CFE

China Fire Safety Enterprise Group Holdings Limited
中國消防企業集團控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8201

2005 Annual Report

* *For identification purposes only*

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EXECUTIVE DIRECTORS
Jiang Xiong, Chairman
Jiang Qing
Chen Shu Quan
Chan Siu Tat

NON-EXECUTIVE DIRECTORS
Cheng Kai Tuen, George
Wat Chi Ping, Isaac

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Liu Shi Pu
Heng Kwoo Seng
Pu Rong Sheng

COMPLIANCE OFFICER
Jiang Qing

QUALIFIED ACCOUNTANT
Li Ching Wah, AHKICPA

COMPANY SECRETARY
Li Ching Wah, AHKICPA

AUTHORIZED REPRESENTATIVES
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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

I am delighted to present to all our shareholders the encouraging results of the Group for the year ended 31 December 2005. Both turnover and profit attributable to equity holders soared to record levels of RMB830 million and RMB173 million, representing growth of 70% and 34% respectively over last year. Per share earnings was 7.59 RMB cents, 18% more than last year's 6.44 RMB cents.

Among our various business segments, installation service has continued to be our star performer. The prosperous property market has again supported the growth of the sector this year. To maintain this growth, however, we have to work beyond the Fujian market and become a national one-stopped fire safety services provider. To achieve this goal, we have budgeted RMB300 million for the acquisition of / cooperation with some well-established installation services providers in different provinces in the coming two years. Such move allows us to have a faster capture of the local markets and facilitates the promotion of our products and the network based monitoring system throughout the nation. In respect of maintenance services, the network based monitoring system for fire fighting and prevention systems ("**network based monitoring system**") is finally ready to launch to the market. Ten monitoring centres in different provinces have been set up and ready to operate, another 14 centres are in the final stage of establishment. Revenue is expected from the second quarter of 2006.

On the product side, in order to survive the ever-intensifying competition, on one hand we have developed new models of substantially reduced costs to maintain our competitiveness; on the other, we are looking for some potential companies which are in production of equipment or systems that are currently uncovered by us to further enrich our product mix. Since the integration of Sichuan Morita Fire Safety Appliances Company Limited ("**Sichuan Morita**") (四川森田消防裝備製造有限公司) into our Group, our production capacity is largely enhanced. Looking backward, the restructuring of the Sichuan Morita was full of difficulties, especially because it involved a massive layoff of redundant workers. Fortunately, with the efforts of our staff, all problems were resolved and the whole process was completed at the end of the year. I believe Sichuan Morita will become one of our most important growth drivers especially with the active participation of Morita Corporation ("**Morita**"). Two engineers and technicians from Morita will arrive at Sichuan Morita in April 2006, who will bring along the advance technology and help steer the plant and production reform.

STRATEGIC ALLIANCE

Maintaining close ties with large international corporations has been our source of strength, it is also an important bridge for us to move toward the global market. I am pleased that two important strategic partners, Morita and United Technologies Corporation ("**UTC**") joined us in 2005.

Morita is a famous world class manufacturer and distributor of fire engines and fire fighting and prevention equipment and the largest fire engines manufacturer in Japan. It has been one of our shareholders since our company went listed on the Stock Exchange in 2002. It made further investment in our Group by acquiring 25% of the equity interests in Sichuan Morita in 2005 and will actively participate in its plant and operation reform and upgrade. Soon we will see new brands of products named "Sichuan Morita" denoting our cooperation results available on the market.

Chairman's Statement

UTC, through its wholly owned subsidiary, United Technologies Far East Limited ("**UTFE**"), has become one of our substantial shareholders holding 14.98% of the Company's issued share capital since April 2005. In accordance with the subscription agreement signed between the Company and UTFE (the "**Subscription Agreement**") and the option agreement between I and UTFE (the "**Option Agreement**"), its shareholdings will further increase to 29% upon the exercise and completion of the second tranche subscription (which is expected to take place next month) and may eventually become the controlling shareholder of the Company. UTC is one of the largest corporations in the US and has different business units providing great varieties of products and services, including those in fire safety industry. With UTC's involvement in our Group, we can gain from the synergetic effects with their operation. The proceeds from new issue also facilitate our acquisition plans.

In addition, in January 2006 we entered into an agreement with Profile Vehicles Oy ("**Profile**"), to jointly set up a company in Hong Kong, which eventually aim at establishing a sino-foreign joint venture to build the first professional ambulance factory in China. Profile is the largest ambulance manufacturer in Northern Europe and is the sole agent in Asia of the only existing SARS virus filter for installing in ambulances. The sino-foreign joint venture will target at the medium to high end market in China and the South East Asia, its products will carry the name of "Profile" and be equipped with its advanced technologies but at comparative low prices, so it is particularly suitable for those emerging markets. Total initial investment of the factory would be around RMB30 million and we intend to have pilot production commenced in summer 2006.

I am very pleased to be working with all these world class international companies. The fact that we are selected by them as a major partner in their development of the China market has shown our market status. With the input and leverage gained from their involvement, I am confident that our Group will keep on the upward path.

APPRECIATION

The outstanding results could never be achieved without the hard work of our staff, on behalf of the Board, I would like to thank all of them for their dedication and good works. More, I would like to extend my grateful thanks to all my fellow directors for their support and valuable contributions.

Jiang Xiong
Chairman

27 March 2006

Management Discussion and Analysis

BUSINESS REVIEW

The Group's turnover for the year grew 70% to approximately RMB830 million, giving rise to a 34% increase in profit attributable to shareholders of the Company to approximately RMB173 million and generated a per share earnings of 7.59 RMB cents, an 18% rise over that of last year.

Installation of fire prevention and fighting systems

Revenue from installation of fire prevention and fighting systems increased by RMB133 million (58%) to RMB 363 million while profit increased by RMB42 million, (61%) to RMB111 million.

This year, the growth in revenue and profits were again propelled by the active property market. During the year, in addition to projects of large-scale housing estates and office towers, which have been the sector's main source of income, the Group has also been awarded contracts of over RMB98 million on some important government sites and facilities, reflecting the Group's highly recognised quality services. Besides the operations in Fujian, the Group has long been devoted to developing other markets, over 30 branch offices located in the different major cities have made up a significant portion of the revenue for the year. Nevertheless, these branch offices have to suffer low profit margins in order to be competitive and therefore, their profit contributions were minimal.

To speed up the expansion, the Group has budgeted RMB300 million for the acquisition of /cooperation with well-established companies specialising in installation of fire prevention and fighting system services in different part of the country in the coming two years. The move would bring along a number of benefits: firstly, it allows the Group to have the fastest captures of the local markets as the potential targets must have impressive track records, established customer bases and sound order books. Secondly, sales of the Group's fire prevention and fighting equipment are expected to be benefited from the increase in number of installation contracts obtained, deeper market penetration and wider publicity. Moreover, familiarity with the fire safety network designs of the existing customers largely facilitates the promotion of the Group's network based monitoring systems. Thirdly, the low profit margin problem could be greatly improved and thus keep the sector's performance on an upward trend.

Production and sale of fire engines, fire prevention and fighting equipment

Revenue from production and sales of fire engines, fire prevention and fighting equipment increased by RMB112 million (55 %) to RMB314 million. Profit contributed increased only slightly by RMB2 million (3%) to RMB73 million.

Revenue brought by Sichuan Morita for the period between the date of acquisition and the balance sheet date amounting to approximately RMB97 million was the main reason for the sector's revenue increase, although its profit contribution was just around RMB8 million. Since the Group took over the company in July 2005, focus has been put on restructuring the company including streamlining operations and staff layoff, which unavoidably affect the operation of the company. With the completion of all the re-organisation works at the end of the year, efforts and resources can be re-directed to productive activities. Moreover, with the arrival of two engineers and technicians from Morita in April 2006, who bring along the advanced production technology and operation plan, Sichuan Morita could definitely be reformed to a modern and efficient business unit, which will further boost the Group's growth outlook.

Management Discussion and Analysis

Excluding the results of Sichuan Morita, revenue from sales of fire prevention and fighting equipment increased by RMB15 million (7%) to RMB217 million for the year. Profit, on the other hand dropped RMB6 million (8%) to RMB65 million. Gross profit margin has also declined from 35% to 30%. This shows that the Group's product sales, if in terms of quantity, have been kept on the rise. However, fierce competition exerting great pressure on the product prices, particularly on fire alarm systems, has substantially squeezed the profit margin and led to the fall in profit. In response, the Group has developed two improved models of heat and smoke detectors and alarm control units, which cost much lower than the existing models and therefore more competitive. The products are now undergoing approval testing in the relevant authorities and will soon be launched on the market. By then, the sector's profit margin could be stablised. After completion of the acquisitions last year, the Group now has a comprehensive range of products including emergency lightings, fire alarm systems, fire engines, fire extinguishers, sprinkler systems and other rescue tools and equipment. To further enrich the product mix, the Group is looking for some other potential companies which are in production of equipment or systems that are currently uncovered by the Group, such as CO2 fire smothering system.

Provision of fire prevention and fighting system maintenance services

Revenue from the provision of fire prevention and fighting system maintenance services increased by approximately RMB8 million (18%) to approximately RMB54 million while profit increased by approximately RMB5 million (12%) to approximately RMB43 million.

The maintenance services sector comprises the provision of traditional repair and maintenance services and the network based monitoring system, although no revenue has been generated by the latter up to date. The network based monitoring system allows users to have their fire prevention and fighting systems securely monitored all the time in a remote automatic monitoring center established in each city, so as to keep them maintained in a good ready-for-use standard. There are now 10 centers (in Fujian, Jiangxi, Henan, Hebei, Liaoning, Anhui, Chongqing and Sichuan) set up and ready to operate and another 14 centres (located in Guangdong, Shangdong and Shangxi) with approvals from the local fire brigades obtained and in the final stage of establishment. Revenue is expected from the second quarter of 2006 and will compose of system connection fee, regular system maintenance fee and fire safety system modification fee (when imperfections in systems identified). Given the rising concern of public safety, tightening rules and regulations together with the Group's expansion plan as mentioned under the "Installation of fire prevention and fighting systems" above, it is anticipated that there will be great demand of such high quality and advanced system and will further improve the performance of the Group's maintenance service sector.

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

Revenue and profits contributed by the trading of fire engines, fire prevention and fighting and rescue equipment for the year was approximately 98 million and RMB 5 million respectively.

This is a new sector of the Group developed from the acquisition of a subsidiary at the end of last year. Its main operation is the sale of fire engines and fire prevention and fighting and rescue equipment sourced mainly in Europe and Japan. Since products sold are mainly of high-end categories, most of the customers are fire brigades in the Eastern coastal provinces and large national companies such as China Petroleum International Company Limited. With the increasing awareness of public safety, government's fiscal budget allocated to the relevant areas is on the rise, and it is expected that demand for high quality fire engines and equipment would escalate to a great extent and the Group can have a good share of the enlarged market.

FINANCIAL RESOURCES, LIQUIDITY, CONTINGENT LIABILITIES AND PLEDGE OF ASSETS

As at 31 December 2005, the Group had cash and bank balances amounting to approximately RMB442 million (2004: RMB247 million) of which RMB22 million (2004: RMB2 million) were pledged to secure banking facilities granted to the Group. Outstanding balances of short term bank loans, trust receipt loans and bank overdrafts as at the year end date were RMB4 million (2004: RMB3 million), RMB11 million (2004: RMB1 million) and RMB9 million (2004: RMB9 million) respectively. The trust receipt loans and overdrafts were granted to a subsidiary and were secured by the Group's bank deposits together with personal assets and guarantee of a minority shareholder. The short term bank loans was granted to another subsidiary and was secured by certain land leases and buildings of the Group with a total carrying value of approximately RMB20 million. Save as disclosed herein, there were no other material charges on the assets of the Group as at 31 December 2005.

As at 31 December 2005, current assets and current liabilities of the Group were approximately RMB836 million (2004: RMB425 million) and RMB257 million (2004: RMB111 million) respectively. The current ratio was approximately 3.3 times (2004: 3.8 times), reflecting sufficient financial resources to meet the Group's liabilities. Trade receivables as at end of the year was RMB264 million, representing an increment of 114% over that of last year and nearly 70% of the amount are in the 0-90 days aging range. The increase was mainly attributable to the slack credit policy and receivable recovering practice of Sichuan Morita during the days when it was a state owned enterprises. In response, the Group has tightened the control of the subsidiary's receivables and expects that the condition would be gradually improved. The Group has a minimal gearing ratio as its long-term interest bearing liabilities as at year end date was only RMB0.1 million in comparison with the Group's shareholders equity of RMB806 million (gearing ratio for 2004: Nil).

Renminbi is adopted as the reporting currency by the Group. As at 31 December 2005, trade payables of approximately RMB0.8 million, 0.8% of the total trade payables only, were denominated in foreign currencies (mainly Euro dollar and Japanese Yen) that are subject to potential volatile exchange rates fluctuations, therefore no hedging was exercised. The Group's assets, liabilities, sales and purchases are primarily denominated in Renminbi and Hong Kong dollar, the Group's exposure to foreign currencies fluctuation is minimal, and therefore, no hedging against foreign currencies exposure was taken. The Group had no material contingent liabilities as at 31 December 2005.

ACQUISITIONS, DISPOSALS AND CAPITAL COMMITMENTS

During the year, the Group has the following acquisitions and disposals:

Acquisitions

The Group has taken over Sichuan Morita since 1 July 2005 pursuant to the sale and purchase agreement dated 24 September 2004. The subsidiary principally engaged in the manufacturing and sale of fire engines, design, manufacture, sale and installation of fire prevention and fighting equipment and provision of installation and maintenance services of fire prevention and fighting systems. Since the subsidiary has been integrated into the Group, it has contributed RMB97 million in turnover and RMB8 million in profit to the Group.

Management Discussion and Analysis

Disposals

On 14 January 2005, the Group entered into an agreement to sell 25% of equity interest in Sichuan Morita to Morita, at cash consideration of approximately RMB21 million. Morita is a shareholder of the Company holding 0.98% of the issued share capital of the Company and is the largest manufacturer and distributor of fire engines and fire prevention and fighting equipment in Japan. Morita and Sichuan Morita has entered into an agreement in March 2006, pursuant to which Morita will transfer certain kinds and level of technology to Sichuan Morita and two engineers and technicians from Morita will arrive at Sichuan Morita in April 2006 to steer the factory's quality improvement, production upgrade and restructuring matters. New products of higher quality targeting the high-end market in China under the brand name of "Morita Sichuan" will soon be available.

Capital commitments

As at 31 December 2005, the Group has capital commitment of approximately RMB0.5 million for the acquisition of property, plant and equipment.

Save as disclosed herein, the Group has no significant capital commitment, investments, acquisitions or disposals of subsidiaries as at 31 December 2005.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2005, the Group had approximately 1,370 full-time employees (2004: 900). Staff costs, excluding directors' remuneration, for the year amounted to RMB49 million, a 32% increase over the previous year's RMB37 million. The rise in staff costs is the direct results of growth in number of workers employed following the acquisition of Sichuan Morita and the expansion in relation to the development of the network based system in different provinces. All full-time employees are entitled to medical contributions, provident funds and retirement plans. The Group provides a series of comprehensive in-house and on-the-job training to staff to keep their technical skills and standards up to date for quality services and to enhance work safety.

STRATEGIC PARTNERS

In addition to the cooperation with Morita in Sichuan Morita as disclosed in "Acquisitions, disposals and capital commitments" above, on 1 February 2005, the Company entered into the Subscription Agreement with UTFE, an indirect wholly owned subsidiary of UTC. Pursuant to the Subscription Agreement, UTFE will subscribe for shares of the Company in two tranches at a subscription price of HK$0.577 per share, subject to certain conditions. The first tranche subscription has been completed in April 2005 and UTFE became a substantial shareholder of the Company holding 14.98% of the Company's enlarged issued share capital. As at the date of this announcement, all second tranche conditions have been fulfilled or waived (as the case may be) in accordance with the Subscription Agreement, accordingly, another 469,000,000 shares of the Company will be issued to UTFE. Upon completion of the second tranche subscription, UTFE will hold 825,000,000 shares of the Company, or 29% of the Company's enlarged issued share capital. UTC is a multi-national conglomerate listed on the New York Stock Exchange having different business units specialising in a great variety of businesses including Chubb, a world leading provider of products and services for the fire protection industry. UTC and Chubb's involvement in the Group will assist the Group considerably with its strategic planning and expansion in the fire safety industry. The proceeds from the new issue also facilitate the Group in carrying out its expansion plan mentioned in "Business review – installation of fire prevention and fighting systems".

Besides, in January 2006, a subsidiary of the Group entered into an agreement with Profile, the largest ambulance manufacturer in Northern Europe, to jointly set up a company in Hong Kong with the ultimate aim of establishing a sino-foreign joint venture company in China (the "**JV Co**") to invest in an ambulance factory in Chengdu. The factory is believed to be the first one in China specialising in the manufacturing of ambulances. Total initial investment will be around RMB30 million. The JV Co will target the medium to high-end ambulance market and products will carry the "Profile" name and equipped with the advanced technology from Profile but at much lower prices, therefore, they are particularly suitable to those emerging markets such as China and the South-East Asia. Production is expected to commence in summer 2006.

China's continuing development over the coming years will give rise to growing demand for sophisticated and high quality fire safety and rescue systems and solutions which the Group, with support from major international companies in the fire safety industry, will be uniquely placed to supply.

Directors and Senior Management

DIRECTORS

Executive Directors

Mr. JIANG Xiong, aged 38, 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 10 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 41, 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 61, 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 10 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 36, is an executive director of the Company and responsible for treasury and financial planning of the Group. He is also the chief financial officer of the Group. He joined the Group in April 2002. 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 Institute of Certified Public Accountants and a fellow member of The Association Chartered of Certified Accountants.

Directors and Senior Management

Non-executive Directors

Mr. CHENG Kai Tuen, George, aged 47, was appointed as a non-executive Director of the Company in June 2005. He is the Finance Director of Chubb Asia, a business division of UTC Fire & Security. Mr. Cheng holds a Master degree in International Management from American Graduate School of International Management. He is also a director of various private companies under Chubb Asia.

Mr. WAT Chi Ping, Isaac, aged 33, was appointed as a non-executive Director of the Company in June 2005. He is the Legal Counsel of Chubb Asia and is admitted as a Solicitor of the High Court of Hong Kong Special Administrative Region and a Solicitor of the Supreme Court of England and Wales.

Independent non-executive Directors

Mr. LIU Shi Pu, aged 71, 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. HENG Kwoo Seng, aged 57, was appointed as an independent non-executive Director of the Company in April 2004. Mr. Heng is the managing partner of Morison Heng, Chartered Accountants and Certified Public Accountants. He is a fellow member of The Institute of Chartered Accountants in England & Wales, an associate member of The Hong Kong Institute of Certified Public Accountants. Mr. Heng is the Vice Chairman of The Hong Kong Hainan Commercial Association. He is also director of the following companies listed on the Main Board of the Stock Exchange: Lee & Man Paper Manufacturing Limited, Lee & Man Holding Limited, Tack Fat Group International Limited, The Thai-Asia Fund Limited, The Thai Asset Fund Limited, Soundwill Holdings Limited and Winfair Investment Company Limited.

Mr. PU Rong Sheng, aged 63, was appointed as an independent non-executive Director of the Company in September 2005. Mr. Pu is a graduate from the Faculty of Electrical Engineering of the Beijing University of Technology. He has almost 40 years of working experience in the Fire Prevention and Fighting Bureau and was a Senior Colonel of the Armed Police Professionals (武警專業技術大校), working in the Fire Prevention Monitoring Division of the Fire Prevention and Fighting Bureau of the Beijing Public Security Bureau (北京市公安局消防局防火監督部) before he retired in 1999. Mr. Pu is a senior engineer appointed by the Fire Safety Technicians Technical Expertise Accreditation Committee of the China Armed Police (中國武警部隊消防技術人員高級技術專業職務評審委員會任命的高級工程師). He is also a vice Chairman of the Intelligent Buildings and Automation Committee of the China Association of Automation (中國自動化學會智能建築與樓宇自動化專業委員會副主任) and is a member of the Intelligent Building Technical Committee of the Construction Industry Association of China (中國建築業協會智能建築專業委員會專家). Mr. Pu is also appointed a committee member and an expert of the Intelligent Engineering Branch of China Exploration and Design Association (中國勘察設計協會工程智能設計分會個人理事及建築智能化技術專家). Apart from the Company, Mr. Pu did not hold any directorship in listed company in the last three years.

Directors and Senior Management

SENIOR MANAGEMENT

Mr. **LIU Zhi Yi**, aged 60, is the Vice President of the Group. Mr. Liu joined the Group in 2005 and is responsible for the business development in Shanghai and Su-Zhe regions. After graduated from Shanghai Mechanical Engineering School (上海機電工程專科學校), he has been working in the fire safety industry for over 35 years. Before joining the Group, Mr. Liu was a director of Hua Xia Fire Safety Group, the director and general manager of Shanghai Huaxia Zhendan Fire Safety Equipment Co. Ltd. (上海華夏震旦消防裝備有限公司) and a committee member of China Fire-Protection Association. Mr. Liu is currently a member of the Engineering System Technicians Technical Expertise Accreditation Committee of the Shanghai Public Security Bureau (上海市公安局工程系統高級專業技術職務資格評審委員會) and a team leader of Fire Safety Technology Professional Group (消防技術專業學科組) and the vice chairman of sub-committee for Fire Engines of the China Fire Safety Standardisations Technology Committee 全國消防標準化技術委員會消防車、泵分技術委員會.

Mr. LI Jin, aged 51, 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. SHI Jia Hao, aged 59, joined the Group as a supervisor of the general office in 2005, and is responsible for the administration and management of the Group. Graduated from the department of business administration of Xiamen University, Mr. Shi is a qualified economist with extensive experience of corporate management from various sectors including manufacturing, tourism and real estate. He had also participated in corporate reorganization, and is very experienced in office administration and corporate planning.

Mr. LI Xin, aged 49, a graduate of the Department of Electronic Engineering of Shenyang University of Technology. Mr. Li joined the Group in 2005 as a general manager of Fujian Wanyou Fire Fighting Science and Technology Co., Ltd. He is responsible for the technology development, production and administration of the company. Mr. Li had worked in a number of companies which engaged in fire prevention and fighting products and equipment as well as fire safety engineering, from which gained extensive experience in the fire safety industry in the PRC.

Mr. ZHUO Fuquan, aged 60, a graduate of the Department of Physics in Xiamen University. He had worked Fujian Hitachi Television Co. Ltd. (福建日立電視機有限公司) for a long period, where he was the chief of the design department and sales department responsible for the design and sales of products for export and domestic sales. Mr. Zhuo has extensive experience in technologies, productions, sales and operations management in the IT industry. He joined the Group in November 2003 and is now the Deputy 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.

Directors and Senior Management

Mr. CAI Jun, aged 42, a graduate of the Department of Mechanical Engineering of the Southwest Jiaotong University (西南交通大學). He is 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 Chairman 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 March 2004.

Mr. YAN Lijun, aged 44, a graduate of 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) where he gained extensive experiences in business management. He joined the Group in December 2003 and is currently 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), responsible for the Company's management.

Mr. FENG Quanhui, aged 43, a graduate of the department of electronics of South China University of Technology (華南工學院). He is a qualified senior engineer and was awarded the first class manager qualification (一級項目經理資格) by the Construction Office of Fujian Province (福建省建設廳). Mr. Feng has many years of experience in fire services installation, and is the general manager of Jiangxi Shengan City Safety Communications Development Co. Ltd. (江西盛安城市安全信息發展有限公司), a subsidiary acquired by the Company in July 2004, responsible for its management and business development.

Mr. CHAN Chun Wo, aged 55, a graduate of the Mechanical and Engineering Department of Southeast University of China (Nanjing) (中國東南大學(南京)), has over 15 years of experience in fire services and rescuing equipments. Mr. Chan is the Managing Director of Tung Shing Trade Development Company Limited (東城貿易發展有限公司), a subsidiary acquired by the Company in November 2004, responsible for its management and business development.

Mr. LIU Jun, aged 48, is the factory manager of Sichuan Morita Fire Safety Appliances Company Limited, a company acquired by the Group in July 2005. With over 20 years of service in Sichuan Morita (formerly known as Sichuan Fire Safety Appliances Factory), during which he was promoted from an electronic technician to the factory manager, Mr. Liu has extensive experience of production operations and administration of the Company.

Mr. REN Long , aged 43, the general manager of Chuanxiao Fire Safety Engineering Company Limited, a company acquired by the Group in July 2005. He has been engaging in the fire safety engineering and project implementation and administration for over 20 years, Mr. Ren has extensive experience in the administration of numerous large-scaled fire safety projects.

Corporate Governance Report

Throughout the year ended 31 December 2005, the Company has complied with the code provisions set out in the Code on Corporate Governance Practices set out in Appendix 15 of the GEM Listing Rules, except for the following:

1. There were no fixed terms of appointment for the non-executive directors.

2. The roles of chairman and chief executive officer were preformed by Mr. Jiang Xiong until Mr. Jiang Qing was appointed Chief Executive Officer on 1 April 2005.

3. No remuneration committee has been set up.

4. According to the articles of association, no director holding office as chairman and/or managing director shall be subject to retirement by rotation.

The details of such deviation have been disclosed in the relevant paragraphs below in this Corporate Governance Report.

DIRECTORS' SECURITIES TRANSACTIONS

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

BOARD OF DIRECTORS

The board is composed of four executive directors, two non-executive directors and three independent non-executive directors. Name of the directors are set out in the table on page 15. Mr. Jiang Xiong (Chairman) and Mr. Jiang Qing (Chief Executive Officer) are brothers.

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

BOARD OF DIRECTORS *(Continued)*

Name of directors	**No. of meetings attended**
Executive directors	
Mr. Jiang Xiong *(Chairman)*	7/9
Mr. Jiang Qing *(Chief Executive Officer)*	7/9
Mr. Chen Shu Quan	9/9
Mr. Chan Siu Tat	9/9
Non-executive directors	
Mr. Cheng Kai Tuen, George *	2/3
Mr. Wat Chi Ping, Isaac *	2/3
Independent non-executive directors	
Mr. Liu Shi Pu	6/9
Mr. Heng Kwo Seng	6/9
Mr. Pu Rong Sheng *	1/2

* *Mr. Cheng Kai Tuen, George and Mr. Wat Chi Ping, Issac were appointed as non-executive directors of the Company on 21 June 2005, since then three Board meetings were held. Mr. Pu Rong Sheng was appointed independent non-executive directors of the Company on 22 September 2005, since then two Board meetings were convened.*

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

AUDITORS' REMUNERATION

Auditors' remuneration is for audit services provided only. The auditors did not provide any non-audit services to the Group during the year. The remuneration of the Auditors for the year under review is RMB1,518,000.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Jiang Xiong is the chairman of the Board and Mr. Jiang Qing is the chief executive officer of the Company. Since Mr. Jiang Qing was appointed the chief executive officer of the Company on 1 April 2005, the role of the chairman and chief executive officer are segregated and performed by the different persons. The chairman is responsible for leading the Board in formulating strategic plans for the Group while the chief executive officers oversees the Group's daily operations and execution of Board decisions.

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

NON-EXECUTIVE DIRECTORS

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

Corporate Governance Report

REMUNERATION OF DIRECTORS

No remuneration committee has been set up. Remuneration to the executive directors remained the same though service contracts of three of them have been expired in September 2005. Bonuses were paid to the executive directors according to a scheme set by the Board without the participation of the executive directors. The remuneration committee will be set up in accordance with the Code on Corporate Governance Practice after completion of the second tranche subscription with UTFE which is expected to take place in April 2006 and remuneration packages for all directors will be reviewed by the remuneration committee at that time.

NOMINATION OF DIRECTORS

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

AUDIT COMMITTEE

The audit committee comprises three independent non-executive Directors, namely Mr. Liu Shi Pu, Mr. Heng Kwoo Seng and Mr. Pu Rong Sheng ("Mr. Pu"). Mr. Pu were appointed as independent non-executive directors and members of the audit committee on 22 September 2005. Mr. Xiang Yu Fu was a member of the audit committee for the period up to 22 September 2005. Mr. Xiang resigned as an independent non-executive Director and a member of the audit committee on 22 September 2005. The primary duties of the audit committee are to review the Company's annual report and accounts, half-yearly reports and quarterly reports and to provide advice and comments thereon to the Board. The audit committee is also responsible for reviewing and supervising the financial reporting process and internal control procedures of the Group.

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

Name of Members	No. of meetings attended
Mr. Liu Shi Pu	4/4
Mr. Heng Kwo Seng	4/4
Mr. Pu Rong Sheng *	1/1

* *Mr. Pu Rong Sheng was appointed independent non-executive directors of the Company on 22 September 2005, since then one audit committee meeting was convened.*

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

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for the preparation of the financial statements, which give a true and fair view of the condition of the Group. The auditors are responsible to form an independent opinion, based on the audit, on the financial statements prepared by the directors and report the opinion solely to the shareholders of the Company as a body and for no other purpose.

Report of the Directors

The Directors present their annual report and the audited financial statements for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 38 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2005 are set out in the consolidated income statement on page 26.

The Directors recommend the payment of a final dividend of 1.3 HK cents per share to the shareholders on the register of members on 21 April 2006, amounting to HK$36,985,000 (equivalent to RMB38,464,000) for the year ended 31 December 2005 (2004: nil).

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 16 to the financial statements.

SHARE CAPITAL

Details of the movements during the year of the share capital of the Company are set out in note 31 to the financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31 December 2005 were RMB580,374,000 (2004: RMB421,807,000).

Under the articles of association of the Company, dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserves set aside from profits which the directors of the Company determine is no longer needed. With the sanction of an ordinary resolution, dividends may also be declared and paid out of share premium account subject to a solvency test as set out in section 34 of the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

Report of the Directors

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

Non-executive Directors

Mr. Cheng Kai Tuen George	(appointed on 21 June 2005)
Mr. Wat Chi Ping Isaac	(appointed on 21 June 2005)
Mr. Richard Owen Pyvis	(resigned on 21 June 2005)
Ms. Josephine Price	(resigned on 21 June 2005)

Independent Non-executive Directors

Mr. Liu Shi Pu	
Mr. Heng Kwoo Seng	
Mr. Pu Rong Sheng	(appointed on 22 September 2005)
Mr. Xiang Yu Fu	(resigned on 22 September 2005)

In accordance with provisions of the Company's articles of association, Messrs. Cheng Kai Tuen George, Wat Chi Ping Isaac, Pu Rong Sheng and Chen Shu Quan 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. Apart from Mr. Chan Siu Tat, the service agreements of the executive Directors were expired during the year. New terms of service agreement are subject to review of the remuneration committee.

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).

CONNECTED TRANSACTIONS

During the financial year ended 31 December 2005, the Group has the following connected transaction not fully exempted under Rule 20.31 or Rule 20.33 of the GEM Listing Rules:

By virtue of the entry into of the Option Agreement between Mr. Jiang Xiong and UTFE on 1 February 2005, UTFE is considered to be a deemed connected person of the Company under Rule 20.11(4)(a) of the GEM Listing Rules with respect to the share subscription pursuant to the Subscription Agreement dated 1 February 2005. Pursuant to the Subscription Agreement, the Company shall, inter alia, issue 825,000,000 new shares of the Company to UTFE in two tranches at a price of HK$0.577 per share. On 12 April 2005, the Company issued 356,000,000 shares to UTFE upon completion of the first tranche subscription, which represented 14.98% of the Company's enlarged issued share capital. Details of the Option Agreement and the Subscription Agreement are set out in the Company's announcement and circular dated 2 February 2005 and 10 March 2005 respectively.

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

Save as disclosed below, as of 31 December 2005, 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 5.46 to 5.67 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 in ordinary shares of the Company

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 ("Mr. Jiang")	Beneficial owner *(Note 1)*	981,600,000	76.04%
	Deemed Interest *(Note 2)*	825,000,000	*(Note 3)*
Mr. Jiang Qing	Beneficial owner	7,500,000	0.32%

Report of the Directors

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

Long positions in ordinary shares of the Company *(Continued)*

Notes:

1. Mr. Jiang Xiong ("Mr. Jiang") is beneficially interested in 981,600,000 Shares. By virtue of the Option Agreement, he and UTFE are parties to the agreement under section 317 of the SFO. On 1 February 2005, the Company entered into the Subscription Agreement with UTFE, pursuant to which the Company will issue 825,000,000 new shares of the Company to UTFE in two tranches at a price of HK$0.577 per share. On 12 April 2005, the Company issued 356,000,000 shares to UTFE upon completion of the first tranche subscription, which represented 14.98% of the Company's enlarged issued share capital. Under the SFO, Mr. Jiang is deemed to have a long position in the 825,000,000 shares issued/ to be issued to UTFE pursuant to the Subscription Agreement.

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

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

Short positions in ordinary shares of the Company

On 1 February 2005, Mr. Jiang entered into the Option Agreement with UTFE a substantial shareholder of the Company, pursuant to which, Mr. Jiang grants an option (the "**Option**") to UTFE, which, when exercised, will require Mr. Jiang to sell to UTFE the lower of:

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

b. all the shares of the Company held by Mr. Jiang at the time when UTFE exercise the Option.

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

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

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

(Continued)

Options to subscribe for ordinary shares in the Company

Grantee	Date of grant	Number of shares issuable under the options granted	Exercisable period	Exercise price	Number of shares issuable under the options granted as at 1 January 2005 and 31 December 2005	Percentage of issued share capital of the Company
				HK$		
Mr. Jiang Qing	25 May 2004	20,000,000	25 May 2004 – 24 May 2014	0.44	20,000,000	0.84%
Mr. Chen Shu Quan	25 May 2004	5,000,000	25 May 2004 – 24 May 2014	0.44	5,000,000	0.21%
Mr. Chan Siu Tat	25 May 2004	5,000,000	25 May 2004 – 24 May 2014	0.44	5,000,000	0.21%
					30,000,000	

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

No options were granted to, or exercised by, the Company's directors during the year.

Interest in a subsidiary

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

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than as disclosed above, 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.

INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 31 December 2005, 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 in ordinary shares of the Company

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
UTFE	Beneficial owner *(Note 1)* Deemed Interest *(Note 2)*	825,000,000 981,600,000	76.04% *(Note 3)*
Otis Elevator Company	Interest of a controlled corporation *(Note 4)*	1,806,600,000	76.04%
Carrier Corporation	Interest of a controlled corporation *(Note 5)*	1,806,600,000	76.04%
United Technologies Corporation	Interest of a controlled corporation *(Note 6)*	1,806,600,000	76.04%

Notes:

1. UTFE is beneficially interested in 825,000,000 shares issued/ to be issued to UTFE pursuant to the Subscription Agreement.

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

INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS *(Continued)*

Long positions in ordinary shares of the Company *(Continued)*

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

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

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

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

Short positions in ordinary shares of the Company

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

Other than as disclosed above, the Company has not been notified of any other interests or short position in the issued share capital of the Company as at 31 December 2005.

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 32 to the financial statements.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the executive Directors on the basis of their merit, qualifications and competence.

The emolument of the Directors of the Company are decided by the Board of Directors, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to Directors and eligible employees, details of the scheme is set out in note 32 to the financial statements.

Report of the Directors

RETIREMENT BENEFIT SCHEMES

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

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year ended 31 December 2005, neither the Company nor any of its subsidiaries purchased, cancelled or redeemed any listed securities of the Company. Save the issue of shares pursuant to the Subscription Agreement, the Company has not sold any listed securities of the Company.

POST BALANCE SHEET EVENTS

Details of the post balance sheet events of the Group are set out in note 41 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.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2005, the aggregate purchases and turnover attributable to the Group's five largest suppliers and customers were both less than 30% of the Group's purchases and turnover respectively.

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

27 March 2006

Deloitte.
德勤

德勤・關黃陳方會計師行
香港中環干諾道中111號
永安中心26樓

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

TO THE MEMBERS OF CHINA FIRE SAFETY ENTERPRISE GROUP HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Fire Safety Enterprise Group Holdings Limited (the "Company") and its subsidiaries (the "Group") from pages 26 to 81 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 consolidated financial statements which give a true and fair view. In preparing consolidated 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 Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the consolidated financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the circumstances of 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 consolidated financial statements are free from material misstatement. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2005 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
27 March 2006

Consolidated Income Statement

For the year ended 31 December 2005

	NOTES	2005 RMB'000	2004 RMB'000
Turnover	6	**829,627**	486,720
Cost of sales		**(543,871)**	(287,258)
Gross profit		**285,756**	199,462
Other income	8	**4,846**	1,500
Distribution costs		**(10,770)**	(6,159)
Administrative expenses		**(59,281)**	(32,775)
Finance costs	9	**(1,280)**	(117)
Profit before taxation		**219,271**	161,911
Taxation	12	**(44,655)**	(31,602)
Profit for the year	13	**174,616**	130,309
Attributable to:			
Equity holders of the Company		**172,929**	129,089
Minority interests		**1,687**	1,220
		174,616	130,309
Dividends	14		
Ordinary		**63,174**	21,200
Special		**–**	98,495
		63,174	119,695
Earnings per share (RMB cents)	15		
Basic		**7.59**	6.44
Diluted		**7.44**	6.44

Consolidated Balance Sheet

At 31 December 2005

	NOTES	2005 RMB'000	2004 RMB'000 (Restated)
Non-current assets			
Property, plant and equipment	16	**166,633**	135,305
Prepaid lease payments	17	**23,301**	6,154
Goodwill	18	**62,543**	50,329
Development costs	19	**5,455**	7,135
Deposit paid for the acquisition of a subsidiary	20	**–**	32,400
Deposit paid for the purchase of plant and equipment	21	**–**	10,000
		257,932	241,323
Current assets			
Inventories	22	**52,277**	9,220
Retention receivables		**5,034**	3,045
Amounts due from contract customers	23	**35,527**	20,766
Trade receivables	24	**264,233**	123,657
Deposits, prepayments and other receivables	25	**36,087**	21,099
Prepaid lease payments	17	**521**	129
Pledged bank deposits		**22,442**	2,123
Bank balances and cash		**420,013**	245,126
		836,134	425,165
Current liabilities			
Trade and other payables	26	**191,281**	73,682
Amounts due to contract customers	23	**13,401**	3,257
Amount due to a minority shareholder	27	**7,695**	9,036
Tax liabilities		**20,362**	12,239
Bank borrowings	28	**24,367**	12,448
Obligation under a finance lease			
– amount due within one year	29	**32**	–
		257,138	110,662
Net current assets		**578,996**	314,503
Total assets less current liabilities		**836,928**	555,826
Non-current liabilities			
Deferred tax liabilities	30	**3,142**	2,492
Obligation under a finance lease			
– amount due after one year	29	**142**	–
Amount payable on acquisition of a subsidiary	34	**–**	5,830
		3,284	8,322
Net assets		**833,644**	547,504

Consolidated Balance Sheet

At 31 December 2005

	NOTES	2005 RMB'000	2004 RMB'000 (Restated)
Capital and reserves			
Share capital	31	**25,186**	21,412
Reserves	33	**780,456**	519,524
Equity attributable to equity holders of the Company		**805,642**	540,936
Minority interests		**28,002**	6,568
Total equity		**833,644**	547,504

The financial statements on pages 26 to 81 were approved and authorised for issue by the Board of Directors on 27 March 2006 and are signed on its behalf by:

Jiang Xiong
DIRECTOR

Jiang Qing
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2005

	Attributable to equity holders of the Company											
	Share capital RMB'000	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	Exchange reserve RMB'000	Retained profits RMB'000	Total RMB'000	Minority interests RMB'000	Total RMB'000
At 1 January 2004	21,200	139,920	(6,692)	57,840	13,267	10,586	20,684	–	185,688	442,493	717	443,210
Exchange differences arising on translation of foreign operations recognised directly in equity	–	–	–	–	–	–	–	94	–	94	–	94
Profit for the year	–	–	–	–	–	–	–	–	129,089	129,089	1,220	130,309
Total recognised income for the year	–	–	–	–	–	–	–	94	129,089	129,183	1,220	130,403
Issue of new shares	212	11,448	–	–	–	–	–	–	–	11,660	–	11,660
Transfer	–	–	–	–	5,138	2,569	10,993	–	(18,700)	–	–	–
Acquired on acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	–	3,622	3,622
Increase in minority interests on partial disposal of interests in subsidiaries	–	–	–	–	–	–	–	–	–	–	1,009	1,009
Dividends paid	–	–	–	–	–	–	–	–	(42,400)	(42,400)	–	(42,400)
At 1 January 2005	21,412	151,368	(6,692)	57,840	18,405	13,155	31,677	94	253,677	540,936	6,568	547,504
Exchange differences arising on translation of foreign operations recognised directly in equity	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(2,639)**	**–**	**(2,639)**	**(49)**	**(2,688)**
Realisation of exchange reserve on disposal of a subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(116)**	**–**	**(116)**	**–**	**(116)**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**172,929**	**172,929**	**1,687**	**174,616**
Total recognised income (expense) for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(2,755)**	**172,929**	**170,174**	**1,638**	**171,812**
Issue of new shares	**3,774**	**213,963**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**217,737**	**–**	**217,737**
Transfer	**–**	**–**	**–**	**–**	**6,738**	**3,639**	**12,532**	**–**	**(22,909)**	**–**	**–**	**–**
Capital contribution from minority shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**2,259**	**2,259**
Partial disposal of a subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**18,869**	**18,869**
Reduction of minority interests on acquisition of additional interest in a subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1,332)**	**(1,332)**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(123,205)**	**(123,205)**	**–**	**(123,205)**
At 31 December 2005	**25,186**	**365,331**	**(6,692)**	**57,840**	**25,143**	**16,794**	**44,209**	**(2,661)**	**280,492**	**805,642**	**28,002**	**833,644**

Consolidated Cash Flow Statements

For the year ended 31 December 2005

	NOTES	2005 RMB'000	2004 RMB'000
Cash flows from operating activities			
Profit before taxation		**219,271**	161,911
Adjustments for:			
Depreciation of property, plant and equipment		**18,187**	15,909
Amortisation of prepaid lease payments		**188**	129
Loss on disposal of property, plant and equipment		**75**	–
Loss on disposal of a subsidiary		**228**	–
Loss on partial disposal of a subsidiary		**1,162**	–
Amortisation of goodwill		**–**	5,593
Amortisation of development costs		**1,680**	1,010
Interest income		**(3,858)**	(1,352)
Interest expense		**1,280**	117
Operating cash flows before movements in working capital		**238,213**	183,317
(Increase) decrease in inventories		**(21,471)**	1,442
Increase in retention receivables		**(1,989)**	(768)
(Increase) decrease in amounts due from contract customers		**(8,083)**	9,757
Increase in trade receivables		**(85,406)**	(32,787)
Increase in deposits, prepayments and other receivables		**(4,514)**	(3,704)
Increase in trade and other payables		**44,929**	20,381
Increase in amounts due to contract customers		**859**	3,257
Cash generated from operations		**162,538**	180,895
Interest paid		**(1,280)**	(117)
PRC Enterprise Income Tax paid		**(38,561)**	(24,228)
Net cash from operating activities		**122,697**	156,550
Investing activities			
Purchase of property, plant and equipment		**(11,196)**	(1,949)
Acquisition of subsidiaries	34	**(32,590)**	(20,943)
Increase in pledged bank deposits		**(20,319)**	(2,123)
Acquisition of shareholdings of a minority shareholder		**(5,916)**	–
Proceeds from partial disposal of interest in a subsidiary		**20,250**	–
Refund from (deposit paid for) acquisition of plant and equipment		**10,000**	(10,000)
Interest received		**3,858**	1,352
Proceeds from disposal of property, plant and equipment		**16**	–
Disposal of a subsidiary	35	**154**	–
Deposit for acquisition of a subsidiary paid		**–**	(32,400)
Additions of development costs		**–**	(6,700)
Net cash used in investing activities		**(35,743)**	(72,763)

Consolidated Cash Flow Statements

For the year ended 31 December 2005

	2005 RMB'000	2004 RMB'000
Financing activities		
Proceeds from issue of new shares	**217,737**	–
Capital contributions from minority shareholders of subsidiaries	**2,259**	1,009
Increase in trust receipt loans	**1,469**	2,877
Dividends paid	**(123,205)**	(42,400)
Repayment of bank loans	**(6,615)**	(3,718)
(Repayment of) advances from minority shareholders	**(1,160)**	9,036
Repayment of obligations under a finance lease	**(13)**	–
New bank loan raised	**–**	41
Net cash from (used in) financing activities	**90,472**	(33,155)
Net increase in cash and cash equivalents	**177,426**	50,632
Cash and cash equivalents at the beginning of the year	**236,170**	185,444
Exchange difference	**(2,604)**	94
	410,992	236,170
Cash and cash equivalents at the end of the year, representing:		
Bank balances and cash	**420,013**	245,126
Bank overdrafts	**(9,021)**	(8,956)
	410,992	236,170

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 address of the registered office and principal place of business of the Company are disclosed in the Corporate information section to the annual report.

The Company is an investment holding company and the principal activities of the subsidiaries are set out in note 38 to the financial statements.

The financial statements are presented in Renminbi, which is also the functional currency of the Company's principal subsidiaries.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests has been changed. The change in presentation has been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented.

Business combinations

In current year, the Group has applied HKFRS 3 Business Combinations which is effective for business combinations for which the agreement date is on or after 1 January 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

Goodwill

In previous years, goodwill arising on acquisitions was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. With respect to goodwill previously capitalised on the balance sheet, the Group on 1 January 2005 eliminated the carrying amount of the related accumulated amortisation of RMB13,418,000 with a corresponding decrease in the cost of goodwill (see Note 18). The Group has discontinued amortising such goodwill from 1 January 2005 onwards and such goodwill will be tested for impairment at least annually and before the end of the financial year in which the acquisition takes place. Goodwill arising on acquisitions after 1 January 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current year. Comparative figures for 2004 have not been restated (see Note 2A for the financial impact).

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES *(Continued)*

Business combinations *(Continued)*

Goodwill (Continued)

In the current year, the Group has also applied HKAS 21 The Effects of Changes in Foreign Exchange Rates which requires goodwill to be treated as assets and liabilities of the foreign operation and translated at closing rate at each balance sheet date. Previously, goodwill arising on acquisitions of foreign operations was reported at the historical rate at each balance sheet date. In accordance with the relevant transitional provisions in HKAS 21, goodwill arising on acquisitions prior to 1 January 2005 is treated as a non-monetary foreign currency item. Therefore, no prior period adjustment has been made.

Share-based payments

In the current year, the Group has applied HKFRS 2 "Share-based payment" which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors' and employees' share options of the Company, determined at the date of grant of the share options, over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1 January 2005. In relation to share options granted before 1 January 2005, the Group has not applied HKFRS 2 to share options granted on or before 7 November 2002 and share options that were granted after 7 November 2002 and had vested before 1 January 2005 in accordance with the relevant transitional provisions. The Group had no share options granted after 7 November 2002 and had not yet vested on 1 January 2005, and accordingly, no retrospective restatement is required.

Owner-occupied leasehold interest in land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current period, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. The change in accounting policy has been applied retrospectively (see Note 2A for the financial impact). Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES *(Continued)*

Financial instruments

In the current year, the Group has applied HKAS 32 "Financial instruments: disclosure and presentation" and HKAS 39 "Financial instruments: recognition and measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The application of HKAS 32 has had no material effect on the presentation of financial instruments in the financial statements of the Group. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method. Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". "Other financial liabilities" are carried at amortised cost using the effective interest method.

2A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described in note 2 above on the results for the current and prior year are as follows:

	2005 **RMB'000**	2004 RMB'000
Decrease in amortisation of goodwill included in administrative expenses	**13,895**	–

2A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES *(Continued)*

The cumulative effects of the application of the new HKFRSs as at 31 December 2004 are summarised as below.

	At 31 December 2004 RMB'000 (Originally stated)	Adjustments RMB'000	At 31 December 2004 RMB'000 (Restated)
Balance sheet items			
Property, plant and equipment	141,588	(6,283)	135,305
Prepaid lease payments	–	6,283	6,283

The Group has not early applied the following standards, interpretations and amendments that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, interpretations or amendments will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital disclosure[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	Net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[3]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 and HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: Disclosures[1]
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease[2]
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market, waste electrical and electronic equipment[3]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]

1 Effective for annual periods beginning on or after 1 January 2007.

2 Effective for annual periods beginning on or after 1 January 2006.

3 Effective for annual periods beginning on or after 1 December 2005.

4 Effective for annual periods beginning on or after 1 March 2006.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

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.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions and balances are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Acquisition of additional interests of subsidiaries that do not result in a change in control do not fall within the definition of business combination under HKFRS 3. The excess of the cost of acquisition over the carrying amount of assets and liabilities of the subsidiary is recognised as goodwill.

Goodwill

Goodwill arising on acquisition prior to 1 January 2005

Goodwill arising on acquisition of a subsidiary for which the agreement date is before 1 January 2005 represents the excess of the cost of the acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary at the date of acquisition.

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

For previously capitalised goodwill arising on acquisitions prior to 1 January 2005, the Group has discontinued amortisation from 1 January 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired (see the accounting policy below).

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

Goodwill arising on acquisition on or after 1 January 2005

Goodwill arising on an acquisition of a subsidiary for which the agreement date is on or after 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

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

Excess of an acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost ("discount on acquisitions")

A discount on acquisition arising on an acquisition of a subsidiary for which an agreement date is on or after 1 January 2005 represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition is recognised immediately in profit or loss.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue on installation contracts is recognised (see accounting policy of installation contracts below for details) by reference to the stage of completion of the contract activity 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment, over their estimated useful lives and taking into account of their estimated residual value, using the straight-line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

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, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

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 comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

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 expenses in the period in which they are incurred.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as an amount due from contract customers. For installation contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as an amount due to contract customers. Amounts received before the related work is performed are included in the balance sheet, as a liability, as receipts in advance. Amounts billed for work performed but not yet paid by the customer are included in the balance sheet under trade receivables.

Impairment losses (other than goodwill)

At each balance sheet date, the Group reviews the carrying amounts of its 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. An 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 year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base 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 profit 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 from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the balance sheet date. 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.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

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 the state – managed retirement plan for its employees in Hong Kong and the People's Republic of China ("PRC"), respectively.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financials statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Renminbi) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the exchange reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

As mentioned in Note 2, goodwill and fair value adjustments arising on acquisitions of foreign operations prior to 1 January 2005 are treated as non-monetary foreign currency items of the acquirer and reported using the historical exchange rate prevailing at the date of the acquisition.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified as loans and receivables. The accounting policies adopted in respect of loans and receivables are set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including retention receivables, amounts due from contract customers, trade receivables, deposits, other receivables and bank deposits and balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities including trade and other payables, borrowings, amounts due to contract customers and amounts due to minority shareholders are subsequently measured at amortised cost, using the effective interest rate method. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees

The fair value of services received determined by reference to the fair value of share options granted at the grant date is recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in share option reserve.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, which are described in note 3, management had made the following judgments and estimates that have the most significant effect on the amounts recognised in the financial statements.

Impairment review of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. As at 31 December 2005, the carrying amount of goodwill is RMB62,543,000. Details of the recoverable amount calculation are disclosed in note 18.

Profit recognition of installation contracts

The Group recognises revenue on installation contracts by reference to the stage of completion of the individual contract activity when the outcome of an installation contract can be estimated reliably. The Group's management estimates the stage of completion of installation works if the value of works has not been certified by the quantity surveyors or customers at the balance sheet date. In making its judgment, the management considered the detailed criteria for the recognition of contract revenue from installation contracts, set out in HKAS 11 Construction Contracts. The directors of the Company are satisfied that the revenue recognition of installation contract in the current year is appropriate.

Corresponding costs of the contract revenue are also estimated by the management. The Group regularly reviews and revises the budget with reference to the progress and anticipated margin of each individual installation contract. At the end of each accounting period, costs attributable to contract activities that have not been billed to the Group but the corresponding revenue for the work done has been recognised, the Group estimates these costs by reference to the budget and the actual billings subsequently received. The directors of the Company are satisfied that the recognition of contract cost of installation contract in the current year is appropriate.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include retention receivables, amounts due from/to contract customers, trade receivables, deposits, other receivables, bank deposits and balances, trade and other payables, borrowings and amounts due to minority shareholders. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

Certain trade receivables and trade payables and borrowings of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Credit risk

The Group's credit risk is primarily attributable to trade receivables. The maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 December 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, credit limits and credit terms granted to customers should be approved by delegated officers and follow-up action is taken to recover overdue debts. In additions, the management of the Group has reviewed the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Cash flow interest rate risk

The Group's cash flow interest rate risk relates primarily to variable-rate bank borrowings (see Note 28). The Group currently does not have policy on cash flow hedges of interest rate risk. However, the management monitors interest rate exposure and will consider hedging significant interest rate risk should the need arises.

6. TURNOVER

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

	2005 RMB'000	2004 RMB'000
Revenue from installation contracts	**363,063**	229,807
Sale of goods	**412,296**	210,765
Provision of maintenance services	**54,268**	46,148
	829,627	486,720

7. 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, production and sale of fire engines, fire prevention and fighting equipment, trading of fire engines, fire prevention and fighting and rescue equipment and provision of maintenance services. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses are as follows:

	Installation of fire prevention and fighting systems RMB'000	Production and sale of fire engines, fire prevention and fighting equipment RMB'000	Trading of fire engines, fire prevention and fighting and rescue equipment RMB'000	Provision of maintenance services RMB'000	Elimination RMB'000	Consolidated RMB'000
For the year ended 31 December 2005						
TURNOVER						
External sales	363,063	314,120	98,176	54,268	–	829,627
Inter-segment sales	–	68,533	–	–	(68,533)	–
Total	363,063	382,653	98,176	54,268	(68,533)	829,627
Inter-segment sales are charged on cost-plus basis.						
RESULTS						
Segment results	111,299	73,066	5,413	42,801		232,579
Unallocated corporate expenses						(12,028)
Finance costs						(1,280)
Profit before taxation						219,271
Taxation						(44,655)
Profit for the year						174,616

7. SEGMENT INFORMATION *(Continued)*

(a) Business segments *(Continued)*

	Installation of fire prevention and fighting systems RMB'000	Production and sale of fire engines, fire prevention and fighting equipment RMB'000	Trading of fire engines, fire prevention and fighting and rescue equipment RMB'000	Provision of maintenance services RMB'000	Elimination RMB'000	Consolidated RMB'000
At 31 December 2005						
ASSETS						
Segment assets	176,398	374,258	71,216	27,347		649,219
Unallocated corporate assets						444,847
						1,094,066
LIABILITIES						
Segment liabilities	61,475	88,489	31,108	1,352		182,424
Unallocated corporate liabilities						77,998
						260,422
OTHER INFORMATION						
Additions of capital expenditure	5,584	67,045	524	9,482		
Depreciation and amortisation	639	18,019	91	981		

7. SEGMENT INFORMATION *(Continued)*

(a) Business segments *(Continued)*

	Installation of fire prevention and fighting systems RMB'000	Production and sale of fire engines, fire prevention and fighting equipment RMB'000	Trading of fire engines, fire prevention and fighting and rescue equipment RMB'000	Provision of maintenance services RMB'000	Elimination RMB'000	Consolidated RMB'000
For the year ended 31 December 2004						
TURNOVER						
External sales	229,807	202,469	8,296	46,148	–	486,720
Inter-segment sales	–	52,697	–	–	(52,697)	–
Total	229,807	255,166	8,296	46,148	(52,697)	486,720
Inter-segment sales are charged on cost plus basis.						
RESULTS						
Segment results	69,328	70,628	(1,445)	38,289		176,800
Unallocated corporate expenses						(14,772)
Finance costs						(117)
Profit before taxation						161,911
Taxation						(31,602)
Profit for the year						130,309

7. SEGMENT INFORMATION *(Continued)*

(a) Business segments *(Continued)*

	Installation of fire prevention and fighting systems RMB'000	Production and sale of fire engines, fire prevention and fighting equipment RMB'000	Trading of fire engines, fire prevention and fighting and rescue equipment RMB'000	Provision of maintenance services RMB'000	Elimination RMB'000	Consolidated RMB'000
At 31 December 2004						
ASSETS						
Segment assets	93,600	256,326	47,703	14,775		412,404
Unallocated corporate assets						254,084
						666,488
LIABILITIES						
Segment liabilities	29,633	18,502	15,146	6,205		69,486
Unallocated corporate liabilities						49,498
						118,984
OTHER INFORMATION						
Additions of capital expenditure	10	11,355	34,503	12,136		
Depreciation and amortisation	3,342	16,969	1,176	1,043		

7. SEGMENT INFORMATION *(Continued)*

(b) Geographical segments

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

The analysis of the carrying amount of segment assets and additions to property, plant and equipment, prepaid lease payments, goodwill and development costs 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, prepaid lease payments, goodwill and development costs	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
PRC	**937,295**	567,377	**82,109**	23,489
Hong Kong	**156,546**	97,428	**552**	34,520
United States of America	**225**	557	**–**	13
Australia	**–**	1,126	**–**	754
	1,094,066	666,488	**82,661**	58,776

8. OTHER INCOME

	2005	2004
	RMB'000	RMB'000
Interest income	**3,858**	1,352
Others	**988**	148
	4,846	1,500

9. FINANCE COSTS

	2005 RMB'000	2004 RMB'000
Interest on:		
Bank borrowings wholly repayable within five years	**1,275**	98
Bank borrowings not wholly repayable within five years	**–**	19
Finance leases	**5**	–
	1,280	117

10. DIRECTORS' EMOLUMENTS

	2005 RMB'000	2004 RMB'000
Fees		
Executive Directors	**252**	254
Non-executive Directors	**–**	–
Independent non-executive Directors	**288**	265
	540	519
Other emoluments (Executive Directors):		
Salaries and other benefits	**2,052**	2,133
Discretionary bonus	**7,044**	4,542
Retirement benefit scheme contributions	**13**	13
	9,109	6,688
	9,649	7,207

10. DIRECTORS' EMOLUMENTS *(Continued)*

	2005					2004				
	Fees RMB'000	Salaries and other benefits RMB'000	Discretionary bonus RMB'000	Retirement benefits RMB'000	Total RMB'000	Fees RMB'000	Salaries and other benefits RMB'000	Discretionary bonus RMB'000	Retirement benefits RMB'000	Total RMB'000
Executive										
Mr. Jiang Xiong	–	409	3,001	–	3,410	–	413	3,151	–	3,564
Mr. Jiang Qing	–	409	2,789	–	3,198	–	413	805	–	1,218
Mr. Chen Shu Quan	–	409	1,051	–	1,460	–	413	586	–	999
Mr. Chan Siu Tat	252	825	203	13	1,293	254	894	–	13	1,161
Non-executive										
Mr. Cheng Kai Tuen George	–	–	–	–	–	–	–	–	–	–
Mr. Wat Chi Ping Isaac	–	–	–	–	–	–	–	–	–	–
Mr. Richard Owen Pyvis	–	–	–	–	–	–	–	–	–	–
Ms. Josephine Price	–	–	–	–	–	–	–	–	–	–
Independent non-executive										
Mr. Liu Shi Pu	104	–	–	–	104	106	–	–	–	106
Mr. Heng Kwoo Seng	104	–	–	–	104	106	–	–	–	106
Mr. Pu Rong Sheng	52	–	–	–	52	–	–	–	–	–
Mr. Xiang Yu Fu	28	–	–	–	28	53	–	–	–	53
	540	2,052	7,044	13	9,649	519	2,133	4,542	13	7,207

11. EMPLOYEES' EMOLUMENTS

The five highest paid individuals included four (2004: four) directors and one (2004: one) employee of the Company. The emoluments of the five highest paid individuals of the Company were as follows:

	2005 RMB'000	2004 RMB'000
Fees	252	254
Salaries and other benefits	2,556	2,601
Discretionary bonus	7,044	4,542
Retirement benefit scheme contributions	13	25
	9,865	7,422

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

The emoluments of the remaining highest paid individual are below HK$1 million.

12. TAXATION

	2005 RMB'000	2004 RMB'000
The charge comprises:		
Current tax		
PRC Enterprise Income Tax	43,346	32,600
Hong Kong Profits Tax	659	–
	44,005	32,600
Deferred tax	650	(998)
	44,655	31,602

12. TAXATION *(Continued)*

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

	2005		2004	
	RMB'000	**%**	RMB'000	%
Profit before taxation	**219,271**		161,911	
Tax at the PRC domestic income tax rate of 33% (2004: 33%)	**72,359**	**33.0**	53,430	33.0
Tax effect attributable to exempted profit	**–**	**–**	(126)	(0.1)
Tax effect attributable to tax concession	**(32,963)**	**(15.0)**	(29,705)	(18.3)
Tax effect of expenses that are not deductible in determining taxable profit	**7,577**	**3.5**	8,006	4.9
Tax effect of income that are not taxable in determining taxable profit	**(263)**	**(0.1)**	(3)	(0.0)
Effect of tax rates of subsidiaries operating in other jurisdictions	**(309)**	**(0.2)**	–	–
Others	**(1,746)**	**(0.8)**	–	–
Tax charge and effective tax rate for the year	**44,655**	**20.4**	31,602	19.5

The charge for Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for the year. No provision for Hong Kong Profits Tax was made in prior year as the Group had no assessable profit derived from Hong Kong in 2004.

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

Fujian Wanyou Fire Fighting Science and Technology Co., Ltd. and Fuzhou Wanyou Fire Fighting Science and Technology Co., Ltd., both subsidiaries of the Company, are entitled to income tax exemption for two years followed by three years of 50% tax reduction from the year 2002 and 2004 respectively.

Details of deferred taxation are set out in Note 30.

13. PROFIT FOR THE YEAR

	2005 RMB'000	2004 RMB'000
Profit for the year has been arrived at after charging:		
Depreciation of property, plant and equipment		
Owned assets	**18,171**	15,909
Assets held under a finance lease	**16**	–
Amortisation of prepaid lease payments	**188**	129
Loss on disposal of a subsidiary	**228**	–
Loss on partial disposal of a subsidiary	**1,162**	–
Loss on disposal of property, plant and equipment	**75**	–
Auditors' remuneration	**1,518**	1,272
Amortisation of goodwill included in administrative expenses	**–**	5,593
Amortisation of development costs included in cost of sales	**1,680**	1,010
Net exchange loss	**751**	–
Operating lease rentals in respect of rented premises	**2,917**	1,227
Research and development expenditure (Note)	**2,354**	2,097
Cost of inventories charged as expense	**255,207**	127,927
Staff costs, including directors' remuneration	**56,514**	43,733
Retirement benefit scheme contributions, including those included in directors' remuneration	**2,695**	737
Total staff costs	**59,209**	44,470

Note: The amount included staff cost of RMB286,000 (2004: RMB311,000) and depreciation on property, plant and equipment of RMB270,000 (2004: RMB270,000). These amounts are also included in the respective disclosure items under this note.

14. DIVIDENDS

	2005 RMB'000	2004 RMB'000
Ordinary		
Interim dividend paid of 1 HK cent (2004: 1 HK cent) per share	**24,710**	21,200
Final dividend proposed of 1.3 HK cents (2004: nil) per share	**38,464**	–
	63,174	21,200
Special dividend proposed of nil (2004: 4.6 HK cents per share on 2,020,000 shares)	**–**	98,495
	63,174	119,695

The Directors recommend the payment of a final dividend of 1.3 HK cents per share for the year ended 31 December 2005 (2004: nil).

At the meeting held on 31 January 2005, the directors proposed a special interim dividend of 4.6 HK cents per share subject to the completion of the first tranche of the subscription agreement as set out in note 41 which was paid on 26 April 2005.

15. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	2005 RMB'000	2004 RMB'000
Earnings for the purpose of basic and diluted earnings per share (profit for the year attributable to equity holders of the Company)	**172,929**	129,089
	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,277,490**	2,002,959
Effect of dilutive potential ordinary shares:		
Share options	**10,000**	1,944
Second tranche subscription (Note 1)	**38,097**	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,325,587**	2,004,903

Notes:

1. 469,000,000 shares of the Company is to be issued at HK$0.577 each to United Technologies Far East Limited ("UTFE") pursuant to the second tranche subscription of the subscription agreement as mentioned in note 41.

2. A maximum of 10,000,000 shares of the Company are issuable as a deferred consideration for the acquisition of a subsidiary in 2004 as mentioned in note 34. The shares to be issued are subject to a profit warranty adjustment in respect of the profits of the subsidiary for the two years ended 31 December 2006. As the conditions have not been satisfied at the end of 2005, the Company has no dilutive potential ordinary shares on its as at 31 December 2005.

16. PROPERTY, PLANT AND EQUIPMENT

	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	Total RMB'000
COST								
At 1 January 2004	60,202	51,790	36,360	7,159	853	4,328	1,968	162,660
Additions	–	200	–	29	791	859	70	1,949
Acquired from acquisition of subsidiaries	–	491	–	54	376	255	27	1,203
At 31 December 2004	60,202	52,481	36,360	7,242	2,020	5,442	2,065	165,812
Additions	4,949	1,605	15	399	1,414	1,735	1,266	11,383
Acquired on acquisition of subsidiaries	31,993	3,696	–	240	177	2,688	–	38,794
Exchange differences	–	(9)	–	(4)	(2)	(81)	–	(96)
Disposal of a subsidiary	–	(52)	–	–	–	(621)	–	(673)
Disposals	–	(9)	–	(12)	–	–	(96)	(117)
At 31 December 2005	97,144	57,712	36,375	7,865	3,609	9,163	3,235	215,103
DEPRECIATION								
At 1 January 2004	913	9,038	1,804	877	210	1,576	180	14,598
Charge for the year	2,000	8,354	3,911	386	148	711	399	15,909
At 31 December 2004	2,913	17,392	5,715	1,263	358	2,287	579	30,507
Charge for the year	2,733	8,794	3,970	465	541	1,174	510	18,187
Exchange differences	–	(1)	–	(3)	(1)	(18)	–	(23)
Eliminated on disposal of a subsidiary	–	(13)	–	–	–	(162)	–	(175)
Eliminated on disposal	–	–	–	(9)	–	–	(17)	(26)
At 31 December 2005	5,646	26,172	9,685	1,716	898	3,281	1,072	48,470
CARRYING VALUES								
At 31 December 2005	91,498	31,540	26,690	6,149	2,711	5,882	2,163	166,633
At 31 December 2004	57,289	35,089	30,645	5,979	1,662	3,155	1,486	135,305

16. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Land and buildings	Over the shorter of the term of the lease, or 50 years
Plant and equipment	10% – 20%
Tooling and moulds	10% – 20%
Furniture and fixtures	10% – 20%
Computers	20%
Motor vehicles	10% – 20%
Leasehold improvements	10% – 20%

The Group has pledged land and buildings with carrying value of RMB8,835,000 (2004: nil) to secure general banking facilities granted to a subsidiary of the Group.

The land and buildings are held in the PRC under medium term leases. At 31 December 2005, the Group is in the process of applying for the relevant property ownership certificates with respect to the land and buildings with carrying values of RMB628,000.

The carrying values of the Group's of furniture and fixtures included an amount of RMB171,000 (2004: nil) in respect of assets held under finance leases.

17. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise:

	2005 **RMB'000**	2004 RMB'000
Leasehold land in the PRC:		
Medium-term leases	**23,822**	6,283
Analysed for reporting purposes as:		
Current portion	**521**	129
Non-current portion	**23,301**	6,154
	23,822	6,283

Certain land leases with carrying values of RMB10,926,000 (2004: nil) have been pledged to secure short term bank loans granted to a subsidiary of the Group.

At 31 December 2005, the leasehold land in the PRC with a carrying amount of RMB3,909,000 which the Group is in the process of applying for the relevant land use right certificates.

18. GOODWILL

	RMB'000
AT COST	
At 1 January 2004	14,823
Arising on acquisition of subsidiaries	48,924
At 1 January 2005	63,747
Elimination of accumulated amortisation upon the application of HKFRS 3 (Note 2)	(13,418)
Arising on acquisition of subsidiaries (Note 34)	10,173
Arising on acquisition of additional interest in a subsidiary	4,584
Eliminated on partial disposal of a subsidiary	(2,543)
At 31 December 2005	62,543
AMORTISATION	
At 1 January 2004	7,825
Amortised for the year	5,593
At 1 January 2005	13,418
Elimination of accumulated amortisation upon the application of HKFRS 3	(13,418)
At 31 December 2005	–
CARRYING VALUES	
At 31 December 2005	62,543
At 31 December 2004	50,329

Until 31 December 2004, goodwill had been amortised over 5 years.

18. GOODWILL *(Continued)*

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. The carrying amount of goodwill had been allocated as follows:

	2005 RMB'000	2004 RMB'000
Production and sale of fire engines, fire prevention and fighting equipment	**11,197**	3,567
Trading of fire engines, fire prevention and fighting and rescue equipment	**33,130**	33,130
Installation of fire prevention and fighting systems	**8,442**	3,858
Provision of maintenance services	**9,774**	9,774
	62,543	50,329

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amount of each CGUs is determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rate, growth rates and expected changes to selling prices and direct costs during the year. Management estimates discount rate using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on the industry growth forecasts. Changes in selling price and direct costs are based on past practices and expectations of future changes in the market.

During the year, the Group performed impairment review of goodwill based on cash flow forecast derived from the most recent financial budgets for the next three years approved by the management using a discount rate of 7.5%, while the fourth year forecast is based on the financial budget of the previous year under a zero growth rate assumption. The value in use calculation by using the discount rate is higher than the carrying amount of CGUs, accordingly, no impairment loss was considered necessary.

19. DEVELOPMENT COSTS

	RMB'000
AT COST	
At 1 January 2004	1,700
Additions	6,700
At 31 December 2004 and 31 December 2005	8,400
AMORTISATION	
At 1 January 2004	255
Charge for the year	1,010
At 31 December 2004	1,265
Charge for the year	1,680
At 31 December 2005	2,945
CARRYING VALUES	
At 31 December 2005	5,455
At 31 December 2004	7,135

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

20. DEPOSIT PAID FOR THE ACQUISITION OF A SUBSIDIARY

At 31 December 2004, deposit of RMB32,400,000 represented part of the consideration for the acquisition of 100% equity interest of Sichuan Fire Safety Appliances Factory (subsequently renamed as Sichuan Morita Fire Safety Appliances Company Limited).

21. DEPOSIT PAID FOR THE PURCHASE OF PLANT AND EQUIPMENT

At 31 December 2004, the deposit of RMB10,000,000 represented partial payment for acquisition of plant and equipment. The amount was fully refunded during the year due to the cancellation of contract.

22. INVENTORIES

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

	2005 RMB'000	2004 RMB'000
Raw materials	11,554	793
Work-in-progress	12,269	863
Finished goods	28,454	7,564
	52,277	9,220

23. AMOUNTS DUE FROM (TO) CONTRACT CUSTOMERS

	2005 RMB'000	2004 RMB'000
Contract costs incurred plus net profits recognised less recognised losses	127,595	40,368
Less: Progress billings	(105,469)	(22,859)
	22,126	17,509
Comprising:		
Amounts due from contract customers	35,527	20,766
Amounts due to contract customers	(13,401)	(3,257)
	22,126	17,509

Advances received from customers for contract work amounted to RMB6,125,000 (2004: RMB5,189,000) included in above.

The directors consider that the carrying value of amounts due from (to) contract customers approximate their fair values at 31 December 2005.

24. TRADE RECEIVABLES

The credit period allowed by the Group to its customers is normally ranging from 30 to 180 days.

The aged analysis of trade receivables is as follows:

	2005 RMB'000	2004 RMB'000
0 – 90 days	**183,307**	88,152
91 – 180 days	**44,629**	11,585
181 – 360 days	**25,832**	22,973
Over 360 days	**10,465**	947
	264,233	123,657

The fair value of the Group's trade receivables at 31 December 2005 approximates to the corresponding carrying amount.

25. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

The fair value of the Group's deposits and other receivables at 31 December 2005 approximates to the corresponding carrying amount.

26. TRADE AND OTHER PAYABLES

	2005 RMB'000	2004 RMB'000
Trade creditors	**101,447**	32,550
Accrued costs and charges	**43,693**	21,044
Receipts in advance	**16,858**	5,912
Value added tax, sales tax and other levies	**23,453**	14,176
Amount payable on acquisition of a subsidiary (Note 34)	**5,830**	–
	191,281	73,682

26. TRADE AND OTHER PAYABLES *(Continued)*

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

	2005 **RMB'000**	2004 RMB'000
Within 30 days	**28,045**	1,683
31 – 60 days	**18,236**	465
61 – 90 days	**18,111**	388
Over 90 days	**37,055**	30,014
	101,447	32,550

The fair value of the Group's trade creditors, accrued costs and charges at 31 December 2005 approximates to the corresponding carrying amount.

27. AMOUNT DUE TO A MINORITY SHAREHOLDER

The amount due to a minority shareholder is unsecured, interest free and repayable on demand. The directors consider the carrying value of the amount due to a minority shareholder approximates to the fair value.

28. BANKS BORROWINGS

	2005 **RMB'000**	2004 RMB'000
Trust receipt loans	**4,346**	2,877
Short term bank loans	**11,000**	615
Bank overdrafts	**9,021**	8,956
	24,367	12,448

Note:

The short term bank loans are secured by certain buildings and land leases of the Group with carrying values of RMB8,835,000 (2004: nil) and RMB10,926,000 (2004: nil) respectively.

The trust receipt loans and bank overdrafts are secured by the Group's bank deposits together with the personal assets and guarantee of a minority shareholder of a subsidiary.

The bank borrowing of the Group are arranged at floating rates and expose the Group to cash flow interest rate risk. The average interest rate during the year was 7.4% (2004: 6.4%). Interest is repricing every month.

All the Group's borrowing that are denominated in functional currencies of the relevant entities.

The directors consider the carrying value of the bank borrowings approximates to their fair values.

29. OBLIGATION UNDER A FINANCE LEASE

	Minimum lease payments		Present value of minimum lease payments	
	2005 RMB'000	2004 RMB'000	**2005 RMB'000**	2004 RMB'000
Amounts payable under finance leases				
Within one year	**45**	–	**32**	–
In the second to fifth years inclusive	**164**	–	**142**	–
	209	–	**174**	–
Less: Future finance charges	**(35)**	–	**N/A**	N/A
Present value of lease obligations	**174**	–	**174**	–
Less: Amount due for settlement within 12 months (shown under current liabilities)			**32**	–
Amount due for settlement after 12 months			**142**	–

During the year, the Group entered a finance lease on its newly acquired furniture and fixture with a lease term of 5 years and with an effective borrowing rate of approximate 8%. The interest rate was fixed at the contract date, and thus exposed the Group to fair value interest rate risk. The lease is on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

All lease obligations are denominated in Hong Kong dollars.

The fair value of the Group's lease obligations approximates their carrying amount.

The Group's obligations under the finance lease are secured by the lessor's title to the leased assets.

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For the year ended 31 December 2005

30. DEFERRED TAX LIABILITIES

The Group's deferred tax liability mainly relates to the temporary difference arising on the profit recognition of installation contracts between Hong Kong generally accepted accounting principles in which revenue and costs of installation contract are recognised in the income statement by reference to the stage of completion of the contract activity and the taxable income of the PRC subsidiaries which recognised revenue of installation contracts upon its completion. The movement of deferred tax liability during the current and prior year is as follows:

	Profit recognition of installation contracts RMB'000
At 1 January 2004	3,490
Credit to income for the year	(998)
At 1 January 2005	2,492
Debit to income for the year	650
At 31 December 2005	3,142

31. SHARE CAPITAL

	No. of shares	HK$'000
Authorised:		
Shares of HK$0.01 each		
At 1 January 2004, 1 January 2005 and 31 December 2005	10,000,000,000	100,000
Issued and fully paid:		
Shares of HK$0.01 each		
At 1 January 2004	2,000,000,000	20,000
Issue of new shares (Note a)	20,000,000	200
At 31 December 2004	2,020,000,000	20,200
Issue of new shares (Note b)	356,000,000	3,560
At 31 December 2005	2,376,000,000	23,760

31. SHARE CAPITAL *(Continued)*

	2005 RMB'000	2004 RMB'000
Shown in the financial statements as	**25,186**	21,412

Notes:

(a) On 8 November 2004, the Company issued 20,000,000 shares as part of the consideration to acquire a subsidiary at HK$0.55 per share. Details of the acquisition are set out in the circular of the Company dated 5 October 2004. These shares issued rank pari passu in all respects with other shares in issue.

(b) On 12 April 2005, the Company issued 356,000,000 shares at HK$0.577 each to UTFE, pursuant to the first tranche subscription of the subscription agreement entered into between the Company and UTFE on 1 February 2005. Details of the subscription agreement are set out in the circular of the Company dated 10 March 2005.

32. 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 without prior approval from the Company's shareholders. On 21 April 2004, an ordinary resolution to refresh the limit under the Scheme to grant options of up to 200,000,000 shares of the Company was duly passed by the shareholders of the Company. It represents 10% of the issued share capital of the Company at the date the resolution was passed or 8.4% of the issued share capital of the Company as at 31 December 2005. 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 options 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 not be less than the higher of the closing price of the Company's shares on the date of grant, the average closing prices of the Company's shares for the five business days immediately preceding the date of grant and the nominal value of the Company's shares.

32. SHARE OPTION SCHEME *(Continued)*

Details of the options granted under the Scheme are as follows:

Grantee	Capacity	Date of grant	No. of shares issuable under the options granted	Exercisable period	Exercise price	No. of shares issuable under the options granted as at 1 January 2005 and 31 December 2005	Percentage of issued share capital of the Company
					HK$		
Mr. Jiang Qing	Director	25 May 2004	20,000,000	25 May 2004 to 24 May 2014	0.44	20,000,000	0.84%
Mr. Chen Shu Quan	Director	25 May 2004	5,000,000	25 May 2004 to 24 May 2014	0.44	5,000,000	0.21%
Mr. Chan Siu Tat	Director	25 May 2004	5,000,000	25 May 2004 to 24 May 2014	0.44	5,000,000	0.21%
						30,000,000	

There was no option outstanding as at 1 January 2004. All options granted are vested on the date of acceptance, i.e. 25 May 2004.

Save as disclosed above, there was no options granted, exercised, cancelled or lapsed in accordance with the terms of the Scheme during both years.

33. RESERVES

(a) Statutory surplus reserve

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

(b) Statutory public welfare fund

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

(c) Statutory reserve fund

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

(d) Special reserve

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

(e) Capital reserve

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

34. ACQUISITION OF SUBSIDIARIES

During the year, the Group acquired two subsidiaries for an aggregate consideration of RMB82,898,000. The acquisitions have been accounted for by the acquisition method of accounting. The amount of goodwill arising as a result of the acquisitions was RMB10,173,000.

	Acquiree's carrying amount before combination	**Fair value adjustments**	**Fair value**
	RMB'000	RMB'000	RMB'000
Property, plant and equipment	37,899	895	38,794
Prepaid lease payments	17,704	23	17,727
Inventories	21,671	–	21,671
Trade receivables	56,261	–	56,261
Amounts due from contract customers	6,678	–	6,678
Deposits, prepayments and other receivables	10,651	–	10,651
Bank balances and cash	17,908	–	17,908
Trade and other payables	(68,001)	–	(68,001)
Amounts due to contract customers	(9,285)	–	(9,285)
Tax liabilities	(2,679)	–	(2,679)
Bank borrowings	(17,000)	–	(17,000)
Net assets acquired	71,807	918	72,725
Goodwill (Note 18)			10,173
Total consideration			82,898
Satisfied by:			
Cash paid			50,498
Deposit paid			32,400
			82,898
Net cash outflow arising on acquisition:			
Cash consideration			(50,498)
Bank balances and cash acquired			17,908
Net outflow of cash and cash equivalents in respect of the purchase of subsidiaries			(32,590)

34. ACQUISITION OF SUBSIDIARIES *(Continued)*

The details of the subsidiaries acquired are the following:

Name of subsidiaries	Date of acquisition	Percentage of registered capital acquired
四川森田消防裝備製造有限公司 Sichuan Morita Fire Safety Appliances Company Limited	1 July 2005	100%
四川川消消防工程有限公司 (後更名川消消防工程有限公司) Sichuan Chuanxiao Fire Engineering Company Limited (subsequently renamed as Chuanxiao Fire Engineering Company Limited)	1 July 2005	100%

The goodwill arising on the acquisition of subsidiaries is attributable to profitability of the distribution of the Group's products and the anticipated future operating synergies from the contributions.

The subsidiaries acquired during the year contributed RMB98,709,000 to the Group's turnover and RMB8,680,000 to the Group's profits before taxation for the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1 January 2005, total group revenue for the period would have been RMB928,336,000, and profit for the period would have been RMB182,497,000. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2005, nor is it intended to be a projection of future results.

During the year ended 31 December 2004, the Group acquired three subsidiaries for an aggregate consideration of RMB37,507,000. The acquisitions have been accounted for by the acquisition method of accounting. The amount of goodwill arising as a result of the acquisitions was RMB48,924,000.

34. ACQUISITION OF SUBSIDIARIES *(Continued)*

	2004 RMB'000
Property, plant and equipment	1,203
Inventories	6,434
Trade receivables	10,039
Deposits, prepayments and other receivables	3,013
Bank balances and cash	7,584
Trade and other payables	(26,984)
Bank overdrafts	(8,510)
Bank borrowings	(574)
Minority interests	(3,622)
Net liabilities acquired	(11,417)
Goodwill	48,924
Total consideration	37,507
Satisfied by:	
Shares of the Company issued	11,660
Deferred consideration (Note)	5,830
Cash	20,017
	37,507

Note: The deferred consideration represents shares of the Company to be issued for the acquisition of a subsidiary. The shares to be issued are subject to the profit warranty adjustment in respect of the profits of the subsidiary for the two years ending 31 December 2006.

The value of shares to be issued is based on the assumption that the profit warranty is achieved.

Net cash outflow arising on acquisition:

	2004 RMB'000
Cash consideration	(20,017)
Bank balances and cash acquired	7,584
Bank overdraft acquired	(8,510)
Net outflow of cash and cash equivalents in respect of the purchase of subsidiaries	(20,943)

35. DISPOSAL OF A SUBSIDIARY

The Group disposed of its subsidiary, Australia Fire Safety Science Technology Development Pty Ltd.. The net assets of Australia Fire Safety Science Technology Development Pty Ltd. at the date of disposal were as follows:

Net assets disposed of

	2005 **RMB'000**
Property, plant and equipment	**498**
Bank balances and cash	**20**
	518
Exchange gain realised	**(116)**
	402
Loss on disposal	**(228)**
Total consideration	**174**
Satisfied by:	
Cash	**174**
Net cash inflow arising on disposal:	
Cash consideration	**174**
Bank balances and cash disposed of	**(20)**
	154

36. CAPITAL COMMITMENTS

	2005 **HK$'000**	2004 HK$'000
Capital expenditure contracted for but not provided in the financial statements in respect of:		
– acquisition of a subsidiary	**–**	48,600
– acquisition of land and buildings	**–**	4,397
– acquisition of plant and equipment	**538**	6,000
	538	58,997

37. 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:

	2005 **HK$'000**	2004 HK$'000
Amounts payable:		
Within one year	**3,792**	1,440
In the second to fifth years inclusive	**3,260**	953
	7,052	2,393

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

The lease commitments disclosed above included an amount of RMB1,289,000 (2004: RMB345,000) in respect of operating leases arrangement made by the Group on behalf of certain subcontractors.

38. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries at 31 December 2005 are as follows:

Name/kind of legal entity	Place/ country of incorporation/ establishment	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
Allied Best Holdings Limited/ limited liability company	British Virgin Islands	US$1	–	100%	Investment holding

38. PARTICULARS OF SUBSIDIARIES *(Continued)*

Name/kind of legal entity	Place/ country of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company Directly	Attributable equity interest held by the Company Indirectly	Principal activities
北京市崇正華盛應急設備系統有限公司 Beijing City Chongzheng Huasheng Emergency Appliances System Co., Ltd. (formerly known as 北京崇正華盛應急照明系統有限責任公司 Beijing Chongzheng Huasheng Emergency Lighting System Co., Ltd.)/limited liability enterprise	PRC	RMB4,870,000	–	55.44%	Production and sale of fire prevention and fighting equipment
北京集保盛安安全防護技術發展有限公司 Beijing Jibao Shengan Security Technology Development Company Limited/ limited liability enterprise	PRC	RMB10,010,000	–	99.9%	Development of network based monitoring system for fire prevention and fighting system and operation remote automatic monitoring centre
China Alliance Security Holdings Company Limited	Hong Kong	HK$100	–	75%	Investment holding
川消消防工程有限公司 Chuanxiao Fire Engineering Company Limited (formerly known as 四川川消消防工程有限公司 Sichuan Chuanxiao Fire Engineering Company Limited)/ limited liability company	PRC	RMB51,000,000	–	100%	Provision of fire prevention and fighting system installation services and maintenance services

38. PARTICULARS OF SUBSIDIARIES *(Continued)*

Name/kind of legal entity	Place/ country of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company		Principal activities
			Directly	Indirectly	
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
福建盛安城市安全信息發展有限公司 Fujian Shengan City Safety Communications Development Company Limited/ limited liability enterprise	PRC	RMB7,000,000	–	44.24% (Note 1)	Development of network based monitoring system for fire prevention and fighting system and operation of remote automatic monitoring centre
Fuzhou Wanyou Fire Fighting Science and Technology Co., Ltd./ wholly foreign-owned enterprise	PRC	HK$20,000,000	–	100%	Production and sale of fire prevention and fighting equipment
江西盛安城市安全信息發展有限公司 Jiangxi Shengan City Safety Communications Development Company Limited/ limited liability enterprise	PRC	RMB15,500,000	–	51.61%	Development of network based monitoring system for fire prevention and fighting system and operation of remote automatic monitoring centre
Loyal Asset Investment Holdings Limited/limited liability company	British Virgin Islands	US$1	–	100%	Investment holding
南平市盛安城市安全信息發展有限公司 Nanping Shengan City Safety Communications Development Co., Ltd./ limited liability enterprise	PRC	RMB1,000,000	–	22.56% (Note 1)	Development of network based monitoring system for fire prevention and fighting system and operation of remote automatic monitoring centre

38. PARTICULARS OF SUBSIDIARIES *(Continued)*

Name/kind of legal entity	Place/ country of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company Directly	Attributable equity interest held by the Company Indirectly	Principal activities
寧德市盛安城市安全信息有限公司 Ningde Shengan City Safety Communications Development Co., Ltd./limited liability enterprise	PRC	RMB1,000,000	–	22.56% (Note 1)	Development of network based monitoring system for fire prevention and fighting system and operation of remote automatic monitoring centre
四川森田消防裝備製造有限公司 Sichuan Morita Fire Safety Appliances Company Limited/ sino-foreign equity joint venture	PRC	RMB80,640,000	–	75%	Production and sale of fire engines and fire prevention and fighting equipment
Tung Shing Trade Development Company Limited/limited liability company	Hong Kong	Ordinary – HK$100,000 Non-voting deferred shares – HK$100,000	–	51%	Trading of fire engines and fire fighting and rescue equipment
萬友消防工程集團有限公司 Wanyou Fire Engineering Group Company Limited (formerly known as 福建萬友消防工程集團有限公司 Fujian Wanyou Engineering Group Company Limited)/limited liability enterprise	PRC	RMB50,000,000	–	100%	Provision of fire prevention and fighting system installation services and maintenance services
萬盛(中國)科技有限公司 Wang Sheng (China) Technology Co., Ltd./wholly foreign-owned enterprise	PRC	HK$15,000,000	–	75%	Development of network based monitoring system for fire prevention and fighting system and operation of remote automatic monitoring centre

38. PARTICULARS OF SUBSIDIARIES *(Continued)*

Notes:

1. As the Company controls the composition of the board of directors of these companies, these companies are treated as subsidiaries of the Company.

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

3. The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets or liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

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

39. RETIREMENT BENEFIT SCHEMES

The group companies operating in the PRC participate in defined a state-managed retirement benefit plan operated by the government of 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 rates ranging from 18% to 20% (2004: 18% to 20%) 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 2005 amounted to RMB2,573,000 (2004: RMB699,000).

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 benefits 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 to the MPF Scheme contributions amounting to RMB122,000 (2004: RMB38,000).

40. RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of amount due to a minority shareholder and the guarantee provided from a minority shareholder of a subsidiary at the balance sheet date are set out in notes 27 and 28.

Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2005 HK$'000	2004 HK$'000
Short-term benefits	9,636	7,194
Post-employment benefits	13	13
	9,649	7,207

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

41. POST BALANCE SHEET EVENTS

(a) On 1 February 2004, the Company entered into a subscription agreement with UTFE, which is a subsidiary of United Technologies Corporation, a company listed on the New York Stock Exchange and a Director of the Company, Mr. Jiang Xiong also entered into an option agreement with UTFE. Under the subscription agreement, subject to certain conditions, UTFE will subscribe shares of the Company in two tranches at a subscription price of HK$0.577 per share. On 12 April 2005, 356,000,000 shares of the Company were issued to UTFE upon completion of the first tranche subscription. As at the date of this report, all second tranche conditions have been fulfilled, or waived (as the case may be) in accordance with the subscription agreement, as such, a further 469,000,000 shares of the Company will be issued to UTFE. Upon completion of the second tranche completion, the UTFE will hold 825,000,000 shares of the Company, or 29% of the Company's enlarged issued share capital.

Under the option agreement, Mr. Jiang Xiong will sell to UTFE the option shares, being the lower of (a) such number of shares as are required to be sold by Mr. Jiang Xiong to UTFE to enable UTFE to beneficially hold 51% of voting rights of the Company immediately following the completion of the exercise of the option and (b) all the shares of the Company then held by Mr. Jiang Xiong at the time of service by UTFE of the notice to exercise the option, during the period commencing from the third anniversary of the first tranche subscription completion date to eighth anniversary of the first tranche subscription completion date at an option exercise price determined with reference to the profit and debts of the Company.

41. POST BALANCE SHEET EVENTS *(Continued)*

(a) *(Continued)*

In the event that UTFE exercises the option, it will make a general offer for the shares of the Company in compliance with the Hong Kong Code on Takeovers and Mergers.

Details of the above subscription agreement and option agreement are set out in the circular of the Company dated 10 March 2005.

(b) On 19 January 2006, a subsidiary of the Company (the "Subsidiary") entered into an agreement with Profile Vehicles Oy ("Profile"), the largest ambulance manufacturer in Northern Europe, and three other individuals to set up a joint venture company in Hong Kong (the "HKJV"), targeting the professional ambulance market in China.

According to the agreement, the Subsidiary, Profile and the three individual parties, each hold 38%, 35% and 27% of issued share capital of the HKJV, which will then form a sino-foreign joint venture company in China (the "ChinaJV") with another subsidiary of the Group. Each party will hold 50% of the equity interests of the ChinaJV, and a total amount of RMB30 million will be invested to build an ambulance factory in Chengdu, which is believed to be the first professional ambulance factory in China. Apart from the agreement setting up the HKJV as referred to above, no agreement has been entered into as at the date of this report.

42. FINANCIAL STATEMENTS OF THE COMPANY

	NOTES	2005 RMB'000	2004 RMB'000
Non-current assets			
Investments in subsidiaries	43	**187,569**	187,575
Current assets			
Prepayments and other receivables		**210**	–
Amounts due from subsidiaries		**395,907**	226,103
Pledged bank deposits		**15,600**	–
Bank balances and cash		**4,260**	34,705
		415,977	260,808
Current liability			
Other payables		**5,066**	5,164
Net current assets		**410,911**	255,644
		598,480	443,219
Capital and reserves			
Share capital	31	**25,186**	21,412
Reserves	44	**573,294**	421,807
		598,480	443,219

43. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2005	2004
	HK$'000	HK$'000
Unlisted shares	**187,569**	187,575

The carrying value of the unlisted shares is based on the fair values of the underlying net assets of the subsidiaries at the time they became members of the Group under the group reorganisation with the subsequent additions stated at cost.

Details of the subsidiaries are set out in note 38.

44. RESERVES

	Share premium	**Contributed surplus**	**Exchange reserve**	**Retained profits**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
THE COMPANY					
At 1 January 2004	139,920	170,607	–	11,224	321,751
Issue of new shares	11,448	–	–	–	11,448
Profit for the year	–	–	–	131,008	131,008
Dividends paid	–	–	–	(42,400)	(42,400)
At 1 January 2005	151,368	170,607	–	99,832	421,807
Exchange differences	–	–	(7,080)	–	(7,080)
Issue of new shares	213,963	–	–	–	213,963
Profit for the year	–	–	–	67,809	67,809
Dividends paid	–	–	–	(123,205)	(123,205)
At 31 December 2005	365,331	170,607	(7,080)	44,436	573,294

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.

Distributable reserves of the Company

The Company's reserves available for distribution to shareholders as at 31 December 2005 represents the aggregate of share premium, contributed surplus and retained profits of RMB580,374,000 (2004: RMB421,807,000).

Financial Summary

	For the year ended 31 December				
	2001 RMB'000	2002 RMB'000	2003 RMB'000	2004 RMB'000	**2005** **RMB'000**
RESULTS					
Turnover	193,988	259,519	282,475	486,720	**829,627**
Profit before taxation	106,512	142,272	131,877	161,911	**219,271**
Taxation	(7,728)	(16,100)	(19,761)	(31,602)	**(44,655)**
Profit for the year	98,784	126,172	112,116	130,309	**174,616**
Attributable to:					
Equity holders of the Company	93,843	125,877	111,715	129,089	**172,929**
Minority interests	4,941	295	401	1,220	**1,687**
	98,784	126,172	112,116	130,309	**174,616**
Earnings per share (RMB cents)					
Basic	6.79	7.55	5.59	6.44	**7.59**
Diluted	N/A	N/A	N/A	6.44	**7.44**

	At 31 December				
	2001 RMB'000	2002 RMB'000	2003 RMB'000	2004 RMB'000	**2005** **RMB'000**
ASSETS AND LIABILITIES					
Total assets	123,619	400,966	480,602	666,488	**1,094,066**
Total liabilities	(88,880)	(37,826)	(37,392)	(118,984)	**(260,422)**
	34,739	363,140	443,210	547,504	**833,644**
Equity attributable to equity holders of the Company	34,618	362,578	442,493	540,936	**805,642**
Minority interests	121	562	717	6,568	**28,002**
Shareholders' funds	34,739	363,140	443,210	547,504	**833,644**

Notes:

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

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