



**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)*

**2005**

**INTERIM REPORT**

*\* For identification purpose only*

**CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

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

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

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

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

*This report, for which the directors (the “Directors”) of China Fire Safety Enterprise Group Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

**HALF-YEARLY RESULTS REPORT  
FOR THE SIX MONTHS ENDED 30 JUNE 2005**

**HIGHLIGHTS**

- The Group's unaudited turnover and net profit for the second quarter of 2005 (three months ended 30 June 2005) increased 47% and 35% to RMB187 million and RMB44 million respectively as compared to the corresponding period last year.
- The Group's unaudited turnover and net profit for the six months ended 30 June 2005 increased 37% and 22% to RMB304 million and RMB78 million respectively as compared to the corresponding period last year.
- Basic and diluted earnings per share for the six months ended 30 June 2005 were RMB3.49 cents and RMB3.47 cents respectively (2004: both basic and diluted earnings per share were RMB3.1 cents).
- The Board declared an interim dividend for the six months ended 30 June 2005 of 1 HK cent per share (2004: 1 HK cent per share).
- Sichuan Morita has won a tender, valued at approximately RMB20 million, to install fire prevention and fire fighting systems for the Chengdu Shangri-la Hotel and Office Tower. It has also reached an understanding with Morita Corporation to supply the latter with powdered fire extinguishing agent totaled approximately RMB40 Million.

**RESULTS**

The board of Directors (the "Board") of the Company is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months and three months ended 30 June 2005, together with the comparative figures for the corresponding periods in 2004, as follows:

**CONSOLIDATED INCOME STATEMENT**

	Notes	(Unaudited) For the six months ended 30 June		(Unaudited) For the three months ended 30 June	
		2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Turnover	2	304,467	222,363	186,843	126,986
Cost of sales		(188,763)	(126,537)	(120,984)	(79,130)
<b>Gross Profit</b>		<b>115,704</b>	95,826	<b>65,859</b>	47,856
Other operating income		1,142	577	745	388
Distribution costs		(2,640)	(1,763)	(1,414)	(1,305)
Administrative expenses		(19,780)	(15,476)	(11,105)	(9,454)
<b>Profit from operations</b>	3	<b>94,426</b>	79,164	<b>54,085</b>	37,485
Finance costs		(243)	(19)	(99)	(11)
		<b>94,183</b>	79,145	<b>53,986</b>	37,474
Taxation	4	(16,431)	(15,560)	(10,138)	(4,916)
<b>Net profit for the period</b>		<b>77,752</b>	63,585	<b>43,848</b>	32,558
Attributable to:					
Shareholders of the Company		75,927	62,058	42,066	31,247
Minority interests		1,825	1,527	1,782	1,311
		<b>77,752</b>	63,585	<b>43,848</b>	32,558
<b>Interim dividend declared</b>	5	<b>25,186</b>	21,200	<b>25,186</b>	21,200
<b>Earnings per share (RMB cents)</b>	6				
- Basic		<b>3.49</b>	3.10	<b>1.81</b>	1.56
- Diluted		<b>3.47</b>	3.10	<b>1.80</b>	1.56

**CONSOLIDATED BALANCE SHEET**

		(Unaudited) At 30 June 2005 <i>RMB'000</i>	(Audited) At 31 December 2004 <i>RMB'000</i>
Non-current assets			
Property, plant and equipment	7	141,117	141,588
Retention receivables		–	1,460
Goodwill		50,329	50,329
Development costs		6,380	7,135
Deposit paid for acquisition of a subsidiary		32,400	32,400
Deposit paid for purchase of plant and equipment		10,000	10,000
		<u>240,226</u>	<u>242,912</u>
Current assets			
Inventories		12,796	9,220
Retention receivables		406	1,585
Amounts due from contract customers		37,127	20,766
Trade debtors	8	197,937	123,657
Deposits, prepayments and other receivables	9	24,359	21,099
Pledged bank deposits	13	2,134	2,123
Bank balances and cash		387,395	245,126
		<u>662,154</u>	<u>423,576</u>
Current liabilities			
Trade and other payables	10	106,836	68,542
Amounts due to contract customers		235	3,257
Tax liabilities		29,160	26,415
Bank borrowings – due within one year	11	9,330	12,448
		<u>145,561</u>	<u>110,662</u>
Net current assets		<u>516,593</u>	<u>312,914</u>
Total assets less current liabilities		<u>756,819</u>	<u>555,826</u>
Capital and reserves			
Share capital		25,186	21,412
Reserves	12	710,919	519,524
Equity attributable to shareholders of the Company		<u>736,105</u>	<u>540,936</u>
Minority interests		9,672	6,568
Total equity		<u>745,777</u>	<u>547,504</u>
Non-current liabilities			
Amount payable on acquisition of a subsidiary		5,830	5,830
Deferred tax liabilities		5,212	2,492
		<u>11,042</u>	<u>8,322</u>
		<u>756,819</u>	<u>555,826</u>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	(Unaudited)	
	For the six months ended	
	30 June	
	2005	2004
	<i>RMB'000</i>	<i>RMB'000</i>
Total equity at 1 January	547,504	443,210
Issue of new shares	217,737	–
Dividend paid	(98,495)	(21,200)
Net liabilities of a new subsidiary shared by minority shareholders	–	(372)
Contributions by minority shareholders	1,279	–
Net profit for the period	<u>77,752</u>	<u>63,585</u>
Total equity at 30 June	<u><u>745,777</u></u>	<u><u>485,223</u></u>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

	(Unaudited)	
	For the six months ended	
	30 June	
	2005	2004
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash from operating activities	30,204	94,407
Net cash used in investing activities	(7,100)	(20,562)
Net cash from (used in) financing activities	<u>119,313</u>	<u>(24,884)</u>
Net increase in cash and cash equivalents	142,417	48,961
Cash and cash equivalent at 1 January	<u>236,170</u>	<u>185,444</u>
Cash and cash equivalent at 30 June	<u><u>378,587</u></u>	<u><u>234,405</u></u>
Cash and cash equivalents at the end of the period, representing:		
Bank balances and cash	387,395	234,405
Bank overdraft	<u>(8,808)</u>	<u>–</u>
	<u><u>378,587</u></u>	<u><u>234,405</u></u>

Notes:

## 1. Basis of presentation

The Group's unaudited consolidated results have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with the Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), the terms of HKFRS is inclusive of Statements of Standard Accounting Practice ("SSAP") and interpretations approved by the HKICPA. The accounting policies adopted in preparing the unaudited consolidated results are consistent with those in the preparation of the Group's annual financial statements for the year ended 31 December 2004 except that the Group has applied, for the first time, the following:

HKFRS 3                      *Business combination*

One of the main features of HKFRS 3 is the prohibition of amortization of goodwill acquired in a business combination and instead requires the goodwill to be tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired, in accordance with HKAS 36 *Impairment of Assets*. Goodwill acquired in a business combination for which the agreement date was before 1 January 2005 shall apply HKFRS 3 prospectively, from the beginning of the first annual period beginning on or after 1 January 2005. Accordingly, the Group has discontinued the amortization of goodwill during the period and tested for its impairment in accordance with HKAS 36. Comparative figures for 2004 have not been restated.

## 2. Turnover

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

	(Unaudited) For the six months ended 30 June		(Unaudited) For the three months ended 30 June	
	2005 <i>RMB'000</i>	2004 <i>RMB'000</i>	2005 <i>RMB'000</i>	2004 <i>RMB'000</i>
Revenue from installation contracts	<b>106,248</b>	120,740	<b>60,840</b>	71,145
Sale of goods	<b>161,202</b>	83,664	<b>106,646</b>	47,842
Provision of maintenance services	<b>37,017</b>	17,959	<b>19,357</b>	7,999
	<b><u>304,467</u></b>	<u>222,363</u>	<b><u>186,843</u></b>	<u>126,986</u>

### 3. Profit from operations

Profit from operations has been arrived at after charging:

	(Unaudited)		(Unaudited)	
	For the six months ended 30 June		For the three months ended 30 June	
	2005	2004	2005	2004
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Depreciation:				
Property, plant and equipment	<b>8,590</b>	7,929	<b>4,304</b>	3,938
Amortization of goodwill included in administrative expenses	-	1,695	-	741
Amortization of development costs included in cost of sales	<b>755</b>	170	<b>378</b>	85
	<u><b>9,345</b></u>	<u>9,794</u>	<u><b>4,682</b></u>	<u>4,764</u>

### 4. Taxation

	(Unaudited)		(Unaudited)	
	For the six months ended 30 June		For the three months ended 30 June	
	2005	2004	2005	2004
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
The charge comprises:				
Current tax				
The PRC – income tax	<b>12,916</b>	13,737	<b>8,408</b>	3,958
Hong Kong profits tax	<b>795</b>	-	<b>795</b>	-
Deferred tax	<b>2,720</b>	1,823	<b>935</b>	958
	<u><b>16,431</b></u>	<u>15,560</u>	<u><b>10,138</b></u>	<u>4,916</u>

Provision for Hong Kong Profits Tax has been made at 17.5% for the taxable income of a subsidiary of the Group arises in or derived from Hong Kong. Income tax on profits arising from the PRC has been provided based on the prevailing tax rates applicable to the respective companies.

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 the two year's exemption from income tax followed by three years of 50% tax reduction with effect from year 2002 and 2004 respectively.

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



## 5. Dividends

The Board declared an interim dividend for the six months ended 30 June 2005 of 1 HK cent per share based on 2,376,000,000 shares in issue (2004: 1 HK cent per share giving a total of HK\$20,000,000).

The interim dividend will be payable on or before 6 October 2005 to shareholders whose names appear on the shares register of member of the Company at 9 September 2005. The register of shareholders of the Company will be closed from 12 September 2005 to 14 September 2005 (both days inclusive), for the purpose of interim dividend.

In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited located on 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, by 4:00 p.m. on 9 September 2005.

## 6. Earnings per share

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

	(Unaudited) For the six months ended 30 June		(Unaudited) For the three months ended 30 June	
	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Earnings for the purpose of basic and diluted earnings per share	<u>75,927</u>	<u>62,058</u>	<u>42,066</u>	<u>31,247</u>
	'000	'000	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,175,381	2,000,000	2,329,055	2,000,000
Effect of dilutive potential ordinary shares:				
Share options	<u>10,329</u>	<u>116</u>	<u>9,840</u>	<u>233</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>2,185,710</u>	<u>2,000,116</u>	<u>2,338,895</u>	<u>2,000,233</u>

## 7. Property, plant and equipment

	(Unaudited) At 30 June 2005 RMB'000	(Audited) At 31 December 2004 RMB'000
At the beginning of the period / year	141,588	154,474
Additions	8,119	1,949
Acquired from acquisition of subsidiaries	-	1,203
Depreciation	<u>(8,590)</u>	<u>(16,038)</u>
At the end of the period / year	<u>141,117</u>	<u>141,588</u>

**8. Trade debtors**

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

The aged analysis of trade debtors is as follows:

	(Unaudited) At 30 June 2005 RMB'000	(Audited) At 31 December 2004 RMB'000
0-90 days	112,043	88,152
91-180 days	40,522	11,585
180-360 days	34,464	22,973
Over 360 days	10,908	947
	<u>197,937</u>	<u>123,657</u>

**9. Deposits, prepayments and other receivables**

	(Unaudited) At 30 June 2005 RMB'000	(Audited) At 31 December 2004 RMB'000
Prepayments and other receivables	21,616	15,216
Purchase deposits	2,743	5,883
	<u>24,359</u>	<u>21,099</u>

**10. Trade and other payables**

	(Unaudited) At 30 June 2005 RMB'000	(Audited) At 31 December 2004 RMB'000
Trade creditors	76,522	32,550
Accrued costs and charges	20,275	21,044
Receipts in advance	187	5,912
Amounts due to minority shareholders	9,852	9,036
	<u>106,836</u>	<u>68,542</u>

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

	(Unaudited) At 30 June 2005 RMB'000	(Audited) At 31 December 2004 RMB'000
Within 30 days	47,539	1,683
31-60 days	988	465
61-90 days	427	388
Over 90 days	27,568	30,014
	<u>76,522</u>	<u>32,550</u>

### 11. Bank borrowings

	(Unaudited) At 30 June 2005 RMB'000	(Audited) At 31 December 2004 RMB'000
Bills payable	345	2,877
Short term bank loan	177	615
Bank overdraft	8,808	8,956
	<u>9,330</u>	<u>12,448</u>

All the above borrowings will be matured within one year.

The short term bank loan and overdraft are secured on certain personal assets and guarantee of a minority shareholder of a subsidiary.

### 12. Movement in reserves

	Share premium RMB'000	Special reserve RMB'000	Capital reserve RMB'000	Statutory surplus fund RMB'000	Statutory public welfare fund RMB'000 (Unaudited)	Statutory reserve fund RMB'000	Exchange reserve RMB'000	Accumu- lated profits RMB'000	Total RMB'000
At 1 January 2004	139,920	(6,692)	57,840	13,267	10,586	20,684	-	185,688	421,293
Profit attributable to shareholders of the Company	-	-	-	-	-	-	-	62,058	62,058
Final dividends paid	-	-	-	-	-	-	-	(21,200)	(21,200)
At 30 June 2004	<u>139,920</u>	<u>(6,692)</u>	<u>57,840</u>	<u>13,267</u>	<u>10,586</u>	<u>20,684</u>	<u>-</u>	<u>226,546</u>	<u>462,151</u>
At 1 January 2005	151,368	(6,692)	57,840	18,405	13,155	31,677	94	253,677	519,524
Issue of new shares	213,963	-	-	-	-	-	-	-	213,963
Profit attributable to shareholders of the Company	-	-	-	-	-	-	-	75,927	75,927
Interim dividends paid	-	-	-	-	-	-	-	(98,495)	(98,495)
At 30 June 2005	<u>365,331</u>	<u>(6,692)</u>	<u>57,840</u>	<u>18,405</u>	<u>13,155</u>	<u>31,677</u>	<u>94</u>	<u>231,109</u>	<u>710,919</u>

### 13. Pledge of assets

Bank deposits of approximately RMB2,134,000 (2004: Nil) of the Group have been pledged to a bank to secure the banking facilities granted to a subsidiary.

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

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

Segment information about these businesses is as follows:

	Installation of fire prevention and fighting systems	Production and sale of fire prevention and fighting equipment	Provision of maintenance services	Trading of fire engines, and fire fighting and rescue equipment (Unaudited)	Other	Elimination	Consolidated
	RMB	RMB	RMB	RMB	RMB	RMB	RMB
For the six months ended 30 June 2005							
<b>TURNOVER</b>							
External sales	106,248	88,687	37,017	72,515	-	-	304,467
Inter-segment sales	-	44,342	-	-	-	(44,342)	-
<b>Total</b>	<b>106,248</b>	<b>133,029</b>	<b>37,017</b>	<b>72,515</b>	<b>-</b>	<b>(44,342)</b>	<b>304,467</b>

Inter-segment sales were charged at agreed prices.

**RESULTS**

Segment results	37,154	27,777	33,461	4,808	(2,512)		100,688
Unallocated corporate expenses							(6,262)
<b>Profit from operations</b>							<b>94,426</b>
Finance costs							(243)
<b>Profit before taxation</b>							<b>94,183</b>
Taxation							(16,431)
<b>Net profit for the period</b>							<b>77,752</b>

	Installation of fire prevention and fighting systems	Production and sale of fire prevention and fighting equipment	Provision of maintenance services (Unaudited)	Elimination	Consolidated
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
For the six months ended 30 June 2004					
TURNOVER					
External sales	120,740	83,664	17,959	-	222,363
Inter-segment sales	-	5,601	-	(5,601)	-
Total	<u>120,740</u>	<u>89,265</u>	<u>17,959</u>	<u>(5,601)</u>	<u>222,363</u>

Inter-segment sales are charged at prevailing market rates.

RESULTS					
Segment results	42,362	29,445	16,182		87,989
Unallocated corporate expenses					(8,825)
Profit from operations					79,164
Finance					(19)
Profit before taxation					79,145
Taxation					(15,560)
Net profit for the period					<u>63,585</u>

**(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.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business review

#### Provision of fire prevention and fighting system installation services

Turnover and operating results of installation services for the six months ended 30 June 2005 was RMB106 million and RMB37 million respectively, slightly down by 12% from that for the corresponding period in 2004. Profit margin was kept quite stable.

The performance of the installation service segment highly depends on the progress of the underlying construction projects and the condition of the properties market and investment in infrastructure. To minimize the volatility, the Group has, in addition to diversify its streams of business it has also expanded the installation services on a nationwide basis. Besides Beijing, Sichuan, Jiangsu and Jiangxi which have previously been reported, new projects have been obtained in Hainan in the South; Guangxi, Yunnan, and Guizhou in the West; Anhui in the middle; and Hebei, Changchun and Inner Mongolia in the North by the respective local branch offices.

In the months ahead, the Group is going to further expand its geographical coverage. Besides the 10 new branch offices across China that are in progress, the integration of the installation subsidiary of Sichuan Fire Safety Appliances Factory ("**Sichuan Fire Factory**") into the Group will step the Group's presence up in the South West. Recently, Sichuan Fire Factory has been awarded to install the fire prevention and fighting system for the Chengdu Shangri-La hotel and Office Tower, with contract value at approximately RMB20 million. More projects are expected to be secured by the new establishments.

#### Provision of fire prevention and fighting system maintenance services

The maintenance services sector continued its growing trend. Revenue for the six months ended 30 June 2005 amounted to RMB37 million, represented a growth of 106% over the corresponding period last year. Profit margin is maintained with operating profit jumped to RMB33 million.

The significant growth was attributable to the large amount of upgrading services on fire prevention systems of a number of housing estates, which were built during the real estate boom a number of years ago. The Group has diversified its business to provide monitoring centre services on fire prevention and fighting systems, such services are expected to further drive up the maintenance service income on one hand and provide a stable income stream to the Group on the other. Jiangxi Shengan City Safety Communications Development Co. Ltd. ("**Jiangxi Shengan**") has started its pilot run in Jiangxi to test the market, service income is anticipated in the third quarter of 2005. Monitoring centres have also been set up in Fujian and are put under system testing. The Group is building a monitoring services demonstration centre in Beijing, which is expected to be completed in the third quarter of 2005.

## Production and sale of fire prevention and fighting equipment

Turnover generated from the production and sale of fire prevention and fighting equipment for the six months ended 30 June 2005 increased slightly to RMB89 million, or 6% over the corresponding period last year. Operating results, on the other hand, dropped 6% to RMB28 million.

Competition has continuously exerting pressure on product prices and squeezing profit margins. This is especially the case for detectors and fire alarm system control units where average selling price for certain models have been adjusted down by over 60% as compared to the first six months last year. On the other hand, for the emergency lightings market in which the Group has the strongest competitive edge, product prices have been less sensitive to the market pressure due to the Group's reputation in product quality. During the period under review, the Group has launched certain new models of emergency lightings and alarm control units, which are in the relatively high price range and the demand of which is expected to be less price-sensitive. At the same time, the Group has streamlined the production to reduce costs and thus, enhance the products competitiveness.

After Sichuan Fire Factory's transformation and amalgamation into the Group in July 2005, the Group's product variety will be greatly extended to, for example, fire fighting equipment such as sprinklers, powdered and foamed fire extinguishing agents, and fire engines. Distribution network of the Group will also be instantaneously expanded particularly in the South Western part of China.

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

This is a new business segment of the Group founded through the acquisition of Tung Shing Trade Development Company Limited ("**Tung Shing**") at the end of last year. Revenue for the first six months of 2005 was over RMB72 million which has already exceeded the 2004 yearly revenue of RMB31 million. This shows the synergistic effect of combining the strong marketing network and reputation of the Group and the rich experience of Tung Shing in the sector. Operating profit, however, was only RMB5 million due to the trading nature. Over 85% of the revenue was from trading of fire engines and majority of which came from orders of China Petroleum International Company Limited. New contracts with China Petroleum for additional fire engines are under negotiation.

## Prospects

Sichuan Fire Factory has been successfully transformed into a privately owned enterprise (which is then renamed as Sichuan Morita Fire Safety Equipment Manufacturing Co. Ltd. ("**Sichuan Morita**") 四川森田消防裝備製造有限公司) and will be consolidated into the Group from the second half year of 2005. As the first important step after denationalization, it has won a tender valued at approximately RMB20 million to install fire prevention and fire fighting systems for the Chengdu Shangri-la Hotel and Office Tower and has also reached an understanding with Morita Corporation to supply powdered fire extinguishing agent totaled approximately RMB40 million to the latter. The contributions expected from Sichuan Morita; the expanding geographical coverage through new branch offices; the comprehensive product mix; the perfecting monitoring centre services utilizing technology-of-the-day; and the synergies achieved among different entities of the Group, all made the management optimistic and confident about the Group's future. In the coming periods, the Group will carry on looking for high potential business for acquisition or cooperation to further strengthen its competitive edge.

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

The Group's cash and bank balances topped RMB387 million at 30 June 2005, representing an increase of 58% over that at end of December 2004 (at around RMB245 million). This is mainly attributable to the funds raised by issuance of 356,000,000 new shares in April 2005 to United Technologies Far East Limited ("UTFE") at HK\$0.577 each. In the months ahead, more resources will be devoted to the development of the network based monitoring system of fire prevention and fighting systems and remote automatic monitoring centre across China.

Outstanding balances of short term bank loan, trust receipt loans and bank overdraft as at period end date were RMB0.2 million, RMB0.3 million and RMB8.8 million respectively. The bank loans and overdraft were granted to a subsidiary of the Group and were secured by the Group's bank deposits of approximately RMB2 million together with certain personal assets and guarantee of a minority shareholder. Save as disclosed herein, there were no other charges on the assets of the Group as at 30 June 2005.

As at 30 June 2005, current assets and current liabilities of the Group were approximately RMB662 million (31 December 2004: RMB424 million) and RMB145 million (31 December 2004: RMB111 million) respectively. The current ratio was approximately 4.5 times (31 December 2004: 3.8 times), reflecting sufficient financial resources to meet the Group's liabilities. The Group has a zero debt to asset ratio as it has no long-term interest bearing liabilities as at period end date.

During the period under review, purchases amounting to RMB62 million, or approximately 33% of the Group's total purchases were denominated in foreign currencies (mainly Euro, US dollar and Japanese Yen). Over 77% of foreign currencies purchases were hedged against fluctuation in exchange rates. At 30 June 2005, RMB47 million of the purchases in foreign currencies remained unsettled in the accounts payable and 81% of which were hedged. Save as disclosed above, the Group's assets, liabilities, sales and purchases are primarily denominated in Renminbi and Hong Kong dollars, the exposure to foreign currencies fluctuation is minimal, and therefore, no hedging against foreign currencies exposure is considered necessary.

The Group had no material contingent liabilities as at 30 June 2005.

## Investments and capital commitments

In 2004, the Group acquired three subsidiaries, which specialize in different streams of the fire safety industry. They have been smoothly integrating into the Group since being acquired. For the six months ended 30 June 2005, Beijing Chongzheng Huasheng Emergency Lighting System Co., Ltd and Tung Shing have generated in aggregate 27% of the Group's turnover and 6.5% of the profits after tax. Since the remote automatic monitoring centres are still at the initial set up stage, Jiangxi Shengan is expected to be one of the Group's major contributors in the coming periods (see "Provision of fire prevention and fighting system maintenance services" above).

As mentioned in the Group's annual report 2004, the Group has entered into an agreement to acquire all the equity interests in Sichuan Fire Factory at cash consideration of RMB81,000,000. The first tranche of the consideration has been paid while the second tranche of RMB48,600,000 will be settled upon fulfillment of certain conditions. Business certificate of the newly restructured Sichuan Fire Factory has been obtained in July 2005 and is expected to be integrated into the Group in the second half of 2005.



Apart from the consideration for Sichuan Fire Factory, the Group is also committed to issue 30,000,000 new shares of the Company at maximum to the vendor of Tung Shing, subject to a profit guarantee adjustment as stipulated in the sales and purchase agreement of Tung Shing. As at 30 June 2005, the Group also had a commitment of RMB6,000,000 to acquire certain plant and equipment.

Save as disclosed herein, the Group has no significant investment held, capital commitments or material acquisitions and disposal of subsidiaries as at or during the six months ended 30 June 2005.

### **Employees and remuneration policies**

As at 30 June 2005, the Group had approximately 890 full-time employees (2004: 705). Staff costs, excluding directors' remuneration, for the six months amounted to approximately RMB16 million, rise 39% from RMB12 million in the corresponding period last year. The increase was due to the acquisition of two subsidiaries at the second half year of 2004 and the staff employed for setting up automatic remote control centres for the network based monitoring systems. All full-time employees are entitled to medical contributions, provident funds and retirement plans. In addition, bonuses are rewarded to those staff with outstanding performances. Staff performance evaluations are carried out regularly as a means of communication between the management and the staff for performance improvement.

The Group provides 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.

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

Save as disclosed below, as of 30 June 2005, none of the Directors or chief executive had any interest or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (Cap. 571 of the Laws of Hong Kong) ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or were required, pursuant to section 352 of the SFO to be entered in the register required to be kept therein or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

#### Long positions in ordinary shares of the Company

<b>Name of Director</b>	<b>Capacity and types of interest</b>	<b>Number of issued shares of HK\$0.01 each of the Company held</b>	<b>Percentage of issued share capital of the Company</b>
Mr. Jiang Xiong	Beneficial owner	981,600,000	41.31%
Mr. Jiang Qing	Beneficial owner	7,500,000	0.32%

On 1 February 2005, Mr. Jiang Xiong (“**Mr. Jiang**”) entered into an option agreement (the “**Option Agreement**”) with United Technologies Far East Limited (“**UTFE**”), a substantial shareholder of the Company. Pursuant to the Option Agreement, Mr. Jiang grants an option (the “**Option**”) to UTFE which when exercised, will require Mr. Jiang to sell to UTFE the lower of:

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

Also on 1 February 2005, the Company entered into a subscription agreement (the “**Subscription Agreement**”) with UTFE, pursuant to which the Company will issue 825,000,000 new shares of the Company (the “**Shares**”) to UTFE in two tranches at a price of HK\$0.577 per share. On 12 April 2005, the Company has 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.

Mr. Jiang has a short position, and is deemed to have a long position in the shares to be sold under the Option Agreement. Under the SFO, Mr. Jiang is considered to have a long position in the 825,000,000 Shares to be issued to UTFE pursuant to the Subscription 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.

#### Options to subscribe for ordinary shares in the Company

Grantee	Date of grant	No. of shares issuable under the options as at 1 January and 30 June 2005	Exercise period	Exercise price (HK\$)	Percentage of issued share capital of the Company
Mr. Jiang Qing	25 May 2004	20,000,000	25 May 2004 – 24 May 2014	0.44 (Note)	0.84%
Mr. Chen Shu Quan	25 May 2004	5,000,000	25 May 2004 – 24 May 2014	0.44 (Note)	0.21%
Mr. Chan Siu Tat	25 May 2004	5,000,000	25 May 2004 – 24 May 2014	0.44 (Note)	0.21%

*Note:* The closing price of shares of the Company immediately before the date on which the option was granted was HK\$0.465. All options granted were vested on the date of acceptance, i.e. 25 May 2004.

Interest in a subsidiary

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

**INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS**

As at 30 June 2005, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shown that other than the interests disclosed above in respect of certain directors, the following shareholders 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 type of interest	Number of issued share of HKD0.01 each of the Company held	Percentage of issued capital of the Company
UTFE	Beneficial owner	356,000,000	14.98%
Otis Elevator Company	Interest of a controlled corporation (Note 1)	356,000,000	14.98%
Carrier Corporation	Interest of a controlled corporation (Note 2)	356,000,000	14.98%
United Technologies Corporation	Interest of a controlled corporation (Note 3)	356,000,000	14.98%

Notes:

1. 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 356,000,000 shares in which UTFE has declared an interest for the purpose of the SFO.
2. 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 356,000,000 shares in which UTFE has declared an interest for the purpose of the SFO.

3. 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 356,000,000 shares in which Otis Elevator Company and Carrier Corporation have declared an interest for the purpose of the SFO.

Due to the Option Agreement and the Subscription Agreement, UTFE, Otis Elevator Company, Carrier Corporation and United Technologies Corporation have a long position in the 981,600,000 Shares owned by Mr. Jiang and the remaining 469,000,000 Shares to be issued pursuant to the Subscription Agreement. They also have a short position in the shares to be sold under the Option Agreement.

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 30 June 2005.

### ***DIRECTORS' INTERESTS IN COMPETING BUSINESS***

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

### ***DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE***

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

### ***PURCHASE, SALE OR REDEMPTION OF SECURITIES***

During the period ended 30 June 2005, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company.

### ***CORPORATE GOVERNANCE***

#### Corporate governance practices

Throughout the period ended 30 June 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 that:

1. There were no fixed terms of appointment for the non-executive directors although they are subject to retirement by rotation according to the Company's articles of association. The Board is of the opinion that this serves the same objectives of the relevant provision.
2. The role of both the Chairman and Chief Executive Officer were performed by Mr. Jiang Xong until Mr. Jiang Qing was appointed Chief Executive Officer on 1 April 2005.

3. No remuneration committee and nomination committee have been set up. As non-executive directors are not entitled to remunerations and the service contracts of three of the four executive directors will be expired in September 2005 and new remuneration packages to be set for them, the Board considers that the delay establishment of the remuneration committee would not adversely affect the governance of the Company. During the period, only two non-executive directors were appointed and they were nominated by UTFE as a condition of the Subscription Agreement.

#### 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.

#### Audit committee

The audit committee comprises three independent non-executive Directors, namely Mr. Liu Shi Pu, Mr. Heng Kwo Seng and Mr. Xiang Yu Fu. 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. The Group's results for the period have been reviewed by the audit committee.

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

As at the date of this report, the Company's Executive Directors are Mr. Jiang Xiong, Mr. Jiang Qing, Mr. Chen Shu Quan and Mr. Chan Siu Tat; the Non-Executive Directors are Mr. Cheng Kai Tuen, George and Mr. Wat Chi Ping, Isaac; and the Independent Non-Executive Directors are Mr. Liu Shi Pu, Mr. Heng Kwo Seng and Mr. Xiang Yu Fu.

Hong Kong, 12 August 2005