



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 RESULTS ANNOUNCEMENT FOR THE THREE MONTHS ENDED 31 MARCH 2006

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This announcement, 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 announcement 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 announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

* For identification purpose only

HIGHLIGHTS

- Turnover of the Group for the three months ended 31 March 2006 was RMB240 million, representing a growth of 104% compared to the previous year's RMB118 million.
- Profit attributable to equity holders of the Company for the three months ended 31 March 2006 was RMB42 million, increased by 23% from RMB34 million.
- Earnings per share was 1.76 RMB cents, rose 5% from 1.68 RMB cents last year.
- The Board does not recommend the payment of a dividend for the three months ended 31 March 2006.

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 2006, together with the comparative figures for the corresponding period in 2005, as follows:

		(Unaudited)	
		Three months ended	
		31 March	
	<i>Note</i>	2006	2005
		RMB'000	RMB'000
Turnover	2	240,106	117,624
Cost of sales		<u>(171,552)</u>	<u>(67,779)</u>
Gross Profit		68,554	49,845
Other income		1,831	397
Distribution costs		(2,495)	(1,226)
Administrative expenses		(13,694)	(8,675)
Finance costs		<u>(447)</u>	<u>(144)</u>
Profit before taxation		53,749	40,197
Taxation	3	<u>(11,864)</u>	<u>(6,293)</u>
Profit for the period		<u>41,885</u>	<u>33,904</u>
Attributable to:			
Equity holders of the Company		41,804	33,861
Minority interests		<u>81</u>	<u>43</u>
Net profit for the period		<u>41,885</u>	<u>33,904</u>
Dividends	4	<u>-</u>	<u>-</u>
Earnings per share (RMB cents)			
- Basic	5	<u>1.76</u>	<u>1.68</u>
- Diluted		<u>1.62</u>	<u>1.67</u>

Notes:

1 Basis of presentation

The Group's unaudited consolidated results have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The accounting policies adopted in preparing the results for the three months ended 31 March 2006 are consistent with those in the preparation of the Group's annual financial statements for the year ended 31 December 2005.

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	
	2006	2005
	RMB'000	RMB'000
Revenue from installation contracts	128,616	45,408
Sale of goods	90,942	54,556
Provision of maintenance services	20,548	17,660
	<u>240,106</u>	<u>117,624</u>

3 Taxation

	(Unaudited)	
	Three months ended	
	31 March	
	2006	2005
	RMB'000	RMB'000
The charge comprises:		
Current tax		
PRC enterprise income tax	5,864	4,508
Deferred tax	6,000	1,785
	<u>11,864</u>	<u>6,293</u>

No provision for Hong Kong Profits Tax was made as the Group had no assessable profit derived from Hong Kong for the three months ended 31 March 2006 and 2005.

Income tax on profits arising in 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 years' 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 temporary difference arising on the profit recognition of installation contracts between Hong Kong generally accepted accounting principles in which revenue and costs of installation contracts are recognised in the income statement by reference to the stage of completion of the contract activity and the taxable income of the PRC subsidiaries which recognised revenue of installation contracts upon its completion.

4 Dividends

The Board does not recommend the payment of a dividend for the three months ended 31 March 2006 (2005: 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	
	2006	2005
	RMB'000	RMB'000
Earnings for the purpose of basic and diluted earnings per share (profit for the period attributable to equity holders of the Company)	<u>41,804</u>	<u>33,861</u>
	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,376,000	2,020,000
Effect of dilutive potential ordinary shares:		
Share options	13,385	11,044
Second tranche subscription (Note 1)	<u>198,387</u>	<u>-</u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>2,587,772</u>	<u>2,031,044</u>

Notes:

- 469,000,000 shares of the Company are issued at HK\$0.577 each to Untied Technologies Far East Limited ("UTFE") on 3 April 2006 pursuant to the second tranche subscription of the Subscription Agreement as set out in the Company's announcement and circular dated 2 February 2005 and 10 March 2005 respectively.
- A maximum of 10,000,000 shares of the Company are issuable as a deferred consideration for the acquisition of a subsidiary in 2004. The shares to be issued are subject to a profit warranty adjustment in respect of the profits of the subsidiary for the two years ending 31 December 2006. As the conditions have not been satisfied at the end of the period, the Company has no dilutive potential ordinary shares on it.

6 Movement in reserves

	Share premium RMB'000	Special reserve RMB'000	Capital 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 2005	151,368	(6,692)	57,840	18,405	13,155	31,677	94	253,677	519,524
Profit attributable to equity holders of the Company	-	-	-	-	-	-	-	33,861	33,861
At 31 March 2005	151,368	(6,692)	57,840	18,405	13,155	31,677	94	287,538	553,385
At 1 January 2006	365,331	(6,692)	57,840	25,143	16,794	44,209	(2,661)	280,492	780,456
Exchange differences arising on translation of foreign operations recognized 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

BUSINESS REVIEW

For the three months ended 31 March 2006, turnover of the Group and profits attributable to equity holders of the Company were RMB240 million and RMB42 million respectively, representing increments of 104% and 23% over the corresponding period last year. Basic earnings per share were RMB1.76 cents, increased by 5% over last year.

For the period under review, both service sectors have satisfactory performance. For installation services, the revenue has seen a significant growth which is mainly attributable to the continuance expansion of the branch offices across China and the increase in number and size of projects engaged underpinned by the thriving construction market. Revenue from maintenance services, which was mainly from ad hoc renovations of fire prevention and fighting systems of hotels, restaurants, office buildings and other public amenities, has also been improved. However, the practice of conducting maintenance works on special occasions or only when needed (such as when under examination of relevant authority) in contrast to keeping the systems under regular scrutiny has created an inherent fluctuations in the performance of the sector. Besides, there was also a remarkable increase in sale of fire prevention and fighting equipment, primarily due to the contribution from the sale of fire engines and fire fighting equipment of Sichuan Morita Fire Safety Appliances Company Limited, the results of which has been consolidated into the Group's from July 2005.

Despite the distinguished growth in revenue, the increasing proportion of revenue from installation contracts generated by branch offices has resulted in a decrease in profit margins as the Group has pursued a more aggressive pricing in places beyond the Group's base market in order to capture larger market share, and this could facilitate the penetration of the Group's network based monitoring systems into different markets across China. Moreover, the maturation of the industry has also gradually slimmed down profit margins, a trend which is expected to carry on up to a point when the margins are in line with those in the developed markets overseas.

PROSPECTS

The Group has earmarked RMB300 million for the expansion of installation services, the majority of which will be used in the acquisition of some well-established companies in different provinces across China in the coming two years. Such move allows the Group to have instant sizable capture of different local markets and more importantly, without drastic cuts in its profit margins. The expansion of installation services, together with the commencement of operation of the network based monitoring systems in second quarter will see both service sectors becoming the major revenue and margin drivers of the Group in the coming few years. Nevertheless, the Group will continue to broaden its product mix in order to serve the diverse needs of different customers.

In addition to the local China markets, the Group is actively seeking to open overseas markets especially in the south-east Asia. The setting up ambulance factory in Chengdu, Sichuan with Profile Vehicles Oy, a world prominent ambulance manufacturer and the largest one in the Northern Europe, targeting the medium to high end markets in both China and the south-east Asia, is expected to be the Group's pioneer in going towards the world market. The factory is expected to have the pilot production in second half year of 2006.

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

Save as disclosed below, as of 31 March 2006, 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 ("Mr. Jiang")	Beneficial owner (Note 1) Deemed Interest (Note 2)	981,600,000 825,000,000	76.04% (Note 3)
Mr. Jiang Qing	Beneficial owner	7,500,000	0.32%

Note:

- Mr. Jiang is beneficially interested in 981,600,000 Shares. By virtue of the Option Agreement, he and UTFE are parties to the agreement under section 317 of the SFO. On 1 February 2005, the Company entered into the Subscription Agreement with UTFE, pursuant to which the Company will issue 825,000,000 new shares of the Company to UTFE in two tranches at a price of HK\$0.577 per share. On 12 April 2005, the Company 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. Under the SFO, Mr. Jiang is deemed to have a long position in the 825,000,000 shares issued/ to be 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

On 1 February 2005, Mr. Jiang entered into an Option Agreement with UTFE, a substantial shareholder of the Company, pursuant to which Mr. Jiang grants an option (the "**Option**") to UTFE which when exercised, will require Mr. Jiang to sell to UTFE the lower of :

- 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
- 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 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 granted	Exercise period	Exercise price (HK\$)	No. of shares issuable under the options granted as at 31 March 2006	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)	20,000,000	0.84%
Mr. Chen Shu Quan	25 May 2004	5,000,000	25 May 2004 – 24 May 2014	0.44 (Note)	5,000,000	0.21%
Mr. Chan Siu Tat	25 May 2004	5,000,000	25 May 2004 – 24 May 2014	0.44 (Note)	5,000,000	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 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 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 31 March 2006, 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 HKD0.01 each of the Company held	Percentage of issued capital of the Company
UTFE	Beneficial owner (Note 1)	825,000,000	76.04% (Note 3)
	Deemed Interest (Note 2)	981,600,000	
Otis Elevator Company	Interest of a controlled corporation (Note 4)	1,806,600,000	76.04%
Carrier Corporation	Interest of a controlled corporation (Note 5)	1,806,600,000	76.04%
United Technologies Corporation	Interest of a controlled corporation (Note 6)	1,806,600,000	76.04%

Notes:

1. UTFE is beneficially interested in 825,000,000 Shares issued/ to be issued to UTFE pursuant to the Subscription Agreement.
2. 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.
3. 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.
4. 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.
5. 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.
6. 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 2006.

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 2006, 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. 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 three months ended 31 March 2006 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 announcement, 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, 11 May 2006

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