



China Fire Safety Enterprise Group Holdings Limited

中國消防企業集團控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8201

**FIRST QUARTERLY
REPORT 2007**

** For identification purposes only*

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

HIGHLIGHTS

- Turnover of the Group for the three months ended 31 March 2007 was RMB198 million, dropped 17% from previous year's RMB240 million.
- Profit attributable to equity holders of the Company for the three months ended 31 March 2007 was RMB29 million, 31% decreased from RMB42 million for 2006.
- Earnings per share was 1 RMB cent, 43% down from 1.76 RMB cents last year.
- The Board does not recommend the payment of a dividend for the three months ended 31 March 2007.

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 2007, together with the comparative figures for the corresponding period in 2006, as follows:

(Unaudited)			
Three months ended			
31 March			
	<i>Note</i>	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Turnover	2	198,181	240,106
Cost of sales		(138,928)	(171,552)
Gross Profit		59,253	68,554
Other income		2,342	1,831
Distribution costs		(5,064)	(2,495)
Administrative expenses		(17,973)	(13,694)
Finance costs		(973)	(447)
Profit before taxation		37,585	53,749
Taxation	3	(11,095)	(11,864)
Profit for the period		26,490	41,885
Attributable to:			
Equity holders of the Company		28,690	41,804
Minority interests		(2,200)	81
Profit for the period		26,490	41,885
Earnings per share (<i>RMB cents</i>)	5		
– Basic		1.00	1.76
– Diluted		1.00	1.62

Notes:

1 Basis of presentation

The accounting policies adopted in preparing the results for the three months ended 31 March 2007 are consistent with those in the preparation of the Group's annual financial statements for the year ended 31 December 2006.

2 Turnover

Turnover represents the aggregate of the value of installation contract works 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	
	2007 RMB'000	2006 RMB'000
Revenue from installation contracts	98,888	128,616
Sale of goods	82,745	90,942
Provision of maintenance services	16,548	20,548
	198,181	240,106

3 Taxation

	(Unaudited) Three months ended 31 March	
	2007 RMB'000	2006 RMB'000
The charge comprises:		
Current tax		
PRC enterprise income tax	5,410	5,864
Deferred tax	5,685	6,000
	11,095	11,864

No provision for Hong Kong Profits Tax was made in current year as the Group had no assessable profit derived from Hong Kong for the year.

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

Subsidiaries of the Company, Clusafe Control Equipment Co., Ltd. and Fuzhou Wanyou Fire Equipment Co., Ltd., are entitled to the two years' exemption from income tax followed by three years of 50% tax reduction with effect from year 2002 and 2004 respectively.

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

4 Dividends

The Board does not recommend the payment of a dividend for the three months ended 31 March 2007 (2006: 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	
	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Earnings for the purpose of basic and diluted earnings per share (profit for the period attributable to equity holders of the Company)	28,690	41,804
	<i>'000</i>	<i>'000</i>
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,855,000	2,376,000
Effect of dilutive potential ordinary shares:		
Share options	4,084	13,385
Second tranche subscription (<i>Note</i>)	-	198,387
Weighted average number of ordinary shares for the purposes of diluted earnings per share	2,859,084	2,587,772

Note: 469,000,000 shares of the Company were issued to UTFE on 3 April 2006 at HK\$0.577 (equivalent to RMB0.597) each pursuant to the second tranche subscription of the subscription agreement entered into between the Company and UTFE on 1 February 2005. Details of the subscription agreement are set out in the circular of the Company dated 10 March 2005.

6 Movement in reserves

	Share premium RMB'000	Special reserve RMB'000	Capital reserve RMB'000	Property revaluation reserve RMB'000	Statutory surplus fund RMB'000	Statutory public welfare fund RMB'000	Statutory reserve fund RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2006	365,331	(6,692)	57,840	-	25,143	16,794	44,209	(2,661)	280,492	780,456
Exchange difference arising on translation of foreign operations recognised directly in equity	-	-	-	-	-	-	-	(45)	-	(45)
Profit attributable to equity holders of the Company	-	-	-	-	-	-	-	-	41,804	41,804
At 31 March 2006	365,331	(6,692)	57,840	-	25,143	16,794	44,209	(2,706)	322,296	822,215
At 1 January 2007	646,363	(6,692)	57,840	2,985	30,250	20,121	49,203	(12,055)	344,415	1,132,430
Exchange difference arising on translation of foreign operations recognised directly in equity	-	-	-	-	-	-	-	(1,505)	-	(1,505)
Profit attributable to equity holders of the Company	-	-	-	-	-	-	-	-	28,690	28,690
At 31 March 2007	646,363	(6,692)	57,840	2,985	30,250	20,121	49,203	(13,560)	373,105	1,159,615

BUSINESS REVIEW

For the three months ended 31 March 2007, turnover of the Group and profits attributable to equity holders of the Company were RMB198 million and RMB29 million respectively, decreased by 17% and 31% over the corresponding period last year. The effect of reduction in prices of the Group's electrical fire protection equipment like emergency lightings and detection equipment in June last year was one of the main reasons of the drop in revenue and profit for the period under review. Besides, the deliveries of around 20 fire engines were delayed at the request of customers and thus postponed the revenue recognition. In addition, expenses paid for technicians of Morita Corporation in assistance of reforming and streamlining production of Sichuan Morita, costs of developing new models of fire engines and expenses incurred for developing local and overseas markets including promotion and additional staff costs have all affected the Group's results in the short run. However, the Group believes that they will bring in growth impetus on a long term basis.

Despite the decrease in revenue from installation contracts, which was attributable to the sales dropped in branch offices, profit margin of the segment for the period under review increased. As explained previously, profit margins of projects obtained by branch offices were intentionally set lower in order to gain market share. With the plan of acquiring local installation companies in different cities across the country proceeds, the Group has also adjusted the marketing strategies of its branch offices in order to improve their profit levels. Although unfortunately it has caused the decrease in sales, margin of the segment has improved. Revenue from the maintenance services segment decreased because it was subject to an inherent fluctuation caused by the practice of conducting maintenance works on special occasions or only when needed (such as when under examination of relevant authorities) instead of keeping the fire protection systems under regular scrutiny in China.

PROSPECTS

The Group has long been devoted to provide its customers with greater product and service options in order to maintain its leading position in the industry. Following the acquisition of the fire engines manufacturing business, the opening of the new plant in Shanghai marked the Group's entrance into the high potential industrial fire protection equipment market. Since its operation commenced at the beginning of this year, the new factory has received orders of over RMB14 million. The Group is confident that it will contribute significantly to the Group's income and profit in the near future. Besides the product market, the Group will continue with its plan of acquiring stakes in other local installation companies across the country and also the development of the network monitoring system. Although it is still unknown to the date of promulgation of the national standards for the network monitoring system, the Group will strengthen its promotional works to local fire authorities. Fire brigades of certain cities have published documents requesting that new constructions, buildings under renovations and extensions and places of public entertainment under their jurisdictions to install the system. It is expected that demand for the system will soon be pushed up.

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

Save as disclosed below, as of 31 March 2007, 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 (<i>Note 1</i>)	981,600,000	63.28%
	Deemed Interest (<i>Note 2</i>)	825,000,000	(<i>Note 3</i>)
Mr. Jiang Qing	Beneficial owner	7,500,000	0.26%

Note:

- 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 UTFE (the "Option Agreement"), he 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 issued to UTFE pursuant to the Subscription Agreement.
- Mr. Jiang has a short position in the shares to be sold under the Option Agreement. On the other hand, UTFE has a long position in the option shares under the Option Agreement and therefore Mr. Jiang is deemed to have a long position in the option shares in its capacity as a party to the Option Agreement to which Section 317(1)(a) of the SFO applies.
- 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 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.

Mr. Jiang has a short position in the Shares to be sold (as held by UTFE) under the Option Agreement.

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

Options to subscribe for ordinary shares in the Company

Grantee	Date of grant	No. of shares issuable under the options granted	Exercise period	Exercise price (HK\$)	No. of shares	Percentage of issued share capital of the Company
					the options granted as at 1 January and 31 March 2007	
Mr. Jiang Qing	25 May 2004	20,000,000	25 May 2004 – 24 May 2014	0.44 (Note)	20,000,000	0.70%

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

Interest in a subsidiary

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

INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 31 March 2007, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shown that other than the interests disclosed above in respect of certain directors, the following shareholders have notified the Company of their relevant interests in the issued share capital of the Company.

Long positions in ordinary shares of the Company

Name of shareholder	Capacity and type of interest	Number of issued share of 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 <i>(Note 1)</i>	981,600,000	<i>(Note 2)</i>
Otis Elevator Company	Interest of a controlled corporation <i>(Note 3)</i>	1,806,600,000	63.28%
Carrier Corporation	Interest of a controlled corporation <i>(Note 4)</i>	1,806,600,000	63.28%
United Technologies Corporation	Interest of a controlled corporation <i>(Note 5)</i>	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 as are required to be sold by Mr. Jiang to UTFE to enable UTFE to beneficially hold, in addition to any other shares held by UTFE at the relevant time, in aggregate, 51% of the voting rights of the Company immediately following completion of the exercise of the option under the Option Agreement; and (b) all the shares held by Mr. Jiang at the time when UTFE exercises the option. The percentage figure as stated is calculated without taking into account the long position in the shares to be sold under the Option Agreement.
3. Otis Elevator Company is beneficially interested in 50.9% of the issued share capital of UTFE and is deemed or taken to be interested in the 1,806,600,000 shares in which UTFE has declared an interest for the purpose of the SFO.
4. Carrier Corporation is beneficially interested in 49.1% of the issued share capital of UTFE and is deemed or taken to be interested in the 1,806,600,000 shares in which UTFE has declared an interest for the purpose of the SFO.
5. United Technologies Corporation is beneficially interested in the entire share capital of Otis Elevator Company and Carrier Corporation and is deemed or taken to be interested in the 1,806,600,000 shares in which Otis Elevator Company and Carrier Corporation have declared interest for the purpose of the SFO.

Short positions in ordinary shares of the Company

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

Other than as disclosed above, the Company has not been notified of any other interests or short position in the issued share capital of the Company as at 31 March 2007.

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 2007, neither the Company nor any of its subsidiaries purchased, cancelled or redeemed any listed securities of the Company. Save the issue of shares pursuant to the Subscription Agreement, the Company has not sold any listed securities of the Company.

AUDIT COMMITTEE

The audit committee comprises three independent non-executive Directors, namely Mr. Heng Kwo Seng, Dr. Loke Yu and Mr. Sun Jian Guo. Mr. Sun Jian Guo was appointed as an independent non-executive directors and members of the audit committee on 7 May 2007. Mr. Pu Rong Sheng was a member of the audit committee for the period up to 7 May 2007. 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 three months ended 31 March 2007 have been reviewed by the audit committee.

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

As at the date of this report, the Company's Executive Directors are Mr. Jiang Xiong, Mr. Jiang Qing, Mr. Shi Jia Hao, Mr Wang De Feng, Ms. Weng Xiu Xia and Ms. Zhang Hai Yan; the Non-Executive Directors are Mr. Paul Winnowski, Ms. Xi Zheng Zheng and Mr. Harinath Krishnamurthy (alternate Director to Mr. Paul Winnowski); and the Independent Non-Executive Directors are Mr. Heng Kwo Seng, Dr. Loke Yu and Mr. Sun Jian Guo.

Hong Kong, 11 May 2007