CFE

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

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8201

Interim Report 2006

* For identification purposes 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 2006

HIGHLIGHTS

- The unaudited turnover of the Group for the six months and three months ended 30 June 2006 rose by 45% and 7% to RMB440 million and 200 million respectively.

- Profit before tax for the six months ended 30 June 2006 grew 0.6% to RMB95 million though the amount for the three months ended 30 June 2006 fell 24% to RMB41 million.

- With the issuance of 469,000,000 shares of the Company in April 2006, basic and diluted earnings per share for the six months ended 30 June 2006 fell to 2.73 RMB cents and 2.71 RMB cents respectively from 3.49 RMB cents and 3.47 RMB cents for the corresponding period in 2005.

- The Board does not recommend the payment of a dividend for the six months ended 30 June 2006.

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 2006, together with the comparative figures for the corresponding periods in 2005, as follows:

CONSOLIDATED INCOME STATEMENT

		(Unaudited) For the six months ended 30 June		(Unaudited) For the three months ended 30 June	
	Notes	**2006** ***RMB'000***	2005 *RMB'000*	**2006** ***RMB'000***	2005 *RMB'000*
Turnover	*2*	**440,144**	304,467	**200,038**	186,843
Cost of sales		**(312,903)**	(188,763)	**(141,351)**	(120,984)
Gross Profit		**127,241**	115,704	**58,687**	65,859
Other operating income		**5,745**	1,142	**3,914**	745
Distribution costs		**(9,472)**	(2,640)	**(6,977)**	(1,414)
Administrative expenses		**(27,659)**	(19,780)	**(13,965)**	(11,105)
Finance costs		**(1,083)**	(243)	**(636)**	(99)
Profit before taxation		**94,772**	94,183	**41,023**	53,986
Taxation	*3*	**(25,250)**	(16,431)	**(13,386)**	(10,138)
Profit for the period	*4*	**69,522**	77,752	**27,637**	43,848
Attributable to:					
Shareholders of the Company		**71,039**	75,927	**29,235**	42,066
Minority interests		**(1,517)**	1,825	**(1,598)**	1,782
		69,522	77,752	**27,637**	43,848
Dividend	5	**–**	25,186	**–**	25,186
Earnings per share (RMB cents)	6				
– Basic		**2.73**	3.49	**1.03**	1.81
– Diluted		**2.71**	3.47	**1.03**	1.80

CONSOLIDATED BALANCE SHEET

	Note	**(Unaudited) At 30 June 2006** ***RMB'000***	(Audited) At 31 December 2005 *RMB'000*
Non-current assets			
Property, plant and equipment	*7*	**162,304**	166,633
Prepaid lease payments		**23,041**	23,301
Goodwill		**62,543**	62,543
Development costs		**4,727**	5,455
		252,615	257,932
Current assets			
Inventories		**56,091**	52,277
Retention receivables		**4,266**	5,034
Amounts due from contract customers		**108,715**	35,527
Trade receivables	*8*	**319,477**	264,233
Deposits, prepayments and other receivables		**53,084**	36,087
Prepaid lease payments		**521**	521
Pledged bank deposits		**27,763**	22,442
Bank balances and cash		**587,103**	420,013
		1,157,020	836,134
Current liabilities			
Trade and other payables	*9*	**135,629**	191,281
Amounts due to contract customers		**51,676**	13,401
Amount due to a minority shareholder		**7,880**	7,695
Tax liabilities		**5,909**	20,362
Bank borrowings	*10*	**47,642**	24,367
Obligation under a finance lease – amount due within one year		**36**	32
		248,772	257,138

	Note	(Unaudited) At 30 June 2006 *RMB'000*	(Audited) At 31 December 2005 *RMB'000*
Net current assets		**908,248**	578,996
Total assets less current liabilities		**1,160,863**	836,928
Non-current liabilities			
Deferred tax liabilities		**14,642**	3,142
Obligation under a finance lease			
– amount due after one year		**125**	142
		14,767	3,284
Net assets		**1,146,096**	833,644
Capital and reserves			
Share capital		**30,063**	25,186
Reserves	*11*	**1,089,546**	780,456
Equity attributable to equity holders of the Company		**1,119,609**	805,642
Minority interests		**26,487**	28,002
Total equity		**1,146,096**	833,644

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	(Unaudited) For the six months ended 30 June	
	2006	2005
	RMB'000	*RMB'000*
Total equity at 1 January	**833,644**	547,504
Exchange differences arising on translation of foreign operations recognised directly in equity	**(44)**	–
Profit for the period	**69,522**	77,752
Issue of new shares	**281,438**	217,737
Dividend paid	**(38,464)**	(98,495)
Contributions by minority shareholders	**–**	1,279
Total equity at 30 June	**1,146,096**	745,777

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	(Unaudited) For the six months ended 30 June	
	2006	2005
	RMB'000	*RMB'000*
Net cash (used in) from operating activities	**(92,586)**	30,204
Net cash used in investing activities	**(6,514)**	(7,100)
Net cash from financing activities	**266,439**	119,313
Net increase in cash and cash equivalents	**167,339**	142,417
Cash and cash equivalent at 1 January	**410,992**	236,170
Exchange difference	**(45)**	–
Cash and cash equivalent at 30 June	**578,286**	378,587
Cash and cash equivalents at the end of the period, representing:		
Bank balances and cash	**587,103**	387,395
Bank overdraft	**(8,817)**	(8,808)
	578,286	378,587

Notes:

1 Basis of presentation

The Group's unaudited consolidated results have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The accounting policies adopted in preparing the results for the six months ended 30 June 2006 are consistent with those in the preparation of the Group's annual financial statements for the year ended 31 December 2005.

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 period, and is analysed as follows:

	(Unaudited) For the six months ended 30 June		**(Unaudited) For the three months ended 30 June**	
	2006 ***RMB'000***	2005 *RMB'000*	**2006** ***RMB'000***	2005 *RMB'000*
Revenue from installation contracts	**213,208**	106,248	**84,592**	60,840
Sale of goods	**187,605**	161,202	**96,663**	106,646
Provision of maintenance services	**39,331**	37,017	**18,783**	19,357
	440,144	304,467	**200,038**	186,843

3 Taxation

	(Unaudited) For the six months ended 30 June		**(Unaudited) For the three months ended 30 June**	
	2006 ***RMB'000***	2005 *RMB'000*	**2006** ***RMB'000***	2005 *RMB'000*
The charge comprises:				
Current tax				
The PRC – income tax	**13,750**	12,916	**7,886**	8,408
Hong Kong profits tax	**–**	795	**–**	795
Deferred tax	**11,500**	2,720	**5,500**	935
	25,250	16,431	**13,386**	10,138

No provision for Hong Kong Profits Tax has been made as the Group has no income 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.

4 Profit for the period

Profit for the period has been arrived at after charging:

	(Unaudited) For the six months ended 30 June		**(Unaudited) For the three months ended 30 June**	
	2006 ***RMB'000***	2005 *RMB'000*	**2006** ***RMB'000***	2005 *RMB'000*
Depreciation:				
Property, plant and equipment	**9,682**	8,526	**4,721**	4,272
Amortisation of prepaid lease payment	**260**	64	**130**	32
Amortisation of development costs included in cost of sales	**848**	755	**426**	378

5 Dividends

The Board does not recommend the payment of a dividend for the six months ended 30 June 2006 (2005: 1 HK cent per share giving a total of HK$23,760,000).

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	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Earnings for the purpose of basic and diluted earnings per share (profit attributable to equity holders of the Company)	**71,039**	75,927	**29,235**	42,066
	'000	*'000*	***'000***	*'000*
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,606,613**	2,175,381	**2,834,692**	2,329,055
Effect of dilutive potential ordinary shares:				
Share options	**14,687**	10,329	**15,795**	9,840
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,621,300**	2,185,710	**2,850,487**	2,338,895

A maximum of 10,000,000 shares of the Company are issuable as a deferred consideration for the acquisition of a subsidiary in 2004. The shares to be issued are subject to a profit warranty adjustment in respect of the profits of the subsidiary for the two years ended 31 December 2006. As the conditions have not been satisfied at the end of the period, the Company has no dilutive potential ordinary shares on it as at 30 June 2006.

7 Property, plant and equipment

	(Unaudited) At 30 June 2006 ***RMB'000***	(Audited) At 31 December 2005 *RMB'000*
At the beginning of the period/year	**166,633**	135,305
Additions	**5,725**	11,383
Acquired from acquisition of subsidiaries	**–**	38,794
Exchange differences	**–**	(73)
Disposal of a subsidiary	**–**	(498)
Disposals	**(372)**	(91)
Depreciation charge for the period/year	**(9,682)**	(18,187)
At the end of the period/year	**162,304**	166,633

8 Trade receivables

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

The aged analysis of trade debtors is as follows:

	(Unaudited) At 30 June 2006 ***RMB'000***	(Audited) At 31 December 2005 *RMB'000*
0-90 days	**109,689**	183,307
91-180 days	**62,990**	44,629
181-360 days	**124,079**	25,832
Over 360 days	**22,719**	10,465
	319,477	264,233

9 Trade and other payables

	(Unaudited) At 30 June 2006 ***RMB'000***	(Audited) At 31 December 2005 *RMB'000*
Trade creditors	**68,397**	101,447
Accrued costs and charges	**33,592**	43,693
Receipts in advance	**11,517**	16,858
Value added tax, sales tax and other levies	**16,293**	23,453
Amount payable on acquisition of a subsidiary	**5,830**	5,830
	135,629	191,281

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

	(Unaudited) At 30 June 2006 ***RMB'000***	(Audited) At 31 December 2005 *RMB'000*
Within 30 days	**23,371**	28,045
31-60 days	**6,047**	18,236
61-90 days	**2,503**	18,111
Over 90 days	**36,476**	37,055
	68,397	101,447

10 Bank borrowings

	(Unaudited) At 30 June 2006 ***RMB'000***	(Audited) At 31 December 2005 *RMB'000*
Trust receipt loans *(Note a)*	**14,416**	4,346
Short term bank loans *(Note b)*	**24,409**	11,000
Bank overdrafts *(Note a)*	**8,817**	9,021
	47,642	24,367

All the above borrowings will be matured within one year.

Note a: The trust receipt loans and bank overdrafts were granted to a subsidiary of the Group and are secured by the Group's bank deposits of approximately RMB28 million, guarantee of the Company together with certain personal assets and guarantee of a minority shareholder.

Note b: The short term loans were granted to another subsidiary and are secured by certain leasehold land and buildings of the Group with carrying values of RMB10.7 million and RMB8.6 million respectively as at 30 June 2006.

11 Movement in reserves

	Share premium	Special reserve	Capital reserve	Statutory surplus fund	Statutory public welfare fund	Statutory reserve fund	Exchange reserve	Retained profits	Total
					(Unaudited)				
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
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	365,331	(6,692)	57,840	18,405	13,155	31,677	94	231,109	710,919
At 1 January 2006	365,331	(6,692)	57,840	25,143	16,794	44,209	(2,661)	280,492	780,456
Exchange differences arising on translation of foreign operations recognized directly in equity	–	–	–	–	–	–	(45)	–	(45)
Issue of new shares	276,560	–	–	–	–	–	–	–	276,560
Profit attributable to equity holders of the Company	–	–	–	–	–	–	–	71,039	71,039
Final dividend paid	–	–	–	–	–	–	–	(38,464)	(38,464)
At 30 June 2006	641,891	(6,692)	57,840	25,143	16,794	44,209	(2,706)	313,067	1,089,546

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 engines, 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 *RMB'000*	Production and sale of fire engines, fire prevention and fighting equipment *RMB'000*	Provision of maintenance services *RMB'000*	Trading of fire engines, and fire fighting and rescue equipment *RMB'000*	Elimination *RMB'000*	Consolidated *RMB'000*
For the six months ended 30 June 2006						
TURNOVER						
External sales	213,208	186,100	39,331	1,505	–	440,144
Inter-segment sales	–	16,888	–	–	(16,888)	–
Total	213,208	202,988	39,331	1,505	(16,888)	440,144

Inter-segment sales were charged at cost-plus basis.

RESULTS						
Segment results	45,203	35,302	21,728	(3,290)	–	98,943
Unallocated corporate expenses						(3,088)
Finance costs						(1,083)
Profit before taxation						94,772
Taxation						(25,250)
Profit for the period						69,522

	Installation of fire prevention and fighting systems *RMB'000*	Production and sale of fire engines, fire prevention and fighting equipment *RMB'000*	Provision of maintenance services *RMB'000*	Trading of fire engines, and fire fighting and rescue equipment *RMB'000*	Elimination *RMB'000*	Consolidated *RMB'000*
For the six months ended 30 June 2005						
TURNOVER						
External sales	106,248	88,687	37,017	72,515	–	304,467
Inter-segment sales	–	44,342	–	–	(44,342)	–
Total	106,248	133,029	37,017	72,515	(44,342)	304,467

Inter-segment sales were charged at cost-plus basis.

RESULTS						
Segment results	37,154	27,777	30,949	4,808	–	100,688
Unallocated corporate expenses						(6,262)
Finance costs						(243)
Profit before taxation						94,183
Taxation						(16,431)
Profit for the period						77,752

(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

For the six months ended 30 June 2006, the Group's revenue grew 45% to RMB440 million while profit before tax increased slightly by 0.6% to RMB95 million when compared with the same period last year. Despite the sharp rise in revenue, gross profit margin however, declined from 38% for the period ended in 2005 to 29% in 2006. Fire safety market in China is fast-expanding and highly fragmented, profit margins in this cutthroat market are inevitability get squeezed. To succeed in the competition, the Group expands through organic growth and acquisitions in order to get the largest slice of market and works to dominant in each of its operating areas.

Installation of fire prevention and fighting systems

Revenue and operating profit from installation of fire prevention and fighting systems for the six months ended 30 June 2006 were RMB213 million and RMB45 million respectively, grew by 101% and 22% respectively over that of 2005.

Property markets in China continuing doing well was one of the main reasons for the marked growth of the installation services segment of the Group. During the period under review, the Group has substantially completed installation projects for a number of large-scale luxury residential housing estates, bringing in over RMB86 million of revenue. Besides the residential and commercial property markets where the Group's core expertise lies, during the period, it has also participated in the design and installation of the fire safety systems of Fujian Kemen Power Plant (福建可門電廠), the plant of Asahi Kasei Chemicals (Nantong) Co. Ltd. (旭化成精細化工(南通)有限公司) and power plant in Xinjiang (新彊霍林河電廠), aiming at opening up and ultimately emerging as a key player in the industrial sector and thus creating a more diversified customer base. Other than the core market in Fujian, branch offices of the Group across the nation have become another important revenue driver with their sales made up over 30% of the segment's total revenue.

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

Revenue and operating profit from production and sale of fire prevention and fighting equipment for the six months ended 30 June 2006 were RMB186 million and RMB35 million respectively, grew by 110% and 27% respectively over that of 2005.

The encouraging result was partly due to the contribution (RMB93 million in revenue and RMB11 million in operating profit) of Sichuan Morita Fire Safety Appliances Co. Ltd. ("**Sichuan Morita**"), the result of which has been consolidated into the Group's commencing the second half of 2005. Revenue of the segment rose by 5% to RMB93 million if Sichuan Morita was excluded, while operating profit fell 13% to RMB24 million. Competition has continuously exerting pressure on product prices and compressing profit margins. Prices for most of the Group's fire prevention equipment were adjusted downward by an average of 20% in June 2006. To tackle the problem, the Group commits itself to the adoption of new technologies and development of new markets. The Group is launching two new models of alarming systems which utilize high technologies, one of which targets the high end residential and commercial properties while the other is specifically designed for industrial uses.

Provision of fire prevention and fighting system maintenance services
Revenue from provision of fire prevention and fighting system maintenance services for the six months ended 30 June 2006 was RMB39 million, grew by 6% over that of 2005. On the other hand, operating profit dropped by 30% to RMB22 million when compared with the corresponding period last year, partly due to costs incurred in starting up the network based monitoring system for fire safety systems across the country.

The Group has successfully launched its network based monitoring system during the period in cities and provinces including Beijing, Chongqing, Anhui, Fujian, Henan, Hebei and Jiangxi, generated revenue of around RMB1 million in terms of connection and installation fee. With the active participation of the Group, the relevant authorities are formulating standards for network based monitoring system, which are expected to be completed at the beginning of 2007. By then, regulations requesting compulsory installation of the system are anticipated, particularly buildings and premises with high traffic like hotels and shopping centres. Increasing penetration of the systems is envisaged in the second half of the year with the successful rolling out of the Group's system.

Trading of fire engines, and fire fighting and rescue equipment
Revenue from trading of fire engines, fire fighting and rescue equipment for the period was RMB1.5 million only and resulted in an operating loss of RMB3 million. The disappointing result was mainly due to the unsuccessful application of the 3C certificates in China by some major suppliers of fire engines in Europe, causing the delay in fulfillment of orders and thus recognition of revenue. During the period under review, orders for over 10 fire engines have been affected; deliveries (and thus revenue recognition) are expected in the second half of the year when the 3C certificates are obtained.

Prospects

The Group believes that in the highly competitive fire safety market, market dominance is the key to win. For the installation market, the Group has earmarked RMB300 million for the acquisition of companies specializing in installation of fire prevention and fighting system services in different part of the country. Six promising targets have been identified and negotiations are expected to be completed by the end of this year. Moreover, in consideration of its inadequacy in the industrial sector, the Group is going to put RMB20 million as an initial investment to set up a joint venture in Shanghai with the Shanghai Fire Research Institute (上海消防研究所) of the Ministry of Public Security, for the production of fire prevention and fire fighting equipment for the industrial sectors, particularly the petrochemical industry in which the Group sees tremendous opportunities. As restructuring is undergoing in the industry where players rush to invest in the construction of oil refining plants and petroleum reserve facilities so as to equip themselves for competition in the WTO-opened market, fire safety related products are in high demand. For maintenance services, the Group will further strengthen its investments in the network based monitoring system to capture the opportunities arise when the relevant rules regulating the installation of the system are launched.

Financial resources, liquidity, contingent liabilities and pledge of assets

The Group's cash and bank balances topped RMB587 million at 30 June 2006, representing an increase of 40% over that at end of December 2005 at around RMB420 million. This was mainly attributable to the funds raised by the issuance of 469,000,000 new shares in April 2006 to United Technologies Far East Limited ("**UTFE**") at HK$0.577 each. Outstanding balances of trust receipt loans, short term bank loans and bank overdrafts as at period end date were RMB14 million, RMB24 million and RMB9 million respectively. The trust receipt loans and overdrafts were granted to a subsidiary of the Group and are secured by the Group's bank deposits of approximately RMB28 million, guarantee of the Company together with certain personal assets and guarantee of a minority shareholder. The short term loans were granted to another subsidiary with certain leasehold land and buildings of the Group with carrying values of RMB10.7 million and RMB8.6 million respectively as at 30 June 2006 pledged as security. Save as disclosed herein, there were no other charges on the assets of the Group as at 30 June 2006.

As at 30 June 2006, current assets and current liabilities of the Group were approximately RMB1,157 million (31 December 2005: RMB836 million) and RMB249 million (31 December 2005: RMB257 million) respectively. The current ratio was approximately 4.7 times (31 December 2005: 3.3 times). The Group has a minimal gearing ratio as its long-term interest bearing liabilities as at year end date was only RMB0.1 million in comparison with the Group's total equity of RMB1,146 million.

Renminbi is the reporting currency of the Group. Other than certain trade payables and the trust receipt loans, majority of the Group's assets, liabilities, sales and purchases were denominated in Renminbi and Hong Kong dollar. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

The Group had no material contingent liabilities as at 30 June 2006.

Investments and capital commitments

In the coming periods, the Group will have the following investments:

- RMB100 million for the construction of a new production plant in Chengdu to cater for the needs of manufacturing new models of fire engines and fire fighting equipment equipped with advanced new technologies;

- RMB20 million as an initial investment to set up a joint venture in Shanghai with the Shanghai Fire Research Institute of the Ministry of Public Security (公安部上海消防研究所) for the development and production of fire prevention and fire fighting equipment for industrial uses and in particular the petrochemical industry, to enhance the Group's presence in the industrial sectors;

- RMB300 million for the acquisition of companies specializing in installation of fire safety systems in the coming two years, to enlarge the Group's share in the national market;

- RMB70 million for the continuing development and promotion of the network based monitoring system.

The Group is committed to issue, as part of the consideration, 10,000,000 new shares of the Company at maximum to the vendor of a subsidiary acquired in 2004, subject to a profit guarantee adjustment as stipulated in the sales and purchase agreement. The shares are expected to be issued in 2007.

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 2006.

Employees and remuneration policies

As at 30 June 2006, the Group had approximately 1,438 full-time employees (2005: 890). Staff costs, excluding directors' remuneration, for the six months ended 30 June 2006 amounted to approximately RMB29 million, jumped 81% from RMB16 million in the corresponding period last year. The increase was due to the integration of Sichuan Morita into the Group from July 2005, additional staff employed in relation to the newly launched network based monitoring systems and employment of large number of temporary staff for installation projects. 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 2006, 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

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 ("**Mr. Jiang**")	Beneficial owner *(Note 1)*	981,600,000	63.5% *(Note 3)*
	Deemed Interest *(Note 2)*	825,000,000	
Mr. Jiang Qing	Beneficial owner	7,500,000	0.26%

Notes:

1. Mr. Jiang is beneficially interested in 981,600,000 shares of the Company. By virtue of the Option Agreement, he and UTFE are parties to the agreement under section 317 of the SFO, Mr. Jiang is deemed to have a long position in the 825,000,000 shares held 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 its capacity as a party to the Option Agreement to which Section 317(1)(a) of the SFO applies.

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

Mr. Chan Siu Tat, an executive director of the Company, hold 5,000,000 shares of the Company following the exercise of all his options on 13 July 2006.

Short positions in ordinary shares of the Company

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

a. such number of shares 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 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 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 granted	Exercise period	Exercise price (HK$)	No. of shares issuable under the options granted as at 30 June 2006	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)*	20,000,000	0.70%
Mr. Chen Shu Quan	25 May 2004	5,000,000	25 May 2004 – 24 May 2014	0.44 *(Note)*	5,000,000	0.18%
Mr. Chan Siu Tat	25 May 2004	5,000,000	25 May 2004 – 24 May 2014	0.44 *(Note)*	5,000,000	0.18%

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 are vested on the date of acceptance, i.e. 25 May 2004.

On 13 July 2006, Mr. Chan Siu Tat exercised all his options and was issued 5,000,000 shares of the Company.

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	北京集保盛安安全防護技術發展有限公司 Beijing Jibao Shengan Security Technology Development Company Limited	Beneficial owner	5,000	0.05%
Mr. Jiang Qing	北京集保盛安安全防護技術發展有限公司 Beijing Jibao Shengan Security Technology Development Company Limited	Beneficial owner	5,000	0.05%

INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 30 June 2006, 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 have 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 Deemed Interest *(Note 1)*	825,000,000 981,600,000	63.5% *(Note 2)*
Otis Elevator Company	Interest of a controlled corporation *(Note 3)*	1,806,600,000	63.5%
Carrier Corporation	Interest of a controlled corporation *(Note 4)*	1,806,600,000	63.5%
United Technologies Corporation	Interest of a controlled corporation *(Note 5)*	1,806,600,000	63.5%

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 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. United Technologies Corporation is beneficially interested in the entire share capital of Otis Elevator Company and Carrier Corporation and is deemed or taken to be interested in the 1,806,600,000 shares in which Otis Elevator Company and Carrier Corporation have declared 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 2006.

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 2006, neither the Company nor any of its subsidiaries purchased, cancelled or redeemed any listed securities of the Company. Save the issue of shares pursuant to the Subscription Agreement, the Company has not sold any listed securities of the Company.

CORPORATE GOVERNANCE

Corporate governance practices

Throughout the period ended 30 June 2006, 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 remuneration committee has only been set up since 2 August 2006. Members of the committee comprises Mr. Heng Kwoo Seng and Dr. Loke Yu alias Loke Hoi Lam, both are independent non-executive directors of the Company.

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.

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. Heng Kwoo Seng, Mr. Pu Rong Sheng and Dr. Loke Yu alias Loke Hoi Lam. Mr. Liu Shi Pu resigned as independent non-executive director and member of the audit committee on 1 August 2006 and with effect from the same day, Dr. Loke Yu alias Loke Hoi Lam was appointed as an independent non-executive director and member of the audit committee. 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. Heng Kwoo Seng, Mr. Pu Rong Sheng and Dr. Loke Yu alias Loke Hoi Lam.

Hong Kong, 14 August 2006