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 2011

HIGHLIGHTS

- Turnover of the Group for the year ended 31 December 2011 increased 23% to RMB1,119 million. Loss for the year decreased 1% to RMB38 million.

- Loss per share for the year was RMB1.44 cents (2010: RMB1.38 cents per share).

- The directors do not recommend the payment of any dividend for the year ended 31 December 2011.

CHAIRMAN'S STATEMENT

I am glad to see there was growth in revenue in all our business segments for the year. Attributable to our staff's hard work, during the year, we secured installation contracts of over RMB640 million, we sold over 500 units of our manufactured fire engines, and we launched series of new products to the market which are all well-received by the market. Grasping the opportunities derived from the twelfth five-year plan in respect of protection of forest and vegetation, we have developed and produced series of products specifically for use in forest such as the fire fighting motorcycles, hand-carry fire pumps and back-carry fire extinguishers. It is delighted that there are great demand for our products and services and our brands have been firmly established among our customers. Our "Chuan Xiao" brand was determined and announced "Well-known Trademark" by The State Administration for Industry and Commerce of the People's Republic of China during the year, one of the few in the industry. It demonstrated how outstandingly we performed in different aspects such as market share, position in the industry and influences exerted, and customers' recognition.

Gross profit declined and loss recurred, however. Inflating costs of material and labour is one factor, pressure on pricing due to competition is another. It is obvious that we still have a lot to do in respect of cost control. The problem of old age accounts receivables have been perplexing the Group for the past two years, in addition to the cash flow, the results were affected also by the significant amount of allowances for bad and doubtful debts. Although the allowance made for the year was largely reduced and certain long overdue receivables were recovered and allowances previously made reversed, we are not going to relax a bit in view of the large amount of accounts receivable balances outstanding at year end date. Their recoverability is always our main concern and is subject to tight monitoring.

I am quite confident about the future development of all business segments except for the trading division. We were notified during the year, that one of the two major suppliers of fire engines for our trading business was in liquidator's custody. Stable supply is in question, not to mention new truck models. More fatally, one of our major customers, though not confirmed, has shown intention to deal with directly overseas manufacturers through their branches set up abroad in the future. Uncertainties in both supply and demand have cast doubt over the future of the segment. I belief opportunities always go hand-in-hand with threats. I consider it the time to restructure our trading business, a breakthrough may result in final. Nevertheless, due to the unclear future, the relevant goodwill in book was considered impaired for prudence sake and brought about an impairment loss. During the year, we sold the controlling interests in the network monitoring business, a business we once thought our future growth engine. After years of operation, it turned out that the market condition for the services was far worse than expected. By selling the controlling interests, we ceased "bleeding" by reducing the burden and retained our access to future potentials. After all, we still see network monitoring services a great advantage to the public safety.

We have a rich catagolue of products and services. We have strong distribution networks. We have outstanding teams to fight for market share. An effective cost control is the final step for us to go back to positive return and towards future growth. This is now our first and foremost priority. I and the management team will dedicate ourselves to work in the best interests of the shareholders. For this, I will continue to count on the support and dedication of my fellow directors and our staff.

Jiang Xiong
Chairman
23 March 2012

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 2011, together with the comparative figures for the corresponding period in 2010, as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Year ended 31 December	
	Notes	**2011**	2010
		RMB'000	RMB'000
Turnover	*2*	**1,119,368**	908,285
Cost of sales and services		**(1,016,417)**	(800,268)
Gross profit		**102,951**	108,017
Other income	*3*	**9,154**	8,588
Selling and distribution costs		**(33,562)**	(29,156)
Administrative expenses		**(79,974)**	(101,371)
Share of profits of associates		**726**	1,171
Other expenses	*4*	**(21,184)**	(12,038)
Finance costs		**(7,042)**	(5,089)
Loss before tax		**(28,931)**	(29,878)
Income tax expense	*5*	**(9,557)**	(9,028)
Loss for the year	*6*	**(38,488)**	(38,906)
Other comprehensive income after tax:			
Exchange differences on translating foreign operations		**(168)**	(123)
Other comprehensive income for the year, net of tax		**(168)**	(123)
Total comprehensive income for the year		**(38,656)**	(39,029)
Loss for the year attributable to:			
Owners of the Company		**(41,245)**	(39,381)
Non-controlling interests		**2,757**	475
		(38,488)	(38,906)
Total comprehensive income for the year attributable to:			
Owners of the Company		**(41,647)**	(39,737)
Non-controlling interests		**2,991**	708
		(38,656)	(39,029)
Loss per share (RMB cents)			
Basic	*7*	**(1.44)**	(1.38)
Diluted	*7*	**(1.44)**	(1.38)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**At 31 December 2011 RMB'000**	At 31 December 2010 RMB'000
Non-current assets			
Property, plant and equipment		**288,170**	282,173
Prepaid land lease payments		**34,458**	35,210
Investment properties		**36,410**	36,410
Goodwill		**19,640**	31,767
Other intangible assets		**712**	965
Investments in associates		**22,441**	29,973
		401,831	416,498
Current assets			
Inventories		**108,904**	95,841
Trade and bills receivables	*9*	**462,314**	259,713
Amounts due from contract customers		**548,137**	546,243
Retention receivables		**9,643**	21,125
Prepayments, deposits and other receivables		**72,024**	69,628
Amount due from a jointly controlled entity		**4,527**	4,570
Amounts due from associates		**2,121**	1,886
Prepaid land lease payments		**752**	752
Derivative financial instruments		**-**	827
Pledged bank deposits		**7,373**	14,859
Bank and cash balances		**149,568**	262,526
		1,365,363	1,277,970
Current liabilities			
Trade and other payables	*10*	**375,017**	271,707
Amounts due to contract customers		**5,671**	10,264
Amounts due to non-controlling shareholders		**4,603**	5,055
Bank borrowings		**99,985**	95,478
Finance lease payables		**36**	48
Current tax liabilities		**7,971**	9,374
		493,283	391,926
Net current assets		**872,080**	886,044
Total assets less current liabilities		**1,273,911**	1,302,542

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CON'T)

	Notes	**At 31 December 2011 RMB'000**	At 31 December 2010 RMB'000
Non-current liabilities			
Deferred tax liabilities	5	**1,455**	2,198
Finance lease payables		**-**	38
		1,455	2,236
NET ASSETS		**1,272,456**	1,300,306
Capital and reserves			
Share capital		**30,168**	30,168
Reserves		**1,201,842**	1,243,489
Equity attributable to owners of the Company		**1,232,010**	1,273,657
Non-controlling interests		**40,446**	26,649
TOTAL EQUITY		**1,272,456**	1,300,306

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011

	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 equity RMB'000
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 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 and 1 January 2011	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
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(402)**	**(41,245)**	**(41,647)**	**2,991**	**(38,656)**
Capital contribution	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,200**	**1,200**
Disposal of subsidiaries	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**9,606**	**9,606**
Transfer	**-**	**-**	**-**	**-**	**-**	**1,145**	**-**	**-**	**(1,145)**	**-**	**-**	**-**
Changes in equity for the year	**-**	**-**	**-**	**-**	**-**	**1,145**	**-**	**(402)**	**(42,390)**	**(41,647)**	**13,797**	**(27,850)**
At 31 December 2011	**30,168**	**646,363**	**(6,692)**	**57,840**	**38,053**	**25,441**	**82,427**	**(1,270)**	**359,680**	**1,232,010**	**40,446**	**1,272,456**

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 adopted all the new and revised HKFRSs that are relevant to its operations and effective for its accounting year beginning on 1 January 2011. 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:

	2011	2010
	RMB'000	RMB'000
Revenue from installation contracts	**547,338**	420,288
Sales of goods	**554,746**	477,728
Provision of maintenance services	**17,195**	10,224
Provision of online advertising services	**89**	45
	1,119,368	908,285

3 Other income

	2011	2010
	RMB'000	RMB'000
Interest income	**1,588**	1,112
Rental income	**2,762**	2,172
Gain on disposal of subsidiaries	**-**	616
Fair value gain on derivative financial instruments	**-**	850
Sundry income	**4,804**	3,838
	9,154	8,588

4 Other expenses

	2011 RMB'000	2010 RMB'000
Impairment loss on goodwill	**12,127**	-
Impairment loss on investments in associates	**9,057**	12,038
	21,184	12,038

5 Income tax expense

	Note	2011 RMB'000	2010 RMB'000
Current tax			
People's Republic of China (the "**PRC**") Enterprise Income Tax			
Current year		**14,699**	6,729
(Over) / under-provision in prior years		**(4,399)**	101
		10,300	6,830
Deferred tax			
Current year	*a*	**(1,650)**	2,198
Under-provision in prior years		**907**	-
		(743)	2,198
		9,557	9,028

No provision for Hong Kong Profits Tax has been made in the current year as the relevant group entities have 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 liabilities recognised, and movements thereon:

	Profit recognition of installation contracts RMB'000 (note)
At 1 January 2010	-
Charge to the profit or loss for the year	2,198
At 31 December 2010 and 1 January 2011	2,198
Credit to the profit or loss for the year	**(743)**
At 31 December 2011	**1,455**

Note : 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.

6 Loss for the year

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

	2011	2010
	RMB'000	RMB'000
Depreciation of property, plant and equipment	**19,000**	20,301
Amortisation of prepaid land lease payments	**752**	791
Amortisation of other intangible assets	**253**	253
Allowance / (reversal of allowance) for obsolete and slow-moving inventories	**195**	(1,789)
Allowance for bad and doubtful debts	**6,216**	40,987
Loss on disposal of subsidiaries	**4,985**	-
Cost of inventories sold	**455,107**	397,603

7 Loss per share

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

	2011	2010
	RMB'000	RMB'000
Loss for the year attributable to owners of the Company	**41,245**	39,381
	'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 2011 and 2010 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 2011 (2010: Nil).

9 Trade and bills receivables

	2011 RMB'000	2010 RMB'000
Trade and bills receivables	**626,163**	418,014
Less: Allowance for bad and doubtful debts	**(163,849)**	(158,301)
	462,314	259,713

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:

	2011 RMB'000	2010 RMB'000
0 - 90 days	**253,640**	108,288
91 - 180 days	**135,098**	41,070
181 - 360 days	**34,862**	28,241
Over 360 days	**38,714**	82,114
	462,314	259,713

10 Trade and other payables

	2011 RMB'000	2010 RMB'000
Trade payables	**99,770**	75,902
Accrued charges	**198,728**	134,674
Receipts in advance	**27,346**	30,299
Value added tax, sales tax and other levies	**36,231**	27,760
Other payables	**12,942**	3,072
	375,017	271,707

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

	2011 RMB'000	2010 RMB'000
0 - 30 days	**37,059**	28,338
31 - 60 days	**21,938**	14,086
61 - 90 days	**11,467**	8,088
Over 90 days	**29,306**	25,390
	99,770	75,902

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 (note).

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 and operation of a guest house, which do not meet any of the quantitative thresholds for determining reportable segments. The information of these other operating segments are 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 gain 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.

Note: The Group sold the controlling interests in a number of subsidiaries which were engaged in the provision of network monitoring services during the year. The then strategic business unit disqualified as a reportable segment from the date of disposal, when the then subsidiaries became associates of the Group.

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 2011										
TURNOVER										
External sales	547,338	320,090	176,606	58,050	14,607	2,588	89	-	-	1,119,368
Inter-segment sales	-	34	9,996	6,876	-	-	-	-	(16,906)	-
Total	547,338	320,124	186,602	64,926	14,607	2,588	89	-	(16,906)	1,119,368
RESULTS										
Segment (loss) / profit	(8,389)	10,497	10,699	(10,296)	(33)	(5,604)	(2,371)			(5,497)
Interest income										1,588
Impairment loss on investment in an associate										(9,057)
Unallocated corporate expenses										(9,649)
Share of profits of associates										726
Finance costs										(7,042)
Loss before tax										(28,931)
Income tax expense										(9,557)
Loss for the year										(38,488)

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 2011										
ASSETS										
Segment assets	808,727	451,064	255,045	7,192	2,955	-	21,548			1,546,531
Investments in associates										22,441
Amounts due from associates										2,121
Pledged bank deposits										7,373
Bank and cash balances										149,568
Unallocated other receivables										39,160
										1,767,194
LIABILITIES										
Segment liabilities	179,930	91,043	87,427	7,264	1,601	-	10,442			377,707
Amounts due to non-controlling shareholders										4,603
Current tax liabilities										7,971
Bank borrowings										99,985
Deferred tax liabilities										1,455
Finance lease payables										36
Unallocated other payables										2,981
										494,738

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	1,881	1,478	1,779	-	-	4	20,997	-		26,139
Depreciation and amortisation	373	12,355	6,596	35	44	494	108	-		20,005
Loss on disposal of property, plant and equipment	9	1	4	-	-	139	-	-		153
Loss on disposal of subsidiaries	-	-	-	-	-	4,985	-	-		4,985
Impairment loss on goodwill	-	-	-	12,127	-	-	-	-		12,127
(Reversal of allowance) / allowance for obsolete and slow-moving inventories	-	(719)	914	-	-	-	-	-		195
Allowance / (reversal of allowance) for bad and doubtful debts	1,798	2,589	(826)	1,641	1,014	-	-	-		6,216

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 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 gain 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)

Geographical information:

	Revenue		Non-current assets	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
PRC	**1,118,200**	903,705	**401,825**	404,335
Others	**1,168**	4,580	**6**	12,163
	1,119,368	908,285	**401,831**	416,498

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 both 2011 and 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

For the year ended 31 December 2011, turnover of the Group increased 23% to RMB1,119 million. Loss for the year decreased 1% to RMB38 million. An impairment loss on investments in associates and an impairment loss on goodwill amounted to RMB9 million and RMB12 million were made during the year.

Installation of fire prevention and fighting systems
Revenue from installation of fire prevention and fighting systems for the year increased 30% to RMB547 million. Operating loss decreased 67% to RMB8 million.

During the year, contracts of a total sum of RMB649 million (2010: RMB361 million) were secured, of which some were services provide for commercial complexes constructed by the Wanda Group, in which houses blocks of office towers, shopping malls and hotels. There were also contracts obtained from Foxconn Group in respect of the Industrial Park they invested in Chengdu. The reduction in operating loss was the result of the improved recovery of the trade receivables leading to a significant decrease in allowance for bad and doubtful debts. In spite of this, the slimming profit margin because of the rising costs of materials and labour have led to the loss of the segment.

Production and sale of fire engines
Revenue from production and sales of fire engines for the year increased 14% to RMB320 million. Operating results improved, with profit increased to RMB10 million (2010: RMB476,000).

The Group’s fire engines manufacturing business has been developing steadily, products are in service all over the country. In addition to the domestic market, the Group is endeavour to expand the market abroad. At the beginning of 2012, the Group has joined the Intersec 2012 held in Dubai, a large regional trade fair and conference of the safety and security community, as one of the 910 exhibitors from over 50 countries. Positive feedback was received from the participants and visitors and hopefully could bring the Group’s products far into the world market.

Series of new products are developed and launched every year to catch up with the changing market needs. The aerial platform trucks, trucks capable of moving bi-directionally for used in tunnels, and forest fire trucks are in the final testing stage. Trucks equipped with pumps and monitors discharging water, foam and powder over a range of 200-300 meters in vertical direction are in trial production. The Group has developed systems that allow trucks to draw water from lakes or other sources a distance away, to ensure the availability of water supply in dry region or when no immediate water sources available. The Group believes that a rich product catalogue is the key to outperform competitors.

Production and sale of fire prevention and fighting equipment
Revenue from production and sales of fire prevention and fire fighting equipment for the year increased 23% to RMB177 million. Operating profits was RMB11 million (2010: RMB24 million). Included in the operating profits last year was a reversal of the allowance for bad and doubtful debts amounted to RMB12 million.

The profit margin of certain high-end products launched years ago were on the downward sloping trend and therefore affected the results of the segment for the year. The Group recognised the importance of continually introducing new products to maintain its competitiveness. Following the widely accepted Intelligent Auto-aiming Fire Extinguishing System which was particularly designed for constructions with high roof, the Group has targeted a field that were brand new to it – forest fire fighting. During the year, the Group has developed and introduced the forest motorcycle, portable fire pumps and back-carry fire extinguishers. Taking advantage of the national plan on protection of forest and vegetation in the twelfth Five-Year Plan, it is considered a market with high potential and could possibly bring remarkable returns to the Group.

Provision of maintenance services

Revenue from the provision of fire prevention and fighting system maintenance services for the year increased two times to RMB15 million. Operating loss was RMB33,000 (2010: RMB5 million).

In the fourth quarter last year, the Group secured a two-year-contract to provide maintenance services to a number of plants of Foxconn International Holdings in Shenzhen. The full year revenue recognition, as compared to two months only last year, was the main reason for the big increase in revenue as well as decrease in operation loss for the year under review.

Provision of network monitoring system services

The Group sold the controlling interests of the subsidiaries operating the network monitoring systems during the year. Revenue from the business from 1 January 2011 to the date of disposal was RMB2.6 million (2010: RMB5.4 million). Operating loss was RMB5.6 million (2010: RMB2.8 million).

The business segment has been operating with unsatisfactory results since it was set up in 2004. When the national standards for the network monitoring systems were promulgated in 2008, it was thought to be a turning point. Unfortunately, market acceptance to the systems continued to be low as customers failed to recognised the protection offered by the systems and generally find it unworthy to spent on. To break the predicament, the Group sold the controlling interests in the business to a partner who is experienced in operating a similar business and is willing to further invest in the development of the systems, in a hope that the Group can retain the potential gain from the system (as it is still seen as a services with high potential) but at a lower cost.

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 10% to RMB58 million. Operating results, had the impairment loss on goodwill of RMB12 million excluded, would have been around RMB2 million which approximated that for last year.

Up to the date of the announcement, the Group has secured contracts for three fire engines only which were far less than that for the previous two years. One of the two major suppliers of the Group was put in liquidator's custody during the year, affected the stableness of a significant part of the Group's supply. Besides, one of the Group's major customers has shown its intention of dealing directly with overseas fire engines manufacturers through their branches abroad in the future and this could bring serious negative effect to the Group's trading business. The Group is considering reformulating its strategies for the business and because of its uncertain future, an impairment loss on the relevant goodwill was made for prudence sake.

Financial resources, liquidity, contingent liabilities and pledge of assets

As at 31 December 2011, the Group had bank and cash balances amounting to approximately RMB157 million (2010: RMB277 million) of which RMB7 million (2010: RMB15 million) was pledged for bid bond guarantee issued, performance guarantee, and guarantee for letter of credit issued. Outstanding balances of bank borrowings as at the year end date were RMB100 million (2010: RMB95 million) representing short term bank loans borrowed by two of the Company's subsidiaries in Sichuan. The trust receipt loans amounted to RMB5 million last year borrowed by a subsidiary in Hong Kong, being drawn from the banking facilities granted by a bank in Hong Kong, were fully settled in the year. 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 significant decrease in bank and cash balances was the result of the settlement of costs for installation projects well in advance of receipt of project revenue. Contract terms for installation projects are getting tougher with competition becoming severer. Not only that advance payments, which were common in the past, have been ignored, customers are also prolonging the credit period or delaying settlement, posing a big burden on the Group's cash position.

As at 31 December 2011, current assets and current liabilities of the Group were approximately RMB1,365 million (2010: RMB1,278 million) and RMB493 million (2010: RMB392 million) respectively. The current ratio was approximately 2.8 times (2010: 3.3 times). Gearing ratio (interest bearing debt / total equity) at end of the year was 7.9% (2010: 7.3%).

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 used forward foreign currency exchange contracts to minimize exposure to exchange rate volatility arising from receivables and payables involving currencies other than Renminbi and Hong Kong dollar. There was no forward foreign currency exchange contract outstanding at 31 December 2011.

Save as disclosed, the Group has no material contingent liabilities or pledge of assets for the year ended 31 December 2011.

Investments, disposals and capital commitments

Investments

During the year, the Group invested in the setting up and operation of a guest house in Chengdu, Sichuan. The guest house was established by leasing and renovating the old office buildings of the Sichuan Fire Brigade. It will be used mainly for receiving customers, guests and visitors of the subsidiaries of the Group in Sichuan. In addition to showing the Group's hospitality, a new stream of income will be formed by capturing their spending in accommodations and food and beverages. Vacant rooms, if any, will be opened to tourists or other visitors. The Group's total investment is estimated to be around RMB30 million.

Disposals

The Group sold 2% of its equity interests in a group of subsidiaries operating the network monitoring system services (the "**Sub-group**") at a consideration of RMB3 million during the year. After the disposal, the Group holds 49% interests in the Sub-group and the acquirer holds 51%. In other words, the Group sold the controlling interests in the Sub-group. Because of low market acceptance, the network monitoring business has been operating at losses since it commenced in 2004. The Group, however, still sees it a high potential business and turn around just a matter of time. By selling the controlling interests, the Group retains its access to the potential gain but at a low costs, though the disposal costs the Group a loss of RMB5 million.

Capital commitments

As at 31 December 2011, the Group has capital commitment of approximately RMB27 million, of which RMB25 million (2010: RMB27 million) was related to the investment amount committed to the local government of the county where the Sichuan factory is located and the remaining RMB2 million (2010: Nil) for the construction of the guest house.

Save as disclosed herein, the Group has no other material capital commitments, investments, acquisitions or disposals of subsidiaries as at 31 December 2011.

Employees and remuneration policies

As at 31 December 2011, the Group had approximately 975 full-time employees (2010: 1,108). Staff costs, excluding directors' remuneration for the year was RMB49 million (2010: RMB43 million). The decrease in number of staff was a direct result of the disposal of a number 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 2011, 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.

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) 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 2011**	**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 2011, 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 2011.

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 2011, 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 2011, 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 2011 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	2/2

Non-executive directors

Ms. Xi Zheng Zheng	2/2
Mr. Harinath Krishnamurthy	2/2
Mr. Jean-Charles Thoumire	0/0*
Mr. Oon Wee Chin	0/0*

Independent non-executive directors

Dr. Loke Yu	2/2
Mr. Heng Ja Wei	2/2
Mr. Sun Jian Guo	1/2
Ms. Sun Guo Li	0/0*

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. Jean-Charles Thoumire, Mr. Oon Wee Chin were appointed directors of the Company on 20 February 2012 and Ms. Sun Guo Li was appointed on 30 August 2011. There was no board meeting held after their appointments.

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. Heng Ja Wei and Ms. Sun Guo Li. 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. Mr. Sun Jian Guo resigned as independent non-executive director of the Company and member of the audit committee on 30 August 2011. The places vacated by his resignation were filled by Ms. Sun Guo Li on the same date.

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. Heng Ja Wei	2/2
Mr. Sun Jian Guo	1/2
Ms. Sun Guo Li	0/0*

* Ms. Sun Guo Li was appointed director of the Company on 30 August 2011. There was no meeting of the audit committee held after her appointment.

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, 23 March 2012

As at the date of this announcement, 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 Mr. Jean-Charles Thoumire and Mr. Oon Wee Chin; and the independent non-executive directors are Dr. Loke Yu, Mr. Heng Ja Wei and Ms. Sun Guo Li.

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).