# 中國消防

## Interim Report 2011

CFE

中國消防企業集團有限公司
CHINA FIRE SAFETY ENTERPRISE GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)
Stock Code：445

## HIGHLIGHTS

- Turnover of the Group for the six months ended 30 June 2011 decreased 10% to RMB351 million.
- Loss for the period was RMB1.7 million (2010: profit of RMB2.3 million).
- Loss per share for the six months ended 30 June 2011 was RMB0.16 cent (2010: earnings of RMB0.09 cent per share).
- The Board does not recommend the payment of a dividend for the six months ended 30 June 2011.

The board of Directors (the "**Board**") of the Company hereby announces the unaudited interim results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the six months ended 30 June 2011, together with the comparative figures for the corresponding period in 2010, as follows:

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | | (Unaudited) For the six months ended 30 June | |
|---|---|---|---|
| | *Notes* | **2011** ***RMB'000*** | 2010 *RMB'000* |
| Turnover | 2 | **351,355** | 391,263 |
| Cost of sales and services | | **(307,178)** | (337,919) |
| **Gross profit** | | **44,177** | 53,344 |
| Other income | 3 | **4,348** | 3,075 |
| Selling and distribution costs | | **(15,246)** | (15,599) |
| Administrative expenses | | **(31,039)** | (33,590) |
| Share of profits of associates | | **273** | 980 |
| Finance costs | | **(2,651)** | (2,513) |
| (Loss)/profit before taxation | | **(138)** | 5,697 |
| Income tax expense | 4 | **(1,549)** | (3,440) |
| (Loss)/profit for the period | 5 | **(1,687)** | 2,257 |
| *Other comprehensive income after tax* | | | |
| Exchange differences on translating foreign operations | | **(126)** | (19) |
| Other comprehensive income for the period, net of tax | | **(126)** | (19) |
| Total comprehensive income for the period | | **(1,813)** | 2,238 |

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)

| | | (Unaudited) For the six months ended 30 June | |
|---|---|---|---|
| | *Note* | **2011** *RMB'000* | 2010 *RMB'000* |
| (Loss)/profit for the period attributable to: | | | |
| Owners of the Company | | **(4,510)** | 2,518 |
| Non-controlling interests | | **2,823** | (261) |
| | | **(1,687)** | 2,257 |
| Total comprehensive income for the period attributable to: | | | |
| Owners of the Company | | **(4,731)** | 2,453 |
| Non-controlling interests | | **2,918** | (215) |
| | | **(1,813)** | 2,238 |
| (Loss)/earnings per share (RMB cents) | | | |
| Basic | 6 | **(0.16)** | 0.09 |
| Diluted | | **(0.16)** | 0.09 |

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | *Notes* | (Unaudited) At 30 June 2011 *RMB'000* | (Audited) At 31 December 2010 *RMB'000* |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | 275,408 | 282,135 |
| Prepaid land lease payments | | 34,834 | 35,210 |
| Investment properties | | 36,410 | 36,410 |
| Goodwill | | 31,767 | 31,767 |
| Other intangible assets | | 838 | 965 |
| Investments in associates | | 30,246 | 29,973 |
| | | 409,503 | 416,460 |
| **Current assets** | | | |
| Inventories | | 102,641 | 95,841 |
| Trade and bills receivables | 8 | 292,012 | 259,713 |
| Amounts due from contract customers | | 542,605 | 546,243 |
| Retention receivables | | 13,243 | 21,125 |
| Prepayments, deposits and other receivables | | 71,832 | 69,628 |
| Amount due from a jointly controlled entity | | 4,570 | 4,570 |
| Amount due from associates | | 3,666 | 1,886 |
| Prepaid land lease payments | | 752 | 790 |
| Derivative financial instruments | | 912 | 827 |
| Pledged bank deposits | | 5,358 | 14,859 |
| Bank and cash balances | | 290,869 | 262,526 |
| | | 1,328,460 | 1,278,008 |
| **Current liabilities** | | | |
| Trade and other payables | 9 | 299,537 | 271,707 |
| Amounts due to contract customers | | 25,718 | 10,264 |
| Amounts due to non-controlling shareholders | | 5,153 | 5,055 |
| Bank borrowings | | 101,550 | 95,478 |
| Finance lease payables | | 48 | 48 |
| Current tax liabilities | | 5,254 | 9,374 |
| | | 437,260 | 391,926 |
| **Net current assets** | | 891,200 | 886,082 |
| **Total assets less current liabilities** | | 1,300,703 | 1,302,542 |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

| | Notes | (Unaudited) At 30 June 2011 *RMB'000* | (Audited) At 31 December 2010 *RMB'000* |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Deferred tax liabilities | | **2,198** | 2,198 |
| Finance lease payables | | **12** | 38 |
| | | **2,210** | 2,236 |
| NET ASSETS | | **1,298,493** | 1,300,306 |
| **Capital and reserve** | | | |
| Share capital | | **30,168** | 30,168 |
| Reserves | | **1,238,758** | 1,243,489 |
| Equity attributable to owners of the Company | | **1,268,926** | 1,273,657 |
| Non-controlling interests | | **29,567** | 26,649 |
| TOTAL EQUITY | | **1,298,493** | 1,300,306 |

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

| | (Unaudited) For the six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Net cash generated from operating activities | **16,139** | 220,792 |
| Net cash generated from investing activities | **6,183** | 3,795 |
| Net cash generated from financing activities | **6,250** | 4,692 |
| **Net increase in cash and cash equivalents** | **28,572** | 229,279 |
| Cash and cash equivalents at 1 January | **262,526** | 159,601 |
| Effect of foreign exchange rate changes | **(229)** | (23) |
| **Cash and cash equivalents at 30 June** | **290,869** | 388,857 |
| **Analysis of cash and cash equivalents at 30 June** | | |
| Bank and cash balances | **290,869** | 388,857 |

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## For the six months ended 30 June 2011
## (Unaudited)

| | Attributable to owners of the Company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital *RMB'000* | Share premium *RMB'000* | Special reserve *RMB'000* | Capital reserve *RMB'000* | Statutory surplus reserve *RMB'000* | Statutory public welfare fund *RMB'000* | Statutory reserve fund *RMB'000* | Exchange reserve *RMB'000* | Retained profits *RMB'000* | Total *RMB'000* | Non-controlling interests *RMB'000* | Total *RMB'000* |
| At 1 January 2010 | 30,168 | 646,363 | (6,692) | 57,840 | 38,053 | 24,022 | 82,427 | (512) | 441,725 | 1,313,394 | 25,863 | 1,339,257 |
| Total comprehensive income for the period | – | – | – | – | – | – | – | (65) | 2,518 | 2,453 | (215) | 2,238 |
| At 30 June 2010 | 30,168 | 646,363 | (6,692) | 57,840 | 38,053 | 24,022 | 82,427 | (577) | 444,243 | 1,315,847 | 25,648 | 1,341,495 |
| At 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 period | – | – | – | – | – | – | – | (221) | (4,510) | (4,731) | 2,918 | (1,813) |
| At 30 June 2011 | 30,168 | 646,363 | (6,692) | 57,840 | 38,053 | 24,296 | 82,427 | (1,089) | 397,560 | 1,268,926 | 29,567 | 1,298,493 |

*Notes:*

1. **Basis of preparation**

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange and with the Hong Kong Accounting Standard 34, Interim Financial Reporting. The accounting policies adopted in preparing the condensed consolidated financial statements for the six months ended 30 June 2011 are consistent with those in the preparation of the Group's annual financial statements for the year ended 31 December 2010.

2. **Turnover**

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

| | (Unaudited) Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Revenue from installation contracts | **97,491** | 156,669 |
| Sales of goods | **245,341** | 231,184 |
| Provision of maintenance services | **8,500** | 3,388 |
| Provision of online advertising services | **23** | 22 |
| | **351,355** | 391,263 |

3. **Other income**

| | (Unaudited) Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Interest income | **828** | 469 |
| Rental income | **1,161** | 884 |
| Fair value gains on derivative financial instruments | **880** | 73 |
| Sundry income | **1,479** | 1,649 |
| | **4,348** | 3,075 |

## 4. Income tax expense

| | (Unaudited) Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Current tax | | |
| PRC Enterprise Income Tax | **1,549** | 2,021 |
| Deferred tax | **–** | 1,419 |
| | **1,549** | 3,440 |

No provision for Hong Kong Profits Tax has been made as the relevant group entities had either incurred a loss or utilized 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.

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

## 5. (Loss)/profit for the period

(Loss)/profit for the period has been arrived at after charging the following:

| | (Unaudited) Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Depreciation of property, plant and equipment | **9,662** | 10,240 |
| Amortisation of prepaid land lease payments | **376** | 395 |
| Amortisation of other intangible assets | **127** | 127 |
| Loss on disposal of property, plant and equipment | **168** | 1,848 |
| Allowance for bad and doubtful debts | **–** | 1,926 |

**6. (Loss)/earnings per share**

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

| | (Unaudited) Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| (Loss)/profit for the period attributable to owners of the Company | **(4,510)** | 2,518 |
| | ***'000*** | *'000* |
| Weighted average number of ordinary shares | **2,855,000** | 2,855,000 |

*Note:* There was no dilutive effect of the share options to the (loss)/earnings per share as the average market price of the shares for the six months ended 30 June 2011 and 2010 was lower than the exercise price of the share options.

**7. Dividends**

The Board does not recommend the payment of a dividend for the six months ended 30 June 2011 (2010: nil).

**8. Trade and bills receivables**

| | **(Unaudited) At 30 June 2011** | (Audited) At 31 December 2010 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Trade and bills receivables | **450,133** | 418,014 |
| Less: Allowance for bad and doubtful debts | **(158,121)** | (158,301) |
| | **292,012** | 259,713 |

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

**8. Trade and bills receivables (continued)**

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

| | (Unaudited) At 30 June 2011 *RMB'000* | (Audited) At 31 December 2010 *RMB'000* |
|---|---|---|
| 0 – 90 days | 169,859 | 108,288 |
| 91 – 180 days | 27,365 | 41,070 |
| 181 – 360 days | 63,633 | 28,241 |
| Over 360 days | 31,155 | 82,114 |
| | 292,012 | 259,713 |

**9. Trade and other payables**

| | (Unaudited) At 30 June 2011 *RMB'000* | (Audited) At 31 December 2010 *RMB'000* |
|---|---|---|
| Trade payables | 94,356 | 75,902 |
| Accrued charges | 148,068 | 134,674 |
| Receipts in advance | 22,776 | 30,299 |
| Value added tax, sales tax and other levies | 31,265 | 27,760 |
| Other payables | 3,072 | 3,072 |
| | 299,537 | 271,707 |

The aging analysis of trade payables is as follows:

| | (Unaudited) At 30 June 2011 *RMB'000* | (Audited) At 31 December 2010 *RMB'000* |
|---|---|---|
| 0 – 30 days | 67,009 | 28,338 |
| 31 – 60 days | 9,936 | 14,086 |
| 61 – 90 days | 6,573 | 8,088 |
| Over 90 days | 10,838 | 25,390 |
| | 94,356 | 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 monitoring system services.

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

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

Segment profits or losses do not include interest income, fair value gain on derivative financial instruments, unallocated corporate expenses, share of profits of associates and finance costs.

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

| | Installation of fire prevention and fighting systems *RMB'000* | Production and sale of fire engines *RMB'000* | Production and sale of fire prevention and fighting equipment *RMB'000* | Trading of fire engines, fire prevention and fighting and rescue equipment *RMB'000* | Provision of maintenance services *RMB'000* | Provision of network monitoring system services *RMB'000* | Others *RMB'000* | Elimination *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|---|---|---|---|---|
| For the six months ended 30 June 2011 | | | | | | | | | |
| TURNOVER | | | | | | | | | |
| External sales | 97,491 | 140,723 | 69,190 | 35,428 | 6,951 | 1,549 | 23 | – | 351,355 |
| Inter-segment sales | – | 15 | 3,764 | 3,340 | – | – | – | (7,119) | – |
| Total | 97,491 | 140,738 | 72,954 | 38,768 | 6,951 | 1,549 | 23 | (7,119) | 351,355 |
| RESULTS | | | | | | | | | |
| Segment (loss)/profit | (349) | 2,292 | 1,833 | 2,278 | 360 | (1,830) | (155) | | 4,429 |
| Interest income | | | | | | | | | 828 |
| Fair value gain on derivative financial instruments | | | | | | | | | 880 |
| Unallocated corporate expenses | | | | | | | | | (3,897) |
| Share of profits of associates | | | | | | | | | 273 |
| Finance costs | | | | | | | | | (2,651) |
| Loss before tax | | | | | | | | | (138) |
| Income tax expense | | | | | | | | | (1,549) |
| Loss for the period | | | | | | | | | (1,687) |

## SEGMENT INFORMATION (continued)

| | Installation of fire prevention and fighting systems *RMB'000* | Production and sale of fire engines *RMB'000* | Production and sale of fire prevention and fighting equipment *RMB'000* | Trading of fire engines, fire prevention and fighting and rescue equipment *RMB'000* | Provision of maintenance services *RMB'000* | Provision of network monitoring system services *RMB'000* | Others *RMB'000* | Elimination *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|---|---|---|---|---|
| For the six months ended 30 June 2010 | | | | | | | | | |
| TURNOVER | | | | | | | | | |
| External sales | 156,669 | 122,814 | 56,333 | 52,037 | 946 | 2,442 | 22 | – | 391,263 |
| Inter-segment sales | – | – | 3,366 | 5,960 | – | – | – | (9,326) | – |
| Total | 156,669 | 122,814 | 59,699 | 57,997 | 946 | 2,442 | 22 | (9,326) | 391,263 |
| RESULTS | | | | | | | | | |
| Segment (loss)/profit | (5,276) | 2,160 | 18,702 | 4,042 | (3,485) | (3,582) | (187) | | 12,374 |
| Interest income | | | | | | | | | 469 |
| Fair value gain on derivative financial instruments | | | | | | | | | 73 |
| Unallocated corporate expenses | | | | | | | | | (5,686) |
| Share of profits of associates | | | | | | | | | 980 |
| Finance costs | | | | | | | | | (2,513) |
| Profit before tax | | | | | | | | | 5,697 |
| Income tax expense | | | | | | | | | (3,440) |
| Profit for the period | | | | | | | | | 2,257 |

## MANAGEMENT DISCUSSION AND ANALYSIS

**Business review**

For the six months ended 30 June 2011, the Group's turnover decreased 10% to RMB351 million. Loss for the period was RMB1.7 million (2010: profit of RMB2.3 million).

*Installation of fire prevention and fighting systems*

Revenue from installation of fire prevention and fighting systems for the period decreased 38% to RMB97 million. The operating loss for the period was RMB0.3 million (2010: RMB5.3 million).

Revenue of the Group's installation business is highly leveraged on the prosperity of the property market and the progress of constructions of the underlying projects. Given the influences of government policies on the real estate market and the financing difficulties facing the property developers, the quantity of construction projects at work, especially in the residential and commercial markets, has been significantly affected in recent years. Since the Group strengthened credit ratings assessment of the developers, projects with poor contract terms and assessed to have recoverability risks were given up, further restricted the size of the market for the Group. It affected not only the Group's revenue but also the gross profit due to the intensifying competition.

As a big allowance for bad and doubtful debts was provided for last year, operating loss for the current year reduced despite the drop in revenue. If the effect of the allowance made had been taken away, the operating results for last year would have been positive. The operating loss for the period was a direct result of the decline in revenue and gross profit margin.

*Production and sale of fire engines*

Revenue from production and sales of fire engines for the period increased 15% to RMB141 million. Operating profit increased 6% to RMB 2.3 million.

Revenue increased mainly because of the inflation and a larger proportion of high price fire engines (such as those assembled with imported chassis) in the sales mix. There was no material variation in the quantity sold for the two periods in comparison. Gross profit decreased slightly as a result of the competition and the hiking material costs.

The Group has devoted to develop the business since it was acquired in 2005. With the expanding product variety, the business has been scaling up. Orders flowing in constantly every year from fire brigades, Sinopec and other corporations showing their firm support and confidence on the Group's products. To maintain its leading position in the industry, the Group has committed additional resources for further expansion in its market coverage and product range.

*Production and sale of fire prevention and fighting equipment*

Revenue from production and sales of fire prevention and fire fighting equipment for the period increased 23% to RMB69 million. The operating profit was RMB1.8 million (2010: RMB19 million).

The growth in revenue was a direct result of the Group's effort in refining its distribution network and product quality for years. Although the overall gross profit margin decreased because of the inflating costs and competition, certain high-end products with high profit margin were very popular among the customers. Sales of those products have been on a rising trend since launching. Among them, the Intelligent Auto-aiming Fire Extinguishing systems have become one of the preferred equipment for constructions with high roof that are not suitable for the effective use of sprinklers.

Included in the operating profit for last year was a reversal of the allowance for bad and doubtful debts, without which the operating profit would have been significantly reduced.

*Provision of maintenance services*

Revenue from provision of maintenance services for the period increased six times to RMB7 million. The segment contributed to the Group a profit of RMB0.4 million for the current reporting period (2010: loss of RMB3.5 million).

The Group's maintenance services improved because of a two-year contract secured in the fourth quarter last year to provide maintenance services to certain plants of Foxonn International Holdings in Shenzhen. Before that, services provided by the Group were largely one-off services, the demands of which depend largely on the condition of the fire equipment and customers' willingness to spend on keeping the fire safety systems properly maintained. Taking advantage of the experience and reputation gain from the Foxconn contract, the Group hopefully could expand its annuity service to other large corporations.

*Provision of network monitoring system services*

Revenue from the provision of network monitoring system services for the period decreased 37% to RMB1.5 million. Operating result improved with loss reduced 49% to RMB1.8 million.

As mentioned previously, the development of the network monitoring business has come to a stagnant stage. With the low level of acceptance, both the number of new recruits and contract renewal of existing customers have been declining, leading to the drop in revenue for consecutive periods. The group is negotiating to introduce a new partner who is experienced in operating a similar business and hopefully will break the existing predicament. Operating loss decreased because of the cost saved with the reduction in operating scale of certain centres. In addition, there were losses on disposal of fixed assets and allowance for bad and doubtful debts for the Xinjiang centre amounted to RMB1.9 million upon its suspension in 2010.

*Trading of fire engines, fire prevention and fighting and rescue equipment*

Revenue from the trading of fire engines, fire prevention and fighting and rescue equipment for the period dropped 32% to RMB35 million. Operating profit decreased 44% to RMB2.3 million.

Revenue for five units (out of the total of nine units) of fire engines was recognised upon delivery in the first six months of 2011. With the remaining four units delivered, revenue of approximately RMB25 million will be recorded in the second half of the year. On the other hand, all fire engines sold for 2010 were delivered, and thus revenue booked, in the first half of the year, leading to a gap between the revenue for the period under review and that for the corresponding period last year.

**Financial resources, liquidity, contingent liabilities and pledge of assets**

As at 30 June 2011, the Group had cash and bank balances amounting to approximately RMB296 million (31 December 2010: RMB277 million) of which RMB5 million (31 December 2010: RMB15 million) was pledged to secure banking facilities granted to the Group. The short term bank loans outstanding at the period end date, which amounted to RMB102 million (31 December 2010: RMB90 million), were granted to two subsidiaries in China. The repayment of the loans is guaranteed by other subsidiaries of the Group. The trust receipt loans of RMB 5 million outstanding at 31 December 2010 had been settled during the first six months of 2011. The loans were related to the banking facilities granted to a subsidiary in Hong Kong. The Company guarantees the settlement of the borrowings drawn from the facilities.

As at 30 June 2011, current assets and current liabilities of the Group were approximately RMB1,328 million (31 December 2010: RMB1,278 million) and RMB437 million (31 December 2010: RMB392 million) respectively. The current ratio was approximately 3.04 times (31 December 2010: 3.26 times). Gearing ratio (interest bearing debt/total equity) at end of the period was 7.8% (31 December 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 has entered into foreign currency forward exchange contracts to minimize exposure to exchange rate volatility arising from receivables and payables involving currencies other than Renminbi and Hong Kong dollar. There were gains amounted to RMB880,000 arising from valuing of the fair value of currency derivatives outstanding at 30 June 2011.

Save as disclosed, the Group has no material contingent liabilities or pledge of assets for the period ended 30 June 2011.

**Investments and capital commitments**

*Capital commitments*

As at 30 June 2011, the Group has capital commitment of approximately RMB25 million (31 December 2010: RMB27 million) which was related to the investment amount committed to the local government of the county where the Sichuan factory is located.

Save as disclosed herein, the Group has no material capital commitments, investments, acquisitions or disposals of subsidiaries as at 30 June 2011.

**Employees and remuneration policies**

At 30 June 2011, the Group had approximately 1,101 full-time employees (2010: 1,211). Staff costs, excluding directors' remuneration, for the period amounted to RMB20.5 million, increased 3.7% over the RMB19.8 million for the same period last year. Staff costs increased reflected the general pay rise in the mainland China. All full-time employees are entitled to medical contributions, provident funds and retirement plans. The Group provides a series of comprehensive in-house and on-the-job training to staff to keep their technical skills and standards up to date for quality services and to enhance work safety.

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

Save as disclosed below, as of 30 June 2011, none of the Directors or chief executives has any interest or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (Cap. 571 of the Laws of Hong Kong) ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or were required, pursuant to section 352 of the SFO to be entered in the register required to be kept therein or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules, to be notified to the Company and the Stock Exchange.

**Long positions in ordinary shares of the Company**

| Name of Director | Capacity and types of interest | Number of issued shares of HK$0.01 each of the Company held | Percentage of issued share capital of the Company |
|---|---|---|---|
| Mr. Jiang Xiong | Beneficial owner *(Note 1)* | 981,600,000 | 63.28% |
| | Deemed interest *(Note 2)* | 825,000,000 | *(Note 3)* |
| Mr. Jiang Qing | Beneficial owner | 7,500,000 | 0.26% |

*Notes:*

1. Mr. Jiang Xiong ("Mr. Jiang") is beneficially interested in 981,600,000 shares. By virtue of the option agreement entered into between Mr. Jiang and United Technologies Far East Limited ("UTFE"), a subsidiary of UTC (the "**Option Agreement**"), 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 30 June 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 period.

## INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 30 June 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 | 825,000,000 | 63.28% |
| | Deemed interest *(Note 1)* | 981,600,000 | *(Note 2)* |
| Otis Elevator Company | Interest of a controlled corporation *(Note 3)* | 1,806,600,000 | 63.28% |
| Carrier Corporation | Interest of a controlled corporation *(Note 4)* | 1,806,600,000 | 63.28% |
| UTC | Interest of a controlled corporation *(Note 5)* | 1,806,600,000 | 63.28% |

*Notes:*

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

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

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

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

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

**Short positions in ordinary shares of the Company**

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

Other than as disclosed above, the Company has not been notified of any other interests or short position in the issued share capital of the Company as at 30 June 2011.

## COMPETING INTERESTS

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

## DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the period ended 30 June 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 period ended 30 June 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. There were no fixed terms of appointment for the directors although they are subject to retirement by rotation according to the Company's articles of association. The Board is of the opinion that this serves the same objectives of the relevant provision.

2. According to the articles of association, no director holding office as chairman and/or managing director shall be subject to retirement by rotation.

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

**Audit Committee**

The audit committee comprises three independent non-executive directors, Dr. Loke Yu, Mr. Sun Jian Guo and Mr. Heng Ja Wei. The primary duties of the audit committee are to review the Company's annual report and accounts and half-yearly reports and to provide advices and comments thereon to the Board. The audit committee is also responsible for reviewing and supervising the financial reporting process and internal control procedures of the Group.

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

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

Hong Kong, 29 August 2011

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

*This report 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).*