

The logo consists of the letters 'CFE' in a white, serif font, centered within a solid red rectangular box. The background of the entire page is a close-up, abstract image of flames in shades of orange and red, with a dark red gradient at the top.

# CFE

## **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

### **Third Quarterly Report 2006**

*\* 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.*

## THIRD QUARTERLY RESULTS REPORT FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2006

### HIGHLIGHTS

- The unaudited turnover of the Group for the nine months ended 30 September 2006 grew 9% to RMB677 million. The unaudited turnover of the Group for the third quarter of the year dropped 25% to RMB237 million.
- Profit for the nine months and three months ended 30 September 2006 decreased by 26% and 49% to RMB97 million and RMB28 million respectively.
- With the issuance of 469,000,000 shares of the Company in April 2006, basic and diluted earnings per share for the nine months ended 30 September 2006 fell to 3.73 RMB cents and 3.72 RMB cents respectively from 5.76 RMB cents and 5.72 RMB cents for the corresponding period in 2005.
- The Board does not recommend the payment of a dividend for the nine months ended 30 September 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 nine months and three months ended 30 September 2006, together with the comparative figures for the corresponding periods in 2005, as follows:

### CONSOLIDATED INCOME STATEMENT

	<i>Notes</i>	(Unaudited) For the nine months ended 30 September		(Unaudited) For the three months ended 30 September	
		<b>2006</b> <i>RMB'000</i>	2005 <i>RMB'000</i>	<b>2006</b> <i>RMB'000</i>	2005 <i>RMB'000</i>
Turnover	2	<b>677,429</b>	622,443	<b>237,285</b>	317,976
Cost of sales		<b>(494,416)</b>	(419,205)	<b>(181,513)</b>	(230,442)
<b>Gross Profit</b>		<b>183,013</b>	203,238	<b>55,772</b>	87,534
Other operating income		<b>9,346</b>	2,497	<b>3,601</b>	1,355
Distribution costs		<b>(16,617)</b>	(6,020)	<b>(7,145)</b>	(3,380)
Administrative expenses		<b>(44,090)</b>	(32,353)	<b>(16,431)</b>	(12,573)
Finance costs		<b>(2,080)</b>	(1,084)	<b>(997)</b>	(841)
Profit before taxation		<b>129,572</b>	166,278	<b>34,800</b>	72,095
Taxation	3	<b>(32,487)</b>	(34,241)	<b>(7,237)</b>	(17,810)
<b>Profit for the period</b>		<b>97,085</b>	132,037	<b>27,563</b>	54,285
Attributable to:					
Shareholders of the Company		<b>100,407</b>	129,254	<b>29,368</b>	53,327
Minority interests		<b>(3,322)</b>	2,783	<b>(1,805)</b>	958
		<b>97,085</b>	132,037	<b>27,563</b>	54,285
<b>Dividend</b>	4	–	24,710	–	–
<b>Earnings per share (RMB cents)</b>	5				
– Basic		<b>3.73</b>	5.76	<b>1.03</b>	2.24
– Diluted		<b>3.72</b>	5.72	<b>1.03</b>	2.24

Notes:

**1. Basis of presentation**

The accounting policies adopted in preparing the results for the nine months ended 30 September 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 work carried out, the sale proceeds of goods sold and income from provision of maintenance services during the period, and is analysed as follows:

	<b>(Unaudited)</b> <b>For the nine months</b> <b>ended 30 September</b>		<b>(Unaudited)</b> <b>For the three months</b> <b>ended 30 September</b>	
	<b>2006</b> <b>RMB'000</b>	2005 RMB'000	<b>2006</b> <b>RMB'000</b>	2005 RMB'000
Revenue from installation contracts	<b>347,458</b>	307,609	<b>134,250</b>	201,361
Sale of goods	<b>274,698</b>	271,811	<b>87,093</b>	110,609
Provision of maintenance services	<b>55,273</b>	43,023	<b>15,942</b>	6,006
	<b>677,429</b>	622,443	<b>237,285</b>	317,976

**3. Taxation**

	<b>(Unaudited)</b> <b>For the nine months</b> <b>ended 30 September</b>		<b>(Unaudited)</b> <b>For the three months</b> <b>ended 30 September</b>	
	<b>2006</b> <b>RMB'000</b>	2005 RMB'000	<b>2006</b> <b>RMB'000</b>	2005 RMB'000
The charge comprises:				
Current tax				
The PRC – income tax	<b>28,987</b>	30,596	<b>15,237</b>	17,680
Hong Kong profits tax	–	795	–	–
Deferred tax	<b>3,500</b>	2,850	<b>(8,000)</b>	130
	<b>32,487</b>	34,241	<b>7,237</b>	17,810

No provision for Hong Kong Profits Tax has been made as the Group has no income arises in or 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 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 nine months ended 30 September 2006 (2005: Nil).

#### 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	
	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
Earnings for the purpose of basic and diluted earnings per share (profit attributable to equity holders of the Company)	<b>100,407</b>	129,254	<b>29,368</b>	53,327
	<b>'000</b>	'000	<b>'000</b>	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>2,688,414</b>	2,242,989	<b>2,849,348</b>	2,376,000
Effect of dilutive potential ordinary shares: Share options	<b>13,684</b>	15,083	<b>11,757</b>	9,799
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b>2,702,098</b>	2,258,072	<b>2,861,105</b>	2,385,799

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 ended 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 as at 30 September 2006.

## 6. Movement in reserves

	Share premium	Special reserve	Capital reserve	Statutory			Exchange reserve	Retained profits	Total
				Statutory surplus fund	public welfare fund	Statutory reserve			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
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 arising on translation of foreign operations recognized directly in equity	-	-	-	-	-	-	(6,263)	-	(6,263)
Profit attributable to equity holders of the Company	-	-	-	-	-	-	-	129,254	129,254
Interim dividends paid	-	-	-	-	-	-	-	(98,495)	(98,495)
At 30 September 2005	365,331	(6,692)	57,840	18,405	13,155	31,677	(6,169)	284,436	757,983
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)
Issue of new shares	278,796	-	-	-	-	-	-	-	278,796
Profit attributable to equity holders of the Company	-	-	-	-	-	-	-	100,407	100,407
Final dividend paid	-	-	-	-	-	-	-	(38,464)	(38,464)
At 30 September 2006	644,127	(6,692)	57,840	25,143	16,794	44,209	(2,706)	342,435	1,121,150

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business review

For the nine months ended 30 September 2006, the Group's revenue grew 9% to RMB677 million when compared with the corresponding period last year. However, revenue for the third quarter of the year dropped 25% to RMB237 million. Profit for the nine months and three months ended 30 September 2006 also decreased by 26% and 49% to RMB97 million and RMB28 million respectively.

#### *Installation of fire prevention and fighting system*

With the maturing of branch offices in different provinces, they have contributed increasing proportion of installation revenue to the Group (from 27% for the nine months ended 30 September 2005 to 35% for 2006). However, as discussed in previous reviewing periods, profit margins generated by branch offices are much slimmer in order to be competitive. Besides, margins of installation contracts in the Group's core market are also driven down by the intensifying competition from new entrants from other provinces and thus further affected the segment's results.

Amount of installation revenue that can be recognized in a period largely depends on the quantity and progress of the underlying construction projects which in turn subject to certain environmental and economic factors like the macro-economic conditions, government policies and market demand. The Group obtained and completed certain projects amounted to RMB98 million for the military services during the third quarter last year, which made up majority of the discrepancies in revenue from installation for the third quarter of 2006 and 2005.

#### *Sale of goods*

Sale of goods for the nine months and three months ended 30 September 2006 composed of the following:

	(Unaudited) For the nine months ended 30 September		(Unaudited) For the three months ended 30 September	
	2006 RMB'm	2005 RMB'm	2006 RMB'm	2005 RMB'm
Manufacture and sales of fire engines and fire prevention and fighting equipment	272	181	86	93
Trading of fire engines and fire fighting and rescue equipment	3	91	1	18
	275	272	87	111



The price adjustments in June 2006 (on average decreased by 20%) continuously affect the revenue of electrical fire prevention equipment for the third quarter, making it decreased in spite of the increase in quantity sold. Sichuan Morita Fire Safety Appliances Co. Ltd. produced a steady result from manufacturing and sales of fire engines and fire fighting equipment since it was consolidated into the Group in July 2005. During the nine months and three months ended 30 September 2006, it has contributed to the Group in revenue of RMB136 million and RMB43 million respectively.

For the trading sector, the 3C certificate problem facing overseas fire engines suppliers remain unresolved, causing a further delay in fulfillment of orders and recognition of revenue. Although the applications are being processed by the relevant authorities, the exact approval time is still unknown. Up to the date of this report, the shipment of 20 fire engines (with total value approximate RMB75 million) has been affected.

#### *Provision of fire prevention and fighting system maintenance services*

The sector providing traditional fire prevention and fighting system maintenance services performed satisfactorily and recorded a growth of 28% in revenue for the nine months under review. On the other hand, however, there was only minimal revenue generated by the network based monitoring system and resulting in an operating loss of RMB10 million. Significant business growth is expected only when the standards for the system are launched at the beginning of 2007 with accompanying regulations requesting compulsory installation of the system.

#### **Prospects**

In connection with the plan of acquiring of companies specializing in installation of fire prevention and fighting system services in different part of the country, the Group has signed memorandum of understandings with four different companies acquiring 20% to 40% of their equities at a total consideration of approximately RMB70 million. The transactions will proceed at satisfactory completion of due diligence investigation. It is expected that they will contribute to the Group's results in 2007. In respect of the cooperation with the Shanghai Fire Research Institute of the Ministry of Public Security (上海消防研究所), the new factory in Shanghai is in the final stage of preparation and production will commence in December 2006. The Group can then make its debut in manufacturing and sale of large scale industrial fire safety equipment. For maintenance services, the Group will further strengthen its investments in the network based monitoring system to capture the opportunities arise when the relevant standards and rules regulating the installation of the system are launched.

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

Save as disclosed below, as of 30 September 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)	981,600,000	63.39% (Note 3)
	Deemed Interest (Note 2)	825,000,000	
Mr. Jiang Qing	Beneficial owner	7,500,000	0.26%

#### Notes:

- Mr. Jiang is beneficially interested in 981,600,000 shares of the Company. By virtue of the Option Agreement, he and UTFE are parties to the agreement under section 317 of the SFO, Mr. Jiang is deemed to have a long position in the 825,000,000 shares held by UTFE.
- 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 (the “**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:

- 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 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 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 issuable under the options granted as at 30 September 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	0.70%
Mr. Chen Shu Quan	25 May 2004	5,000,000	25 May 2004 – 24 May 2014	0.44 (Note)	5,000,000	0.18%

*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.

On 11 October 2006, Mr. Chen Shu Quan exercised all his options and was issued 5,000,000 shares of the Company. Mr. Chen resigned as an executive director of the Company on 3 November 2006.

### 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 30 September 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

<b>Name of shareholder</b>	<b>Capacity and type of interest</b>	<b>Number of issued share of HKD0.01 each of the Company held</b>	<b>Percentage of issued capital of the Company</b>
UTFE	Beneficial owner	825,000,000	63.39%
	Deemed Interest (Note 1)	981,600,000	(Note 2)
Otis Elevator Company	Interest of a controlled corporation (Note 3)	1,806,600,000	63.39%
Carrier Corporation	Interest of a controlled corporation (Note 4)	1,806,600,000	63.39%
United Technologies Corporation	Interest of a controlled corporation (Note 5)	1,806,600,000	63.39%

*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 30 September 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 30 September 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. Heng Kwo Seng, Mr. Pu Rong Sheng and Dr. Loke Yu. 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. Shi Jia Hao and Mr. Wang De Feng; the Non-Executive Directors are Mr. Paul Winnowski and Ms. Xi Zhengzheng; and the Independent Non-Executive Directors are Mr. Heng Kwo Seng, Mr. Pu Rong Sheng and Dr. Loke Yu.*

Hong Kong, 13 November 2006