



China Fire Safety Enterprise Group Holdings Limited

中國消防企業集團控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

2005

FIRST QUARTERLY REPORT

** For identification purpose only*

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This report, for which the directors (the “Directors”) of China Fire Safety Enterprise Group Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

*First Quarterly Results Report
for the Three Months Ended 31 March 2005*

HIGHLIGHTS

- Turnover and net profit for the three months ended 31 March 2005 were RMB118 million and RMB34 million respectively, rose 23% and 10% from the corresponding period last year.
- Basic earnings per share for the period was 1.68 RMB cents, up 9% from the corresponding period last year.
- The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2005.

RESULTS

The board of Directors (the “Board”) of the Company is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the three months ended 31 March 2005, together with the comparative figures for the corresponding period in 2004, as follows:

	<i>Note</i>	(Unaudited)	
		Three months ended 31 March	
		2005	2004
		RMB'000	RMB'000
Turnover	2	117,624	95,377
Cost of sales		(67,779)	(47,407)
Gross Profit		49,845	47,970
Other operating income		397	189
Distribution costs		(1,226)	(458)
Administrative expenses		(8,675)	(6,022)
Profit from operations		40,341	41,679
Finance costs		(144)	(8)
Profit before taxation		40,197	41,671
Taxation	3	(6,293)	(10,644)
Profit before minority interests		33,904	31,027
Minority interests		(43)	(216)
Net profit for the period		33,861	30,811
Dividends	4	-	-
Earnings per share (RMB cents)	5		
– Basic		1.68	1.54
– Diluted		1.67	N/A

Notes:

1. Basis of presentation

The Group's unaudited consolidated results have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with the Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), the terms of HKFRS is inclusive of Statements of Standard Accounting Practice ("SSAP") and interpretations approved by the HKICPA. The accounting policies adopted in preparing the results for the three months ended 31 March 2005 are consistent with those in the preparation of the Group's annual financial statements for the year ended 31 December 2004.

2. Turnover

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

	(Unaudited)	
	Three months	
	ended 31 March	
	2005	2004
	RMB'000	RMB'000
Revenue from installation contracts	45,408	49,595
Sale of goods	54,556	35,822
Provision of maintenance services	17,660	9,960
	<u>117,624</u>	<u>95,377</u>

3. Taxation

	(Unaudited)	
	Three months	
	ended 31 March	
	2005	2004
	RMB'000	RMB'000
The charge comprises:		
Current tax		
The PRC – income tax	4,508	9,779
Deferred tax	1,785	865
	<u>6,293</u>	<u>10,644</u>

No provision for Hong Kong Profits Tax has been made as the Group's taxable income neither arises in, nor is derived from Hong Kong. Income tax on profits arising from the PRC has been provided based on the prevailing tax rates applicable to the respective companies.

Fujian Wanyou Fire Fighting Science and Technology Co., Ltd. and Fuzhou Wanyou Fire Fighting Science and Technology Co. Ltd., both subsidiaries of the Company, are entitled to the two year's exemption from income tax followed by three years of 50% tax reduction with effect from year 2002 and 2004 respectively.

The Group's deferred tax liability mainly relates to the accounting difference between Hong Kong generally accepted accounting principles and the PRC generally accepted accounting principles on profit recognition of installation contracts.

4. Dividends

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2005 (2004: Nil).

5. Earnings per share

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

	(Unaudited)	
	Three months	
	ended 31 March	
	2005	2004
	<i>RMB'000</i>	<i>RMB'000</i>
Earnings for the purpose of basic and diluted earnings per share	<u>33,861</u>	<u>30,811</u>
	<i>'000</i>	<i>'000</i>
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,020,000	2,000,000
Effect of dilutive potential ordinary shares:		
Share options	<u>11,044</u>	<u>—</u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>2,031,044</u>	<u>2,000,000</u>

The shares issuable for the acquisition of a subsidiary are subject to profit warranty adjustment. As the conditions are not satisfied at the end of the period, the Company has no dilutive potential ordinary shares in respect of the acquisition as at 31 March 2005.

MOVEMENT IN RESERVES

	Share premium	Special reserve	Capital reserve	Statutory surplus fund	Statutory public welfare fund	Statutory reserve fund	Exchange reserve	Accumu- lated profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2004	139,920	(6,692)	57,840	13,267	10,586	20,684	-	185,688	421,293
Net profit for the period	-	-	-	-	-	-	-	30,811	30,811
Final dividends declared	-	-	-	-	-	-	-	(21,200)	(21,200)
At 31 March 2004	<u>139,920</u>	<u>(6,692)</u>	<u>57,840</u>	<u>13,267</u>	<u>10,586</u>	<u>20,684</u>	<u>-</u>	<u>195,299</u>	<u>430,904</u>
At 1 January 2005	151,368	(6,692)	57,840	18,405	13,155	31,677	94	253,677	519,524
Net profit for the period	-	-	-	-	-	-	-	33,861	33,861
At 31 March 2005	<u>151,368</u>	<u>(6,692)</u>	<u>57,840</u>	<u>18,405</u>	<u>13,155</u>	<u>31,677</u>	<u>94</u>	<u>287,538</u>	<u>553,385</u>

BUSINESS REVIEW

For the three months ended 31 March 2005, turnover and net profit for the three months ended 31 March 2005 were RMB118 million and RMB34 million respectively, rose 23% and 10% from the corresponding period last year. Basic earnings per share were 1.68 RMB cents, a rise of 9% from that of the corresponding period last year.

Sale of fire safety products has experienced a strong growth for the period under review. This is largely due to the contribution by a subsidiary, which is engaged in the trading sale of fire engines and other fire fighting and rescue equipment, acquired at the end of 2004. However, because of the trading nature, its gross profit margin is lower than the Group's average. Besides, with the Group's continuous effort in improving its products by launching new models and developing its distribution network, sales of fire prevention and fighting equipment especially emergency lightings have recorded satisfactory growth. Revenue from maintenance services has continued its upward progress although the more popular practice of maintaining system only when needed has made the revenue growth rate fluctuate. In spite of this, the launching of the Group's network based monitoring system of fire prevention and fighting system is expected to help preaching the practice of maintaining fire safety systems at high performance standard round-the-clock, and thus stabilizing the Group's income. The slight drop in revenue from installation services, on the other hand, was attributable to the variation in progress of completion of different developers affecting the pace of the Group's recognition of income.

PROSPECT

The Group has been focusing on integration of the new subsidiaries since the completion of their acquisition in 2004. As they are all specialized in different areas of the fire safety industry, their successful consolidation will generate the Group the largest synergistic effect. In the months ahead, the Group is going to devote a large amount of resources in the enhancement of the network based monitoring system and opening and operation of monitoring centres in different provinces and cities in China. The first monitoring centre is running in Fujian province and the second one in Jiangxi province is expected to be in operation in the third quarter of 2005. The Group will carry on its expansion strategy and is seeking other business opportunities with high potentials in the fire safety industry in China to ensure that it is in a position to offer innovative solutions for fire safety issues involving the latest technologies. With support from the Group's international strategic investors, the Group is uniquely placed to meet China's growing demand for sophisticated and high quality fire safety systems and solutions.

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

Save as disclosed below, as of 31 March 2005, none of the Directors or chief executive had any interest or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (Cap. 571 of the Laws of Hong Kong) ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or were required, pursuant to section 352 of the SFO to be entered in the register required to be kept therein or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

Long positions in ordinary shares of the Company

Name of Director	Capacity and types of interest	Number of issued shares of HK\$0.01 each of the Company held	Percentage of issued share capital of the Company
Mr. Jiang Xiong	Beneficial owner	981,600,000	48.59%
Mr. Jiang Qing	Beneficial owner	7,500,000	0.37%

On 1 February 2005, Mr. Jiang Xiong (“Mr. Jiang”) entered into an option agreement (the “Option Agreement”) with United Technologies Far East Limited (“UTFE”), an indirect wholly owned subsidiary of United Technologies Corporation which is one of the largest corporations in US and is listing on the New York Stock Exchange. 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 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.

Also on 1 February 2005, the Company entered into a subscription agreement (the “Subscription Agreement”) with UTFE, pursuant to which the Company will issue 825,000,000 new shares of the Company (the “Shares”) to UTFE in two tranches at a price of HK\$0.577 per share. On 12 April 2005, the Company has issued 356,000,000 Shares to UTFE upon completion of the first tranche subscription, which represented 14.98% of the Company’s enlarged issued share capital.

Mr. Jiang has a short position, and is deemed to have a long position in the shares to be sold under the Option Agreement. Under the SFO, Mr. Jiang is considered to have a long position in the 825,000,000 Shares to be issued to UTFE pursuant to the Subscription Agreement.

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

Options to subscribe for ordinary shares in the Company

Grantee	Date of grant	No. of shares issuable under the options as at 1 January and 31 March 2005	Exercise period	Exercise price (HK\$)	Percentage of issued share capital of the Company
Mr. Jiang Qing	25 May 2004	20,000,000	25 May 2004 – 24 May 2014	0.44 (Note)	0.99%
Mr. Chen Shu Quan	25 May 2004	5,000,000	25 May 2004 – 24 May 2014	0.44 (Note)	0.25%
Mr. Chan Siu Tat	25 May 2004	5,000,000	25 May 2004 – 24 May 2014	0.44 (Note)	0.25%

Note: The closing price of shares of the Company immediately before the date on which the option was granted was HK\$0.465. All options granted were vested on the date of acceptance, i.e. 25 May 2004.

Interest in a subsidiary

Name of directors	Name of subsidiary	Capacity	Value of equity capital held RMB	Percentage of equity interest in the subsidiary
Mr. Jiang Xiong	北京集寶盛安安全防護技術發展有限公司 Beijing Jibao Shengan Security Technology Development Company Limited	Beneficial owner	5,000	0.05%
Mr. Jiang Qing	北京集寶盛安安全防護技術發展有限公司 Beijing Jibao Shengan Security Technology Development Company Limited	Beneficial owner	5,000	0.05%

INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 31 March 2005, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shown that other than the interests disclosed above in respect of certain directors, the following shareholders 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 type of interest	Number of issued share of HKD0.01 each of the Company held	Percentage of issued capital of the Company
Cantus Limited	Beneficial owner	132,650,000	6.57%
Aria Investment Partners L.P.	Interest of a controlled corporation (Note 1)	132,650,000	6.57%
CLSA Private Equity Management Limited	Investment Manager (Note 2)	132,650,000	6.57%
CLSA Funds Limited	Interest of a controlled corporation (Note 3)	132,650,000	6.57%
CLSA B.V.	Interest of a controlled corporation (Note 4)	132,650,000	6.57%
Calyon Capital Markets Asia B.V.	Interest of a controlled corporation (Note 5)	132,650,000	6.57%
Credit Lyonnais Capital Markets International SASU	Interest of a controlled corporation (Note 6)	132,650,000	6.57%
Calyon S.A. (formerly known as Credit Agricole Indosuez)	Interest of a controlled corporation (Note 7)	132,650,000	6.57%
Credit Agricole S.A.	Interest of a controlled corporation (Note 8)	132,650,000	6.57%
SAS Rue la Boetie	Interest of a controlled corporation (Note 9)	132,650,000	6.57%

Notes:

1. Aria Investment Partners L.P. is beneficially interested in the entire issued share capital of Cantus Limited and is deemed or taken to be interested in the 132,650,000 shares in which Cantus Limited has declared an interest for the purpose of the SFO.
2. CLSA Private Equity Management Limited is the investment manager of Aria Investment Partners L.P.
3. CLSA Funds Limited is beneficially interested in the entire issued share capital of CLSA Private Equity Management Limited and is deemed or taken to be interested in the 132,650,000 shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Note 2 above.
4. CLSA B.V. is beneficially interested in the entire issued share capital of CLSA Funds Limited and is deemed or taken to be interested in the 132,650,000 shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Note 2 above.
5. Calyon Capital Markets Asia B.V. is beneficially interested in 65% of the share capital of CLSA B.V. and is deemed or taken to be interested in the 132,650,000 shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Note 2 above.
6. Credit Lyonnais Capital Markets International SASU is beneficially interested in the entire issued share capital of Calyon Capital Markets Asia B.V. and is deemed or taken to be interested in the 132,650,000 shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFC, as mentioned in Note 2 above.
7. Calyon S.A. is beneficially interested in the entire issued share capital of Credit Lyonnais Capital Markets International SASU and is deemed or taken to be interested in the 132,650,000 shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Note 2 above.
8. Credit Agricole S.A. is beneficially interested in the entire issued share capital of Calyon S.A. and is deemed or taken to be interested in the 132,660,000 shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Note 2 above.
9. SAS Rue la Boetie is beneficially interested in 51.5% of the Issued share capital of Credit Agricole S.A. and is deemed or taken to be interested in the 132,650,000 shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Note 2 above.

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 March 2005.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the period ended 31 March 2005, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company.

BOARD PRACTICES AND PROCEDURES

The Company has complied with the Board Practices and Procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules throughout the period ended 31 March 2005.

AUDIT COMMITTEE

The audit committee comprises three independent non-executive Directors, namely Mr. Liu Shi Pu, Mr. Heng Kwo Seng and Mr. Xiang Yu Fu. The primary duties of the audit committee are to review the Company's annual report and accounts, half-yearly reports and quarterly reports and to provide advice and comments thereon to the Board. The audit committee is also responsible for reviewing and supervising the financial reporting process and internal control procedures of the Group. The Group's results for the period have been reviewed by the audit committee.

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

Hong Kong, 11 May 2005