



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

THIRD 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.

**THIRD QUARTERLY RESULTS REPORT
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2005**

HIGHLIGHTS

- Turnover for the nine and three months ended 30 September 2005 soared 75% and 139% to RMB622 million and RMB318 million respectively.
- Net profit for the nine months and three months ended 30 September 2005 jumped 27% and 33% to RMB132 million and RMB54 million respectively.
- Installation services had a strong growth and generated revenue of approximately RMB308 million for the nine months ended 30 September 2005, representing a growth of 61% over last year.
- Sichuan Morita has contributed over RMB50 million to the Group's revenue since it has been consolidated into the Group's results in July 2005.
- Basic and diluted earnings per share for the nine months ended 30 September 2005 were 5.76 RMB cents and 5.72 RMB cents respectively (nine months ended 30 September 2004: both basic and diluted earnings per share were 5.12 RMB cents).
- The Board does not recommend the payment of an interim dividend for the nine months ended 30 September 2005 (2004: Nil).

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 nine months and three months ended 30 September 2005, together with the comparative figures for the corresponding periods in 2004, as follows:

CONSOLIDATED INCOME STATEMENT

	Notes	(Unaudited) For the nine months ended 30 September		(Unaudited) For the three months ended 30 September	
		2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Turnover	2	622,443	355,558	317,976	133,195
Cost of sales		(419,205)	(202,863)	(230,442)	(76,326)
Gross Profit		203,238	152,695	87,534	56,869
Other operating income		2,497	956	1,355	379
Distribution costs		(6,020)	(3,322)	(3,380)	(1,559)
Administrative expenses		(32,353)	(21,991)	(12,573)	(6,515)
		167,362	128,338	72,936	49,174
Finance costs		(1,084)	(20)	(841)	(1)
		166,278	128,318	72,095	49,173
Taxation	3	(34,241)	(24,065)	(17,810)	(8,505)
Net profit for the period		132,037	104,253	54,285	40,668
Attributable to:					
Shareholders of the Company		129,254	102,353	53,327	40,295
Minority interests		2,783	1,900	958	373
		132,037	104,253	54,285	40,668
Interim dividend	4	24,710	21,200	-	-
Earnings per share (RMB cents)	5				
- Basic		5.76	5.12	2.24	2.01
- Diluted		5.72	5.12	2.24	2.01

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 unaudited consolidated results are consistent with those in the preparation of the Group's annual financial statements for the year ended 31 December 2004 except that the Group has applied, for the first time, the following:

HKFRS 3 *Business combination*

One of the main features of HKFRS 3 is the prohibition of amortization of goodwill acquired in a business combination and instead requires the goodwill to be tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired, in accordance with HKAS 36 *Impairment of Assets*. Goodwill acquired in a business combination for which the agreement date was before 1 January 2005 shall apply HKFRS 3 prospectively, from the beginning of the first annual period beginning on or after 1 January 2005. Accordingly, the Group has discontinued the amortization of goodwill during the period and tested for its impairment in accordance with HKAS 36. Comparative figures for 2004 have not been restated.

2. Turnover

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

	(Unaudited) For the nine months ended 30 September		(Unaudited) For the three months ended 30 September	
	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Revenue from installation contracts	307,609	190,835	201,361	70,095
Sale of goods	271,811	129,128	110,609	45,464
Provision of maintenance services	43,023	35,595	6,006	17,636
	<u>622,443</u>	<u>355,558</u>	<u>317,976</u>	<u>133,195</u>

3. Taxation

	(Unaudited) For the nine months ended 30 September		(Unaudited) For the three months ended 30 September	
	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
The charge comprises:				
Current tax				
The PRC – income tax	30,596	26,827	17,680	13,090
Hong Kong profits tax	795	–	–	–
Deferred tax	2,850	(2,762)	130	(4,585)
	<u>34,241</u>	<u>24,065</u>	<u>17,810</u>	<u>8,505</u>

Provision for Hong Kong Profits Tax has been made at 17.5% on the taxable income of a subsidiary arising in or deriving 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 general accepted accounting principles and the PRC the general accepted accounting principles on profit recognition of installation contracts.

4. Dividends

	(Unaudited) For the nine months ended 30 September		(Unaudited) For the three months ended 30 September	
	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Interim dividend, declared, of HK 1 cent per share (2004: HK 1 cent)	<u>24,710</u>	<u>21,200</u>	<u>-</u>	<u>-</u>

The Board does not recommend the payment of an interim dividend for the three months ended 30 September 2005.

5. Earnings per share

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

	(Unaudited) For the nine months ended 30 September		(Unaudited) For the three months ended 30 September	
	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Earnings for the purpose of basic and diluted earnings per share	<u>129,254</u>	<u>102,353</u>	<u>53,327</u>	<u>40,295</u>
	'000	'000	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>2,242,989</u>	2,000,000	<u>2,376,000</u>	2,000,000
Effect of dilutive potential ordinary shares:				
Share options	<u>15,083</u>	469	<u>9,799</u>	674
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>2,258,072</u>	<u>2,000,469</u>	<u>2,385,799</u>	<u>2,000,674</u>

MOVEMENT IN RESERVES

	Share premium	Special reserve	Capital reserve	Statutory surplus fund	Statutory public welfare fund (Unaudited)	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
Profit attributable to shareholders of the Company	-	-	-	-	-	-	-	102,353	102,353
Final dividend paid	-	-	-	-	-	-	-	(21,200)	(21,200)
At 30 September 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>266,841</u>	<u>502,446</u>
At 1 January 2005	151,368	(6,692)	57,840	18,405	13,155	31,677	94	253,677	519,524
Issue of new shares	213,963	-	-	-	-	-	-	-	213,963
Exchange differences	-	-	-	-	-	-	(6,263)	-	(6,263)
Profit attributable to shareholders of the Company	-	-	-	-	-	-	-	129,254	129,254
Interim dividend paid	-	-	-	-	-	-	-	(98,495)	(98,495)
At 30 September 2005	<u>365,331</u>	<u>(6,692)</u>	<u>57,840</u>	<u>18,405</u>	<u>13,155</u>	<u>31,677</u>	<u>(6,169)</u>	<u>284,436</u>	<u>757,983</u>

MANAGEMENT DISCUSSION AND ANALYSIS**Business review**

For the nine months and three months ended 30 September 2005, the unaudited turnover of the Group increased to a record high of RMB622 million and RMB318 million respectively, representing growth of 75% and 139% over last year. The unaudited net profits for the period under review have also risen 27% and 33% to RMB132 million and RMB54 million correspondingly.

Revenue from installation contracts

Of the different components of the turnover, installation services lead the sales by generating RMB308 million, nearly half of the Group's turnover for the nine months ended 30 September 2005. Contracts valued over RMB98 million on certain important governmental sites and facilities in Fujian were awarded and completed during the period, reflecting the branded quality services of the Group. During the past few years, the Group has been expanding geographically by setting up new branch offices, which have become an important momentum in driving up the revenue from installation services, although their margins are much slimmer in order to be competitive.

Sales of goods

Sales of goods for the periods under review were RMB272 million and RMB111 million, more than doubled the amounts for corresponding periods last year. Sales of goods comprised the following revenue streams:

	(Unaudited)		(Unaudited)	
	For the nine months ended 30 September		For the three months ended 30 September	
	2005	2004	2005	2004
	RMB'm	RMB'm	RMB'm	RMB'm
Manufacture and sales of fire engines and fire prevention and fighting equipment	181	129	93	45
Trading of fire engines and fire fighting equipment	91	–	18	–
	<u>272</u>	<u>129</u>	<u>111</u>	<u>45</u>

Revenue from manufacture and sales of fire engines and fire prevention and fighting equipment was boosted by the first time contribution of the revenue from Sichuan Fire Safety Appliances Factory 四川消防機械總廠 amounted to over RMB50 million, after the completion of its share restructuring of (now renamed as Sichuan Morita Fire Appliances Co. Ltd 四川森田消防裝備製造有限公司, "**Sichuan Morita**") in July 2005. Over 75% of its revenue was from sale of fire engines. Sichuan Morita received the "3C Certification for Fire Engines" (消防車3C認證) in April 2005 and was the first enterprise to receive the certification in China. In spite of this, profit margin of Sichuan Morita was relatively low because of the inefficiencies inherited from its former status as a state owned enterprise. Works on restructuring the company's organizational structure and operations and improving efficiencies are now in progress. The Group has formed a working committee, the members of which are drawn from different aspects or specialties within the Group and also include engineers and technicians from Morita Corporation, a world famous and the No.1 manufacturer of fire engines in Japan and a shareholder of the Company, to help steering the transition of Sichuan Morita.

The trading of fire engines and fire fighting equipment was a new segment of the Group added after the acquisition of a subsidiary at the end of last year. Sales of fire engines constituted over 90% of the company's revenue, and one of its major customers is China Petroleum International Company Limited.

Provision of fire prevention and fighting system maintenance services

Revenue from maintenance services for the nine months ended 30 September 2005 increased by 21% to RMB43 million. The amount for the third quarter, however, fell significantly by 66% to RMB6 million. As reported in previous reports, majority of the Group's maintenance service contracts were one-off upgrading in nature, which has resulted in a high volatility in the sector's performance. Although the Group has put great effort in promoting the round-the-clock maintenance services, customers still yet to adapt to the concept of keeping their fire safety systems under regular maintenance.

Revenue inflow from the network based monitoring system for fire prevention and fighting systems was slower than anticipated due to certain approvals to be obtained from authorities. The demonstration centre in Beijing has been completed and the system model is appreciated by the public security authorities and potential customers.

Prospects

Following the completion of the legal restructuring of Sichuan Morita, the Group's next focus is to improve the company's technical standards and operation efficiency in order to raise profitability. Morita Corporation, has completed its acquisition of 25% of the equity interests of Sichuan Morita in November 2005, it will soon send a team of engineers and technicians to Sichuan Morita to lead the reform of the company, in particular to streamline its productions. The established network of the Group plus the advance skills and technologies possessed by Morita Corporation, the Group is optimistic about the future of the company. At the same time, the Group will continue its effort in the development of the network based monitoring system and monitoring centers. Additional centers are setting up in Liaoliang, Hebei, Henan, Anhui, Shandong and Guangdong provinces. The Group is also looking for high potential business for acquisition or cooperation to further strengthen its competitive edge. Negotiations in progress included a target company in Xiamen engaged in the provision of fire safety system installation and maintenance services and other companies in Shanghai and Nanjing specializing in different aspects of the fire safety industry.

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

Save as disclosed below, as of 30 September 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	41.31%
Mr. Jiang Qing	Beneficial owner	7,500,000	0.32%

On 1 February 2005, Mr. Jiang Xiong ("**Mr. Jiang**") entered into an option agreement (the "**Option Agreement**") with United Technologies Far East Limited ("**UTFE**"), a substantial shareholder 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.

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 30 September 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)	0.84%
Mr. Chen Shu Quan	25 May 2004	5,000,000	25 May 2004 – 24 May 2014	0.44 (Note)	0.21%
Mr. Chan Siu Tat	25 May 2004	5,000,000	25 May 2004 – 24 May 2014	0.44 (Note)	0.21%

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 30 September 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
UTFE	Beneficial owner	356,000,000	14.98%
Otis Elevator Company	Interest of a controlled corporation (Note 1)	356,000,000	14.98%
Carrier Corporation	Interest of a controlled corporation (Note 2)	356,000,000	14.98%
United Technologies Corporation	Interest of a controlled corporation (Note 3)	356,000,000	14.98%

Notes:

1. 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 356,000,000 shares in which UTFE has declared an interest for the purpose of the SFO.
2. 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 356,000,000 shares in which UTFE has declared an interest for the purpose of the SFO.
3. 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 356,000,000 shares in which Otis Elevator Company and Carrier Corporation have declared an interest for the purpose of the SFO.

Due to the Option Agreement and the Subscription Agreement, UTFE, Otis Elevator Company, Carrier Corporation and United Technologies Corporation have a long position in the 981,600,000 Shares owned by Mr. Jiang and the remaining 469,000,000 Shares to be issued pursuant to the Subscription Agreement. They also have a short position in the shares to be sold under the Option Agreement.

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 September 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 30 September 2005, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company.

AUDIT COMMITTEE

The audit committee comprises three independent non-executive Directors, namely Mr. Liu Shi Pu, Mr. Heng Kwo Seng and Mr. Pu Rong Sheng. 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

As at the date of this report, the Company's Executive Directors are Mr. Jiang Xiong, Mr. Jiang Qing, Mr. Chen Shu Quan and Mr. Chan Siu Tat; the Non-Executive Directors are Mr. Cheng Kai Tuen, George and Mr. Wat Chi Ping, Isaac; and the Independent Non-Executive Directors are Mr. Liu Shi Pu, Mr. Heng Kwo Seng and Mr. Pu Rong Sheng.

Hong Kong, 14 November 2005