Interim Report 2010

CFE

中國消防企業集團有限公司

CHINA FIRE SAFETY ENTERPRISE GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code：445

HIGHLIGHTS

- Turnover of the Group for the six months ended 30 June 2010 increased 17% to RMB391 million.

- Net profit for the period was RMB2 million (2009: net loss of RMB40 million). An allowance for bad and doubtful debts amounted to RMB37 million was made in 2009.

- Profit per share for the six months ended 30 June 2010 was RMB0.09 cent (2009: loss per share was RMB1.33 cents).

- The Board does not recommend the payment of a dividend for the six months ended 30 June 2010.

The board of Directors (the "**Board**") of the Company hereby announces the unaudited interim results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the six months ended 30 June 2010, together with the comparative figures for the corresponding period in 2009, as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		(Unaudited) For the six months ended 30 June	
		2010	2009
	Notes	***RMB'000***	*RMB'000*
Turnover	2	**391,263**	333,360
Cost of sales and services		**(337,919)**	(281,681)
Gross profit		**53,344**	51,679
Other income	3	**3,075**	5,138
Selling and distribution costs		**(15,599)**	(16,239)
Administrative expenses		**(33,590)**	(77,097)
Share of profits of associates		**980**	919
Other expenses	4	**–**	(504)
Finance costs		**(2,513)**	(2,303)
Profit/(loss) before taxation		**5,697**	(38,407)
Income tax expense	5	**(3,440)**	(1,551)
Profit/(loss) for the period	6	**2,257**	(39,958)
Other comprehensive income after tax			
Exchange differences on translating foreign operations		**(19)**	102
Other comprehensive income for the period, net of tax		**(19)**	102
Total comprehensive income for the period		**2,238**	(39,856)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)

	Notes	(Unaudited) For the six months ended 30 June 2010 RMB'000	2009 RMB'000
Profit/(loss) for the period attributable to:			
Owners of the Company		**2,518**	(37,945)
Non-controlling interests		**(261)**	(2,013)
		2,257	(39,958)
Total comprehensive income for the period attributable to:			
Owners of the Company		**2,453**	(37,893)
Non-controlling interests		**(215)**	(1,963)
		2,238	(39,856)
Earnings/(loss) per share (RMB cents)			
Basic	7	**0.09**	(1.33)
Diluted		**0.09**	(1.33)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	(Unaudited) At 30 June 2010 *RMB'000*	(Audited) At 31 December 2009 *RMB'000*
Non-current assets			
Property, plant and equipment		340,807	352,607
Investment properties		23,658	23,658
Goodwill		32,748	32,748
Investments in associates		40,079	39,099
Other intangible assets		1,092	1,218
		438,384	449,330
Current assets			
Inventories		112,718	70,655
Trade and bills receivables	9	320,692	317,573
Amounts due from contract customers		379,899	386,778
Retention receivables		20,356	21,835
Prepayments, deposits and other receivables		65,636	277,135
Amount due from a jointly controlled entity		4,570	6,040
Amount due from an associate		480	480
Derivative financial instruments		73	642
Pledged bank deposits		1,922	5,932
Bank and cash balances		388,857	159,601
		1,295,203	1,246,671
Current liabilities			
Trade and other payables	10	285,114	251,493
Amounts due to contract customers		11,205	4,372
Amounts due to non-controlling shareholders		5,057	4,860
Current tax liabilities		6,178	15,882
Bank borrowings		83,007	80,000
Finance lease payables		48	48
		390,609	356,655
Net current assets		904,594	890,016
Total assets less current liabilities		1,342,978	1,339,346

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

	Notes	(Unaudited) At 30 June 2010 *RMB'000*	(Audited) At 31 December 2009 *RMB'000*
Non-current liabilities			
Deferred tax liabilities		1,419	–
Finance lease payables		64	89
		1,483	89
NET ASSETS		1,341,495	1,339,257
Capital and reserve			
Share capital		30,168	30,168
Reserves		1,285,679	1,283,226
Equity attributable to owners of the Company		1,315,847	1,313,394
Non-controlling interests		25,648	25,863
TOTAL EQUITY		1,341,495	1,339,257

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	(Unaudited) For the six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
Net cash generated from/(used in) from operating activities	**220,792**	(84,872)
Net cash generated from investing activities	**3,795**	4,222
Net cash generated from/(used in) from financing activities	**4,692**	(409)
Net increase/(decrease) in cash and cash equivalents	**229,279**	(81,059)
Cash and cash equivalents at 1 January	**159,601**	777,634
Effect of foreign exchange rate changes	**(23)**	(20)
Cash and cash equivalents at 30 June	**388,857**	696,555
Analysis of cash and cash equivalents at 30 June		
Bank and cash balances	**388,857**	696,555

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 June 2010
(Unaudited)

	Attributable to owners of the Company											
	Share capital *RMB'000*	Share premium *RMB'000*	Special reserve *RMB'000*	Capital reserve *RMB'000*	Statutory surplus reserve *RMB'000*	Statutory public welfare fund *RMB'000*	Statutory reserve fund *RMB'000*	Exchange reserve *RMB'000*	Retained profits *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total *RMB'000*
At 1 January 2009	30,168	646,363	(6,692)	57,840	35,894	22,943	82,427	(469)	550,493	1,418,967	27,614	1,446,581
Total comprehensive income for the period	–	–	–	–	–	–	–	52	(37,945)	(37,893)	(1,963)	(39,856)
At 30 June 2009	30,168	646,363	(6,692)	57,840	35,894	22,943	82,427	(417)	512,548	1,381,074	25,651	1,406,725
At 1 January 2010	**30,168**	**646,363**	**(6,692)**	**57,840**	**38,053**	**24,022**	**82,427**	**(512)**	**441,725**	**1,313,394**	**25,863**	**1,339,257**
Total comprehensive income for the period	–	–	–	–	–	–	–	(65)	2,518	2,453	(215)	2,238
At 30 June 2010	**30,168**	**646,363**	**(6,692)**	**57,840**	**38,053**	**24,022**	**82,427**	**(577)**	**444,243**	**1,315,847**	**25,648**	**1,341,495**

Notes:

1. **Basis of preparation**

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange and with the Hong Kong Accounting Standard 34, Interim Financial Reporting. The accounting policies adopted in preparing the condensed consolidated financial statements for the six months ended 30 June 2010 are consistent with those in the preparation of the Group's annual financial statements for the year ended 31 December 2009 except for the following:

Classification of land leases

Amendments to HKAS 17 "Leases" deleted the guidance in HKAS 17 that when the land has an indefinite economic life, the land element is normally classified as an operating lease unless title is expected to pass to the lessee by the end of the lease term.

The Group reclassifies a land lease as a finance lease if the lease transfers substantially all the risks and rewards incidental to ownership to the Group e.g. at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the land.

Amendments to HKAS 17 has been applied retrospectively and resulted in changes in the consolidated amounts reported in the financial statements as follows:

	(Unaudited) At 30 June 2010 *RMB'000*	(Audited) At 31 December 2009 *RMB'000*
Increase in property, plant and equipment	**37,968**	38,363
Decrease in prepaid land lease payments	**(37,968)**	(38,363)

2. **Turnover**

Turnover represents the aggregate of the value of installation contract works carried out, the sale proceeds of goods sold, the income from provision of maintenance services and the income from provision of online advertising services during the period less discounts and sales related tax, and is analysed as follows:

	(Unaudited) Six months ended 30 June	
	2010 *RMB'000*	2009 *RMB'000*
Revenue from installation contracts	**156,669**	122,127
Sales of goods	**233,626**	204,863
Provision of maintenance services	**946**	6,342
Provision of online advertising services	**22**	28
	391,263	333,360

3. Other income

	(Unaudited) Six months ended 30 June	
	2010 *RMB'000*	2009 *RMB'000*
Interest income	**469**	2,723
Rental income	**884**	830
Fair value gains on derivative financial instruments	**73**	–
Sundry income	**1,649**	1,585
	3,075	5,138

4. Other expenses

	(Unaudited) Six months ended 30 June	
	2010 *RMB'000*	2009 *RMB'000*
Fair value losses on derivative financial instruments	**–**	504

5. Income tax expense

	(Unaudited) Six months ended 30 June	
	2010 *RMB'000*	2009 *RMB'000*
Current tax		
PRC Enterprise Income Tax	**2,021**	6,829
Deferred tax	**1,419**	(5,278)
	3,440	1,551

No provision for Hong Kong Profits Tax has been made as the relevant group entities had no assessable income in both periods. Income tax on profits arising in the PRC has been provided based on the prevailing tax rates applicable to the respective group entities.

Deferred tax provided for the period mainly relates to the accounting difference between Hong Kong general accepted accounting principles and the PRC general accepted accounting principles on profit recognition of installation contracts.

6. **Profit/(loss) for the period**

Profit/(loss) for the period has been arrived at after charging the following:

	(Unaudited) Six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
Depreciation of property, plant and equipment	**10,635**	7,205
Amortisation of other intangible assets	**127**	137
Loss on disposal of property, plant and equipment	**1,848**	7,291
Allowance for bad and doubtful debts	**1,926**	37,372

7. **Earnings/(loss) per share**

The calculations of the basic and diluted earnings/(loss) per share are based on the following data:

	(Unaudited) Six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
Profit/(loss) for the period attributable to owners of the Company	**2,518**	(37,945)
	'000	*'000*
Weighted average number of ordinary shares	**2,855,000**	2,855,000

Note: There was no dilutive effect of the share options to the earnings/(loss) per share as the average market price of the shares for the six months ended 30 June 2010 and 2009 was lower than the exercise price of the share options.

8. **Dividends**

The Board does not recommend the payment of a dividend for the six months ended 30 June 2010 (2009: nil).

9. **Trade and bills receivables**

	(Unaudited) At 30 June 2010 *RMB'000*	(Audited) At 31 December 2009 *RMB'000*
Trade and bills receivables	**440,560**	435,580
Less: Allowance for bad and doubtful debts	**(119,868)**	(118,007)
	320,692	317,573

The Group allows an average credit period of 30 days to 180 days to its trade customers.

The aging analysis of trade and bills receivables, net of allowance for bad and doubtful debts is as follows:

	(Unaudited) At 30 June 2010 *RMB'000*	(Audited) At 31 December 2009 *RMB'000*
0 - 90 days	**104,774**	155,746
91 - 180 days	**51,034**	43,159
181 - 360 days	**89,450**	40,061
Over 360 days	**75,434**	78,607
	320,692	317,573

10. Trade and other payables

	(Unaudited) At 30 June 2010 *RMB'000*	(Audited) At 31 December 2009 *RMB'000*
Trade payables	**91,897**	80,257
Accrued costs and charges	**135,621**	99,298
Receipts in advance	**31,640**	44,741
Value added tax, sales tax and other levies	**22,884**	24,125
Amount payable for acquisition of leasehold land	**3,072**	3,072
	285,114	251,493

The aging analysis of trade payables is as follows:

	(Unaudited) At 30 June 2010 *RMB'000*	(Audited) At 31 December 2009 *RMB'000*
0 - 30 days	**33,173**	30,247
31 - 60 days	**18,359**	22,679
61 - 90 days	**9,026**	5,045
Over 90 days	**31,339**	22,286
	91,897	80,257

SEGMENT INFORMATION

The Group has six reportable segments as follows:

– installation of fire prevention and fighting systems;
– production and sale of fire engines;
– production and sale of fire prevention and fighting equipment;
– trading of fire engines, fire prevention and fighting and rescue equipment;
– provision of maintenance services; and
– provision of monitoring system services.

Each reportable segment is a strategic business unit which offers different products and services that require different production techniques and marketing strategies.

The Group's other operating segment refers to the provision of online advertising services, which does not meet any of the quantitative thresholds for determining reportable segments. The information of this other operating segment is included in the "Others" column.

Segment profits or losses do not include interest income, unallocated sundry income, unallocated corporate expenses, share of profits/losses of associates and finance costs.

The Group accounts for inter-segment sales and transfers on cost-plus basis.

	Installation of fire prevention and fighting systems *RMB'000*	Production and sale of fire engines *RMB'000*	Production and sale of fire prevention and fighting equipment *RMB'000*	Trading of fire engines, fire prevention and fighting and rescue equipment *RMB'000*	Provision of maintenance services *RMB'000*	Provision of network monitoring system services *RMB'000*	Others *RMB'000*	Elimination *RMB'000*	Consolidated *RMB'000*
For the six months ended 30 June 2010									
TURNOVER									
External sales	156,669	122,814	56,333	52,037	946	2,442	22	–	391,263
Inter-segment sales	–	–	3,366	5,960	–	–	–	(9,326)	–
Total	156,669	122,814	59,699	57,997	946	2,442	22	(9,326)	391,263
RESULTS									
Segment profit/(loss)	(5,276)	2,160	18,702	2,867	(3,485)	(3,582)	(187)		11,199
Interest income									469
Unallocated sundry income									73
Unallocated corporate expenses									(4,511)
Share of profits/(losses) of associates	1,202	–	(108)	–	–	(114)	–		980
Finance costs									(2,513)
Profit before tax									5,697
Income tax expense									(3,440)
Profit for the period									2,257

	Installation of fire prevention and fighting systems *RMB'000*	Production and sale of fire engines *RMB'000*	Production and sale of fire prevention and fighting equipment *RMB'000*	Trading of fire engines, fire prevention and fighting and rescue equipment *RMB'000*	Provision of maintenance services *RMB'000*	Provision of network monitoring system services *RMB'000*	Others *RMB'000*	Elimination *RMB'000*	Consolidated *RMB'000*
For the six months ended 30 June 2009									
TURNOVER									
External sales	122,127	129,165	62,746	12,952	3,149	3,193	28	–	333,360
Inter-segment sales	–	–	8,094	5,032	–	–	–	(13,126)	–
Total	122,127	129,165	70,840	17,984	3,149	3,193	28	(13,126)	333,360
RESULTS									
Segment profit/(loss)	(13,300)	5,395	(17,996)	(1,932)	(464)	(1,672)	(220)		(30,189)
Interest income									2,723
Unallocated corporate expenses									(9,557)
Share of profits/(losses) of associates	1,202	–	(214)	–	–	(69)	–		919
Finance costs									(2,303)
Loss before tax									(38,407)
Income tax expense									(1,551)
Loss for the period									(39,958)

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

For the six months ended 30 June 2010, the Group's turnover increased 17% to RMB391 million. Net profit for the period was RMB2 million (2009: net loss of RMB40 million).

Installation of fire prevention and fighting systems

Revenue from installation of fire prevention and fighting systems for the period increased 28% to RMB157 million. The operating loss decreased by 60% to RMB5 million.

Revenue grew because of the recognition of the progress revenue for certain big projects secured in the second half of 2009. Operating loss decreased because the allowance for bad and doubtful debts made for the period was substantially less than that provided for last year. If the effect of the allowance made were taken away, the operating results for the current period would have actually declined when compared with the corresponding period last year. Due to the severe competition, the gross profit ratio for most of the contracts obtained last year and carried forward to the current reporting period was considerably lower than that for the years before, therefore causing a drop in gross profit despite the rise in revenue.

Production and sale of fire engines

Revenue from production and sales of fire engines for the period decreased 5% to RMB123 million. Operating profit decreased 60% to RMB 2 million.

Less revenue was recognised because included in the Group's closing stocks, there were around 50 units of completed fire engines waiting for customers' delivery instructions. Revenue of approximately RMB44 million was thus deferred until the fire engines were delivered in July 2010. Gross profit margin of the segment maintained stable.

To maintain the Group's leading position in the industry, it has been striving for further expansion, whether in market coverage or product varieties. The Group has recently cooperated with The First Automotive Group to manufacture the first rescue vehicle in China that assembled the chassis specifically designed for use by rescue vehicles. The main purpose of the chassis's development is to standardize and enhance the quality of rescue vehicles. With its introduction, the replacement of the old vehicles would probably be sped up and are very likely to benefit the Group as one of the development partners. In addition to the local markets, the Group has been working on developing the overseas markets. During the period, the Group secured orders from Uganda, Ghana and Vietnam, showing the wide recognition and popularity of the Group's brand and its products in the developing countries.

Production and sale of fire prevention and fighting equipment

Revenue from production and sales of fire prevention and fire fighting equipment for the period decreased 10% to RMB56 million. The operating results turned into a profit of RMB19 million (2009: loss of RMB18 million).

The decrease in revenue was again attributable to the Group's residential used fire protection equipment. The sales of emergency lightings were impeded by the low-cost substandard products in the market leading to a fall in revenue for consecutive periods. Fortunately on the other hand, there has been stable development in the Group's industrial fire safety equipment business: The Group's Intelligent Auto-aiming Fire Extinguishing systems are particularly popular among the airports, train stations, stadiums and other constructions with high ceilings that are not suitable for the effective use of sprinklers; other products are also well received by different industries especially the petrochemical industry.

The segment's operating results improved with the improvement in gross profit because a larger proportion of the sales were contributed by the higher-end products such as the Intelligent Auto-aiming Fire Extinguishing systems mentioned, electronic control fire monitors and the Central Control Standby Power Supply Systems. Besides, there was a reversal of the allowance for bad and doubtful debts previously made during the period under review.

Provision of maintenance services

Revenue from provision of maintenance services for the period decreased 70% to RMB1 million. Operating loss increased from RMB0.5 million for 2009 to RMB3 million for the current reporting period.

The Group's maintenance services provided are largely one-off services, the demands of which depend largely on the condition of the fire equipment. Generally, a fire safety systems and the equipment can be kept functioning properly for the first 3 to 5 years after installation or renovation, making the property owners or management reluctant to spend on maintenance during this period. Since the request to rectify risky fire systems issued by the fire authorities in Fujian, majority of the properties have undergone series of system and equipment renovations in the past few years, thus largely reduced the demand for maintenance services in the 3 to 5 years cycle and thus affected the segment's current and future performance.

Provision of network monitoring system services

Revenue from the provision of network monitoring system services for the period decreased 24% to RMB2.4 million. The operating loss increased by 114% to RMB3.6 million.

As mentioned in the Company's annual report for 2009, the level of acceptance of the monitoring system services has been at a low level since it was launched. There was no significant improvement even with the promulgation of the national standards for system. The drop in number of new recruits plus certain existing customers ceased to renew the services have led to the decline in revenue for the period under review. Unless the installation of the system is made mandatory, it is believed that there will not be substantial advancement in the segment's operation in the foreseeable future. Operating loss increased because there were losses on disposal of fixed assets and allowance for bad and doubtful debts for the Xinjiang centre amounted RMB1.8 million and RMB0.1 million respectively.

Trading of fire engines, fire prevention and fighting and rescue equipment
Revenue from the trading of fire engines, fire prevention and fighting and rescue equipment for the period increased 3 times to RMB52 million. Operating results turned into a profit of RMB3 million (2009: loss of RMB2 million).

Sales increased because more orders were received in the second half of 2009 with the growth in demand from governments and the petrochemical enterprises. Given the six to nine moths production lead time, majority of the orders for fire engines were delivered and revenue recognised during the first six months of 2010.

Financial resources, liquidity, contingent liabilities and pledge of assets
As at 30 June 2010, the Group had cash and bank balances amounting to approximately RMB391 million (31 December 2009: RMB166 million) of which RMB2 million (31 December 2009: RMB6 million) was pledged to secure banking facilities granted to the Group. Outstanding balances of short term bank loans and trust receipt loans as at the period end date were RMB80 million (31 December 2009: RMB80 million) and RMB3 million (31 December 2009: Nil) respectively. The trust receipt loans were related to the banking facilities granted to a subsidiary in Hong Kong. The settlement of the borrowings drawn from the facilities is guaranteed by the Company. The short term bank loans were granted to another non-wholly owned subsidiary in China and the repayment of which is guaranteed by another subsidiary of the Group. Net cash increased was largely due to the receipt of the refund of performance guarantee, which amounted to RMB216 million for an installation projects secured in 2009 according to the terms of contract.

As at 30 June 2010, current assets and current liabilities of the Group were approximately RMB1,295 million (31 December 2009: RMB1,247 million) and RMB391 million (31 December 2009: RMB357 million) respectively. The current ratio was approximately 3.3 times (31 December 2009: 3.5 times). Gearing ratio (interest bearing debt/total equity) at end of the period was 6.2% (31 December 2009: 6%).

Renminbi is the functional currency and adopted as the reporting currency by the Group. The majority of the Group's assets, liabilities, sales and purchases are primarily denominated in Renminbi and Hong Kong dollar. The Group has entered into foreign currency forward exchange contracts to minimize exposure to exchange rate volatility arising from receivables and payables involving currencies other than Renminbi and Hong Kong dollar. There were gains arising from changes in fair value of currency derivatives amounted to RMB73,000 for the six months ended 30 June 2010.

Save as disclosed, the Group has no material contingent liabilities or pledge of assets for the period ended 30 June 2010.

Investments and capital commitments

Capital commitments

As at 30 June 2010, the Group has capital commitment of approximately RMB28 million (31 December 2009: RMB28 million) which was related to the investment amount committed to the local government of the county where the Sichuan factory is located.

Save as disclosed herein, the Group has no material capital commitments, investments, acquisitions or disposals of subsidiaries as at 30 June 2010.

Employees and remuneration policies

As at 30 June 2010, the Group had approximately 1,211 full-time employees (2009: 1,255). Staff costs, excluding directors' remuneration, for the period amounted to RMB19.8 million, increased 4.4% over the RMB18.9 million for the same period in previous year. Staff costs increased mainly for additional direct labour employed and overtime payment for the front line staff for the manufacturing of fire engines and fire equipment in Chengdu. All full-time employees are entitled to medical contributions, provident funds and retirement plans. The Group provides a series of comprehensive in-house and on-the-job training to staff to keep their technical skills and standards up to date for quality services and to enhance work safety.

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

Save as disclosed below, as of 30 June 2010, none of the Directors or chief executives 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 the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules, to be notified to the Company and the Stock Exchange.

Long positions in ordinary shares of the Company

Name of Director	Capacity and types of 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 *(Note 1)*	981,600,000	63.28% *(Note 3)*
	Deemed interest *(Note 2)*	825,000,000	
Mr. Jiang Qing	Beneficial owner	7,500,000	0.26%

Note:

1. Mr. Jiang Xiong ("Mr. Jiang") is beneficially interested in 981,600,000 shares. By virtue of the option agreement entered into between Mr. Jiang and United Technologies Far East Limited ("UTFE"), a subsidiary of UTC (the "**Option Agreement**"), he and UTFE are parties to the agreement under section 317 of the SFO. Under the SFO, Mr. Jiang is deemed to have a long position in the 825,000,000 shares of the Company owned by UTFE.

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

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

Short positions in ordinary shares of the Company

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

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

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

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

Options to subscribe for ordinary shares in the Company

Grantee	Date of grant	Number of shares issuable under the options granted	Exercisable period	Exercise price *(HK$)*	Number of shares issuable under the options outstanding as at 1 January and 30 June 2010	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	20,000,000	0.70%

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

Save as disclosed above, no options were granted to, or exercised by, the directors of the Company during the period.

INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 30 June 2010, 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 of the Company, the following shareholders had notified the Company of their relevant interests in the issued share capital of the Company.

Long positions in ordinary shares of the Company

Name of shareholder	Capacity and types of interests	Number of issued shares of 0.01 each of the Company held	Percentage of issued capital of the Company
UTFE	Beneficial owner	825,000,000	63.28%
	Deemed interest *(Note 1)*	981,600,000	*(Note 2)*
Otis Elevator Company	Interest of a controlled corporation *(Note 3)*	1,806,600,000	63.28%
Carrier Corporation	Interest of a controlled corporation *(Note 4)*	1,806,600,000	63.28%
UTC	Interest of a controlled corporation *(Note 5)*	1,806,600,000	63.28%

Notes:

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

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

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

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

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

Short positions in ordinary shares of the Company

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

Other than as disclosed above, the Company has not been notified of any other interests or short position in the issued share capital of the Company as at 30 June 2010.

COMPETING INTERESTS

None of the directors of the Company or the management shareholder of the Company and their respective associates (as defined in the Listing Rules) had any interest in a business which competes or may compete with the business of the Group or had any other conflicts of interest, which any such person has or may have with 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 of the Company 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 2010, neither the Company nor any of its subsidiaries purchased, cancelled or redeemed any listed securities of the Company.

CORPORATE GOVERNANCE

Corporate governance practices

Throughout the period ended 30 June 2010, the Company has complied with the code provisions set out in the Code on Corporate Governance Practices set out in Appendix 14 of the Listing Rules, except for the following:

1. There were no fixed terms of appointment for the 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. According to the articles of association, no director holding office as chairman and/or managing director shall be subject to retirement by rotation.

3. No nomination committee has been set up. The appointment of new director(s) is therefore a matter for consideration and decision by the full Board.

Audit Committee

The audit committee comprises three independent non-executive directors, Dr. Loke Yu, Mr. Sun Jian Guo and Mr. Heng Ja Wei. The primary duties of the audit committee are to review the Company's annual report and accounts and half-yearly reports and to provide advices 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 Limited
Jiang Xiong
Chairman

Hong Kong, 27 August 2010

As at the date of this report, the Company's Executive Directors are Mr. Jiang Xiong, Mr. Jiang Qing, Ms. Zhang Hai Yan, Mr. Wang De Feng, Ms. Weng Xiu Xia and Mr. Hu Yong; the Non-Executive Directors are Ms. Xi Zheng Zheng and Mr. Harinath Krishnamurthy; and the Independent Non-Executive Directors are Dr. Loke Yu, Mr. Sun Jian Guo and Mr. Heng Ja Wei.