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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)

First Quarterly Report 2004

* *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 Announcement for 2004

HIGHLIGHTS

– For the three months ended 31 March 2004, the Group's unaudited turnover and net profit increased by respectively 59.5% to RMB95.4 million and 9.9% to RMB30.8 million.

– Revenue from installation services for the three months ended 31 March 2004 increased by 351% to RMB51.1 million.

– Revenue from maintenance services for the three months ended 31 March 2004 increased by 21.9% to RMB10.3 million.

– Basic earnings per share for the period under review was RMB1.54 cents per share (2003: RMB1.40 cents).

RESULTS

The board of Directors (the "Board") of the Company is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months ended 31 March 2004, together with the comparative figures for the corresponding period in 2003, as follows:

		(Unaudited) For the three months ended 31 March	
		2004	2003
	Notes	***RMB'000***	*RMB'000*
Turnover	*2*	**95,377**	59,789
Cost of sales		**(47,407)**	(23,623)
Gross Profit		**47,970**	36,166
Other operating income		**189**	336
Distribution costs		**(458)**	(430)
Administrative expenses		**(6,022)**	(4,763)
Profit from operations		**41,679**	31,309
Finance costs		**(8)**	(57)
		41,671	31,252
Taxation	*3*	**(10,644)**	(3,145)
Profit before minority interests		**31,027**	28,107
Minority interests		**(216)**	(64)
Net profit for the period		**30,811**	28,043
Dividend		**–**	–
Earnings per share			
– Basic and diluted (RMB cents)	*4*	**1.54**	1.40

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 accounting standards issued by the Hong Kong Society of Accountants. The accounting policies adopted in preparing the unaudited consolidated results for the period ended 31 March 2004 and 2003 are consistent with those in the preparation of the Group's annual financial statements for the year ended 31 December 2003.

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:

	(Unaudited) For the three months ended 31 March	
	2004	2003
	RMB'000	*RMB'000*
Revenue from installation contracts	**51,094**	11,305
Sale of goods	**35,890**	40,641
Provision of maintenance services	**10,303**	8,449
	97,287	60,395
Less: Sales tax	**(1,910)**	(606)
	95,377	59,789

Sales tax represents various local taxes levied on the invoiced value of goods sold and services rendered.

An analysis of the Group's turnover by geographical regions of the People's Republic of China (the "PRC") is as follows:

	(Unaudited) For the three months ended 31 March	
	2004	2003
	RMB'000	*RMB'000*
Revenue from installation contracts		
– Fujian Province	**50,902**	10,259
– Other Provinces	**192**	1,046
	51,094	11,305
Sale of goods		
– Fujian Province	**24,953**	27,350
– Other Provinces	**10,937**	13,291
	35,890	40,641
Provision of maintenance services		
– Fujian Province	**10,303**	8,449
	97,287	60,395
Less: Sales tax	**(1,910)**	(606)
	95,377	59,789

Sales tax represents various local taxes levied on the invoiced value of goods sold and services rendered.

3. Taxation

	(Unaudited) For the three months ended 31 March	
	2004	2003
	RMB'000	*RMB'000*
The charge comprises:		
Current tax		
The PRC – income tax	**9,779**	3,145
Deferred tax	**865**	–
	10,644	3,145

No provision for Hong Kong profits tax has been made as the Group's income neither arises in, nor is derived from Hong Kong.

Income tax on profits arising from the PRC has been provided at the prevailing tax rates applicable to the respective companies comprising the Group.

With effect from the year 2002, one of the subsidiary, Fujian Wanyou Fire Fighting Science and Technology Co., Ltd., is entitled to the two year's exemption from income tax followed by three years' 50% tax reduction.

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

4. Earnings per share

The calculation of basic earnings per share for the three months ended 31 March 2004 were based on the unaudited consolidated net profit for the three months ended 31 March 2004 of RMB30,811,000 (2003: RMB28,043,000) and on the 2,000,000,000 shares in issue.

There were no diluted earnings per share as there were no potential dilutive ordinary shares outstanding during the three months ended 31 March 2004 and 2003.

MOVEMENT IN RESERVES

	Share premium RMB'000	Special reserve RMB'000	Capital reserves RMB'000	Statutory surplus reserve RMB'000	Statutory Public Welfare fund RMB'000	Statutory reserve fund RMB'000	Accu-mulated Profits RMB'000	Total RMB'000
				(Unaudited)				
At 1 January 2003	139,920	(6,692)	57,840	10,086	8,995	12,159	119,070	341,378
Net profit for the period	–	–	–	–	–	–	28,043	28,043
Final dividend declared	–	–	–	–	–	–	(10,600)	(10,600)
At 31 March 2003	139,920	(6,692)	57,840	10,086	8,995	12,159	136,513	358,821
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 dividend declared	–	–	–	–	–	–	(21,200)	(21,200)
As at 31 March 2004	139,920	(6,692)	57,840	13,267	10,586	20,684	195,299	430,904

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

For the three months ended 31 March 2004, turnover and net profit of the Group increased respectively by 59.5% to RMB95.4 million and 9.9% to RMB30.8 million, as compared to the corresponding period in 2003. There was a significant increase in revenue from installation contracts as many land developers and constructors have resumed the progresses of the projects which were delayed by SARS last year, the Group has completed 14 installation projects during the period under review. Maintenance services sector continued to perform satisfactorily and generated revenue (before sales tax) of RMB10.3 million to the Group, a 21.9% increment over the same period of last year. This is because recent fire disasters have increased the inspection of buildings and tightened the enforcement of safety regulations. As previously highlighted, the price of products has declined due to market competition which originated during SARS. This led to a decrease in sales of fire prevention and fighting equipment (before sales tax), as compared to the first quarter of 2003, by 11.7% to RMB35.9 million, despite the fact that more products were sold in terms of quantity.

Net profit for the period grew by 9.9%. Because of the higher tax charge on installation services, the Group made higher tax provision for the period.

Prospects

The Directors believe that China's fire safety industry is growing and the long-term growth prospects are strong despite the intensifying competition in the market. To be better equipped for the highly competitive market and to take every opportunities of the growing industry, the Group intends to diversify its products and widen its operating region, through acquisitions and strengthening its sales and distribution network.

In February 2004, the Group entered into an agreement to acquire Beijing Chongzheng Huasheng Emergency Lighting System Ltd,. Co. (北京崇正華盛應急照明系統有限責任公司), a company engaged in the provision of total solutions for fire safety emergency lighting systems adopting an innovative centralized electronic supplies technology. The Group is also in negotiation to acquire Sichuan Fire Safety Appliances Factory (四川消防機械總廠), a state-owned enterprise engaged in the manufacturing and sale of fire engines; design, manufacturing, sale and installation of fire prevention and fighting equipment including fire sprinklers, which the Group has not been involved in currently; and provision of installation and maintenance services of fire prevention and fighting systems. Its market covers large parts of China especially in the South-western region and also some parts of the South East Asia. In addition, in April 2004, the Group entered into a non-legally binding letter of intent to acquire Jiangxi Shengan City Safety Communications Development Company Limited (江西盛安城市安全信息發展有限公司), a company engaged in the establishment of online monitoring system of fire prevention and fighting systems, system integration, and enhancement and repair and maintenance for fire prevention and fighting systems. The Group considers that the application of online monitoring system of fire prevention and fighting systems is a trend for development of the fire safety industry and this acquisition will further enhance the maintenance business of the Group.

Strengthening the sales and distribution network is another important plan of the Group in 2004. The Group plans to increase the number of distributors to 150 to cover all major cities in China. Furthermore, after the restructuring of the Group's branch offices to focus on installation services last year, the Group will set up additional branch offices to cover more major cities to increase market share. It is the Group's target to build a professional integrated fire safety business which provides the whole range of fire prevention and fighting equipment and systems and to establish a solid reputation in the national and international markets, the Group is confident that it will be able to achieve the milestones set and generate good returns to its shareholders.

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

Save as disclosed below, as at 31 March 2004, none of the Directors or chief executive has 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 5.40 to 5.58 of the then GEM Listing Rules, to be notified to the Company and the Stock Exchange.

Long positions

Name of Director	Capacity and types of interest	Number of issued shares of HK$0.01 each of the Company held	Percentage of issued capital of the Company
Mr. Jiang Xiong	Beneficial owner	981,600,000	49.08%
Mr. Jiang Qing	Beneficial owner	100,000,000	5.00%
		1,081,600,000	54.08%

Mr. Jiang Xiong, an executive Director and the chairman of the Company, entered into a sale and purchase agreement on 3 October 2003 to place a total of 200,000,000 shares of the Company to investors at HK$0.35 per share (the "Placement"). Under the Placement, Mr. Jiang Xiong has undertaken (a) not to reduce his holding of shares in the Company for a period of three months from 8 October 2003; and (b) for a further period of nine months immediately thereafter, not to reduce his shareholding in the Company such that he would cease to be a controlling shareholder of the Company (as defined in the Hong Kong Code on Takeovers and Mergers), unless with the prior consent of CLSA Limited, Cantus Limited and The Hong Kong Beijing Finance and Investment Limited.

INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 31 March 2004, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows 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

Name of shareholder	Capacity and type of interest	Number of shares of HK$0.01 each in the capital of the Company held	Percentage of issued capital of the Company
Cantus Limited	Beneficial owner	262,650,000	13.13%
Aria Investment Partners L.P.	Interest of a controlled corporation *(Note 1)*	262,650,000	13.13%
CLSA private Equity Management Limited	Investment Manager *(Note 2)*	262,650,000	13.13%
CLSA (S.E.A.) Limited	Interest of a controlled corporation *(Note 3)*	262,650,000	13.13%
Credit Lyonnais Securities Asia BV	Interest of a controlled corporation *(Note 4)*	262,650,000	13.13%
Credit Lyonnais Capital Markets Asia BV	Interest of a controlled corporation *(Note 5)*	262,650,000	13.13%
Credit Lyonnais Capital Markets International SASU	Interest of a controlled corporation *(Note 6)*	262,650,000	13.13%
Credit Lyonnais S.A.	Interest of a controlled corporation *(Note 7)*	262,650,000	13.13%
Credit Agriclole S.A.	Interest of a controlled corporation *(Note 8)*	262,650,000	13.13%
SAS Rue La Boetie	Interest of a controlled corporation *(Note 9)*	262,650,000	13.13%
The Hong Kong Beijing Finance and Investment Limited ("Beijing Finance")	Beneficial owner	100,000,000	5.00%
Beijing Capital Group Limited	Interest of a controlled corporation *(Note 10)*	100,000,000	5.00%
The People's Government of Beijing Municipality	Interest of a controlled entity *(Note 11)*	100,000,000	5.00%

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 262,650,000 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 (S.E.A.) 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 262,650,000 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. Credit Lyonnais Securities Asia BV is indirectly interested in the entire issued share capital of CLSA Private Equity Management Limited and is deemed or taken to be interested in the 262,650,000 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. Credit Lyonnais Capital Markets Asia BV is beneficially interested in 65% of the share capital of Credit Lyonnais Securities Asia BV and is deemed or taken to be interested in the 262,650,000 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 Credit Lyonnais Capital Markets Asia BV and is deemed or taken to be interested in the 262,650,000 shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Note 2 above.

7. Credit Lyonnais 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 262,650,000 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 94.82% of the issued share capital of Credit Lyonnais S.A. and is deemed or taken to be interested in the 262,650,000 shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of 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 and is deemed or taken to be interested in the 262,650,000 shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of SFO as mentioned in Note 2 above.

10. Beijing Capital Group Limited is beneficially interested in the entire issued share capital of Beijing Finance and is deemed or taken to be interested in the 100,000,000 shares in which Beijing Finance has declared an interest for the purpose of the SFO.

11. The People's Government of Beijing Municipality is beneficially interested in the entire registered capital of Beijing Capital Group Limited and is deemed or taken to be interested in the 100,000,000 shares in which Beijing Capital Group Limited has declared an interest for the purpose of SFO as mentioned in Note 10 above.

On 30 October 2003, Beijing Finance executed a charge (the "Charge") in favour of Credit Lyonnais. The Charge was executed as security for Beijing Finance's obligations under a loan agreement dated 30 October 2003 between Beijing Finance and Credit Lyonnais. Pursuant to the Charge, Beijing Finance charged as beneficial owner the 100,000,000 ordinary shares in the Company held by it in favour of Credit Lyonnais.

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 2004.

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) had any interest in a business which competes or may compete with the businesses of the Group or had 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.

SPONSOR'S INTERESTS

As updated and notified by the Company's sponsor, Core Pacific-Yamaichi Capital Limited ("CPY Capital"), neither CPY Capital nor its directors or employees or associates had any interests in the share capital of the Company as at 31 March 2004. Pursuant to the sponsor agreement dated 20 September 2002 entered into between the Company and CPY Capital, CPY Capital has received and will receive fees for acting as the Company's retained sponsor for the remaining period up to 31 December 2004 or until the sponsor agreement is terminated upon the terms and conditions set out therein.

SHARE OPTION SCHEME

The Company's share option scheme was adopted pursuant to a resolution passed on 20 September 2002 (the "Scheme") for the primary purpose of providing incentives to directors and eligible employees, and will remain valid for a period of 10 years commencing on 20 September 2002. Under the Scheme, the Board may grant options to full-time employees, including directors (executive and non-executive) of the Company and its subsidiaries, to subscribe for shares in the Company.

Subject to the condition that the total number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes of the Company must not exceed 30% of the shares of the Company in issue form time to time, pursuant to the Scheme, the total number of shares in respect of which options may be granted under the Scheme when aggregated with any shares subject to any other schemes is not permitted to exceed 10% of the shares of the Company as at the date of approval of the Scheme without prior approval from the shareholders of the Company (the "Shareholders"). On 21 April 2004, the ordinary resolution of refreshing the limit under the Scheme to grant options of up to 200,000,000 shares, being 10% of the issued share capital of the Company as at the date of approval of refreshment, was duly passed by the Shareholders. The number of shares in respect of which options may be granted to any individual in aggregate within a 12-month period is not permitted to exceed 1% of the shares of the Company in issue, without prior approval from the Shareholders. Options granted to substantial shareholders or independent non-executive directors in any one year exceeding the higher of 0.1% of the Company's shares in issue and with a value in excess of HK$5 million must be approved by the Shareholders in general meeting taken on a poll.

Options granted must be taken up within 21 days of the date of grant, upon payment of HK$1 per option. Options may be exercised at any time from the date of acceptance of the share option to such date as determined by the Board but in any event not exceeding 10 years. The exercise price is determined by the Directors and will not be less than the higher of the closing price of the Company's shares on the date of grant, the average closing prices of the shares for the five business days immediately preceding the date of grant and the nominal value of the Company's shares.

No option was granted by the Company during the period from the adoption of the Scheme to 31 March 2004.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the three months ended 31 March 2004, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company.

BOARD PRACTICES AND PROCEDURES

Throughout the three months ended 31 March 2004, the Company has complied with the code of best practice as set out in Rules 5.28 to 5.39 of the then GEM Listing Rules.

AUDIT COMMITTEE

The audit committee comprises two independent non-executive Directors, namely Mr. Liu Shi Pu and Mr. Wong Hon Sum for the period up to 28 March 2004. Mr. Wong Hon Sum, who for personal reasons, resigned as an independent non-executive Director and a member of the audit committee on 29 March 2004. On 29 April 2004, Mr. Heng Kwoo Seng was appointed as an independent non-executive Director and a member of the audit committee. Mr. Liu Shi Pu, remains the Chairman of the audit committee. 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 will also be 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 2004 has been reviewed by the audit committee.

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

Hong Kong, 10 May 2004