China Fire Safety Enterprise Group Limited
中國消防企業集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 445)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2010

HIGHLIGHTS

- Turnover of the Group for the year ended 31 December 2010 declined 9% to RMB908 million. Loss for the year decreased by 64% to RMB39 million.

- Allowance for bad and doubtful debts made for the year was RMB41 million (2009: RMB89 million). Of the allowance made last year, RMB12 million has been reversed during the year with the recovery of the old age receivables.

- Loss per share for the year was RMB1.38 cents (2009: RMB3.7 cents per share).

- The directors do not recommend the payment of any dividend for the year ended 31 December 2010.

CHAIRMAN'S STATEMENT

With the turnaround of the economic environment, we saw improvement in some of our business segments. Among them, the production and sale of fire prevention and fighting equipment showed the biggest advancement. It generated an operating profit of RMB24 million for the year, as compared to the loss of RMB52 million last year. Even if we take away the effect of the allowance for bad and doubtful debts, we still see a big improvement there. This is attributable to our endless effort in developing new products and refining those in existence. After years of distribution network and product quality refinement, our fire protection equipments (especially those high-end) have build up their reputation in the market and have attracted lots of customers. The Intelligent Auto-aiming Fire Extinguishing System is exactly one of those products highly preferred by our customers. It is a self-developed equipment particularly designed for use in constructions with high roof, such as stadiums, warehouses, airports, train stations etc, that are not suitable for sprinklers installation. Its sales have been on an increasing trend since it was launched a few years ago. In addition, the trading business has also turned around with more demands for imported fire engines as a result of economic recovery.

In spite of these improvements, we made a loss for the year. This was attributable to the allowance for bad and doubtful debts made for the year that eroded completely the favourable happenings mentioned above. The allowance was made on the old age receivables that have long exceeded the reasonable recovery period. Those receivables arose from sales made in the days when we aimed for a sales growth with a slightly relaxed credit control. We are still closely following up the accounts and taking all possible dunning procedures and I believe they could be recovered only at a longer time span. Meanwhile, we have tightened the credit control especially on the installation business and are more selective in securing jobs.

In the coming years, we will strengthen the rationalisation of our different businesses and products by closing down the less efficient and less profitable business units. We will also reinforce the product development to enhance the product variety: the 32-meter water tanker and high power water foam trucks have been scheduled for production in 2011; we are also working on the development of the airport trucks that fulfill the requirement of International Civil Aviation Organisation in respect of response time, aiming to be the one to launch the first domestic qualified airport trucks. For the services market, the volatile income from installation business (as its ups and downs are highly correlated with the macroeconomic environment) and the unstable revenue from maintenance business (because services provided were mostly one-off jobs) have long been our concern. Nevertheless, we have moved a great leap forward in securing a stable income stream this year. We have entered into contracts with Foxconn Group to provide maintenance services to some of its plants in Shenzhen for a fixed annuity. With the reputation and experience gained, I believe this would be a milestone for our opening of the annuity maintenance market.

Taking this chance, I would like to extend my gratitude to all the staff and my fellow directors for their dedication, support and valuable contributions in the past year.

Jiang Xiong
Chairman
25 March 2011

The board of directors (the "**Board**") of the Company hereby announces the audited consolidated statement of comprehensive income and consolidated statement of financial position of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2010, together with the comparative figures for the corresponding period in 2009, as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	**Year ended 31 December** **2010** **RMB'000**	2009 RMB'000
Turnover	*2*	**908,285**	1,002,585
Cost of sales and services		**(800,268)**	(883,062)
Gross profit		**108,017**	119,523
Other income	*3*	**8,588**	36,624
Selling and distribution costs		**(29,156)**	(30,310)
Administrative expenses		**(101,371)**	(179,572)
Share of profits of associates		**1,171**	3,372
Other expenses	*4*	**(12,038)**	(47,108)
Finance costs		**(5,089)**	(3,478)
Loss before tax		**(29,878)**	(100,949)
Income tax expense	*5*	**(9,028)**	(6,353)
Loss for the year	*6*	**(38,906)**	(107,302)
Other comprehensive income after tax:			
Exchange differences on translating foreign operations		**(123)**	(22)
Other comprehensive income for the year, net of tax		**(123)**	(22)
Total comprehensive income for the year		**(39,029)**	(107,324)
Loss for the year attributable to:			
Owners of the Company		**(39,381)**	(105,530)
Non-controlling interests		**475**	(1,772)
		(38,906)	(107,302)
Total comprehensive income for the year attributable to:			
Owners of the Company		**(39,737)**	(105,573)
Non-controlling interests		**708**	(1,751)
		(39,029)	(107,324)
Loss per share (RMB cents)			
Basic	*7*	**(1.38)**	(3.70)
Diluted	*7*	**(1.38)**	(3.70)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	At 31 December 2010 RMB'000	At 31 December 2009 RMB'000
Non-current assets			
Property, plant and equipment		**282,173**	314,244
Prepaid land lease payments		**35,210**	37,574
Investment properties		**36,410**	23,658
Goodwill		**31,767**	32,748
Other intangible assets		**965**	1,218
Investments in associates		**29,973**	39,099
		416,498	448,541
Current assets			
Inventories		**95,841**	70,655
Trade and bills receivables	*9*	**259,713**	317,573
Amounts due from contract customers		**546,243**	386,778
Retention receivables		**21,125**	21,835
Prepayments, deposits and other receivables		**69,628**	277,135
Amount due from a jointly controlled entity		**4,570**	6,040
Amounts due from associates		**1,886**	480
Prepaid land lease payments		**752**	789
Derivative financial instruments		**827**	642
Pledged bank deposits		**14,859**	5,932
Bank and cash balances		**262,526**	159,601
		1,277,970	1,247,460
Current liabilities			
Trade and other payables	*10*	**271,707**	251,493
Amounts due to contract customers		**10,264**	4,372
Amounts due to non-controlling shareholders		**5,055**	4,860
Bank borrowings		**95,478**	80,000
Finance lease payables		**48**	48
Current tax liabilities		**9,374**	15,882
		391,926	356,655
Net current assets		**886,044**	890,805
Total assets less current liabilities		**1,302,542**	1,339,346

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CON'T)

	At 31 December 2010	At 31 December 2009
	RMB'000	RMB'000
Non-current liabilities		
Deferred tax liabilities	**2,198**	-
Finance lease payables	**38**	89
	2,236	89
NET ASSETS	**1,300,306**	1,339,257
Capital and reserves		
Share capital	**30,168**	30,168
Reserves	**1,243,489**	1,283,226
Equity attributable to owners of the Company	**1,273,657**	1,313,394
Non-controlling interests	**26,649**	25,863
TOTAL EQUITY	**1,300,306**	1,339,257

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2010

	Attributable to owners of the Company											
	Share capital	Share premium	Special reserve	Capital reserve	Statutory surplus reserve	Statutory public welfare fund	Statutory reserve fund	Exchange reserve	Retained profits	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	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 year	-	-	-	-	-	-	-	(43)	(105,530)	(105,573)	(1,751)	(107,324)
Transfer	-	-	-	-	2,159	1,079	-	-	(3,238)	-	-	-
Changes in equity for the year	-	-	-	-	2,159	1,079	-	(43)	(108,768)	(105,573)	(1,751)	(107,324)
At 31 December 2009 and 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 year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(356)**	**(39,381)**	**(39,737)**	**708**	**(39,029)**
Disposal of subsidiaries	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**78**	**78**
Transfer	**-**	**-**	**-**	**-**	**-**	**274**	**-**	**-**	**(274)**	**-**	**-**	**-**
Changes in equity for the year	**-**	**-**	**-**	**-**	**-**	**274**	**-**	**(356)**	**(39,655)**	**(39,737)**	**786**	**(38,951)**
At 31 December 2010	**30,168**	**646,363**	**(6,692)**	**57,840**	**38,053**	**24,296**	**82,427**	**(868)**	**402,070**	**1,273,657**	**26,649**	**1,300,306**

Notes:

1 Basis of presentation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and by the Hong Kong Companies Ordinance. In the current year, the Group has applied, for the first time, a number of new and revised HKFRSs which are effective for accounting year beginning on 1 January 2010. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current year and prior years.

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 year less discounts and sales related tax, and is analysed as follows:

	2010	2009
	RMB'000	RMB'000
Revenue from installation contracts	**420,288**	530,833
Sales of goods	**477,728**	459,935
Provision of maintenance services	**10,224**	11,772
Provision of online advertising services	**45**	45
	908,285	1,002,585

3 Other income

	2010	2009
	RMB'000	RMB'000
Interest income	**1,112**	4,760
Rental income	**2,172**	1,693
Gain on disposal of subsidiaries	**616**	-
Gain on disposal of assets classified as held for sale	**-**	26,975
Fair value gains on derivative financial instruments	**850**	354
Sundry income	**3,838**	2,842
	8,588	36,624

4 Other expenses

	2010 RMB'000	2009 RMB'000
Impairment loss on goodwill	**-**	12,663
Impairment loss on investments in associates	**12,038**	34,445
	12,038	47,108

5 Income tax expense

	Note	2010 RMB'000	2009 RMB'000
Current tax			
People's Republic of China ("**PRC")** Enterprise Income Tax		**6,729**	12,368
Under-provision in prior years			
PRC Enterprise Income Tax		**101**	103
Deferred tax			
Current year	*a*	**2,198**	(6,118)
		9,028	6,353

No provision for Hong Kong Profits Tax has been made in the current year as the relevant group entities had either incurred a loss for both years or utilised the tax losses brought forward.

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

Note a. Deferred tax

The following are the major deferred tax (assets) / liabilities recognised, and movements thereon:

	Profit recognition of installation contracts RMB'000 (note i)	Others RMB'000 (note ii)	Total RMB'000
At 1 January 2009	6,620	(502)	6,118
(Credit)/charge to the profit or loss for the year	(6,620)	502	(6,118)
At 31 December 2009 and 1 January 2010	-	-	-
Charge to the profit or loss for the year	**2,198**	**-**	**2,198**
At 31 December 2010	**2,198**	**-**	**2,198**

note i: The amount represents the temporary differences arising on the profit recognition of installation contracts between HKFRSs in which revenue and costs of installation contracts are recognised in the consolidated statement of comprehensive income by reference to the stage of completion of the contract activities and the taxable income of the PRC subsidiaries which recognise revenue of installation contracts upon completion.

note ii: The amount mainly represents temporary differences arising on allowance for bad and doubtful debts.

6 Loss for the year

The Group's loss for the year is stated at after charging/(crediting) the following:

	2010	2009
	RMB'000	RMB'000
Depreciation of property, plant and equipment	**20,301**	21,336
Amortisation of prepaid land lease payments	**791**	810
Amortisation of other intangible assets	**253**	305
(Reversal of allowance) / allowance for obsolete and slow-moving inventories	**(1,789)**	5,971
Allowance for bad and doubtful debts	**40,987**	89,210
Cost of inventories sold	**397,603**	378,891

7 Loss per share

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

	2010	2009
	RMB'000	RMB'000
Loss for the year attributable to owners of the Company	**39,381**	105,530
	'000	'000
Weighted average number of ordinary shares	**2,855,000**	2,855,000

There were no dilutive potential ordinary shares in relation to the share options as the average market prices of the shares for the years ended 31 December 2010 and 2009 were lower than the exercise price of the share options.

8 Dividends

The directors do not recommend the payment of any dividend for the year ended 31 December 2010 (2009: Nil).

9 Trade and bills receivables

	2010	2009
	RMB'000	RMB'000
Trade and bills receivables	**418,014**	435,580
Less: Allowance for bad and doubtful debts	**(158,301)**	(118,007)
	259,713	317,573

The Group allows an average credit period of 30 days to 180 days to its trade customers. Before accepting any new customer, the Group will internally assess the credit quality of the potential customer and define appropriate credit limits.

The aging analysis of trade and bills receivables, based on the invoice date, net of allowance for bad and doubtful debts, is as follows:

	2010	2009
	RMB'000	RMB'000
0 - 90 days	**108,288**	155,746
91 - 180 days	**41,070**	43,159
181 - 360 days	**28,241**	40,061
Over 360 days	**82,114**	78,607
	259,713	317,573

10 Trade and other payables

	2010	2009
	RMB'000	RMB'000
Trade payables	**75,902**	80,257
Accrued charges	**134,674**	99,298
Receipts in advance	**30,299**	44,741
Value added tax, sales tax and other levies	**27,760**	24,125
Other payables	**3,072**	3,072
	271,707	251,493

The aging analysis of trade payables, based on the date of receipt of goods, is as follows:

	2010	2009
	RMB'000	RMB'000
0 - 30 days	**28,338**	30,247
31 - 60 days	**14,086**	22,679
61 - 90 days	**8,088**	5,045
Over 90 days	**25,390**	22,286
	75,902	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 network 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.

The accounting policies of the operating segments are the same as those applied by the Group in the financial statements. Segment profits or losses do not include interest income, fair value gains on derivative financial instruments, unallocated corporate expenses, impairment loss on investments in associates, share of profits of associates and finance costs. Segment assets do not include investments in associates, amounts due from associates, pledged bank deposits, bank and cash balances and unallocated other receivables. Segment liabilities do not include amounts due to non-controlling shareholders, current and deferred tax liabilities, bank borrowings, finance lease payables and unallocated other payables.

The Group accounts for the intersegment sales and transfers as if the sales or transfers were to third parties, i.e. at current market prices.

SEGMENT INFORMATION (CON'T)

Information about reportable segment profit or loss, assets and liabilities:

	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	Provision of network monitoring system services	Others	Unallocated	Elimination	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
For the year ended 31 December 2010										
TURNOVER										
External sales	420,288	281,130	143,660	52,938	4,861	5,363	45	-	-	908,285
Inter-segment sales	-	11	9,075	6,871	-	-	-	-	(15,957)	-
Total	420,288	281,141	152,735	59,809	4,861	5,363	45	-	(15,957)	908,285
RESULTS										
Segment (loss) / profit	(25,636)	476	24,221	1,913	(4,771)	(2,766)	(332)			(6,895)
Interest income										1,112
Fair value gains on derivative financial instruments										850
Unallocated corporate expenses										(8,989)
Impairment loss on investment in an associate										(12,038)
Share of profits of associates										1,171
Finance costs										(5,089)
Loss before tax										(29,878)
Income tax expense										(9,028)
Loss for the year										(38,906)

SEGMENT INFORMATION (CON'T)

	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	Provision of network monitoring system services	Others	Unallocated	Elimination	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2010										
ASSETS										
Segment assets	666,451	406,438	242,543	25,157	4,549	2,573	313			1,348,024
Investments in associates										29,973
Amounts due from associates										1,886
Pledged bank deposits										14,859
Bank and cash balances										262,526
Unallocated other receivables										37,200
										1,694,468
LIABILITIES										
Segment liabilities	146,316	52,913	61,978	12,507	1,683	3,454	82			278,933
Amounts due to non-controlling shareholders										5,055
Current tax liabilities										9,374
Bank borrowings										95,478
Deferred tax liabilities										2,198
Finance lease payables										86
Unallocated other payables										3,038
										394,162

SEGMENT INFORMATION (CON'T)

	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	Provision of network monitoring system services	Others	Unallocated	Elimination	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
OTHER INFORMATION										
Capital expenditure	64	728	1,017	1	-	28	-	2		1,840
Depreciation and amortisation	392	12,598	6,994	47	107	1,011	186	10		21,345
(Gain) / loss on disposal of property, plant and equipment	-	(20)	(1)	-	-	1,798	-	-		1,777
(Reversal of allowance) / allowance for obsolete and slow-moving inventories	-	(517)	(1,395)	85	-	38	-	-		(1,789)
Allowance / (reversal of allowance) for bad and doubtful debts	43,031	2,920	(11,560)	1,525	4,860	211	-	-		40,987

SEGMENT INFORMATION (CON'T)

	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	Provision of network monitoring system services	Others	Unallocated	Elimination	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
For the year ended 31 December 2009										
TURNOVER										
External sales	530,833	283,951	156,959	19,025	5,191	6,581	45	-	-	1,002,585
Inter-segment sales	-	-	7,043	8,042	-	-	-	-	(15,085)	-
Total	530,833	283,951	164,002	27,067	5,191	6,581	45	-	(15,085)	1,002,585
RESULTS										
Segment (loss) / profit	(24,766)	7,396	(52,455)	(1,129)	(2,440)	(13,742)	(2,126)			(89,262)
Interest income										4,760
Gain on disposal of assets classified as held for sale										26,975
Fair value gains on derivative financial instruments										354
Unallocated corporate expenses										(9,225)
Impairment loss on investments in associates										(34,445)
Share of profits of associates										3,372
Finance costs										(3,478)
Loss before tax										(100,949)
Income tax expense										(6,353)
Loss for the year										(107,302)

SEGMENT INFORMATION (CON'T)

	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	Provision of network monitoring system services	Others	Unallocated	Elimination	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2009										
ASSETS										
Segment assets	753,349	361,783	303,377	23,069	6,286	5,805	418			1,454,087
Investments in associates										39,099
Amount due from an associate										480
Pledged bank deposits										5,932
Bank and cash balances										159,601
Unallocated other receivables										36,802
										1,696,001
LIABILITIES										
Segment liabilities	102,231	73,892	64,281	7,092	693	3,369	83			251,641
Amounts due to non-controlling shareholders										4,860
Current tax liabilities										15,882
Bank borrowings										80,000
Finance lease payables										137
Unallocated other payables										4,224
										356,744

SEGMENT INFORMATION (CON'T)

	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	Provision of network monitoring system services	Others	Unallocated	Elimination	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
OTHER INFORMATION										
Capital expenditure	299	90,288	30,410	-	-	85	-	6		121,088
Depreciation and amortisation	389	12,139	7,865	116	191	1,508	189	54		22,451
(Gain) / loss on disposal of property, plant and equipment	(74)	1,419	7,210	-	-	165	-	(1)		8,719
Impairment loss on goodwill	-	-	-	-	-	10,973	1,690	-		12,663
Allowance / (reversal of allowance) for obsolete and slow-moving inventories	-	1,770	4,330	(129)	-	-	-	-		5,971
Allowance for bad and doubtful debts	44,443	1,552	36,514	2,671	3,958	72	-	-		89,210

SEGMENT INFORMATION (CON'T)

Geographical information：

	Revenue		Non-current assets	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
PRC	**903,705**	999,583	**404,335**	436,330
Others	**4,580**	3,002	**12,163**	12,211
	908,285	1,002,585	**416,498**	448,541

In presenting the geographical information, revenue is based on the locations of the customers.

Revenue from major customers:

None of the customers contributed more than 10% of the Group's total revenue for the year. For 2009, there was one customer with whom transactions had exceeded 10% of the Group's total revenue. The revenue concerned was generated from the installation of fire prevention and fighting systems segment which amounted to approximately RMB153,000,000.

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

For the year ended 31 December 2010, turnover of the Group declined 9% to RMB908 million. Loss for the year decreased by 64% to RMB39 million. Allowance for bad and doubtful debts amounted to RMB41 million was made for the year. There was also an impairment loss on investments in associates amounted to RMB12 million.

Installation of fire prevention and fighting systems
Revenue from installation of fire prevention and fighting systems for the year decreased 21% to RMB420 million. Operating loss increased 4% to RMB26 million, after an allowance for doubtful debts of RMB43 million (2009: RMB44 million).

The decrease in revenue for the year was mainly attributable to the amount of contracts secured declined as compared to last year. The allowance for doubtful debts was made on the old age receivables that have long exceeded the reasonable recovering period. They originated from the days when the Group targeted for sales growth with the credit control slightly relaxed. The Group believed that a large part of the receivables would be recovered but at a longer time span. Allowances were still made for both 2009 and 2010 for prudence sake. The Group has been more selective in bidding for installation contracts since then. As a result, revenue in the future may drop substantially and return would also be affected but in a positive way.

Production and sale of fire engines
Revenue from production and sales of fire engines for the year slightly decreased 1% to RMB281 million. Operating profit dropped 94% to RMB0.5 million.

The drop in profit was mainly due to the inflation of material costs. Selling prices, however, has been constrained by the market competition and therefore could not catch up with the rising costs of production. In order to outperform competitors, the Group launched series of new products every year to cater for the changing market needs. The 32 meters water tanker, high power water foam trucks (discharge rate at 10,000 liters per minute) and airport-specific foam trucks have been scheduled for production in 2011. Orders for the airport-specific foam trucks have been received once it was launched. Other special purpose vehicles are also under development including the swift airport trucks. A qualified airport truck must have good acceleration to meet the response time requirement by the International Civil Aviation Organisation, and the ability to move on rough terrain outside the runway. There is currently no domestic supply for such airport trucks, the Group is eager to be the first one to set the record.

Since the fire hazard in Shanghai in November 2010, the Fire Bureau has requested fire brigades of all levels to upgrade their fleet of fire engines and equipment. It is estimated that there will be surging demand for different types of fire engines all over the country in the coming few years. As one of the largest manufacturers in China, the Group absolutely will get a good share of it.

Production and sale of fire prevention and fighting equipment

Revenue from production and sales of fire prevention and fire fighting equipment for the year decreased 8% to RMB144 million. Operating results, on the other hand, turned around and realized a profit of RMB24 million (2009: loss of RMB52 million).

Operating results improved because some of the receivables previously provided for impairment losses have been recovered during the year and subsequent to the year end date, resulted in a reversal of the allowance for bad and doubtful debts for RMB12 million (2009: allowance for bad and doubtful debts made was RMB37 million).

Moreover, change in the Group's sales mix that comprised a larger proportion of high-end products has also accounted for the result improvement. After years of effort in refining the distribution network and product quality, many of the Group's high-end fire protection equipments have build up their reputation in the market and pushed up the sales for the year. The Intelligent Auto-aiming Fire Extinguishing System is exactly one of the Group's most favoured fire protection equipments. It is particularly popular among airports, train stations, stadiums, warehouses and other constructions with high roof that are not fit for the use of sprinklers.

Provision of maintenance services

Revenue from the provision of fire prevention and fighting system maintenance services for the year decreased by 6% to RMB5 million. Operating loss increased by 96% to RMB5 million, after an allowance for bad and doubtful debts amounted to RMB5 million (2009: RMB4 million).

In the fourth quarter of the year, the Group secured a two-year-contract to provide maintenance services to a number of plants of Foxconn International Holdings in Shenzhen. For many years, almost all of the Group's maintenance services provided were one-off repairing or renovation works which has resulted in a high volatility in volume of business. Taking advantage of the experience and reputation gain from the Foxconn contracts, the Group has a good chance to open the annuity service market in which the Group had previously seldom participated.

Provision of network monitoring system services

Revenue from provision of network monitoring system services for the year decreased by 19% to approximately RMB5 million. Operating loss for the year decreased by 80% to RMB3 million.

Operating loss decreased because there was an impairment loss of RMB11 million in respect of the goodwill associated with the segment last year. The business of the segment, to the disappointment of the Group, was still in stagnation. There was no material change in the regulations or the market and most of the target customers remained uninterested in the benefits the system brought because of the costs involved. Unless the installation of the system is made mandatory, it seems that there is no alternative way to effectively turn around the business of the segment in the short run.

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 year increased by 1.8 times to approximately RMB53 million. Operating results turned around and realized a profit of RMB2 million (2009: loss of RMB1 million).

Given the six to nine months production lead time, the pessimistic economic climate in the first half of 2009 has adversely affected the order book and therefore the sales for last year. With the growing demands for fire engines and the customers' regaining confidence in the economy in the second half of 2009, the Group's sales of imported fire engines were significantly improved for the year under review.

Financial resources, liquidity, contingent liabilities and pledge of assets

As at 31 December 2010, the Group had bank and cash balances amounting to approximately RMB277 million (2009: RMB166 million) of which RMB15 million (2009: RMB6 million) was pledged for bid bond guarantee issued, performance guarantee, guarantee for letter of credit issued, and as margin for forward foreign exchange contracts. Outstanding balances of bank borrowings as at the year end date were RMB95 million (2009: RMB80 million). Included in the bank borrowings were trust receipt loans amounted to RMB5 million (2009: Nil) borrowed by a subsidiary in Hong Kong, being drawn from the banking facilities granted by a bank in Hong Kong. The banking facilities, which sum up to USD23 million, cover bank overdraft and other trade lines facilities including letter of credit, trust receipt loans, and forward contracts. The settlement of the borrowings under the facilities was guaranteed by the Company. The remaining amount of bank borrowings was short term bank loans borrowed by two of the Company's subsidiaries in Sichuan.

As at 31 December 2010, current assets and current liabilities of the Group were approximately RMB1,278 million (2009: RMB1,247 million) and RMB392 million (2009: RMB357 million) respectively. The current ratio was approximately 3.3 times (2009: 3.5 times). Gearing ratio (interest bearing debt / total equity) at end of the year was 7.3% (2009: 6%). There was an allowance for bad and doubtful debts amounted to RMB158 million as at year end date (2009: RMB118 million). The allowances made in recent years were on those old age receivables that have long exceeded the normal recovering period. They were originated from sales several years ago when the Group targeted for a high sales growth with a slightly relaxed credit control. For the receivables previously impaired, RMB12 million of which have been recovered during the year and subsequent to the year end date, showing that they could still be recovered though with a much longer time span.

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. During the year, there were gains arising from changes in fair value of currency derivatives amounting to RMB0.9 million (2009: RMB0.4 million).

Save as disclosed, the Group has no material contingent liabilities or pledge of assets for the year ended 31 December 2010.

Investments and capital commitments

Capital commitments
As at 31 December 2010, the Group has capital commitment of approximately RMB27 million (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 other material capital commitments, investments, acquisitions or disposals of subsidiaries as at 31 December 2010.

Employees and remuneration policies

As at 31 December 2010, the Group had approximately 1,108 full-time employees (2009: 1,239). Staff costs, excluding directors' remuneration for the year was RMB43 million (2009: RMB41 million). The decrease in number of staff was a direct result of the disposal of subsidiaries. Staff costs increased despite the decline in number of staff reflected the general pay rise in the PRC. 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 31 December 2010, 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 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.

<u>Long positions in ordinary shares of the Company</u>

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) Deemed interest (Note 2)	981,600,000 825,000,000	63.28% (Note 3)
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 (the "**Option Agreement**") entered into between Mr. Jiang and United Technologies Far East Limited ("**UTFE**"), a subsidiary of United Technologies Corporation ("**UTC**"), Mr. Jiang 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 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	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 31 December 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%

Note: 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 year.

INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 31 December 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 HK$ 0.01 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	63.28% (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%

Note:

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 shares of the Company 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 31 December 2010.

COMPETING INTERESTS

None of the directors 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 year or at any time during the year.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year ended 31 December 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 year ended 31 December 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. Only two board meetings were held during the year.
2. There were no fixed terms of appointment for the directors.
3. According to the articles of association, no director holding office as chairman and/or managing director shall be subject to retirement by rotation.

The details of such deviation have been disclosed in the relevant paragraphs below and in the Corporate Governance Report in the 2010 annual report to be dispatched to the shareholders and posted on the website of the Stock Exchange in accordance with the Listing Rules.

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 the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules. Having made specific enquiry of all directors, all directors confirmed they have complied with the required standard set out in the required standard of dealings and the code of conduct regarding securities transactions by directors adopted by the Company.

Board of directors

The Board, up to the date of this announcement, is composed of six executive directors, two non-executive directors and three independent non-executive directors. Name of the directors are set out in the table below. Mr. Jiang Xiong (Chairman) and Mr. Jiang Qing (Chief Executive Officer) are brothers.

There were two Board meetings held during the year which, besides the approval of the Company's interim and annual reports, were mainly related to strategic decisions. Day to day operational decisions were delegated to the management team of the Company. Other than in Board meetings, members of the Board are communicated regularly to discuss the performance of the Group. The Board is in the opinion that these communications allow the Board members to have a thorough understanding of the Group to exercise effective leadership and supervision of the Group, though the number of Board meetings held was less than the four as stated in the code provision.

Attendance of each director is set out below:

Name of directors	No. of meetings attended
Executive directors	
Mr. Jiang Xiong (Chairman)	2/2
Mr. Jiang Qing (Chief Executive Officer)	2/2
Ms. Zhang Hai Yan	2/2
Mr. Wang De Feng	2/2
Ms. Weng Xiu Xia	2/2
Mr. Hu Yong	1/1 *
Mr. Shi Jia Hao	0/0 *
Non-executive directors	
Ms. Xi Zheng Zheng	2/2
Mr. Harinath Krishnamurthy	2/2
Independent non-executive directors	
Dr. Loke Yu	2/2
Mr. Sun Jian Guo	2/2
Mr. Heng Ja Wei	2/2

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

* Mr. Hu Yong was appointed an executive director of the Company on 12 May 2010. There was only one board meeting held before his appointment. Mr. Shi Jiao Hao resigned on 25 February 2010 and there was no board meeting held before his resignation.

Auditor's remuneration

Auditor's remuneration is for audit services provided only. The auditor did not provide any non-audit services to the Group during the year.

Chairman and chief executive officer

Mr. Jiang Xiong is the Chairman of the Board and Mr. Jiang Qing is the Chief Executive Officer of the Company. The Chairman is responsible for leading the Board in formulating strategic plans for the Group while the Chief Executive Officers oversees the Group's daily operations and execution of Board decisions.

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

Non-executive directors

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

Remuneration of directors

The remuneration committee comprises Dr. Loke Yu and Mr. Heng Ja Wei, both are independent non-executive directors of the Company, and Mr. Jiang Qing who is an executive director and Chief Executive Officer of the Company. The primary duties of the committee are to formulate policy and structure of remuneration of directors and senior management of the Group and to provide advice and recommendations thereon to the Board. During the year, the remuneration committee held one meeting, in which all members were present, to review all of the directors' remuneration packages.

Nomination of directors

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

Audit committee

The audit committee comprises three independent non-executive directors, 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 advice and comments thereon to the Board. The audit committee is also responsible for reviewing and supervising the financial reporting process and internal control procedures of the Group.

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

Name of members	No. of meetings attended
Dr. Loke Yu (Chairman)	2/2
Mr. Sun Jian Guo	2/2
Mr. Heng Ja Wei	2/2

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

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

The directors are responsible for the preparation of the financial statements, which give a true and fair view of the condition of the Group. The auditor is responsible to form an independent opinion, based on the audit, on the financial statements prepared by the directors and reports the opinion solely to the shareholders of the Company.

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

Hong Kong, 25 March 2011

As at the date of this announcement, the Company's executive directors are Mr. Jiang Xiong, Mr. Jiang Qing, Ms. Zhang Hai Yan, Mr. Hu Yong, Mr. Wang De Feng and Ms. Weng Xiu Xia; 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.

This announcement is available for viewing on the website of the Stock Exchange at www.hkexnews.hk as well as the website of the Company (www.chinafire.com.cn).