the Group's Financial Controller in implementing financial management. Before joining the Group, he has over 10 years experience in financial management with a listed PRC manufacturing firm, where he has served the 3rd and 4th supervision committee and was the manager of the finance department and the assistant to the general manager.

Miss ZHENG Xiamei, aged 29, is the assistant to the Group's directors. She graduated from the Department of Accounting of the University of Hunan (湖南大學), and was also a graduate from the Department of International Trade of the Xian School of Internation Commerce, majoring in marketing (西安國際商學院國際貿易系市場營銷學). Prior to joining the Group, she served the Fujian Provincial Trade Office and engaged in domestic and foreign trade, and was the director of the marketing department of a foreign venture. She has 4 years experience in running her own business. Miss Zheng joined the Group in October 2003 as the assistant to the Group's directors, responsible for assisting the directors in Various aspects.

Mr. LU Wei, aged 30. He joined the Group in 1998 and has worked as a manager of advertising planning department and the deputy manager of the marketing department. Mr. Lu is now responsible for the management of the Group's branch offices in South China Region.

Mr. Cai Jun, aged 40, a graduate from the Department of Mechanical Engineering of the Southwest Jiaotong University (西南交通大學). He is now the Divisional Leader of the Emergency Lighting Division of the Interior Experts Committee of the China Illumination Engineer Association (中國照明學會室內專業委員會應急照明課題組組長), and the committee member of the No. 6 Sub-Committee of the China Fire Safety Standardizations Technology Committee (中國消防標準化技術委員會第六分委技術委員會委員). Mr. Cai is also a member of the editorial committee responsible for formulating the National Standards in fire safety lighting equipments (消防應急燈具), fire safety emergency power sources (消防設備應急電源), and the Acceptance Standards for the Installation of Emergency Lighting Equipments and Signage (消防應急照明系統及標誌牌安裝驗收規範). Mr. Cai is the General Manager of Beijing Chongzheng Huasheng Emergency Lighting System Ltd., Co. (北京市崇正華盛應急照明系統有限責任公司), a subsidiary acquired by the Company in February 2004, and is responsible for its management.

REPORT OF THE DIRECTORS

The Directors present their annual report and the audited financial statements for the year ended 31 December 2003.

CHANGE OF COMPANY NAME

Pursuant to a special resolution passed at an extraordinary general meeting held on 6 October 2003, the name of the Company was changed from Wanyou Fire Safety Technology Holdings Limited to China Fire Safety Enterprise Group Holdings Limited. The Company obtained the Certificate of Incorporation on Change of Name from the Registry of Companies in the Cayman Islands on 6 October 2003 and obtained the Certificate of Registration of Change of Name of Overseas Company from the Registrar of Companies in Hong Kong on 17 October 2003.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 33.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2003 are set out in the consolidated income statement on page 29.

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

The Directors now recommend the payment of a final dividend of 1 HK cent per share to the shareholders on the register of members on 16 April 2004, amounting to HK$20,000,000 (equivalent to RMB21,200,000) and the retention of the remaining profit for the year of RMB69,315,000.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of the share capital of the Company are set out in note 27 to the financial statements.

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in note 29 to the financial statements.

DONATIONS

During the year, the Group had charitable and other donations amounting to RMB200,000.

DIRECTORS

The Directors of the Company during the year and up to date of this report were:

Executive Directors

Mr. Jiang Xiong *(Chairman)*	
Mr. Jiang Qing	
Mr. Chen Shu Quan	
Mr. Chan Siu Tat	(appointed on 16 October 2003)

Non-executive Directors

Mr. Richard Owen Pyvis	(appointed on 16 October 2003)
Ms. Josephine Price	(appointed on 16 October 2003)

Independent Non-executive Directors

Mr. Liu Shi Pu
Mr. Wong Hon Sum

In accordance with provisions of the Company's Articles of Association, Messrs. Chen Shu Quan, Chan Siu Tat, Richard Owen Pyvis and Josephine Price retire from office and, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

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

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

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

Report of the Directors

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

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

Long positions

Name of Director	Capacity and types of interests	Number of issued shares of HK$0.01 each of the Company held	Percentage of issued capital of the Company
Mr. Jiang Xiong	Beneficial owner	981,600,000	49.08%
Mr. Jiang Qing	Beneficial owner	100,000,000	5.00%
		1,081,600,000	54.08%

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

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

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the Directors nor the chief executive, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

Report of the Directors

INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

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

Long positions

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

Name of shareholder	Capacity and types of interests	Number of issued shares of HK$0.01 each of the Company held	Percentage of issued capital of the Company
Beijing Capital Group Limited	Interest of a controlled corporation *(Note 10)*	100,000,000	5.00%
The People's Government of Beijing Municipality	Interest of a controlled corporation *(Note 11)*	100,000,000	5.00%

Notes:

1. Aria Investment Partners, L.P. is beneficially interested in the entire issued share capital of Cantus Limited and is deemed or taken to be interested in the 262,650,000 shares in which Cantus Limited has declared an interest for the purpose of the SFO.

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

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

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

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

6. Credit Lyonnais Capital Markets International SASU is beneficially interested in the entire issued share capital of Credit Lyonnais Capital Markets Asia BV and is deemed or taken to be interested in the 262,650,000 shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Note 2 above.

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

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

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

10. Beijing Capital Group Limited is beneficially interested in the entire issued share capital of 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 of Beijing Capital Group Limited and is deemed or taken to be interested in the 100,000,000 shares in which Beijing Capital Group Limited has declared an interest for the purpose of SFO as mentioned in Note 10 above.

Report of the Directors

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

Other than as disclosed above, the Company has not been notified of any other interests or short position in the issued share capital of the Company as at 31 December 2003.

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 28 to the financial statements.

No option has been granted by the Company under the share option scheme since its adoption.

AUDIT COMMITTEE

The audit committee comprises two members – Mr. Liu Shi Pu and Mr. Wong Hon Sum, both of whom are Independent Non-executive Directors. The primary duties of the audit committee are to review the Company's annual report and accounts, half-yearly reports and quarterly reports and to provide advice and comments thereon to the Board of Directors. The audit committee will also be responsible for reviewing and supervising the financial reporting process and internal control procedures of the Group.

During the year, the Audit Committee held 4 meetings to review and comment on the Company's draft interim financial reports and annual report and to meet with the external auditors and participate in the reappointment and assessment of the performance of the external auditors.

RETIREMENT BENEFIT SCHEMES

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

BOARD PRACTICES AND PROCEDURES

The Company has complied throughout the year ended 31 December 2003 with Rules 5.28 to 5.39 as set out in the GEM Listing Rules.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

POST BALANCE SHEET EVENT

Details of the subsequent event of the Group are set out in note 35 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on pro-rata basis to existing shareholders.

COMPETING INTERESTS

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

SPONSOR'S INTERESTS

As updated and notified by the Company's sponsor, Core Pacific – Yamaichi Capital Limited ("CPY Capital"), neither CPY Capital nor its directors, employees or associates had any interest in the share capital of the Company as at 31 December 2003 pursuant to Rule 6.35 of the GEM Listing Rules. Pursuant to the agreement dated 20 September 2002 entered into between the Company and CPY Capital, CPY Capital has received and will receive fees for acting as the Company's retained sponsor for the remaining period up to 31 December 2004 or until the sponsor agreement is terminated upon the terms and conditions set out therein.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2003, the aggregate turnover attributable to the five largest customers of the Group is less than 30% of the Group's consolidated turnover.

For the year ended 31 December 2003, purchases attributable to the Group's largest supplier accounted for approximately 14.5% of the Group's total purchases and aggregate purchases attributable to the five largest suppliers of the Group accounted for approximately 50.2% of the Group's total purchases.

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

AUDITORS

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

On behalf of the Board
Jiang Xiong
CHAIRMAN

Hong Kong, 19 March 2004

REPORT OF THE AUDITORS

德勤·關黃陳方會計師行

Certified Public Accountants
26/F, Wing On Centre
111 Connaught Road Central
Hong Kong

香港中環干諾道中111號
永安中心26樓

Deloitte
Touche
Tohmatsu

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

We have audited the financial statements on pages 29 to 65 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

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

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

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2003 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 19 March 2004

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2003

	NOTES	2003 RMB'000	2002 RMB'000
Turnover	4	**282,475**	259,519
Cost of sales		**(133,759)**	(99,814)
Gross profit		**148,716**	159,705
Other operating income	6	**4,169**	959
Distribution costs		**(1,842)**	(1,706)
Administrative expenses		**(18,937)**	(16,348)
Profit from operations	7	**132,106**	142,610
Finance costs	8	**(229)**	(338)
Profit before taxation		**131,877**	142,272
Taxation	11	**(19,761)**	(16,100)
Profit before minority interests		**112,116**	126,172
Minority interests		**(401)**	(295)
Net profit for the year		**111,715**	125,877
Dividends	12	**42,400**	10,600
Earnings per share	13		
Basic (RMB cents)		**5.6**	7.5

CONSOLIDATED BALANCE SHEET

At 31 December 2003

	NOTES	2003 RMB'000	2002 RMB'000
Non-current assets			
Property, plant and equipment	14	**154,474**	115,856
Retention receivables	15	**269**	1,331
Goodwill	16	**6,998**	9,962
Development costs	17	**1,445**	–
		163,186	127,149
Current assets			
Inventories	19	**4,228**	3,457
Retention receivables	15	**2,008**	1,862
Amounts due from contract customers	20	**30,523**	1,109
Trade debtors	21	**80,831**	45,994
Prepayments and other receivables	22	**14,382**	16,482
Bank balances and cash		**185,444**	204,913
		317,416	273,817
Current liabilities			
Trade and other payables	23	**21,727**	26,161
Amounts due to contract customers	20	**–**	56
Tax liabilities	24	**8,457**	7,160
Mortgage loan – due within one year	25	**731**	731
		30,915	34,108
Net current assets		**286,501**	239,709
Total assets less current liabilities		**449,687**	366,858
Non-current liabilities			
Mortgage loan – due after one year	25	**2,987**	3,718
Deferred tax liabilities	26	**3,490**	–
Minority interests		**717**	562
		442,493	362,578
Capital and reserves			
Share capital	27	**21,200**	21,200
Reserves	29	**421,293**	341,378
		442,493	362,578

The financial statements on pages 29 to 65 were approved and authorised for issue by the Board of Directors on 19 March 2004 and are signed on its behalf by:

Jiang Xiong	**Jiang Qing**
DIRECTOR	*DIRECTOR*

BALANCE SHEET

At 31 December 2003

	NOTES	**2003** **RMB'000**	2002 RMB'000
Non-current assets			
Investments in subsidiaries	18	**187,569**	187,567
Current assets			
Amounts due from subsidiaries		**104,133**	107,072
Bank balances and cash		**56,413**	85,691
		160,546	192,763
Current liability			
Trade and other payables		**5,164**	5,939
Net current assets		**155,382**	186,824
		342,951	374,391
Capital and reserves			
Share capital	27	**21,200**	21,200
Reserves	29	**321,751**	353,191
		342,951	374,391

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2003

	Share capital	Share capital of subsidiaries 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 1 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 31 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 31 December 2003	**21,200**	**–**	**139,920**	**(6,692)**	**57,840**	**13,267**	**10,586**	**20,684**	**185,688**	**442,493**

CONSOLIDATED CASH FLOW STATEMENTS

For the year ended 31 December 2003

	2003	2002
	RMB'000	*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
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)
Cash generated from operations	**79,508**	47,957
Interest paid	**(229)**	(338)
Income tax paid	**(15,500)**	(17,231)
Net cash from operating activities	**63,779**	30,388
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
Net cash used in investing activities	**(50,471)**	(85,989)

Consolidated Cash Flow Statements

For the year ended 31 December 2003

	2003	2002
	RMB'000	*RMB'000*
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
Net cash (used in) from financing activities	**(32,777)**	202,678
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
Cash and cash equivalents at the end of the year, representing bank balances and cash	**185,444**	204,913

1. GENERAL

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

The Company is an investment holding company and the principal activities of the 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. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARD

In the current year, the Group has adopted, for the first time, the following Hong Kong Financial Reporting Standard ("HKFRS") issued by the Hong Kong Society of Accountants ("HKSA"), the term of HKFRS is inclusive of Statements of Standard Accounting Practice ("SSAP(s)") and Interpretations approved by the HKSA:

SSAP 12 (Revised)	Income Taxes

Income Taxes

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. The adoption of this standard had had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

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

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

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

Notes to the Financial Statements

For the year ended 31 December 2003

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill

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

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

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

Investments in subsidiaries

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

Revenue recognition

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

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

Service income is recognised when services are provided.

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

Property, plant and equipment

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

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

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

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

Research and development expenditure

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

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

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

Inventories

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

Installation contracts

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

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

Notes to the Financial Statements

For the year ended 31 December 2003

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Installation contracts *(Continued)*

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

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

Impairment of assets

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

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

Taxation

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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

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

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

Operating leases

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.

Notes to the Financial Statements

For the year ended 31 December 2003

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

4. 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	2002
	RMB'000	*RMB'000*
Revenue from installation contracts	**60,269**	87,358
Sale of goods	**181,785**	161,407
Provision of maintenance services	**44,005**	13,996
	286,059	262,761
Less: Sales tax	**(3,584)**	(3,242)
	282,475	259,519

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

5. SEGMENT INFORMATION

(a) Business segments

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

5. SEGMENT INFORMATION *(Continued)*

(a) Business segments *(Continued)*

Segment information about these businesses are as follows:

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

Inter-segment sales are charged at prevailing market rates.

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

Notes to the Financial Statements

For the year ended 31 December 2003

5. SEGMENT INFORMATION *(Continued)*

(a) Business segments *(Continued)*

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

5. SEGMENT INFORMATION *(Continued)*

(a) Business segments *(Continued)*

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

Inter-segment sales are charged at prevailing market rates.

RESULTS					
Segment results	38,652	95,370	11,306	–	145,328
Finance costs					(338)
Unallocated corporate expenses					(2,718)
Profit before taxation					142,272
Taxation					(16,100)
Profit before minority interests					126,172
Minority interests					(295)
Net profit for the year					125,877

Notes to the Financial Statements

For the year ended 31 December 2003

5. SEGMENT INFORMATION *(Continued)*

(a) Business segments *(Continued)*

	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*
At 31 December 2002					
ASSETS					
Segment assets	96,047	216,146	1,185	–	313,378
Unallocated corporate assets					87,588
					400,966
LIABILITIES					
Segment liabilities	5,312	15,043	3,220	–	23,575
Unallocated corporate liabilities					14,251
					37,826
OTHER INFORMATION					
Additions of property, plant and equipment	2,623	79,707	–		
Depreciation and amortisation	2,974	3,401	–		

5. SEGMENT INFORMATION *(Continued)*

(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	2002	**2003**	2002
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
PRC	**416,401**	313,378	**50,145**	82,330
Hong Kong	**56,840**	87,588	**21**	113
United States of America	**7,361**	–	**450**	–
	480,602	400,966	**50,616**	82,443

6. OTHER OPERATING INCOME

	2003	2002
	RMB'000	*RMB'000*
Interest income	**1,355**	956
Others	**2,814**	3
	4,169	959

Notes to the Financial Statements

For the year ended 31 December 2003

7. PROFIT FROM OPERATIONS

	2003	2002
	RMB'000	*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	**24,298**	24,987
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 7.

8. FINANCE COSTS

	2003	2002
	RMB'000	*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
	229	338

9. DIRECTORS' EMOLUMENTS

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

Emoluments of the directors were as follows:

	2003	2002
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

Notes to the Financial Statements

For the year ended 31 December 2003

10. 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	2002
	RMB'000	*RMB'000*
Salaries and other benefits	**2,333**	1,254
Retirement benefit scheme contributions	**52**	51
	2,385	1,305

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.

11. TAXATION

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

11. TAXATION *(Continued)*

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	**131,877**		142,272	
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	**19,761**	**15.0**	16,100	11.3

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

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

With 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 26.

Notes to the Financial Statements

For the year ended 31 December 2003

12. DIVIDENDS

	2003	2002
	RMB'000	*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	**21,200**	10,600
	42,400	10,600

A final dividend of 1 HK cent (2002: 0.5 HK cent) per share has been proposed by the directors and is subject to approval by the shareholders in general meeting.

13. 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.

14. 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 improvements RMB'000	Construction in progress RMB'000	Total RMB'000
COST									
At 1 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	**56,493**	**2,879**	**–**	**–**	**–**	**–**	**1,280**	**(60,652)**	**–**
At 31 December 2003	**66,635**	**51,790**	**36,360**	**7,159**	**853**	**4,328**	**1,968**	**–**	**169,093**
DEPRECIATION									
At 1 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 31 December 2003	**934**	**9,038**	**1,804**	**877**	**210**	**1,576**	**180**	**–**	**14,619**
NET BOOK VALUES									
At 31 December 2003	**65,701**	**42,752**	**34,556**	**6,282**	**643**	**2,752**	**1,788**	**–**	**154,474**
At 31 December 2002	9,840	19,130	36,186	7,410	659	3,086	–	39,545	115,856

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

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

15. RETENTION RECEIVABLES

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

Notes to the Financial Statements

For the year ended 31 December 2003

16. GOODWILL

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

The goodwill is amortised over 5 years.

17. DEVELOPMENT COSTS

	THE GROUP
	RMB'000
AT COST	
Incurred during the year and at 31 December 2003	**1,700**
AMORTISATION	
Provided for the year and at 31 December 2003	**255**
NET BOOK VALUE	
At 31 December 2003	**1,445**

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

18. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2003	2002
	RMB'000	*RMB'000*
Unlisted shares	**187,569**	187,567

Details of the subsidiaries are set out in note 33.

19. INVENTORIES

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

	THE GROUP	
	2003	2002
	RMB'000	*RMB'000*
Raw materials	**842**	1,086
Work-in-progress	**1,125**	347
Finished goods	**2,261**	2,024
	4,228	3,457

20. AMOUNTS DUE FROM (TO) CONTRACT CUSTOMERS

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

Notes to the Financial Statements

For the year ended 31 December 2003

21. TRADE DEBTORS

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

The aged analysis of trade debtors is as follows:

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

22. PREPAYMENTS AND OTHER RECEIVABLES

	THE GROUP	
	2003	2002
	RMB'000	*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	**(2,304)**	(2,304)
	14,382	16,482

23. TRADE AND OTHER PAYABLES

	THE GROUP	
	2003	2002
	RMB'000	*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	**1,253**	3,219
	21,727	26,161

23. TRADE AND OTHER PAYABLES *(Continued)*

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

	THE GROUP	
	2003	2002
	RMB'000	*RMB'000*
Within 30 days	**4,933**	326
31 – 60 days	**59**	139
61 – 90 days	**285**	–
Over 90 days	**12**	160
	5,289	625

24. TAX LIABILITIES

	THE GROUP	
	2003	2002
	RMB'000	*RMB'000*
Value added tax	**3,287**	2,851
Sales tax and other levies	**1,303**	1,213
Income tax	**3,867**	3,096
	8,457	7,160

25. MORTGAGE LOAN

	THE GROUP	
	2003	2002
	RMB'000	*RMB'000*
Mortgage loan, secured	**3,718**	4,449
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
	3,718	4,449
Less: Amount due within one year shown under current liabilities	**(731)**	(731)
Amount due after one year	**2,987**	3,718

26. 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.

27. SHARE CAPITAL

Authorised

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

Notes:

(a) On 3 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 11 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 12 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.

27. SHARE CAPITAL *(Continued)*

Issued and fully paid

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

Shown in the financial statements as

	RMB'000
Balance as at 31 December 2002 and **31 December 2003**	**21,200**

Notes:

(a) The Company was incorporated on 3 January 2002 with an authorised share capital of HK$380,000 divided into 38,000,000 shares of HK$0.01 each. On 19 February 2002, one share of HK$0.10 was issued fully paid and allotted to the subscriber of the Company.

(b) On 20 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 27 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.

Notes to the Financial Statements

For the year ended 31 December 2003

28. SHARE OPTION SCHEME

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

Subject to the condition that the total number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes of the Company must not exceed 30% of the shares of the Company in issue from time to time, the total number of shares in respect of which options may be granted under the Scheme when aggregated with any shares subject to any other schemes is not permitted to exceed 10% of the shares of the Company as at the date of adoption of the Scheme, i.e. 160,000,000 shares of the Company as at 31 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 31 December 2003.

29. 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
THE GROUP								
At 1 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 31 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 31 December 2003	**139,920**	**(6,692)**	**57,840**	**13,267**	**10,586**	**20,684**	**185,688**	**421,293**

Notes to the Financial Statements

For the year ended 31 December 2003

29. RESERVES *(Continued)*

	Share premium *RMB'000*	Contributed surplus *RMB'000*	Accumulated profits *RMB'000*	Total *RMB'000*
THE COMPANY				
Pursuant to Group Reorganisation	–	170,607	–	170,607
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 period	–	–	42,664	42,664
At 31 December 2002	139,920	170,607	42,664	353,191
Net profit for the year	**–**	**–**	**360**	**360**
Dividends paid	**–**	**–**	**(31,800)**	**(31,800)**
At 31 December 2003	**139,920**	**170,607**	**11,224**	**321,751**

(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.

29. RESERVES *(Continued)*

(c) Statutory reserve fund

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

(d) Contributed surplus

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

(e) Special reserve

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

(f) Capital reserve

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

(g) The Company's reserves available for distribution to shareholders as at 31 December 2003 represents the aggregate of share premium, contributed surplus and accumulated profits of **RMB321,751,000** (2002: RMB353,191,000).

30. MAJOR NON-CASH TRANSACTION

On 20 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.

Notes to the Financial Statements

For the year ended 31 December 2003

31. CAPITAL COMMITMENTS

	THE GROUP	
	2003	2002
	RMB'000	*RMB'000*
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
	1,340	24,767

In addition, the Group is now in the process of negotiation to acquire all the equity interests in a state-owned enterprise which manufactures and sells fire engines; designs, manufactures, sells and installs fire prevention and fighting equipment and provides of installation and maintenance services for fire prevention and fighting systems, Against the acquisition, the Group had paid a deposit of RMB3 million as at the balance sheet date.

32. 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
	RMB'000	*RMB'000*
Amounts payable:		
Within one year	**768**	522
In the second to fifth year inclusive	**320**	964
Over five years	**–**	1,615
	1,088	3,101

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.

33. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries at 31 December 2003 are as follows:

Name/kind of legal entity	Place/ country of incorporation	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company		Principal activities
			Directly	Indirectly	
Wang Sing Technology Limited/limited liability company	British Virgin Islands	US$4,984,359	100%	–	Investment holding
Wan You Holding USA Inc/ limited liability company	State of New York, United States of America	200 *(note 1)*	100%	–	Sale of fire prevention and fighting equipment
Allied Best Holdings Limited/limited liability company	British Virgin Islands	US$1	–	100%	Inactive
Loyal Asset Investment Holdings Limited/ limited liability company	British Virgin Islands	US$1	–	100%	Investment holding
Fujian Wanyou Fire Fighting Science and Technology Co., Ltd./wholly foreign-owned enterprise	PRC	HK$50,500,000	–	100%	Production and sale of fire prevention and fighting equipment
福建萬友消防工程集團有限公司 Fujian Wanyou Fire Engineering Group Company Limited (formerly known as 福建省萬友消防工程有限公司 Fujian Wanyou Fire Engineering Company Limited)/limited liability enterprise	PRC	RMB30,000,000	–	99%	Provision of fire prevention and fighting system installation services and maintenance services

Notes to the Financial Statements

For the year ended 31 December 2003

33. PARTICULARS OF SUBSIDIARIES *(Continued)*

Name/kind of legal entity	Place/ country of incorporation	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company Directly	Indirectly	Principal activities
Fuzhou Wanyou Fire Fighting Science and Technology Co., Ltd./wholly foreign-owned enterprise	PRC	HK$20,000,000	–	100%	Inactive
Wang You Fire Technology Limited/limited liability company	State of Delaware, United States of America	US$200	–	100%	Inactive

Notes:

1. These are nil paid shares.

2. Other than Wang Sing Technology Limited and Loyal Asset Investment Holdings Limited, which operate in Hong Kong, all operating subsidiaries operate in their country of incorporation.

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

34. 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 31 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, the Group made total retirement benefit scheme contributions amounting to RMB1,236,000 (2002: RMB1,421,000).

35. POST BALANCE SHEET EVENT

On 26 February 2004, the Group entered into a sale and purchase agreement with an independent third party to acquire 55.44% interest in a company established in the PRC for a consideration of RMB3.8 million. The acquired subsidiary is engaged in the provision of total solutions for fire safety emergency lighting systems and fire safety second source of electricity supply in the PRC.

FINANCIAL SUMMARY

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

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

Notes:

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

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

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of China Fire Safety Enterprise Group Holdings Limited (the "Company") will be held at Caine Room, Level 7, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong on 21 April 2004 (Wednesday) at 3:00 p.m. for the following purposes:

1. To receive and consider the audited consolidated financial statements of the Company and its subsidiaries (together, the "Group") and the report of the directors and auditors for the year ended 31 December 2003;

2. To approve and declare a final dividend;

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

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

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

ORDINARY RESOLUTIONS

5. "THAT:

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

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

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

      (i) a Rights Issue;

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

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

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

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

(d) for the purposes of this Resolution:

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

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

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

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

whichever is the earliest; and

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

6. "THAT:

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

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

(c) for the purpose of this Resolution:

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

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

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

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

whichever is the earliest."

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

8. "THAT subject to and conditional upon the Listing Committee of the Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in, the shares of HK$0.01 each ("Shares") in the share capital of the Company to be issued pursuant to the exercise of options which may be granted under the Refreshed Limit (as defined below), the existing scheme mandate limit under the share option scheme ("Share Option Scheme") of the Company adopted pursuant to written resolution of the then sole shareholder of the Company passed on 20 September 2002 be refreshed so that the aggregate nominal amount of share capital to be allotted and issued pursuant to the grant or exercise of any options under the Share Option Scheme and any other schemes of the Company (excluding options previously granted, outstanding, cancelled, lapsed or exercised under the Share Option Scheme and any other schemes of the Company) shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this Resolution ("Refreshed Limit") and that the Directors be and are hereby unconditionally authorised to grant options up to the Refreshed Limit and to exercise all powers of the Company to allot, issue and deal with Shares pursuant to the exercise of such options."

9. By way of special business to consider and, if though fit, pass with or without modifications, the following resolutions as special resolution:

SPECIAL RESOLUTION

"THAT the existing Articles of Association of the Company be and are hereby amended in the following manner:

a. inserting the following new definition of "associate" in Article 2:

"associate" the meaning attributed to it in the rules of the Designated Stock Exchange."

b. re-numbering existing Article 76 as Article 76(1);

c. inserting the following as new Article 76(2):

"(2) Where any Member is, under the rules of the Designated Stock Exchange, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such Member in contravention of such requirement or restriction shall not be counted."

d. deleting the words “not less than seven (7) clear days but not more than fourteen (14) clear days before the date of the general meeting” in the last sentence of Article 88 and replacing therewith the following proviso:

“provided that the minimum length of the period, during which such Notice(s) are given, shall be at least seven (7) days and that the period for lodgment of such Notice(s) shall commence no earlier than the day after the dispatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting.”

e. deleting the existing Article 103 in its entirety and replacing therewith the following new Article 103:

“103. (1) A Director shall not vote (nor be counted in the quorum) on any resolution of the Board approving any contract or arrangement or any other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters namely:

(i) any contract or arrangement for the giving to such Director or his associate (s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;

(ii) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(iii) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(iv) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company or any of its subsidiaries by virtue only of his/their interest in shares or debentures or other securities of the Company;

(v) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder other than a company in which the Director and/or his associate(s) is/are beneficially interested in five (5) per cent or more of the issued shares or of the voting rights of any class of shares of such company (or any third company through which his interest or that of any of his associates is derived); or

(vi) any proposal concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death or disability benefits scheme or other arrangement which relates both to directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded to the employees to which such scheme or fund relates.

(2) A company shall be deemed to be a company in which a Director and/or his associate(s) own(s) five (5) per cent. or more if and so long as (but only if and so long as) he and/or his associates (either directly or indirectly) are the holders of or beneficially interested in five (5) per cent. or more of any class of the equity share capital of such company or of the voting rights available to members of such company (or of any third company through which his/their interest or that of any of his associates is derived). For the purpose of this paragraph there shall be disregarded any shares held by a Director or his associate(s) as bare or custodian trustee and in which he or any of them has no beneficial interest, any shares comprised in a trust in which the interest of the Director or his associate(s) is/are in reversion or remainder if and so long as some other person is entitled to receive the income thereof, and any shares comprised in an authorised unit trust scheme in which the Director or his associate(s) is/are interested only as a unit holder and any shares which carry no voting right at general meetings and very restrictive dividend and return of capital right.

(3) Where a company in which a Director and/or his associate(s) holds five (5) per cent. or more is/are materially interested in a transaction, then that Director and/or his associate(s) shall also be deemed materially interested in such transaction.

(4) If any question shall arise at any meeting of the Board as to the materiality of the interest of a Director (other than the chairman of the meeting) or his associate(s) or as to the entitlement of any Director (other than such chairman) to vote and such question is not resolved by his voluntarily agreeing to abstain from voting, such question shall be referred to the chairman of the meeting and his ruling in relation to such other Director shall be final and conclusive except in a case where the nature or extent of the interest of the Director and/or his associate(s) concerned as known to such Director has not been fairly disclosed to the Board. If any question as aforesaid shall arise in respect of the chairman of the meeting such question shall be decided by a resolution of the Board (for which purpose such chairman shall not vote thereon) and such resolution shall be final and conclusive except in a case where the nature or extent of the interest of such chairman as known to such chairman has not been fairly disclosed to the Board."

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

Hong Kong, 29 March 2004

Notice of Annual General Meeting

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

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

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

Notes:

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

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

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

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

5. The register of members of the Company will be closed from 19 April 2004 to 21 April 2004, both days inclusive during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend, all transfers, accompanied by the relevant share certificates, must be lodged for registration with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong investor Services Limited of Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on Friday, 16 April 2004.