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China Fire Safety Enterprise Group Holdings Limited

中國消防企業集團控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

Interim Report 2004

* *For identification purpose only*

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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 2004

HIGHLIGHTS

– For the three months ended 30 June 2004, the Group's unaudited turnover soared 148% to RMB127.0 million. The same the unaudited turnover for the six months ended 30 June 2004 which doubled to RMB222.4 million.

– The unaudited net profit for the three months ended 30 June 2004 jumped 56.3% to RMB31.2 million. For the six months ended 30 June 2004, it rose to RMB62.1 million, an increase of 29.2%.

– Revenue (before sales tax) from sale of fire prevention and fighting equipments, installation services and maintenance services for the six months ended 30 June 2004 were respectively RMB83.9 million, RMB123.6 million and RMB18.6 million, increasing by 35.6%, 235.4% and 35.7% correspondingly.

– Installation services in non-Fujian provinces generated revenue of RMB27.1 million, 25 times more than that of the corresponding period last year.

– Basic earnings per share for the six months ended 30 June 2004 was RMB3.10 cents (2003: RMB2.4 cents).

– The Group's cash and cash equivalents jumped 26.4% to approximately RMB234.4 million at 30 June 2004 as a result of the Group's effort in controlling accounts receivables which declined by 25.2% to RMB60.4 million as at the end of this review period.

– The Board declared an interim dividend for the six months ended 30 June 2004 of 1 HK cent per share (2003: 1 HK cent per share).

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 2004, together with the comparative figures for the corresponding periods in 2003, as follows:

CONSOLIDATED INCOME STATEMENT

		(Unaudited) For the six months ended 30 June		(Unaudited) For the three months ended 30 June	
		2004	2003	**2004**	2003
	Notes	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Turnover	*2*	**222,363**	110,914	**126,986**	51,125
Cost of sales		**(126,537)**	(50,200)	**(79,130)**	(26,577)
Gross Profit		**95,826**	60,714	**47,856**	24,548
Other operating income		**577**	722	**388**	386
Distribution costs		**(1,763)**	(789)	**(1,305)**	(359)
Administrative expenses		**(15,476)**	(7,783)	**(9,454)**	(3,020)
Profit from operations	*3*	**79,164**	52,864	**37,485**	21,555
Finance costs		**(19)**	(114)	**(11)**	(57)
		79,145	52,750	**37,474**	21,498
Taxation	*4*	**(15,560)**	(4,610)	**(4,916)**	(1,465)
Profit after taxation		**63,585**	48,140	**32,558**	20,033
Minority interests		**(1,527)**	(109)	**(1,311)**	(45)
Net profit for the period		**62,058**	48,031	**31,247**	19,988
Interim dividend declared	*5*	**21,200**	21,200	**21,200**	21,200
Earnings per share – Basic and diluted (RMB cents)	*6*	**3.10**	2.40	**1.56**	1.00

CONSOLIDATED BALANCE SHEET

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

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

Notes:

1. **Basis of presentation**

   The Group's unaudited consolidated results have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with the Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Society of Accountants (the "HKSA"), the terms of HKFRS is inclusive of Statements of Standard Accounting Practice ("SSAP") and interpretations approved by the HKSA. The accounting policies adopted in preparing the unaudited consolidated results for the six months and three months ended 30 June 2004 and 2003 are consistent with those in the preparation of the Group's annual financial statements for the year ended 31 December 2003.

2. Turnover

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

	(Unaudited) For the six months ended 30 June		(Unaudited) For the three months ended 30 June	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Sale of goods	**83,870**	61,855	**47,980**	21,214
Revenue from installation contracts	**123,637**	36,863	**72,543**	25,558
Provision of maintenance services	**18,554**	13,675	**8,251**	5,226
	226,061	112,393	**128,774**	51,998
Less: Sales tax	**(3,698)**	(1,479)	**(1,788)**	(873)
	222,363	110,914	**126,986**	51,125

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

3. Profit from operations

Profit from operations has been arrived at after charging:

	(Unaudited) For the six months ended 30 June		(Unaudited) For the three months ended 30 June	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Depreciation:				
Property, plant and equipment	**7,929**	2,993	**3,938**	1,786
Amortization of goodwill included in administrative expenses	**1,695**	1,482	**741**	741
Amortization of development costs included in cost of sales	**170**	–	**85**	–

4. Taxation

	(Unaudited) For the six months ended 30 June		(Unaudited) For the three months ended 30 June	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
The charge comprises:				
Current tax				
The PRC – income tax	**13,737**	4,610	**3,958**	1,465
Deferred tax	**1,823**	–	**958**	–
	15,560	4,610	**4,916**	1,465

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

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

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

5. Dividends

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

The interim dividend will be payable on or before 29 October 2004 to shareholders whose names appear on the shares register of member of the Company at 15 September 2004. The register of shareholders of the Company will be closed from 13 September 2004 to 15 September 2004 (both days inclusive), for the purposes 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 Friday, 10 September 2004.

6. Earnings per share

The calculation of basic earnings per share for the six months and three months ended 30 June 2004 were based on the unaudited consolidated net profit of RMB62,058,000 and RMB31,247,000 respectively (unaudited consolidated net profit for the six months and three months ended 30 June 2003: RMB48,031,000 and RMB19,988,000 respectively) and on the 2,000,000,000 shares in issue.

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

7. Property, plant and equipment

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

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

9. Prepayments and other receivables

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

10. Trade and other payables

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

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

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

11. Movement in reserves

	Share premium *RMB'000*	Special reserve *RMB'000*	Capital reserves *RMB'000*	Statutory surplus reserve *RMB'000*	Statutory Public Welfare fund *RMB'000*	Statutory reserve fund *RMB'000*	Accumulated Profits *RMB'000*	Total *RMB'000*
				(Unaudited)				
At 1 January 2003	139,920	(6,692)	57,840	10,086	8,995	12,159	119,070	341,378
Net profit for the period	–	–	–	–	–	–	48,031	48,031
Dividend paid	–	–	–	–	–	–	(10,600)	(10,600)
At 30 June 2003	139,920	(6,692)	57,840	10,086	8,995	12,159	156,501	378,809
At 1 January 2004	139,920	(6,692)	57,840	13,267	10,586	20,684	185,688	421,293
Net profit for the period	–	–	–	–	–	–	62,058	62,058
Dividend paid	–	–	–	–	–	–	(21,200)	(21,200)
As at 30 June 2004	139,920	(6,692)	57,840	13,267	10,586	20,684	226,546	462,151

SEGMENT INFORMATION

(a) Business segments

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

Segment information about these businesses is as follows:

	Installation of fire prevention and fighting systems *RMB'000*	Sale of fire prevention and fighting equipment *RMB'000*	Provision of maintenance services *RMB'000*	Elimination *RMB'000*	Consolidated *RMB'000*
For the six months ended 30 June 2004					
TURNOVER					
External sales	120,740	83,664	17,959	–	222,363
Inter-segment sales	–	5,601	–	(5,601)	–
Total	120,740	89,265	17,959	(5,601)	222,363
Inter-segment sales are charged at prevailing market rates.					
RESULTS					
Segment results	42,362	29,445	16,182	–	87,989
Finance costs					(19)
Unallocated corporate expenses					(8,825)
Profit before taxation					79,145
Taxation					(15,560)
Profit before minority interests					63,585
Minority interests					(1,527)
Net profit for the period					62,058

	Installation of fire prevention and fighting systems *RMB'000*	Sale of fire prevention and fighting equipment *RMB'000*	Provision of maintenance services *RMB'000*	Elimination *RMB'000*	Consolidated *RMB'000*
For the six months ended 30 June 2003					
TURNOVER					
External sales	35,795	61,855	13,264	–	110,914
Inter-segment sales	–	3,715	–	(3,715)	–
Total	35,795	65,570	13,264	(3,715)	110,914

Inter-segment sales are charged at prevailing market rates.

RESULTS					
Segment results	14,482	29,123	11,810	–	55,415
Finance costs					(114)
Unallocated corporate expenses					(2,551)
Profit before taxation					52,750
Taxation					(4,610)
Profit before minority interests					48,140
Minority interests					(109)
Net profit for the period					48,031

(b) Geographical segments

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

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

For the period under review, there was a great improvement in results over the corresponding period last year which was greatly affected by the outbreak of SARS. Turnover for the three months ended 30 June 2004 soared 148% to RMB127.0 million. The same for the six months ended 30 June 2004 where turnover doubled to RMB222.4 million. Profits attributable to shareholders for the three months and six months ended 30 June 2004 were respectively RMB31.2 million and RMB62.1 million, an increase of 56.3% and 29.2% correspondingly, giving per share earnings of RMB1.56 cents and RMB3.1 cents. Turnover rose in all three categories: the sale of fire prevention and fighting equipment; provision of fire prevention and fighting system installation services; and provision of fire prevention and fighting system maintenance services. An analysis of the Group's turnover by geographical regions is as follows:

	(Unaudited) For the six months ended 30 June		**(Unaudited) For the three months ended 30 June**	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Sale of goods				
– Fujian Province	**49,415**	38,753	**24,462**	11,403
– Other Provinces	**34,455**	23,102	**23,518**	9,811
	83,870	61,855	**47,980**	21,214
Revenue from installation contracts				
– Fujian Province	**96,522**	35,817	**45,620**	25,558
– Other Provinces	**27,115**	1,046	**26,923**	–
	123,637	36,863	**72,543**	25,558
Provision of maintenance services				
– Fujian Province	**18,554**	13,675	**8,251**	5,226
	226,061	112,393	**128,774**	51,998
Less: Sales tax	**(3,698)**	(1,479)	**(1,788)**	(873)
	222,363	110,914	**126,986**	51,125

Sale of fire prevention and fighting equipment

Sales of fire prevention and fighting equipment jumped 35.6% to RMB83.9 million for the six months ended 30 June 2004 as compared to the corresponding period last year. In response to the fierce market competition, the Group has adjusted the selling prices of its product several times during the preceding twelve months. The competitive prices plus reputation of the Group has boosted equipment sales. Turnover generated in non-Fujian provinces increased 49.1% to RMB34.5 million. This is mainly due to the increase in number of distributors and the contributions of the newly acquired Chongzheng Huasheng which manufactures and sells emergency lighting products adopting an innovative centralized electronic supplies technology. It contributed around RMB7 million in turnover for the review period.

Provision of fire prevention and fighting system installation services

The installation services sector was the star performer with turnover increasing to RMB123.6 million. Sales in non-Fujian provinces were particularly remarkable benefiting from the completion of restructuring of branch offices. During the period under review, many installation projects, in areas as various as Beijing, Zhejiang and Jiangsu were concluded. Some of the projects were for prestigious multi-national corporations, such as the General Electric Asia Hydro-electric Equipment Co. Ltd. (美國通用電氣亞洲水電設備有限公司) in Hangzhou and China Sanyo Electrical Appliances and Chemical Co. Ltd. (中國三洋電器化學有限公司) in Jiangsu. While some were granted by renowned state corporations like The Capital Group (the CEO Capital Development Tower) in Beijing. Most of them have been completed and generated revenue of RMB27.1 million, up 25 times from around RMB1.05 million last year. The gross profit percentages of these projects, however, are lower than those in Fujian. This is a result of the Group's strategy to gain more market share and build up its brand as it makes a foray into new markets. Also to access the steady streams of maintenance income that follows when the Group has a firm grip of the market the target of the Group. At the same time, the Group also performed well in its home market. Revenue grew 1.7 times to RMB96.5 million for the six months ended 30 June 2004, more projects were completed as compared to last year and some of them were a considerably large scale of over RMB10 million each.

Provision of fire prevention and fighting system maintenance services

The maintenance services sector performed steadily with revenue of RMB18.6 million, increasing by 35.7%. However, a majority of the contracts recognized during the period under review were still one-off in nature. People still need more time to be familiar and adapted to the concept of keeping their fire safety systems under regular maintenance. With the enlarged nationwide market (through installation services provided) and the acquisition of Jiangxi Shengan City Safety Communications Development Company Limited (江西盛安城市安全信息發展有限公司) ("**Shengan City Safety**"), the Group believes that the soon-to-be-launched network based monitoring system of fire prevention and fighting systems will boost the sale of annual maintenance services and generate for the Group, a stable source of income in the future. The network based monitoring system of fire prevention and fighting systems, integrates various advanced technologies, such as geographical information system, global positioning system and remote sensing system through broadband internet multi-media information technology. The system consists of multi-level networks containing intelligent distant inspections over fire prevention and fighting systems in various buildings, including intra-community, intra-city and intra-nation networks. The networks are also linked with the 119 fire emergency centre via audio and visual information on site. Users can have their fire prevention and fighting systems securely monitored all the time in a remote automatic monitoring centre by paying a regular subscription fees. The Group by having detailed information about conditions of the safety systems for each building through the monitoring systems, can provide the best services to the customers and be in a better position to compete with others.

Financial resources, liquidity, contingent liabilities and pledge of assets

The Group's cash and cash equivalents jumped 26.4% from the end of last year (at around RMB185.4 million) to approximately RMB234.4 million at 30 June 2004. This is mainly attributable to the Group's effort in controlling accounts receivables which declined by 25.2% to RMB60.4 million as at the end of this review period. Improvement was also seen in the aging analysis of trade debtors. During the period, the Group has repaid the mortgage loan in full (31 December 2003: RMB3.7 million) and the relevant land and buildings previously pledged to secure the loan have been released. There were no charge on the assets of the Group as at 30 June 2004.

As at 30 June 2004, current assets and current liabilities of the Group were approximately RMB370.3 million (31 December 2003: RMB317.4 million) and RMB40.2 million (31 December 2003: RMB30.9 million) respectively. The current ratio was maintained at a high level of approximately 9.2 times (31 December 2003: 10.3 times), reflecting an abundance of financial resources to meet the Group's liabilities. The gearing ratio, representing long term liabilities divided by shareholders equity, was maintained at a very low level of approximately 1.1% (31 December 2003: 1.5%).

Renminbi is adopted as the reporting currency by the Group. As the Group's assets, liabilities, sales and purchases are primarily denominated in Renminbi, the Group's exposure to foreign currencies fluctuation is minimal, and therefore, no hedging against foreign currencies exposure is considered necessary. The Group had no material contingent liabilities as at 30 June 2004.

Investments and capital commitments

During the review period, the Group acquired 55.44% interest in Beijing Chongzheng Huasheng Emergency Lighting System Ltd,. Co (北京崇正華盛應急照明系統有限公司) ("**Chongzheng Huasheng**"), a company established in the PRC, for a consideration of RMB3.8 million. Chongzheng Huasheng is engaged in the provision of total solutions for fire safety emergency lighting systems and emergency electronic supplies in the PRC with an innovative centralized electronic supplies technology for its emergency lighting products. The acquisition has enlarged the Group's emergency lighting series and provided the Group with an opportunity to step into the huge potential market for this advanced product. During the period under review, Chongzheng Huasheng successfully won a bid to provide equipment worth around RMB4 million to a University City in Guangdong province. Chongzheng Huasheng has contributed approximately RMB7 million in turnover and RMB1.6 million in net profit to the Group.

On 11 August 2004, the Group entered into an agreement with certain independent third parties to acquire Shengan City Safety, for a consideration of RMB7,000,000. After the acquisition, the Group will inject another RMB8,000,000 into Shengan City Safety as its share of the enlarged registered capital. The Group will hold 51.61% of the equity interests of Shengan City Safety after the acquisition and capital injection. Shengan City Safety is a limited company established in the PRC and principally engaged in the research and development of network based monitoring system for fire prevention and fighting maintenance systems. It also provides system integration, and maintenance service including the enhancement and repair and maintenance of such fire prevention and fighting systems. It has established and is operating the only remote automatic monitoring center of fire prevention and fighting system (消防遠程自動網絡監控中心) in the Jiangxi province. Shengan City Safety was granted the right to establish and operate remote monitoring center of fire prevention and fighting system in the Jiangxi province in 2004. It has obtained 7 national patents for its network products in the PRC. It has developed several research collaborations and projects with research institutes and universities in Jiangxi province to develop such systems. The Group considers that the application of network based monitoring system of fire prevention and fighting systems is a trend for development of the fire safety industry and it improves the repair and maintenance standards of fire prevention and fighting systems. It is more effective and efficient to cooperate with a company with relevant operating experience than self-development. Through the cooperation with Shengan City Safety, the Group can establish its first presence in the fire prevention and fighting system maintenance market in Jiangxi province. At the same time, the successful network based monitoring system model in Jiangxi province can be applied nationwide, providing the Group a strong foothold to expand to the national fire prevention and fighting system maintenance market.

The Group sees acquisition as an important strategy to strengthen its competitive advantages in the fire safety market. As at 30 June 2004, the Group is in negotiation to acquire Sichuan Fire Safety Appliances Factory (四川消防機械總廠) ("**Sichuan Fire Safety**"). Agreement is expected to be reached in the second half of 2004. Sichuan Fire Safety is a state-owned enterprise principally engaged in the manufacturing and sale of fire engines, design, manufacturing, sale and installation of fire prevention and fighting equipment and provision of installation and maintenance services of fire prevention and fighting systems. The Group is in discussion with Morita Corporation, a company listed on the Tokyo Stock Exchange Limited and Osaka Stock Exchange Limited which is renowned for its manufacturing and distribution of fire engines and fire fighting and prevention equipment and is holding 1.168% of the Company's issued share capital, to cooperate in the acquisition of Sichuan Fire Safety in terms of technical consultation and equity participation. As at 30 June 2004, the Group has paid RMB13,000,000 as refundable deposits to acquire Sichuan Fire Safety.

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 period ended 30 June 2004.

Employees and remuneration policies

As at 30 June 2004, the Group had approximately 705 full-time employees (2003: 539). Staff costs, excluding directors' remuneration, for the six months amounted to RMB11.8 million, a 59% rise from RMB7.4 million in the corresponding period last year. The increase was attributable to the larger employment upon the opening of the new factory with bigger capacity in the second half of 2003. The acquisition of Chongzheng Huasheng in March 2004 was another factor in the rise. 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 half-yearly as a means of communication between the management and the staff for performance improvement.

Training is considered crucial to quality services and work safety. The Group provides comprehensive in-house and on-the-job training to staff to keep their technical skills and standards up to date.

COMPARISON OF THE BUSINESS PLANS AND ACTUAL PROGRESS

Set out below is a summary of the actual business progress of the Group as measured against the business objectives up to 30 June 2004 as set out in the prospectus of the Company dated 23 September 2002:

Development of new products with application of advanced technology

a. New products to be applied in the existing business

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

Expected progress	Actual progress
Finalise negotiation with bandworth providers and commence pilot testing. Apply production permit and start quality attestation. Obtain quality certificate and plan for commercial production.	Production and sale of intelligent fire detector operated by CPUs and crystal luminous emergency lighting system commenced. On 11 August 2004, the Group entered into an agreement to acquire Shengan City Safety which specializes in the research and development of network based monitoring system for fire prevention and fighting maintenance systems and is operating the only remote automatic monitoring center of fire prevention and fighting system (消防遠程自動網絡監控中心) in the Jiangxi province. The Group considers that it is more effective and efficient to cooperate with a company with relevant operating experience than self-development.

b. New product lines and new types of services

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

Expected progress	Actual progress
Expand to the fire retardant material and fire service equipment sectors by acquisition or alliances with the targeted companies.	The Group is in negotiation to acquire Sichuan Fire Safety and has entered into an agreement to acquire Shengan City Safety on 11 August 2004. One of the principal activities of Sichuan Fire Safety is manufacturing and sale of fire engines while Shengan City Safety specializes in the research and development of network based monitoring system for fire prevention and fighting maintenance systems and operation of remote automatic monitoring center of fire prevention and fighting system (消防遠程自動網絡監控中心). The acquisition will widen the Group's product and service ranges and allowed the Group entering into new markets. The sales and purchase agreement of Sichuan Fire Safety is expected to be concluded in the second half of 2004.
Complete the fire prevention and fighting systems installation project for the specialized industry and continue to bid for others.	The Group has trained up a professional team specialized in industrial installation services. During the period under review, the Group obtained certain projects in relation to some specialized industries such as the General Electric Asia Hydro-electric Equipments Co. Ltd. (美國通用電氣亞洲水電設備有限公 司) and China Sanyo Electrical Appliances and Chemical Co. Ltd. (中國三洋電器化學有限公司).

Enhancement of the research and development team

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

Expected progress	Actual progress
Complete construction of the research & development centre, install equipment and facilities and continue the research work.	All construction works were completed and operation commenced at the end of June 2003.

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

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

Expected progress	Actual progress
Commence mass production with the new production facilities.	The construction of the new production base in Fujian Province was completed and production commenced in September 2003.
Formulate plan and identify and confirm suitable location for new production facilities.	The acquisition of Sichuan Fire Safety, which is to be completed in the second half of 2004, will generate the Group additional production capacities. Sichuan Fire Safety is principally engaged in the manufacturing and sale of fire engines, design, manufacturing, sale and installation of fire prevention and fighting equipment and provision of installation and maintenance services of fire prevention and fighting systems.

Expansion of sales and distribution network

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

Expected progress	Actual progress
Commence operations of 5 new sales offices in Shenyang, Shijiazhong, Xi'an, Wuhan and Chengdu of the PRC.	The number of branch and sale offices has been increased from 16 to 29 in different cities. All of them have commenced operations and some have even obtained certain installation projects with part of the revenue already recognized in the period.
Commence operations of the 5 new sales office in heifei, Changsha, Chongqing, Wenzhou and Guangzhou.	
Continue operation of the improved sales offices and expand sales of the respective offices.	
Continue operation of the display service centre in Shanghai.	
Commence operation of the display service centres in Beijing and Shenyang.	
Decorate the display service centres in Xi'an and Chengdu, purchase new equipment and hire experienced sales personnel.	

Marketing, promotion and brand building

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

Expected progress	Actual progress
Launch new promotional activities (such as television commercials) for the principal products of the Group. Advertise the Group's products on journals and magazines. Organise and attend conferences and seminars relating to fire prevention and fighting technology.	In view of the nature of products, the Board considered that placing commercials on television and radio was not cost effective. Therefore the Group advertised its principal products in many fire safety journals, magazines and fire safety websites in the PRC. Effectiveness of the promotion campaigns is reviewed regularly to ensure that they are cost effective.

Business collaborations and acquisitions

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

Expected progress	Actual progress
Identify potential manufacturing enterprises in the PRC which engaged in the sector of fire service equipment and fire retardant materials and acquire the companies which reach mutual agreement with the Group.	The Group is in negotiation to acquire Sichuan Fire Safety. One of its principal activities is manufacturing and sale of fire engines. The sales and purchase agreement is expected to be signed in the second half of 2004.
Identify potential enterprises in the PRC, Hong Kong, Singapore and Japan which engaged in the similar product sector complementary to the Group.	Please refer to the project of Shengan City Safety under the paragraph headed "Investments and capital commitments" in the "Management discussion and analysis" section.
Explore and evaluate the opportunities to establish co-operation arrangement, collaboration or alliances with the companies identified.	At the same time, the Group is looking for other vertical and horizontal acquisition opportunities in order to strengthen its edge in the fire safety market.
Negotiate with the management of the companies identified and develop collaboration or alliances or acquisitions with the companies identified.	

PROCEEDS FROM ISSUANCE OF NEW SHARES

The net proceeds from the Company's placement of new shares in September 2002 amounted to approximately HK$136 million of which HK$6 million will be used as working capital. The proceeds applied up to 30 June 2004 are as follows:

	Notes	Total planned use of proceeds as set in the Prospectus HK$(million)	Planned use of proceeds as set in the Prospectus up to 30 June 2004 HK$(million)	Actual use of proceeds up to 30 June 2004 HK$(million)
Development of new products	1	20.0	17.0	12.6
Establishment of a research and development centre	2	10.0	10.0	8.0
Establishment of new production bases and the purchase of new equipment and facilities	2	50.0	45.0	45.3
Expansion of sales and distribution network	3	20.0	20.0	0.8
Marketing, promotion and brand building	4	10.0	9.0	1.5
Business collaborations and acquisitions	5	20.0	–	3.8
Total		130.0	101.0	72.0

Notes:

1. The proceeds were mainly used for development of moulds for the new crystal luminous emergency lighting products, fire detectors and monitoring and control system. Part of the proceeds is reserved for the acquisition of Shengan City Safety, which specialize in the network based monitoring system of fire prevention and fighting systems and operation of remote automatic monitoring center of fire prevention and fighting system (消防遠程自動網絡監控中心). Agreement of which has been signed on 11 August 2004. The Group considered that it is more effective and efficient to cooperate with a company with relevant operating experience than self-development.

2. The constructions of the research and development centre and new production base was completed in 2003.

3. Less-than-expected amount were spent in expansion of sales and distribution network because some of the establishment costs of new branches were borne by respective local sub-contractors in a way to qualified themselves to obtain sub-contracting works of the Group.

4. The expenditure in marketing, promotion and brand building was less than expected because some major exhibitions are usually held in the second half of the year. The Group is very cautious in spending on marketing and promotion and will participate in those highly effective conferences only. The Group considered that reputation in product and service quality is the most effective means in promotion.

5. It is the consideration to acquire Chongzheng Huasheng. There are also several other possible investments under negotiation. The Directors believed that negotiation for some of them will be completed in the second half of 2004.

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

Save as disclosed below, as of 30 June 2004, none of the Directors or chief executive has any interest or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (Cap. 571 of the Laws of Hong Kong) ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or were required, pursuant to section 352 of the SFO to be entered in the register required to be kept therein or which were required, pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

Long positions

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

Mr. Jiang Xiong, an executive Director and the chairman of the Company, entered into a sale and purchase agreement on 3 October 2003 to place a total of 200,000,000 shares of the Company to investors at HK$0.35 per share (the "Placement"). The shares placed under the Placement represent 10% of the existing issued share capital of the Company, comprising (i) 100,000,000 shares to The Hong Kong Beijing Finance and Investment Limited ("Beijing Finance"), an independent third party which is not connected with any of the directors, chief executive, substantial shareholders or management shareholders of the Company or any of their respective associates (as such terms are defined in the GEM Listing Rules); and (ii) 100,000,000 shares to Cantus Limited, which prior to the Placement held 160,000,000 shares, representing 8% of the existing issued share capital of the Company, each at a price of HK$0.35 per share. The Placement was completed on 10 October 2003. Mr. Jiang Xiong has undertaken (a) not to reduce his holding of shares in the Company for a period of three months from 8 October, 2003; and (b) for a further period of nine months immediately thereafter, not to reduce his shareholding in the Company such that he would cease to be a controlling shareholder of the Company (as defined in the Hong Kong Code on Takeovers and Mergers), unless with the prior consent of CLSA Limited, Cantus Limited and Beijing Finance.

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 may grant options to full-time employees, including directors (executive and non-executive) of the Company and its subsidiaries, to subscribe for shares in the Company.

Subject to the condition that the total number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes of the Company must not exceed 30% of the shares of the Company in issue form time to time, the total number of shares in respect of which options may be granted under the Scheme when aggregated with any shares subject to any other schemes is not permitted to exceed 10% of the shares of the Company as at the date of 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 as at 30 June 2004. The number of shares in respect of which options may be granted to any individual in aggregate within a 12-month period is not permitted to exceed 1% of the shares of the Company in issue, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in any one year exceeding the higher of 0.1% of the Company's shares in issue and with a value in excess of HK$5 million must be approved by the Company's shareholders in general meeting taken on a poll.

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

As at 30 June 2004, certain options have been granted to the following Executive Directors:

Grantee	Date of grant	No. of shares issuable under the options granted	Exercise period	Exercise price *(HK$)*	No. of shares issuable under the options granted as at 30 June 2004
Jiang Qing	25 May 2004	20,000,000	25 May 2004 – 24 May 2014	0.44 *(Note)*	20,000,000
Chen Shu Quan	25 May 2004	5,000,000	25 May 2004 – 24 May 2014	0.44 *(Note)*	5,000,000
Chan Siu Tat	25 May 2004	5,000,000	25 May 2004 – 24 May 2014	0.44 *(Note)*	5,000,000

Note: The closing price of shares of the Company immediately before the date on which the option was granted was HK$0.465.

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. The options granted are not recognized in the financial statements until they are exercised. The Directors considered that it is not appropriate to state the value of the options granted during the period on the ground that a number of variables which are crucial for the valuation of option value cannot be reasonably determined. Accordingly, the Directors believe that any valuation of the options based on a large number of speculative assumptions would not be meaningful and may be misleading to the shareholders.

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

INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 30 June 2004, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of certain directors, the following shareholders had notified the Company of their relevant interests in the issued share capital of the Company.

Long positions

Name of shareholder	Capacity and type of interest	Number of issued shares of HK$0.01 each of the Company held	Percentage of issued capital of the Company
Cantus Limited	Beneficial owner	262,650,000	13.13%
Aria Investment Partners L.P.	Interest of a controlled corporation *(Note 1)*	262,650,000	13.13%
CLSA Private Equity Management Limited	Investment Manager *(Note 2)*	262,650,000	13.13%
CLSA Funds Limited	Interest of a controlled corporation *(Note 3)*	262,650,000	13.13%
CLSA B.V.	Interest of a controlled corporation *(Note 4)*	262,650,000	13.13%
Calyon Capital Markets Asia B.V.	Interest of a controlled corporation *(Note 5)*	262,650,000	13.13%
Credit Lyonnais Capital Markets International SASU	Interest of a controlled corporation *(Note 6)*	262,650,000	13.13%

Name of shareholder	Capacity and type of interest	Number of issued shares of HK$0.01 each of the Company held	Percentage of issued capital of the Company
Credit Agricole Indosuez.	Interest of a controlled corporation *(Note 7)*	262,650,000	13.13%
Credit Agricole S.A.	Interest of a controlled corporation *(Note 8)*	262,650,000	13.13%
SAS Rue la Boetie	Interest of a controlled corporation *(Note 9)*	262,650,000	13.13%
The Hong Kong Beijing Finance and Investment Limited ("**Beijing Finance**")	Beneficial owner	100,000,000	5.00%
The Capital Group	Interest of a controlled corporation *(Note 10)*	100,000,000	5.00%
The People's Government of Beijing Municipality	Interest of a controlled entity *(Note 11)*	100,000,000	5.00%

Notes:

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

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

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

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

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

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

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

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

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

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

11. The People's Government of Beijing Municipality is beneficially interested in the entire registered capital of The Capital Group and is deemed or taken to be interested in the 100,000,000 shares in which The Capital Group has declared an interest for the purpose of the SFO as mentioned in Note 10 above.

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

Other than as disclosed above, the Company has not been notified of any other interests or short position in the issued share capital of the Company as at 30 June 2004.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

SPONSOR'S INTERESTS

As updated and notified by the Company's sponsor, Core Pacific-Yamaichi Capital Limited ("CPY Capital"), as at 30 June 2004, neither CPY Capital nor its directors, employees or associates (as referred to Note 3 to Rule 6.35 of the GEM Listing Rules) had any interest in the share capital of the Company. Pursuant to the sponsor agreement dated 20 September 2002 entered into between the Company and CPY Capital, CPY Capital has received and will receive fees for acting as the Company's retained sponsor for the remaining period up to 31 December 2004 or until the sponsor agreement is terminated upon the terms and conditions set out therein.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the six months ended 30 June 2004, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company.

BOARD PRACTICES AND PROCEDURES

Throughout the six months ended 30 June 2004, the Company has complied with the code of best practice as set out in Rules 5.34 to 5.45 of the GEM Listing Rules.

AUDIT COMMITTEE

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

The Group's results for the six months ended 30 June 2004 has been reviewed by the audit committee.

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

Hong Kong, 12 August 2004

As at the date thereof, the Board comprises:

Mr. Jiang Xiong (Executive Director)
Mr. Jiang Qing (Executive Director)
Mr. Chen Shu Quan (Executive Director)
Mr. Chan Siu Tat (Executive Director)
Mr. Richard Owen Pyvis (Non-executive Director)
Ms. Josephine Price (Non-executive Director)
Mr. Liu Shi Pu (Independent non-executive Director)
Mr. Heng Kwoo Seng (Independent non-executive Director)