



Wanyou Fire Safety Technology Holdings Limited

萬友消防科技控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Third Quarterly Report 2002

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This report, for which the directors (the “Directors”) of Wanyou Fire Safety Technology Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange 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

- The shares of the Company have been listed on GEM since 30th September, 2002.
- Turnover of the Group for the nine months ended 30th September, 2002 was approximately RMB194 million, representing a increase of approximately 57% as compared with the corresponding period in 2001.
- The Group achieved a net profit of approximately RMB95,271,000 for the nine months ended 30th September, 2002, representing a increase of approximately 54.3% as compared with the corresponding period in 2001.
- The Group has entered into an agreement with Morita Corporation as the sole distributor of Morita in Fujian and Zhejiang Provinces of the PRC to market Morita's fire engines to relevant fire stations.
- The Group has successfully obtained Tsing Tao Liu Ting Airport (青島流亭機場) office building and complex building fire and fighting system installation contract. This is a good indicator to show the Group has expanded its installation services to other Provinces of the PRC since Class One Certificate for contractors of professional fire prevention and fighting systems installation can perform installation services outside its registered Province in July 2002.
- Earnings per share for the nine months ended 30th September, 2002 was RMB6.11 cents.

RESULTS

The board of Directors (the “Board”) of Wanyou Fire Safety Technology Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated quarterly results of the Company and its subsidiaries (collectively referred to as the “Group”) for the nine months and three months ended 30th September, 2002, together with the comparative unaudited results for the corresponding periods in 2001 (the “Relevant Periods”) as follows:–

	<i>Notes</i>	For the nine months ended 30th September,		For the three months ended 30th September,	
		2002	2001	2002	2001
		(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000
Turnover	2	194,008	123,573	76,728	41,304
Cost of sales		(77,260)	(48,218)	(30,687)	(16,236)
Gross Profit		116,748	75,355	46,041	25,068
Other revenue		675	26	485	15
Distribution costs		(1,393)	(112)	(288)	(29)
Administrative expenses		(10,069)	(7,346)	(3,866)	(2,632)
Profit from operations		105,961	67,923	42,372	22,422
Finance costs		(303)	(179)	(58)	(87)
Profit before taxation		105,658	67,744	42,314	22,335
Taxation	3	(10,153)	(3,717)	(3,510)	(1,235)
Income before minority interest		95,505	64,027	38,804	21,100
Minority interests		(234)	(2,276)	(174)	(2)
Net profit for the year		95,271	61,751	38,630	21,098
Dividend paid		–	36,944	–	16,047
Earnings per share					
– Basic and diluted (RMB cents)	4	6.11	4.47	2.39	1.53

1. Group reorganization and basis of presentation

The Company was incorporated in the Cayman Islands under the Companies Law Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands as an exempted company with limited liability on 3rd January, 2002. Pursuant to a group reorganization (the “Reorganization”) to rationalize the structure of the Group in preparation for the listing of the Company’s shares (the “Shares”) on GEM in 30th September, 2002. The Company became the ultimate holding company of the Group on 20th September, 2002. Further details of the Reorganization are set out in the Company’s prospectus (the “Prospectus”) dated 23rd September, 2002. The Shares have been listed on GEM since 30th September, 2002.

The unaudited consolidated results have been prepared using the merger basis of accounting. Under this basis, the Company has been accounted for as the holding company of its subsidiaries acquired through the Reorganization throughout the period from 1st January, 2001 to 30th September, 2002. Accordingly, the unaudited consolidated results of the Group for the nine months and three months ended 30th September, 2001 and 2002 include the results of the Company and its subsidiaries with effect from 1st January, 2001.

The Group’s unaudited consolidated results have been prepared in accordance with generally accepted accounting principles 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 30th September, 2002 and 2001 are consistent with those followed in the Accountant report as set out in the Prospectus.

2. Turnover

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

	For the nine months ended 30th September,		For the three months ended 30th September,	
	2002	2001	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000
Sales of goods	119,225	103,037	50,892	41,408
Revenue from installation contracts	65,933	22,470	17,549	21
Provision of maintenance services	11,408	635	9,004	635
	<u>196,566</u>	<u>126,142</u>	<u>77,445</u>	<u>42,064</u>
less: Sales Tax	(2,558)	(2,569)	(717)	(760)
	<u>194,008</u>	<u>123,573</u>	<u>76,728</u>	<u>41,304</u>

An analysis of the Group's turnover by geographical regions is as follows:

	For the nine months ended 30th September,		For the three months ended 30th September,	
	2002	2001	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000
Sales of goods				
Fujian Province	54,846	65,222	24,176	25,867
Other Provinces	64,379	37,815	26,716	15,541
	<u>119,225</u>	<u>103,037</u>	<u>50,892</u>	<u>41,408</u>
Revenue from installation contracts				
– Fujian Province	65,933	22,470	17,549	21
Provision of maintenance services				
– Fujian Province	11,408	635	9,004	635
	<u>196,566</u>	<u>126,142</u>	<u>77,445</u>	<u>42,064</u>
less: Sales Tax	(2,558)	(2,569)	(717)	(760)
	<u>194,008</u>	<u>123,573</u>	<u>76,728</u>	<u>41,304</u>

Sales tax represents various local tax levied on the invoiced value of goods sold.

3. Taxation

- (i) No provision for Hong Kong profits tax has been made in the accounts as the Group income neither arises in, nor is derived from Hong Kong.
- (ii) Income tax on profits arising from the PRC has been provided based on the prevailing tax rates applicable to the respective companies comprising the Group.

With effect from the year 2000, Fujian Wanyou is classified as a High New Technology Enterprise by the tax bureau of the PRC and is accordingly exempted from PRC income tax for two years ended 31st December, 2001. After the change of status to WFOE, Fujian Wanyou is entitled to the two years' exemption from income tax followed by three years of 50% tax reduction commencing from the first-profit-making year with effect from 2002. In addition, if the revenue generated from product sales of Fujian Wanyou during a year is less than 50% of its revenue earned for that year, no exemption or reduction of income tax will be allowed and full income tax has to be basic even though it falls within the exemption or reduction of tax preferential treatment.

Wanyou Engineering is subject to the income tax computed at the rate of 33% on its taxable profit.

There is no significant unprovided deferred taxation during the Relevant Period.

4. Earnings per share

The calculation of basic earnings per share is based on the profit attributable to the shareholders for the nine months and three months ended 30th September, 2002 of approximately RMB95,271,000 and RMB38,630,000, respectively (profit attributable to the shareholders for the nine months and three months ended 30th September, 2001: of approximately RMB61,751,000 and RMB21,098,000, respectively) and on the weighted average number of 1,560,260,806 shares and 1,617,391,304 shares for the nine months and three months ended 30th September, 2002, respectively (2001:1,381,600,000 shares for both periods) which were deemed the Reorganization described in note 1 above had been in existence throughout the nine months and three months period ended 30th September, 2002 and 2001.

Diluted earnings per share is not presented for the nine months and three months ended 30th September, 2002 and 2001 as there were no potential dilutive securities in existence during the relevant period.

MOVEMENT ON RESERVES

Movement on the reserves of the Group for the nine months ended 30th September, 2002 and 2001 were as follows:

	Capital reserve	Special reserve	Share premium	Statutory reserve fund	Surplus reserve	Public welfare fund	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1st January, 2001	-	-	-	-	5,178	2,589	11,039	18,806
Net profit for the period	-	-	-	-	-	-	61,751	61,751
Dividend paid	-	-	-	-	-	-	(36,944)	(36,944)
At 30th September 2001	-	-	-	-	5,178	2,589	35,846	43,613
Net profit for the period	-	-	-	-	-	-	32,092	32,092
Dividend paid	-	-	-	-	-	-	(51,272)	(51,272)
Transfer	-	-	-	1,888	1,902	4,904	(8,694)	-
At 31st December, 2001 and 1st January, 2002	-	-	-	1,888	7,080	7,493	7,972	24,433
Arising from issue of shares of a subsidiary	57,840	-	-	-	-	-	-	57,840
Premium arising on issue of shares by way of placing	-	-	139,931	-	-	-	-	139,931
Share swap in accordance with the Group Reorganization	-	(6,693)	-	-	-	-	-	(6,693)
Net profit for the period	-	-	-	-	-	-	95,271	95,271
At 30th September, 2002	57,840	(6,693)	139,931	1,888	7,080	7,493	103,243	310,782

INTERIM DIVIDENDS

The Board does not recommend the payment of an interim dividend for the nine months ended 30th September, 2002 (2001: RMB36,943,900).

MANAGEMENT'S DISCUSSION AND ANALYSIS

Business Review

The Group is one of the few integrated fire prevention and fighting system designer, manufacturer and installation services providers in the PRC. With the concerted effort of its dedicated and experienced management team, the company attained satisfactory results for the nine months ended 30 September, 2002. Turnover was approximately of RMB194 millions for the nine months ended 30 September, 2002, increased by approximately 57% as compared with the corresponding period in 2001. Profit attributable to shareholders for the nine months ended 30th September, 2002 was approximately of RMB95 million, representing a significant increase of approximately 54.3% as compared with the corresponding period in 2001. Earnings per share was RMB6.11 cents for the nine months ended 30th September, 2002.

The major reasons contributing to the significant increase in turnover and profit attributable to shareholders were:

- the Group's reputation and network in the regions outside Fujian Province where its branch offices and distributors are located continue to consolidate and sales of products continue to increase accordingly;
- increase in revenue from installation services contract, it is mainly due to the success of business development given its competitive service quality and pricing strategy of the Group's installation services in the market;
- substantially increase in revenue from maintenance services which was mainly due to the tightening of reinforcement of fire safety regulations especially after the announcement of Regulation of Fire Safety Administration for Governmental Offices, Organizations, Corporations and Business Units. The regulations were in force commencing from May 2002.

As at the date of this report, the Group has the following significant development:

1. The Group has entered into an agreement with Morita Corporation ("Morita"), one of the largest fire engine manufacturers in the world, as the sole distributor of Morita in Fujian Province and Zhejiang Province of the PRC to market Morita's fire engines to relevant fire stations. Morita and the Group believed that an agency basis of cooperation is a starting point for collaboration and both parties are looking forward to a higher level of cooperation.
2. The Group has obtained Tsing Tao Liu Ting Airport (青島流亭機場) office building and complex building fire prevention and fighting system installation contract. This is a good indicator to show the Group has successfully expanded its installation services outside Fujian Province since Class One Certificate for contractors of professional fire prevention and fighting systems installation can perform installation services outside its registered Province in July 2002.

Business Objectives

The Group adopts an aggressive business development strategy with the objective of playing a leader role in the PRC fire prevention and fighting industry. The Group is going to capitalized on the advantage of the existing successful business model in Fujian Province and expand the Group's market share to other Provinces by application of the existing successful business model in Fujian, the latest technology, enhancement of quality and expansion of the sales network. In order to facilitate the achievement of the above objectives and business objectives set out in the Prospectus, there are proposed strategies plans with (i) development of new products with application of advanced technology; (ii) enhancement of a strong research and development team; (iii) establishment of new production bases and the purchase of new equipment and facilities (iv) expansion of sales and distribution network (v) marketing, promotion and brand building (vi) business collaborations and acquisitions.

As at the date of this report, there has been no material change in business objectives since the issuance of Prospectus.

FUTURE PROSPECTS

In accordance with the Group's development objectives and strategies determined and stated in the Prospectus, the Group aims at enlarging its market share, increasing its turnover and profits in the PRC fire prevention and fighting industry by looking for new business partners; making extra effort in the marketing and promoting of the Group's products and services. Since the PRC is expected to maintain a substantial economic growth in the coming few years, the Directors expect that there will be increasing number of construction projects in the PRC and believed that the market for fire prevention and fighting systems in the PRC will continue to grow and a more predictable growth of the Group will be derived from the expansion of its existing business and the exploration of new products in the fire safety industry.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As of 30th September, 2002, the interest of directors of the Company ("Directors") and chief executive and their respective associates in the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) as recorded in the register required to be kept by the Company under Section 29 of the SDI Ordinance, or required pursuant to Rules 5.40 to 5.59 of the Rules Governing the listing of Securities on the GEM (the "GEM Listing Rules"), to be notified to the Company and the Stock Exchange were as follows:

Name	Personal Interest	Number of Shares		Other Interest
		Family Interest	Corporate Interest	
Mr. Jiang Xiong	1,281,600,000	N/A	N/A	N/A

Save as disclosed above, as of 30th September, 2002, none of the Directors and chief executive or their associates had any interests in any securities in the Company and its associated corporations. None of the Directors, nor their spouses or children under 18 years of age were granted or had exercised any rights to subscribe for the securities of the Company.

SUBSTANTIAL SHAREHOLDER

As of 30th September, 2002, according to the register required to be kept under Section 16(1) of the SDI Ordinance, the only shareholder with an interest of 10% or more in the issued share capital of the Company were as follows:

Name	Personal Interest	Number of Shares		Other Interest
		Family Interest	Corporate Interest	
Mr. Jiang Xiong	1,281,600,000	N/A	N/A	N/A

Save as disclosed above, as of 30th September, 2002, the Company is not aware of any person with an interest of 10% or more in the issued share capital.

SHARE OPTION SCHEME

Pursuant to a share option scheme adopted by the Company on 20th September, 2002, the Directors may, at their discretion, offer options to full-time employees of the Group and the Directors to subscribe for shares in the Company subject to the terms and conditions set out therein. A summary of the principle terms and conditions of the share option scheme are set out in the section headed "Share Option Scheme" in Appendix VI of the Prospectus.

As of 30th September, 2002, none of the Directors and full-time employees of the Group were granted options to subscribe for shares under the Share Option Scheme.

COMPETING INTEREST

None of the Directors or the management shareholders (as defined in the GEM Listing Rules) of the Company had an interest in a business which competes or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group.

SPONSOR'S INTEREST

As notified by the Company's sponsor, Core Pacific-Yamaichi Capital Limited ("CPY Capital"), as of 30th September, 2002, Core Pacific-Yamaichi Securities, Tokyo, an associate (as referred to in Note 3 to Rule 6.35 of the GEM listing Rules) of CPY Capital, held 17,000,000 shares in the Company. Save as disclosed herein, neither CPY Capital nor its directors or employees or associates (as referred to Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in the share capital of the Company as at 30th September, 2002.

Pursuant to a sponsor's agreement dated 20th September, 2002 entered into between the Company and CPY Capital, whereby, for a fee, CPY Capital will act as the Company's Sponsor for the period from 20th September, 2002 to 31st December, 2004 or until the sponsor agreement is terminated upon the terms and conditions set out therein.

AUDIT COMMITTEE

Pursuant to the Rules 5.23 of the GEM Listing Rules, the Company has set up an audit committee according to "A Guide For The Formation of An Audit Committee" compiled by the Hong Kong Society of Accountants. In compliance with the Rules 5.24 and 5.25 of the GEM Listing Rules, the authority and responsibility of the audit committee has been properly written out. The primary duties of the audit committee are to review the Company's annual reports and accounts, half-year reports and quarterly reports and to provide advice and comments thereon to the Broad. The audit committee of the Broad will also be responsible for supervising and reviewing the financial reporting process and internal control system of the Group. The audit committee now comprises two independent non-executive Directors, namely Mr. Liu Shi Pu and Mr. Wong Hon Sum. Mr. Wong is the chairman of the audit committee.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the nine months ended 30th September, 2002, neither the Company nor any of its holding companies or subsidiaries purchased, sold or redeemed any listed securities of the Company.

By order of the Board
Wanyou Fire Safety Technology Holdings Limited
Jiang Xiong
Chairman

12th November, 2002, Hong Kong