



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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2002

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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The Stock Exchange takes no responsibility for the contents of this announcement, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

This announcement, for which the directors (the “Director”) of Wanyou Fire Safety Technology Holdings Limited (the “Company” or “Wanyou”) 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 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.

FINANCIAL HIGHLIGHTS

The financial highlights of the Company and its subsidiaries (collectively the “Group”) for the year ended 31 December 2002 are summarised as follows:

- The shares of the Company have been listed on GEM since 30 September 2002.
- Turnover of the Group for the year ended 31 December 2002 was approximately RMB260 million, representing an increase of approximately 34% as compared with the financial year 2001.
- The Group achieved a net profit of approximately RMB126 million for the year ended 31 December 2002, representing an increase of approximately 34% as compared with the financial year 2001.
- Earnings per share for the year ended 31 December 2002 was RMB7.5 cents.
- The Directors recommend a final dividend of 0.5 HK cent per share.

CHAIRMAN STATEMENT

The shares of the Company (and together with its subsidiaries, collectively “the Group”) were successfully listed on the GEM of The Stock Exchange on 30 September 2002.

It is a great honour for the Group to become the first professional fire prevention and fighting company listed on the GEM. Public listing has not only boosted the financial strength of the Group, but also enhanced the public recognition of the Group and the brand name of Wanyou products. It also has promoted our capability of profitability as well as our sales network that generated more business opportunities for the Group. In the year of 2002, the Group achieved an excellent performance in installation and maintenance of fire prevention and fighting system sales and profits with a brilliant result.

Summary of Results

In the financial year of 2002, the Group achieved an outstanding result in terms of sales and profits. For the year ended 31 December 2002, turnover and profit attributable to shareholders of the Group were approximately RMB260 million and RMB126 million respectively, representing a growth rate of approximately 34% as compared with last year.

The business model of total fire prevention and fighting solutions has created a competitive edge for the Group over our competitors, which led to the successful expansion of our installation business to other cities and provinces in the PRC outside Fujian, such as Beijing, Chongqing, Qingdao and Jiangxi, where we initially established a strong market presence. With the introduction of relevant government policies, we have expanded our maintenance business with a significant increase of approximately 4.4 times in turnover over last year. During the year, the Group has also entered into an agreement with Morita Corporation as the sole distributor of Morita Corporation to market Morita’s fire engines and equipment to relevant fire stations in Fujian and Zhejiang Provinces of the PRC.

In December 2002, our quality management system updated from ISO 9002-1994 edition to ISO9001-2000 edition, which showed the quality management of our products has reached international standard.

As part of our development plan, the Group has begun to build a new and modernized production base in Fuzhou. The construction and installation of equipment for the main plant are expected to complete at the second quarter of 2003. The expansion of production facilities and equipment will enhance our productivity and eliminate certain sub-contracting processes, which in turn will shorten the production cycle, reduce operating cost and improve our competitiveness.

Development Plans and Strategies

With the brand name effect of the first professional fire prevention and fighting company in the PRC listed on the Stock Exchange, the Group is one of the few total solution providers that integrates research and development, design, manufacturing, sales, installation, and maintenance. On a solid base of our current business, we are equipped with the latest technology, fire prevention and fighting expertise, experienced management, and advanced production facilities and equipment. We will continuously enhance our operation model of installation and maintenance with an objective of attaining synergy effect. With these strengths, we can expand our sales and distribution network, reduce operating cost and improve economic efficiency, especially growing nationwide demand with low market penetration in other provinces outside Fujian. We can also make vertical and horizontal expansion of fire prevention and fighting services and seize business opportunities in this huge market with tremendous potentials for development.

For our employees, we will promote our corporate culture, provide integrated training and establish a stable and reliable working team. We will also introduce new management policy to motivate our employees for better performance and results.

To sustain future business growth in a proper direction, we will focus on the research and development of fire prevention and fighting technology and carefully analyze our previous experience and strategies of success so that we can rapidly develop new products, new service models and new markets.

As we move forward in this new era of the 21st century, we will carefully respond to new challenges of the market, steadfastly integrate our strengths and capabilities, and strive to transform our ambitions into reality. We will make every effort to become a leading enterprise with strong momentum of growth. With our talented and creative employees who are dedicated to serve our clients, we believe that we can deliver consistent growth for investors in the future.

On behalf of the Board, I would like to take this opportunity to express sincere gratitude towards our shareholders, business partners and employees who have rendered generous support and hard efforts for all the success of the Group in the past. With your continuous support, Wanyou will definitely grow steadily.

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

ANNUAL RESULTS

The Board of Directors (the “Board”) of the Company are pleased to announce that the audited consolidated results of the Group for the year ended 31 December 2002, together with the comparative figures for the year ended 31 December 2001, as follows:

	<i>Notes</i>	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>
Turnover	<i>c</i>	259,519	193,988
Cost of sales		<u>(99,814)</u>	<u>(76,716)</u>
Gross profit		159,705	117,272
Other operating income		959	31
Distribution costs		(1,706)	(162)
Administrative expenses		<u>(16,348)</u>	<u>(10,386)</u>
Profit from operations	<i>d</i>	142,610	106,755
Finance costs	<i>e</i>	<u>(338)</u>	<u>(243)</u>
Profit before taxation		142,272	106,512
Taxation	<i>f</i>	<u>(16,100)</u>	<u>(7,728)</u>
Profit before minority interests		126,172	98,784
Minority interests		<u>(295)</u>	<u>(4,941)</u>
Profit attributable to shareholders		<u>125,877</u>	<u>93,843</u>
Dividends	<i>i</i>	<u>10,600</u>	<u>88,216</u>
Earnings per share	<i>g</i>	<u>7.5 cents</u>	<u>6.8 cents</u>

a. SEGMENT INFORMATION

(i) Business segments

For management purposes, the Group is currently organised into the following operating divisions – installation of fire prevention and fighting systems, sale of fire prevention and fighting equipment and provision of maintenance services. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

For the year ended 31 December 2002

	Installation of fire prevention and fighting systems <i>RMB'000</i>	Sale of fire prevention and fighting equipment <i>RMB'000</i>	Provision of maintenance services <i>RMB'000</i>	Elimination <i>RMB'000</i>	Consolidated <i>RMB'000</i>
REVENUE					
External sales	84,645	161,313	13,561	–	259,519
Inter-segment sales	–	19,040	–	(19,040)	–
Total revenue	<u>84,645</u>	<u>180,353</u>	<u>13,561</u>	<u>(19,040)</u>	<u>259,519</u>
Inter-segment sales are charged at prevailing market rates					
RESULTS					
Segment results	38,652	95,370	11,306	–	145,328
Finance costs					(338)
Unallocated corporate expenses					<u>(2,718)</u>
Profit before taxation					142,272
Taxation					<u>(16,100)</u>
Profit before minority interests					126,172
Minority interests					<u>(295)</u>
Net profit for the year					<u>125,877</u>
Depreciation and amortisation	<u>2,974</u>	<u>3,401</u>	<u>–</u>		

For the year ended 31 December 2001

	Installation of fire prevention and fighting systems RMB'000	Sale of fire prevention and fighting equipment RMB'000	Provision of maintenance services RMB'000	Elimination RMB'000	Consolidated RMB'000
REVENUE					
External sales	48,400	143,092	2,496	–	193,988
Inter-segment sales	–	9,967	–	(9,967)	–
	<u>48,400</u>	<u>153,059</u>	<u>2,496</u>	<u>(9,967)</u>	<u>193,988</u>

Inter-segment sales are charged at prevailing market rates

RESULTS					
Segment result	19,141	85,471	2,143	–	106,755
Finance costs					(243)
					<u>106,512</u>
Profit before taxation					(7,728)
Taxation					<u>98,784</u>
Profit before minority interests					(4,941)
Minority interests					<u>93,843</u>
Net profit for the year					<u>93,843</u>
Depreciation and amortisation	<u>1,976</u>	<u>664</u>	<u>–</u>		

(ii) Geographical segments

No geographical segment information in respect of the Group's operations has been presented as all the Group's operations was derived from the PRC.

b. GROUP REORGANISATION AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Company was incorporated in the Cayman Islands on 3 January 2002 as an exempted company with limited liability under the Companies Law Cap. 22 (Laws of 1961, as consolidated and revised) of the Cayman Islands.

Pursuant to a group reorganisation ("Group Reorganisation") of the Group in preparation for the listing of the Company's shares on the GEM of the Stock Exchange, the Company became the holding company of the Group in September 2002. The shares of the Company have been listed on the GEM since 30 September 2002.

The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the financial statements of the Group have been prepared using the principles of merger accounting basis in accordance with the Statement of Standard Accounting Practice 27 "Accounting for Group Reconstructions" issued by the Hong Kong Society of Accountants.

Further details of the Group Reorganisation are set out in the prospectus issued by the Company dated 23 September 2002 (“Prospectus”).

The Company is an investment holding company and the principal activities of the Group are the production and sales of fire prevention and fighting products and provision of the installation services and maintenance services for fire prevention and fighting systems.

c. 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 year, and is analysed as follows:

	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>
Revenue from installation contracts	87,358	50,075
Sale of goods	161,407	145,587
Provision of maintenance services	13,996	2,588
	<hr/>	<hr/>
	262,761	198,250
<i>Less: Sales tax</i>	(3,242)	(4,262)
	<hr/>	<hr/>
	259,519	193,988

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

d. PROFIT FROM OPERATIONS

	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>
Profit from operations has been arrived at after charging:		
Depreciation:		
Property, plant and equipment	3,428	744
Auditors' remuneration	670	5
Amortisation of goodwill	2,965	1,896
Allowance for doubtful debts	168	185
Operating lease rentals in respect of rented premises	475	742
Research and development expenditure	1,112	168
Staff costs, including directors' remuneration	23,566	14,162
Retirement benefit scheme contributions, including those included in directors' remuneration	1,421	2,391
	<hr/>	<hr/>
Total staff costs	24,987	16,553
and after crediting:		
Allowances for doubtful debts written back	418	–
Interest income	956	20
	<hr/>	<hr/>

e. FINANCE COSTS

	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>
Interest on bank borrowings wholly repayable within five years	129	243
Interest on bank borrowings with instalments repayment after five years	<u>209</u>	<u>—</u>
	<u>338</u>	<u>243</u>

f. TAXATION

	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>
The charge comprises:		
The PRC – income tax	<u>16,100</u>	<u>7,728</u>

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 based on the prevailing tax rates applicable to the respective companies comprising the Group.

Effective from the year 2000, one of the subsidiaries, Fujian Wanyou Fire Fighting Science and Technology Co., Ltd. ("Fujian Wanyou") was 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 31 December 2001. After its change of status to a wholly foreign-owned enterprise in December 2001, Fujian Wanyou is entitled to the two year's exemption from income tax followed by three years of 50% tax reduction commencing from the first-profit-making year with effective from 2002.

There is no significant unprovided deferred taxation for the year or as at the balance sheet date.

g. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year is based on the profit for the year of RMB125,877,000 (2001: RMB93,843,000) and on the weighted average of 1,667,811,506 (2001: 1,381,600,000) shares that would have been in issue throughout the year on the assumption that the Group Reorganisation has been completed as at 1 January 2001.

There is no diluted earnings per share because there were no potential dilutive ordinary shares outstanding during the year.

h. RESERVES

	Share premium RMB'000	Special reserve RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Statutory reserve fund RMB'000	Accumulated profits RMB'000	Total RMB'000
THE GROUP								
At 1 January 2001	-	-	-	5,178	2,589	-	11,039	18,806
Transfer	-	-	-	1,902	4,904	1,888	(8,694)	-
Net profit for the year	-	-	-	-	-	-	93,843	93,843
Interim dividends in respect of year ended 31 December 2001 paid and declared	-	-	-	-	-	-	(88,216)	(88,216)
At 31 December 2001 and at 1 January 2002	-	-	-	7,080	7,493	1,888	7,972	24,433
Shares swap in accordance with the Group Reorganisation	-	(6,692)	-	-	-	-	-	(6,692)
Arising from issue of shares of a subsidiary	-	-	57,840	-	-	-	-	57,840
Premium arising on issue of shares for cash by way of placing	165,360	-	-	-	-	-	-	165,360
Expenses incurred in connection with the issue of shares	(25,440)	-	-	-	-	-	-	(25,440)
Transfer	-	-	-	3,006	1,502	10,271	(14,779)	-
Net profit for the year	-	-	-	-	-	-	125,877	125,877
At 31 December 2002	<u>139,920</u>	<u>(6,692)</u>	<u>57,840</u>	<u>10,086</u>	<u>8,995</u>	<u>12,159</u>	<u>119,070</u>	<u>341,378</u>

i. DIVIDENDS

The Board declares and proposes the final dividend for the year ended 31 December 2002 of 0.5 HK cent per share based on 2,000,000,000 shares in issue. Dividends shown in the financial year 2001 represented interim dividends declared and/or paid by the subsidiaries to their then equity participants before Group Reorganization. Such proposed dividend has not been recorded in the accounts and is subject to passing of the proposal at the Annual General Meeting to be held on 17 April 2003. The dividend will be payable on or before 6 May 2003 to shareholders whose names appear on the shares register of member of the Company at 4:00 p.m. on 11 April 2003.

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Review

Fire safety is a new emerging industry in the PRC. In view of the improvements in living standard as well as rising awareness in public safety in China, the demand for fire prevention and fighting products and installation services has been experiencing a substantial increase.

Tightening of laws and regulations enforces the governments and private sectors to put more effort on the development of fire prevention and fighting technology and the application of advanced fire prevention and fighting systems.

With the continuous and rapid growth of the PRC economy, the degree of urbanization and industrialization has been increasing accordingly. Many new governmental and commercial constructions in all major cities create great demand for the fire prevention and fighting equipment and installation services.

The business model of the Group is providing total solutions for fire prevention and fighting system which comprises design and manufacture of fire prevention and fighting products, providing fire prevention and fighting installation services as well as maintenance services. We believe that such total solution capacity is a competitive advantage to capture better opportunities from the continuous growing market of fire prevention and fighting industry in the PRC.

Operations and Financial Review

In 2002, the economy of the PRC, the key market of the Group, has been experiencing continuous growth, and provided the Group with a favorable operating environment. During the year under review, the Group reported an encouraging and significant growth in its results. Net profit from operating activities attributable to shareholders increased by approximately 34% as compared to the financial year 2001.

Turnover

The Group is principally engaged in the provision of fire prevention and fighting system solution in the PRC, with its main activities included the following:

- manufacture and sale of fire prevention and fighting products;
- provision of fire prevention and fighting system installation services;
- provision of fire prevention and fighting system maintenance services.

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

	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>
Sale of goods		
Fujian Province	75,662	95,517
Other Provinces	<u>85,745</u>	<u>50,070</u>
	161,407	145,587
Provision for installation services		
– Fujian Province	87,358	50,075
Provision for maintenance services		
– Fujian Province	<u>13,996</u>	<u>2,588</u>
	262,761	198,250
<i>Less: Sales tax</i>	<u>(3,242)</u>	<u>(4,262)</u>
	<u><u>259,519</u></u>	<u><u>193,988</u></u>

Sale of fire prevention and fighting products

The sales of fire prevention and fighting products increased by approximately 11% as compared with financial year 2001. The major reason contributing to the increase in product sales was 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 in these provinces continue to increase accordingly. Other provinces sales represented approximately 53.1% of the total sales of fire prevention and fighting products. Other provinces consist of Beijing, Shanghai, Jiangxi and other remaining provinces, their sales are approximately 12.6%, 12.1%, 5% and 23.4% respectively of the total sales of fire prevention and fighting products.

Provision of fire prevention and fighting system installation services

The revenue from the provision of fire prevention and fighting system installation services was significantly increased by approximately 74.5% as compared with the financial year 2001. The increase was 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. During the year the Group completed 26 projects. 19 projects were completed in the financial year 2001. The analysis of projects' nature is summarized as follows:

	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>
Commercial buildings	37,263	27,794
Residential buildings	18,838	2,201
Government buildings	22,612	7,129
Public facilities	7,489	7,310
Industrial buildings	1,156	5,641
	<hr/>	<hr/>
	87,358	50,075
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The fire prevention and fighting system installation service is protected by each province before 2002, all revenue from providing installation services are generated from Fujian Province. Since the nationwide recognized Class One Certificate for contractors of professional fire prevention and fighting system can perform installation services outside its registered province in July 2002, the Group has successfully obtained installation contracts from Qingdao, Beijing, Chongqing and Jiangxi. Most of the revenue from these projects will be recorded in the financial year 2003.

Provision of fire prevention and fighting system maintenance services

The revenue from fire prevention and fighting system maintenance services dramatically increased by approximately 4.4 times as compared with the financial year 2001. The increase was mainly due to the tightening and reinforcement of fire safety regulations especially after the announcement of Regulation of Fire Safety Administration for Government Offices, Organizations, Corporations and Business Units. The regulations were in force commencing from May 2002.

Gross and Net Margin

During the year, the Group continued to exercise stringent control over subcontracting, raw material, operating and financial costs in order to maximize returns to the Company's shareholders. Administration and distribution costs have been well managed to match the future expansion plan of the Group's business.

The net profit margin of the Group for the year maintained at approximately 48.5% (2001: 48.4%). Profit attributable to shareholders for the year increased to approximately RMB126 million, a 34% growth from the financial year 2001. The gross profit margin increased by approximately 1.1% as compared with the financial year 2001 was mainly due to the increasing contribution from maintenance services income with relatively higher gross profit margin.

Earnings per share for the year reached RMB7.5 cents, substantial growth by approximately 10.3% from RMB6.8 cents in the previous year.

Most of the Group's companies operate within the PRC and still enjoying income tax relief under the Income Tax Law of the PRC. Since the financial year 2002, the Group's product sales arm is entitled to two years exemption from income tax followed by three years of 50% tax reduction commencing from the first-profit-making as a privileged treatment to a wholly foreign owned enterprise in the PRC. The installation and maintenance services vehicle is subject to an enterprise income tax of the PRC at a rate of 33% on its assessable profit. During the year, the effective tax rate on the Group's profit was increased to 11.3% from 7.3% in the financial year 2001. The increase was due to the increase in income on the installation and maintenance segment during the year.

During the year, the percentage of profits shared by minority interest is 0.2% which decreased by 94% as compared with 5% in the financial year 2001. The decrease was due to the change in equity holdings. In March 2001, the Group acquired additional 21.36% equity interest in the installation and maintenance services vehicle from Jiang Qing. During the year, no change in equity holding of all operating companies within the Group.

Capital Expenditure

The Group invested a total amount of approximately RMB82 million in the capital expenditure during the year. It was mainly used for the establishment of new production bases and a new research and development centre in Fuzhou City and the purchase of new equipment and facilities. In accordance with the existing expansion plan, the required capital expenditure for the forthcoming fiscal year will be primarily financed by the Group's self-generated working capital and the remaining proceeds from the initial placing of shares. As at 31 December 2002, the capital commitments comprises acquisition of moulds and equipment of approximately RMB10.9 million, acquisition of technical know-how of approximately RMB3.3 million and leasehold improvement for the new production bases in Fuzhou City of approximately RMB10.5 million. As at 31 December 2002, there are also approximately RMB14.9 million (2001: nil) deposits paid for purchase of plant and equipment. The management continues to strictly follow the policy that a comprehensive feasibility study and most importantly, a satisfactory return to shareholders, is required for every investment.

Financial Resources and Liquidity

The Group has a sound financial position in this year. During the year, the Group's primary source of funds was cash provided by operating activities and the cash proceeds from the issue of new shares pursuant to a placing exercise of the Company in September 2002. The net proceeds from the successful share placements in September 2002 amounted to approximately RMB144 million. As at 31 December 2002, the Group had total assets of approximately RMB401 million (2001: RMB124 million) which were financed by current liabilities of approximately RMB34 million (2001: RMB88.9 million), non-current bank borrowings of approximately RMB3.8 million (2001: nil), minority interest of approximately RMB0.6 million (2001: RMB0.1 million) and shareholders' equity of approximately RMB362.6 million (2001: RMB35 million).

As at 31 December 2002, current assets and current liabilities of the Group amounted to approximately RMB273.8 million and RMB34.1 million respectively (2001: RMB73.8 million and RMB88.9 million respectively). The current ratio was approximately 8.0 (2001:0.83) reflecting the abundance of financial resources to meet the Group's liabilities. The great improvement in the current ratio was mainly due to the net proceeds received from share placements in September 2002, net operating cash inflow generated during the year and repayments of amount due to related parties. The Group's gearing ratio, calculated as total borrowings divided by shareholders equity, was approximately 1% (2001: 12%).

As at 31 December 2002, the Group had cash and cash equivalent amounted to approximately RMB205 million (2001: RMB58 million) and bank borrowings amounted to approximately RMB4.4 million (2001: RMB4 million). The borrowing is denominated in Renminbi with fixed interest rate of approximately 8.07% per annum and provided by a PRC bank and secured by the Group's land and buildings with a net book value of approximately RMB8 million. The maturity profile of the Group's outstanding borrowings are wholly repayable within seven years. The bank borrowings in the financial year 2001 were denominated in Renminbi with interest rate of approximately 7.6% and 6.7% per annum and secured on guarantees from a company controlled by the close family members of a director and were released during the year.

As the Group's assets, sales and purchases are primarily denominated in Renminbi, the Directors consider that the Group has no significant exposure to foreign exchange fluctuations in its operation. During the year under review, the Group did not use any financial instrument for hedging purposes and the Group did not have any hedging instrument outstanding and had no material contingent liabilities as at 31 December 2002.

Generally the Group offers credit period to customers ranging between 30 to 90 days. As at 31 December, 2002, the average trade receivable turnover period was approximately 34 days (2001: 5 days). The increase was mainly due to the fact that at 31 December 2002, the Group still had many projects under construction (2001: no installation projects was in progress), the progress billing were not yet settled by customers. Once the projects completed, the billing will be settled by customers in order to pass the Fire Service Department's inspection. As at 31 December 2002, over 86% of the balance of trade receivables are within 30 days. The Group always seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by the management. Therefore the amount of bad debts experienced during the year has been minimal.

Research and Development

In order to reinforce the competitive advantage and keep ahead of its competitors, the Group continues to place emphasis on improving product quality and developing a more diversified range of products. As at 31 December 2002, the Group had over 12 experienced in-house research and development staff. The in-house research and development team targets on new products development, quality control, improvement of production technologies and operation efficiency. The Group also collaborates with various science and academic institutions to engage in certain research and development projects. The products currently under development include various types of modified emergency lightings. We are expecting to launch these products to market on the second quarter of 2003 and will provide substantial contribution to the Group. During the year, the Group invested approximately RMB5 million to construct its own research and development centre and expected to be completed in the second quarter of 2003. During the year, the expenses on research and development activities amounted to approximately RMB1,112,000 (2001: RMB168,000).

Employees and Remuneration Policies

The Group strongly believes that qualified personnel are crucial for continuous success. In this respect, recruitment procedures were designed to be as comprehensive as possible to attract capable people with solid experience and appropriate educational backgrounds. As at 31 December 2002, the Group had approximately 613 full-time employees, representing a 8.3% increase from 566 full-time employees at the beginning of the year. The growth in the number of employees converges with the planned expansion, in both scale and geographical coverage, of the Group's business in the forthcoming year. Employee costs, excluding directors' remunerations, for the year amounted to RMB24.4 million, representing an increase of 48.3% from the previous year. Employees of the Group, particularly the front-line staff, are rewarded on a performance related basis. A wide range of benefits, including, medical scheme, provident

funds and retirement plans are provided to each full-time employee. The performance of each employee is reviewed on a half yearly basis with a view to ensure regular communication and timely feedback.

Safety and quality service are essential elements for each of the Group's operational staff, thus a series of comprehensive in house training programs have been established to provide regular education and update on technical and servicing skills. With the view to retaining certain important employees who will continue to make valuable contribution to the Group, share options to subscribe for shares of the Company in accordance with the Share Option Scheme adopted on 20 September 2002 may be granted.

COMPARISON OF THE BUSINESS PLANS AND ACTUAL PROGRESS

Set out below is a summary of the actual business progress of the Group as measured against the business objectives up to 31 December 2002 as set out in the Prospectus:

Development of new products with application of advanced technology

a. New products to be applied in the existing business

The Group will applied advanced technology in various new products in the existing business which comprises of online monitoring system of fire prevention and fighting systems, intelligent power supply safety protection monitoring and control system, intelligent fire detector operated by CPUs and crystal luminous emergency lighting system.

Expected progress

Finalize feasibility studies, networking outline and bill of materials.

Actual progress

The Group has finalized the feasibility studies and bill of materials for online monitoring system of fire prevention and fighting systems, intelligent power supply safety protection monitoring and control system and intelligent fire detector operated by CPUs.

For the crystal luminous emergency lighting system, 4 models of pilot samples has been developed and is in the trial production stage. We expected to commence production and launch to market in the second quarter of 2003.

b. New product lines and new types of services

The Group will also develop new product lines and new types of services, fire retardant materials, fire service equipment and fire services installation project for specialized industries, in order to provide more comprehensive services to customers and seize the opportunities in the growing fire safety market.

Expected progress

Perform feasibility studies and market research on the fire retardant material sector, fire service equipment sector and fire services installation project for specialized industries.

Actual progress

The Group has completed feasibility studies and market research of fire retardant material sector. Potential companies manufacturing and supplying fire retardant material was also identified.

The Group has completed feasibility studies and market research of fire service equipment sector. In November 2002, the Group entered into agreement with Morita Corporation as the sole distributor of Morita's fire engines and equipment in Fujian Province and Zhejiang Province.

The Group has completed feasibility studies and market research of fire services installation project for specialized industries. Technical personnel for specialized industries is being recruited in order to meet the future expansion in this sector.

Enhancement of a strong research and development team

The Group intends to further expand the existing research and development team by establishing a research and development centre equipped with more advanced equipment and a laboratory specialized in upgrading the technological level of its products.

Expected progress

Formulate plans and composition and design the construction of research and development centre

Enter into co-operation agreement with scientific research organizations on the research of fire prevention and fighting technology.

Actual progress

All preparation works completed and construction is in progress and expected to commence operation in second quarter of 2003.

Currently cooperate with two academic institutes, Fuzhou Research Institute and Shenyang Research Institute, to develop advanced technology in fire safety sector.

Establishment of new production bases and the purchase of new equipment and facilities

In order to meet future production needs and increase the production capacity, new production base is planned to be established in Fujian Province.

Expected progress

Formulate plan and confirm suitable location for the new production facilities.

Actual progress

Land and buildings has been acquired in the Fuzhou Development Zone with a total area of land and floor area of approximately 20,599m² and 28,590m² respectively. New facilities and equipment are under installation and expected to commence production in the second quarter of 2003.

Expansion of sales and distribution network

The Group places great emphasis on building and expansion of its sales network by establishment of branches offices and demonstration services centre in key regional markets.

Expected progress

Search for appropriate sales offices in the PRC. Decorate the existing sales offices and formulate plan to establish the display service centre.

Actual progress

The Group commenced to review the existing location of branches offices and demonstration centres. And according to the Group's sale strategy to select appropriate location for new sales offices in the PRC.

Marketing, promotion and brand building

The Group plans to strengthen its reputation through advertisements, formation of alliances with professional associations and academic institutions and participation in various trade shows and exhibitions.

Expected progress

Design marketing plans for the principal products of the Group. Advertise the Group's products on journals and magazines and attend conferences and seminars relating to fire prevention and fighting technology.

Actual progress

The Group has already design the marketing plan for the principal products and will launch when the new production base commence operation. During the year, the Group also placed its principal products on many fire safety journals and magazine.

Business collaborations and acquisitions

Potential business collaborations and acquisitions will intensify the growth of the Group. Accordingly, vertical and horizontal acquisition activities will run concurrently with other operational strategies of the Group.

Expected progress

Identify potential acquisitions of enterprises within similar product sector complementary to the Group and in the sector of fire service equipment and fire retardant materials.

Actual progress

The Group commenced to identify potential enterprises in fire retardant materials and similar product sector in order to strengthen the competitive advantages of the Group.

Proceeds from Issuance of new shares

The net proceeds from the Company's placement of new shares on September 2002 amounted to approximately HK\$136 million of which HK\$6 million will be used as working capital. The proceeds were partially applied during the year ended 31 December 2002 as follows:

	<i>Notes</i>	Total planned use of proceeds as set in the Prospectus <i>HK\$'million</i>	Planned use of proceeds as set in the Prospectus up to 31 December 2002 <i>HK\$'million</i>	Actual use of proceeds up to 31 December 2002 <i>HK\$'million</i>
Development of new products	(i)	20	7	7.5
Establishment of a research and development centre	(ii)	10	2	4.7
Establishment of new production bases and the purchase of new equipment and facilities	(iii)	50	5	32
Expansion of sales and distribution network	(iv)	20	8	0
Marketing, promotion and brand building	(v)	10	4	0.47
Business collaborations and acquisitions	(vi)	20	0	0
Total		<u>130</u>	<u>26</u>	<u>44.67</u>

Expected investment

Notes:

- (i) The anticipated investment would be HK\$7 million.
- (ii) The anticipated investment would be HK\$2 million.
- (iii) The anticipated investment would be HK\$5 million.
- (iv) The anticipated investment would be HK\$8 million.
- (v) The anticipated investment would be HK\$4 million.
- (vi) The anticipated investment would be HK\$20 million.

Actual investment

The actual investment amounted to RMB7.9 million equivalent to approximately HK\$7.5 million was mainly used for development of moulds for the new crystal luminous emergency lighting products. The difference between the anticipated and actual investment amounts is attributable to the fact that the development of crystal luminous emergency lighting is faster than anticipated.

The actual investment amounted to approximately RMB5 million equivalent to approximately HK\$4.7 million was mainly used for the new research and development centre construction. The difference between the anticipated and actual investment amounts is attributable to the fact that the construction progress is faster than expected.

The actual investment amounted to approximately RMB34 million equivalent to approximately HK\$32 million. The capital paid excess its anticipated investment is mainly due to the earlier acquisition of land and buildings for the establishment of production base. In order to meet the growing market of fire safety industry in the PRC, the total production capacity of the new production base also increased. The land area increased from anticipated 10,000m² to 20,599m².

Actual investment has not been made as the Group is still reviewing the performance of existing branches offices. And the decoration work for existing branches offices not yet commence.

The actual investment amounted to RMB0.5 million equivalent to approximately HK\$0.47 million. The expenses mainly paid for advertisement placed on fire safety journals. The difference between anticipated investment and actual investment was mainly due to that no large exhibition or conference for fire safety industry has been attend by the Group.

No investment has been made. As stated in the Prospectus, the use of proceeds in such connection is dependent on the opportunity available and negotiation outcome. The Directors believe that it is inappropriate to earmark specific amount in each of the periods.

CLOSURE OF SHARE REGISTER

The shares register of shareholders of the Company will be closed from 14 April 2003 to 17 April 2003 (both days inclusive), for the purposes of final dividend and Annual General Meeting.

In order to qualify for the final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited of 17 Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, by 4:00 p.m. on 11 April 2003.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 31 December 2002, the interest of directors of the Company ("Directors") and chief executive and their associates in the Company as recorded in the register required to be kept by the Company under Section 29 of the Hong Kong Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), were as follows:

Name	Personal Interest
Mr. Jiang Xiong	1,281,600,000

Other than as disclosed above, none of the Directors or the chief executive nor their associates had any interests in any share capital of the Company and its associated corporations (within the meaning of the SDI Ordinance) which is required to be recorded in the Register of Directors' Interests pursuant to Section 29 of the SDI Ordinance or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

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 of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year/period or at any time during the year/period.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2002, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that, other than the interests disclosed above in respect of the Directors and chief executive, the Company has not been notified of any other interests representing 10% or more of the Company's issued share capital as at 31 December 2002.

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 an interest in a business which competes or may compete with the businesses of the Group.

SPONSOR'S INTERESTS

As updated and notified by the Company's sponsor, Core Pacific-Yamaichi Capital Limited ("CPY Capital"), as at 31 December 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 1,470,000 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 31 December 2002. Pursuant to a sponsor agreement dated 20 September 2002 entered into between the Company and CPY Capital, CPY Capital has received and will receive a fee for acting the Company's retained sponsor for the period from 20 September 2002 to 31 December 2004 or until the sponsor agreement is terminated upon the terms and conditions set out therein.

SHARE OPTION SCHEMES

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 expire in January 2012. 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 from time to time, 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 immediately upon the listing of the shares on the Stock Exchange, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in aggregate within any 12-month period is not permitted to exceed 1% of the shares of the Company in issue, without prior approval from the Company's 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 Company's shareholders.

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 of directors but in any event not exceeding 10 years. The exercise price is determined by the Directors and will be not 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 December 2002.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of the subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period.

CORPORATE GOVERNANCE

The Company has complied throughout the period ended 31 December 2002 with sections 5.28 to 5.39 as set out in the GEM Listing Rules.

AUDIT COMMITTEE

The audit committee comprises two members – Mr. Liu Shi Pu and Mr. Wong Hon Sum, both of whom are Independent Non-executive Directors. 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 of Directors. The audit committee will also be responsible for reviewing and supervising the financial reporting process and internal control procedures of the Group.

During the period, the Audit Committee held two meetings and performed the following duties:

1. reviewed and commented on the Company's draft interim financial reports; and
2. met with the external auditors and participated in the reappointment and assessment of the performance of the external auditors.

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

17 March 2003, Hong Kong

This announcement will remain on the GEM website with the domain name of www.hkgem.com on the "Latest Company Announcements" page for not less than 7 days from the day of its posting.