Wanyou Fire Safety Technology Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Annual Report 2002

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EXECUTIVE DIRECTORS

Jiang Xiong, Chairman
Jiang Qing
Chen Shu Quan

INDEPENDENT NON-EXECUTIVE DIRECTORS

Liu Shi Pu
Wong Hon Sum

COMPLIANCE OFFICER

Jiang Qing

QUALIFIED ACCOUNTANT

Chan Siu Tat FCCA, AHKSA

COMPANY SECRETARY

Chan Siu Tat FCCA, AHKSA

AUTHORIZED REPRESENTATIVES

Jiang Qing
Chan Siu Tat FCCA, AHKSA

MEMBERS OF AUDIT COMMITTEE

Liu Shi Pu
Wong Hong Sum

REGISTERED OFFICE

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PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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SOLICITORS

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INVESTOR RELATIONS CONSULTANT

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STOCK EXCHANGE LISTING

The Growth Enterprise Market of the Stock Exchange
of Hong Kong Limited

STOCK CODE

8201

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 and chief executive

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

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	2001
	RMB'000	*RMB'000*
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
	87,358	50,075

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 Reminbi 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 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	Actual progress
Finalize feasibility studies, networking outline and bill of materials.	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	Actual 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.	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	**Actual progress**
Formulate plans and composition and design the construction of research and development centre	All preparation works completed and construction is in progress and expected to commence operation in second quarter of 2003.
Enter into co-operation agreement with scientific research organizations on the research of fire prevention and fighting technology.	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	**Actual progress**
Formulate plan and confirm suitable location for the new production facilities.	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	**Actual progress**
Search for appropriate sales offices in the PRC. Decorate the existing sales offices and formulate plan to establish the display service centre.	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	**Actual 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.	The Group has already designed the marketing plan for the principal products and will launch when the new production base commences 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	**Actual 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.	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:

	Notes	Total planned use of proceeds as set in the Prospectus	Planned use of proceeds as set out in the Prospectus up to 31 December 2002	Actual use of proceeds up to 31 December 2002
		HK$'million	*HK$'million*	*HK$'million*
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		130	26	44.67

Expected investment	**Actual investment**
Notes:	
(i) The anticipated investment would be HK$7 million.	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 was attributable to the fact that the development of crystal luminous emergency lighting was faster than anticipated.
(ii) The anticipated investment would be HK$2 million.	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 was attributable to the fact that the construction progress was faster than expected.
(iii) The anticipated investment would be HK$5 million.	The actual investment amounted to approximately RMB34 million equivalent to approximately HK$32 million. The capital paid exceeded its anticipated investment was 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 was also increased. The land area increased from anticipated 10,000m^2 to 20,599m^2.
(iv) The anticipated investment would be HK$8 million.	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 has not yet been commenced.
(v) The anticipated investment would be HK$4 million.	The actual investment amounted to RMB0.5 million equivalent to approximately HK$0.47 million. The expenses were mainly paid for advertisement placed on fire safety journals. The difference between anticipated investment and actual investment was mainly due to the fact that no large exhibition or conference for fire safety industry has been attended by the Group.
(vi) The anticipated investment would be HK$20 million.	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.

DIRECTORS

Executive Directors

Mr. JIANG Xiong, aged 34, is the Chairman, chief executive officer and executive Director of the Group. He is responsible for the strategic planning and the overall development of the Group and joined the Group in January 1994. He has over 8 years of experience in the fire services and maintenance industry in the PRC. In April 1996, he was awarded the title "Fuzhou Outstanding Entrepreneur" (福州市優秀私營企業家). In May 1996, Mr. Jiang was awarded one of the "Ten Most Outstanding Youths in Fuzhou" and in November 1997 he was appointed as "member of the Ninth Standing Committee of Fuzhou City People's Political Consultative Conference" (中國人民政治協商會議第九屆福建省福州市常務委員會委員). In May 1999, he was given the award of "Fujian Outstanding Entrepreneur" (福建省優秀青年企業家). In November 2001, he was also appointed as Vice Secretary-General of Fire Committee of International Police Foundation (世界警察基金會消防行業委員會副秘書長), a non-profit organisation for the promotion of police goodwill and development of police science. Mr. Jiang is a qualified engineer in the PRC.

Mr. JIANG Qing, aged 37, is an executive Director and chief operating officer of the Group. He joined the Group in April 1995 and has over 9 years of experience in the building construction industry and fire prevention and fighting systems installation. Prior to joining the Group in April 1995, Mr. Jiang was an assistant executive of Fujian Construction and Development Limited (福建省建設發展總公司), a company engaged in property development, from February 1993 to April 1995 and he was mainly responsible for the management and administration for construction projects. Mr. Jiang received the professional certificate from Fujian Technical Institute of Construction (福建建築高等專科學校) in September 2000 and is a qualified engineer in the PRC. He is responsible for the corporate management and overall operation of the Group. He is the elder brother of Mr. Jiang Xiong.

Mr. CHEN Shu Quan, aged 57, is an executive Director and is responsible for the overall administration of the Group. Mr. Chen joined the Group in January 1997 and has over 10 years of administration and management experience in Fujian governmental entities. Before joining the Group, he was the vice director (副局長) of Departmental Affairs Administration Office of Fujian Provincial Government (福建省政府機關事務管理局省政府辦公廳) from 1986 to 1997 and was mainly responsible for the planning, management and administration affairs of government properties.

Independent non-executive Directors

Mr. LIU Shi Pu, aged 67, is an independent non-executive Director. Mr. Liu has over 40 years of working experience in the Ministry of Public Security and worked for the Public Security Bureau of Lou Yang City (洛陽市) and He Nan Province (河南省), during the years 1952 to 1985. During the years 1985 and 1990, he was appointed as the Vice Chancellor of Public Security Bureau of He Nan Province (河南省公安廳副廳長). From 1991 to 1993, he was promoted as the Office Supervisor of the Ministry of Public Security of the PRC (中華人民共和國公安部辦公廳主任). In 1993, Mr. Liu was appointed as the Chairman of Fire Prevention and Fighting Bureau of the Ministry of Public Security of the PRC (中華人民共和國公安部消防局局長（少將）). In February 1996, he retired from his position. From August 1997 to September 2001, Mr. Liu was the Vice-chairman of General Affairs of the PRC Fire Prevention and Fighting Association (中華人民共和國消防協會常務副理事長). He was appointed as a director of the Company in May 2002. Mr. Liu does not hold position in any other company, apart from being an independent non-executive director of the Company.

Mr. WONG Hon Sum, aged 44, is an independent non-executive Director and is a certified public accountant practising in Hong Kong. He holds a bachelor degree in accounting from the Hong Kong Polytechnic University. He has over 18 years of finance and accounting experience in Hong Kong. Mr. Wong is a fellow member of both Hong Kong Society of

Accountants and The Association Chartered of Certified Accountants. Mr. Wong is also an associate of The Taxation Institute of Hong Kong and a member of Hong Kong Securities Institute. He was appointed as a director of the Company in May 2002. Mr. Wong is the director of Jovian Communications Group Limited which is engaged in the financial communication business. Mr. Wong is also the independent non-executive director of Interchina Holdings Company Limited.

SENIOR MANAGEMENT

Mr. XIAO Wen Ming, aged 63, is the chief engineer of the Group. Mr. Xiao graduated from Tsing Hwa University (清華大學) with a bachelor degree in mechanical engineering. Prior to joining the Group, he worked as a senior engineer (research level) (研究員級高級工程師) for China Atomic Research Institute (中國原子能科學研究院) from 1964 to 1999. Mr. Xiao joined the Group in February 1999 and is a qualified engineer (senior research level) (研究員級高級工程師) on fire prevention and fighting equipment in the PRC. Mr. Xiao is responsible for the overall management of the Group's fire prevention and fighting systems installation project.

Mr. CHONG Ping, aged 44, is the senior engineer of the Group. Mr. Chong graduated from Shenyang Industrial Institute (沈陽工業學院) with a bachelor degree in electrical engineering. Prior to joining the Group, he was a senior engineer (professor and research level) (教授研究員級高級工程師) for Liaoning Electrical Research Institute (遼寧省電子研究設計院) from 1982 to 1993 and visiting senior engineer for Denmark Technology University (丹麥技術大學) from 1993 to 1994. He was also the assistant manager at Shenyang Xing He Electronics Company Limited (沈陽星河電子有限公司) from 1995 to 1997. Mr. Chong joined the Group in April 1997 and is primarily responsible for the Group's product research and development.

Mr. LIN Dong Hao, aged 28, is an engineer of the Group. He graduated from 東北重型機械學校 with a bachelor degree in Computer Engineering. He also holds a master's degree in Computer Application and a doctorate in Computer Science and Technology from Zhejiang University (浙江大學). Mr. Lin has over 3 years of experience in project management in the PRC when he was pursuing his doctorate at Zhejiang University (浙江大學). Mr. Lin joined the Group in April 2000 and is responsible for the technological development of the Group's products.

Mr. LI Jin, aged 47, is the general manager of the Group's fire prevention and fighting systems installation division. Mr. Li has over 20 years of experience in working for the fire services department of Fujian Province from 1974 to 2001. He retired from the fire services department of Fujian Province in 2001. He was also awarded Third Class Honour (三等功) for his contribution when he served in the fire services department in 1999. He joined the Group in May 2001 and is responsible for the supervision of the Group's fire prevention and fighting systems installation project. Mr. Li is a qualified engineer in the PRC.

Mr. CHAN Siu Tat, aged 32, is the chief financial officer and company secretary of the Group. He joined the Group in April 2002 and is responsible for treasury and financial planning of the Group. Prior to joining the Group, Mr. Chan is the financial controller of a trading and manufacturing group, in which he is also a deputy general manager of its PRC manufacturing base. Prior to that, Mr. Chan had around five years auditing experience with an international accountants firm. Mr. Chan graduated from The Hong Kong University of Science and Technology with a major in Accounting. He is an associate member of Hong Kong Society of Accountants and a fellow member of The Association Chartered of Certified Accountants.

The Directors present the first report and the audited financial statements for the period from 3 January 2002 (date of incorporation) to 31 December 2002.

CORPORATE REORGANISATION AND LISTING OF THE COMPANY'S SHARES ON THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

The Company was incorporated in the Cayman Islands with limited liability on 3 January 2002 under the Companies Law (2001 Second Revision) Chapter 22 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 GEM, the Company became the holding company of the Group on 20 September 2002. Details of the Group Reorganisation are set out in the paragraph headed "Corporate Reorganisation" in appendix IV of the prospectus of the Company dated 23 September 2002.

The shares of the Company have been listed on the GEM since 30 September 2002.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 34 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2002 are set out in the consolidated income statement on page 26 of the annual report.

No interim dividend was declared by the directors during the period.

The directors now recommend the payment of a final dividend of 0.5 HK cent per share to the shareholders on the register of members on 11 April 2003, amounting to RMB10,600,000 and the retention of the remaining profit for the year of RMB115,277,000.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group spent RMB39 million and RMB35 million to acquire properties and moulds, respectively, for production.

Details of the movements during the year in the property, plant and equipment of the Group are set out in note 14 to the financial statements.

In its prospectus dated 23 September 2002, the Group included a valuation of its properties at RMB11,978,000 which valuation has not been incorporated in the financial statements for the year ended 31 December 2002. These properties have been included in the balance sheet at 31 December 2002 at RMB9,840,000 being their historical cost less accumulated depreciation. Had the properties been stated at their revalued amount in the financial statements, additional depreciation of RMB40,000 would have been charged against the income statement.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 28 to the financial statements.

RESERVES

Details of movements in the reserves of the Group and the Company during the year/period are set out in note 30 to the financial statements.

DIRECTORS

The Directors of the Company during the period and up to date of this report were:

Executive Directors

Mr. Jiang Xiong (Chairman)	(appointed on 19 February 2002)
Mr. Jiang Qing	(appointed on 5 March 2002)
Mr. Chen Shu Quan	(appointed on 5 March 2002)

Independent Non-executive Directors

Mr. Liu Shi Pu	(appointed on 22 May 2002)
Mr. Wong Hon Sum	(appointed on 22 May 2002)

In accordance with provisions of the Company's Articles of Association, all directors other than Mr. Jiang Xiong retire from office and, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

Each of the Executive Directors has entered into a service agreement with the Company for a period of three years commencing on 30 September 2002.

The term of office of each of the Non-executive Directors is the period to his retirement by rotation in accordance with the Company's Articles of Association.

No director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 31 December 2002, the interests of the directors and the chief executive and their associates in the share capital of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Hong Kong Securities (Disclosure of Interest) Ordinance ("SDI Ordinance") were as follows:

Name	Number of shares held Personal interests
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 the share capital of the Company or any of 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 pursuant to rules 5.41 to 5.59 of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange ("GEM Listing Rules").

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the issues of shares of the Company pursuant to the Group Reorganisation mentioned above, at no time during the period was the Company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the Directors nor the chief executive, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

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 or at any time during the year.

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 the 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.

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.

RETIREMENT BENEFITS SCHEME

The Group complies with the Mandatory Provident Fund Ordinance in making mandatory contributions for its staff in Hong Kong and staff retirement funds for those staff in the People's Republic of China.

CORPORATE GOVERNANCE

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

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on pro-rata basis to existing shareholders.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the directors or the management shareholder 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 business 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.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2002, the aggregate turnover attributable to the five largest customers of the Group is less than 30% of the Group's consolidated turnover.

For the year ended 31 December 2002, purchases attributable to the Group's largest supplier accounted for approximately 15.2% of the Group's total purchases and aggregate purchases attributable to the five largest suppliers of the Group accounted for approximately 43.1% of the Group's total purchases.

To the knowledge of the Directors, none of the Directors, or their respective associates, or shareholders owning more than 5% of the Company's issued share capital had any beneficial interests in any of the five largest suppliers.

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.

AUDITORS

Messrs. Deloitte Touche Tohmatsu were appointed as auditors of the Company during the period.

A resolution will be submitted to the annual general meeting to re-appoint the auditors, Messrs. Deloitte Touche Tohmatsu.

On behalf of the Board

Jiang Xiong
Chairman and chief executive

17 March 2003

德勤·關黃陳方會計師行

Certified Public Accountants
26/F, Wing On Centre
111 Connaught Road Central
Hong Kong

香港中環干諾道中111號
永安中心26樓

Deloitte Touche Tohmatsu

TO THE MEMBERS OF WANYOU FIRE SAFETY TECHNOLOGY HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 26 to 57 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2002 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 17 March 2003

Consolidated Income Statement

For the year ended 31 December 2002

	NOTES	Year ended 31 December 2002 RMB'000	2001 RMB'000
Turnover	4	**259,519**	193,988
Cost of sales		**(99,814)**	(76,716)
Gross profit		**159,705**	117,272
Other operating income	6	**959**	31
Distribution costs		**(1,706)**	(162)
Administrative expenses		**(16,348)**	(10,386)
Profit from operations	7	**142,610**	106,755
Finance costs	8	**(338)**	(243)
Profit before taxation		**142,272**	106,512
Taxation	11	**(16,100)**	(7,728)
Profit before minority interests		**126,172**	98,784
Minority interests		**(295)**	(4,941)
Net profit for the year		**125,877**	93,843
Dividends	12	**10,600**	88,216
Earnings per share	13		
Basic (RMB cents)		**7.5**	6.8

Consolidated Balance Sheet

At 31 December 2002

	NOTES	At 31 December 2002 RMB'000	2001 RMB'000
Non-current assets			
Property, plant and equipment	14	**115,856**	36,841
Retention receivables	15	**1,331**	50
Goodwill	16	**9,962**	12,927
		127,149	49,818
Current assets			
Other investments	18	**–**	920
Inventories	19	**3,457**	2,950
Retention receivables	15	**1,862**	2,597
Amounts due from contract customers	20	**1,109**	3,111
Trade debtors	21	**45,994**	3,616
Prepayments and other receivables	22	**16,482**	2,269
Amounts due from related parties	23	**–**	502
Bank balances and cash		**204,913**	57,836
		273,817	73,801
Current liabilities			
Trade and other payables	24	**26,161**	12,910
Amounts due to contract customers	20	**56**	3,194
Amounts due to related parties	25	**–**	51,474
Tax liabilities	26	**7,160**	17,302
Bank borrowings – due within one year	27	**731**	4,000
		34,108	88,880
Net current assets/(liabilities)		**239,709**	(15,079)
Total assets less current liabilities		**366,858**	34,739
Non-current liabilities			
Bank borrowings – due after one year	27	**3,718**	–
Minority interests		**562**	121
		362,578	34,618
Capital and reserves			
Share capital	28	**21,200**	10,185
Reserves	30	**341,378**	24,433
		362,578	34,618

The financial statements on pages 26 to 57 were approved and authorised for issue by the Board of Directors on 17 March 2003 and are signed on its behalf by:

Jiang Xiong
DIRECTOR

Jiang Qing
DIRECTOR

Balance Sheet

At 31 December 2002

	NOTES	RMB'000
Non-current assets		
Investments in subsidiaries	17	187,567
Current assets		
Amounts due from a subsidiary		107,072
Bank balances and cash		85,691
		192,763
Current liabilities		
Trade and other payables		5,939
Net current assets		186,824
		374,391
Capital and reserves		
Share capital	28	21,200
Reserves	30	353,191
		374,391

Jiang Xiong
DIRECTOR

Jiang Qing
DIRECTOR

For the year ended 31 December 2002

	Share capital	Share capital of subsidiaries comprising the Group	Share premium	Special reserve	Capital reserve	Statutory surplus reserve	Statutory public welfare fund	Statutory reserve fund	Accumulated profits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2001	–	10,185	–	–	–	5,178	2,589	–	11,039	28,991
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	–	10,185	–	–	–	7,080	7,493	1,888	7,972	34,618
Increase in share capital in accordance with the group reorganisation in preparation for listing of the Company's shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("Group Reorganisation")	–	83	–	–	–	–	–	–	–	83
Shares swap in accordance with the Group Reorganisation	16,960	(10,268)	–	(6,692)	–	–	–	–	–	–
Arising from issue of shares of a subsidiary	–	–	–	–	57,840	–	–	–	–	57,840
Issue of shares for cash by means of placing	4,240	–	165,360	–	–	–	–	–	–	169,600
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	**21,200**	**-**	**139,920**	**(6,692)**	**57,840**	**10,086**	**8,995**	**12,159**	**119,070**	**362,578**

Consolidated Cash Flow Statement

For the year ended 31 December 2002

	Year ended 31 December	
	2002	2001
	RMB'000	*RMB'000*
Cash flows from operating activities		
Profit before taxation	**142,272**	106,512
Adjustments for:		
Depreciation	**3,428**	744
Amortisation of goodwill	**2,965**	1,896
Interest income	**(956)**	(20)
Interest expenses	**338**	243
Operating cash flows before movements in working capital	**148,047**	109,375
(Increase) decrease in inventories	**(507)**	1,889
Increase in retention receivables	**(546)**	(1,923)
Decrease in amounts due from contract customers	**2,002**	1,322
Increase in trade debtors	**(42,378)**	(2,280)
Increase in prepayments and other receivables	**(14,213)**	(441)
Decrease (increase) in amounts due from related parties	**502**	(502)
Increase in trade and other payables	**5,512**	18,326
(Decrease) increase in amounts due to contract customers	**(3,138)**	3,194
(Decrease) increase in amounts due to related parties	**(51,474)**	5,747
Cash generated from operations	**43,807**	134,707
Interest paid	**(338)**	(243)
Income tax paid	**(17,231)**	(3,686)
Net cash from operating activities	**26,238**	130,778
Investing activities		
Purchase of property, plant and equipment	**(82,443)**	(33,689)
Payments for acquisition of additional interests in a subsidiary	**(1,272)**	(18,000)
Proceeds from disposal of other investments	**920**	–
Interest received	**956**	20
Net cash used in investing activities	**(81,839)**	(51,669)

	Year ended 31 December	
	2002	2001
	RMB'000	*RMB'000*
Financing activities		
Proceeds from new issue of shares less issue expenses	**144,160**	–
Capital contributions from minority shareholders	**229**	–
New bank loans raised	**5,120**	4,000
Repayment of bank loans	**(4,671)**	(2,000)
Dividends paid	**–**	(55,236)
Dividends paid to minority shareholders	**(83)**	(3,507)
Proceeds from new issue of shares in a subsidiary pursuant to Group Reorganisation	**57,923**	–
Net cash from (used in) financing activities	**202,678**	(56,743)
Net increase in cash and cash equivalents	**147,077**	22,366
Cash and cash equivalents at the beginning of the year	**57,836**	35,470
Cash and cash equivalents at the end of the year, representing		
Bank balances and cash	**204,913**	57,836

1. 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 (2001 Second Revision) Chapter 22 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 Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (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 in accordance with the Statement of Standard Accounting Practice ("SSAP") 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 ("Prospectus") issued by the Company dated 23 September 2002.

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

2. ADOPTION OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current period, the Group has adopted, for the first time, a number of new and revised SSAPs. The adoption of these SSAPs has resulted in a change in the format of presentation of the cash flow statement and presentation of the statement of changes in equity, but has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

Cash flow statements

In the current period, the Group has adopted SSAP 15 (Revised) "Cash Flow Statements". Under SSAP 15 (Revised), cash flows are classified under three headings – operating, investing and financing, rather than the previous five headings. Interest paid, which was previously presented under a separate heading, is classified as operating cash flows. Dividend paid, which was previously presented under a separate heading, is classified as financing cash flows. Interest income, which was previously presented under a separate heading, is classified as investing cash flows. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention.

The principal accounting policies which conform with accounting principles generally accepted in Hong Kong are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

Goodwill is capitalised and amortised on a straight-line basis over its useful economic life.

On disposal of a subsidiary, the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposal.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Revenue recognition

Revenue on installation contracts is recognised using the percentage of completion method by reference to the value of work carried out during the year.

Sales of goods are recognised when goods are delivered and title has passed.

Service income is recognised when services are provided.

Interest income from bank deposits is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

Property, plant and equipment other than construction in progress are stated at cost less accumulated depreciation and impairment losses.

Property, plant and equipment in the course of construction/renovation for production, rental or administrative purpose, or for purposes not yet determined, are classified as construction in progress and carried at cost, less any identified impairment loss. Cost includes construction/renovation expenditure, professional fees and, for qualified assets, borrowing costs capitalised and other relevant expenses directly attributable to such projects. No provision for depreciation is made on construction in progress until such time when construction/renovation work is completed and costs of construction/renovation are transferred to the appropriate category of property, plant and equipment.

Depreciation is provided to write off the cost of items of property, plant and equipment, using the straight line method, over their estimated useful lives which are as follows:

Leasehold land	Over the unexpired term of the relevant lease
Leasehold buildings	20 years
Other assets	5 – 10 years

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Installation contracts

When the outcome of an installation contract can be estimated reliably, revenue and costs are recognised in the income statement by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs.

Variations in contract works, claims and incentive payments are included to the extent that they have been agreed with the customers.

When the outcome of an installation contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that is probable will be recoverable. Contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Taxation

The charge for taxation is based on the results for the year after adjusting for items which are non-assessable or disallowed. Certain items of income and expense are recognised for tax purposes in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed under the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

Operating leases

Rentals under operating leases are charged to the income statement on a straight line basis over the term of the relevant lease.

Retirement benefits scheme

The retirement benefit costs charged in the income statement represent the contributions payable in respect of the current year to the Group's Mandatory Provident Fund scheme and state – sponsored retirement plan for its employees in Hong Kong and the People's Republic of China ("PRC") respectively.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

Transactions in currencies other than Renminbi are initially recorded at the rates of exchange ruling on dates of the transactions. Monetary assets and liabilities denominated in such currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

On consolidation, the financial statements of subsidiaries which are denominated in currencies other than Renminbi are translated at the rates ruling on the balance sheet date. Income and expenses items are translated at the average exchange rates for the period. All exchange differences arising on consolidation are dealt with in the reserves.

4. 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 year, and is analysed as follows:

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

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

5. SEGMENT INFORMATION

(a) 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.

5. SEGMENT INFORMATION *(Continued)*

(a) Business segments *(Continued)*

Principal activities are as follows:

For the year ended 31 December 2002

	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*
TURNOVER					
External sales	84,645	161,313	13,561	–	259,519
Inter-segment sales	–	19,040	–	(19,040)	–
Total	84,645	180,353	13,561	(19,040)	259,519

Inter-segment sales are charged at prevailing market rates.

	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*
RESULTS					
Segment results	38,652	95,370	11,306	–	145,328
Finance costs					(338)
Unallocated corporate expenses					(2,718)
Profit before taxation					142,272
Taxation					(16,100)
Profit before minority interests					126,172
Minority interests					(295)
Net profit for the year					125,877
As at 31 December 2002					
ASSETS					
Segment assets	96,047	216,146	1,185	–	313,378
Unallocated corporate assets					87,588
					400,966
LIABILITIES					
Segment liabilities	5,312	15,043	3,220	–	23,575
Unallocated corporate liabilities					14,251
					37,826
OTHER INFORMATION					
Additions of property, plant and equipment	2,623	79,707	–		
Depreciation and amortisation	2,974	3,401	–		

5. SEGMENT INFORMATION *(Continued)*

(a) Business segments *(Continued)*

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*
TURNOVER					
External sales	48,400	143,092	2,496	–	193,988
Inter-segment sales	–	9,967	–	(9,967)	–
Total	48,400	153,059	2,496	(9,967)	193,988

Inter-segment sales are charged at prevailing market rates.

RESULTS					
Segment results	19,141	85,471	2,143	–	106,755
Finance costs					(243)
Profit before taxation					106,512
Taxation					(7,728)
Profit before minority interests					98,784
Minority interests					(4,941)
Net profit for the year					93,843
As at 31 December 2001					
ASSETS					
Segment assets	39,331	82,866	–	–	122,197
Unallocated corporate assets					1,422
					123,619
LIABILITIES					
Segment liabilities	8,465	20,714	–	–	29,179
Unallocated corporate liabilities					59,701
					88,880
OTHER INFORMATION					
Additions of property, plant and equipment and intangible assets	14,407	34,105	–		
Depreciation and amortisation	1,976	664	–		

5. SEGMENT INFORMATION *(Continued)*

(b) Geographical segments

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

The analysis of the carrying amount of segment assets and additions to property, plant and equipment and intangible assets analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment and intangible assets	
	2002	2001	**2002**	2001
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
PRC	**313,378**	123,619	**82,330**	48,512
Hong Kong	**87,588**	–	**113**	–
	400,966	123,619	**82,443**	48,512

6. OTHER OPERATING INCOME

	2002	2001
	RMB'000	*RMB'000*
Interest income	**956**	20
Others	**3**	11
	959	31

7. PROFIT FROM OPERATIONS

	2002	2001
	RMB'000	*RMB'000*
Profit from operations has been arrived at after charging:		
Depreciation:		
Property, plant and equipment	**3,428**	744
Auditors' remuneration	**670**	5
Amortisation of goodwill included in administrative expenses	**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
Total staff cost	**24,987**	16,553
and crediting:		
Allowance for doubtful debts written back	**418**	–

8. FINANCE COSTS

	2002	2001
	RMB'000	*RMB'000*
Interest on bank borrowings wholly repayable within five years	**129**	243
Interest on bank borrowings with instalments repayment after five years	**209**	–
	338	243

9. DIRECTORS' EMOLUMENTS

	2002	2001
	RMB'000	*RMB'000*
Fees		
Executive directors	**–**	–
Independent non-executive directors	**212**	–
	212	–
Other emoluments (executive directors)		
Salaries and other benefits	**390**	100
Performance related incentive payments	**–**	–
Retirement benefits scheme contributions	**16**	18
	406	118
	618	118

Emoluments of the directors were as follows:

	2002	2001
Executive		
Director A	**139**	44
Director B	**128**	30
Director C	**139**	44
Independent non-executive		
Director D	**106**	–
Director E	**106**	–

10. EMPLOYEES' EMOLUMENTS

The five highest paid individuals included three (2001: two) directors of the Company details of whose emoluments are set out above. The emoluments of the remaining two (2001: three) individuals were as follows:

	2002	2001
	RMB'000	*RMB'000*
Salaries and other benefits	**864**	90
Performance related incentive payments	**–**	–
Retirement benefits scheme contributions	**35**	16
	899	106

No emoluments were paid by the Group to the directors and the highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office and no director waived any emoluments.

11. TAXATION

	2002	2001
	RMB'000	*RMB'000*
The charge comprises:		
The PRC – income tax	16,100	7,728

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.

With effective from the year 2000, one of the subsidiary, 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.

12. DIVIDENDS

	2002	2001
	RMB'000	*RMB'000*
Interim dividends paid	**–**	55,236
Interim dividends declared	**–**	32,980
Final dividend proposed	**10,600**	–
	10,600	88,216

No dividend has been paid or declared by the Company during the period. Dividends shown for 2001 represent dividends declared and/or paid by the subsidiaries to their then equity participants.

A final dividend of 0.5 HK cent (2001: Nil) per share has been proposed by the directors and is subject to approval by the shareholders in general meeting.

13. 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.

14. PROPERTY, PLANT AND EQUIPMENT

THE GROUP

	Land and buildings	Plant and equipment	Tooling and moulds	Furniture and fixtures	Computers	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
COST								
At 1 January 2002	10,142	18,512	–	8,021	681	1,518	–	38,874
Additions	–	4,690	35,470	112	93	2,533	39,545	82,443
Reclassification	–	(890)	890	–	–	–	–	–
At 31 December 2002	**10,142**	**22,312**	**36,360**	**8,133**	**774**	**4,051**	**39,545**	**121,317**
DEPRECIATION								
At 1 January 2002	13	871	–	253	40	856	–	2,033
Provided for the year	289	2,374	111	470	75	109	–	3,428
Reclassification	–	(63)	63	–	–	–	–	–
At 31 December 2002	**302**	**3,182**	**174**	**723**	**115**	**965**	**–**	**5,461**
NET BOOK VALUE								
At 31 December 2002	**9,840**	**19,130**	**36,186**	**7,410**	**659**	**3,086**	**39,545**	**115,856**
At 31 December 2001	10,129	17,641	–	7,768	641	662	–	36,841

The land and buildings are held in the PRC under medium term leases.

The construction in progress are properties under renovation held in the PRC under medium term leases.

The net book value of land and buildings under mortgage amounts to approximately RMB8,328,000 as at 31 December 2002 and there was no mortgage of the land and buildings as at 31 December 2001.

No depreciation for moulds amounting to RMB31,270,000 was provided as those moulds are still in development stage at the balance sheet date.

15. RETENTION RECEIVABLES

The amount represents retention money in respect of the progress payments receivable on the contract works and are normally receivable one year after completion of the relevant contract. Retention receivables within twelve months are classified as current assets.

16. GOODWILL

	RMB'000
AT COST	
At 1 January 2001 and 31 December 2002	14,823
AMORTISATION	
At 1 January 2001	1,896
Provided for the year	2,965
At 31 December 2002	**4,861**
NET BOOK VALUES	
At 31 December 2002	**9,962**
At 31 December 2001	12,927

The goodwill is amortised over 5 years.

17. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY
	2002
	RMB'000
Unlisted shares	**187,567**

Details of the subsidiaries are set out in note 34.

18. OTHER INVESTMENTS

These investments were acquired in 2000 by the Group and a sales contract was entered into in 2001. The transaction was completed in 2002 resulting no gains or loss on disposal. Accordingly, the investment was classified as a current asset as at 31 December 2001.

19. INVENTORIES

Inventories represent fire prevention and fighting equipment and are carried at cost.

	2002 RMB'000	2001 RMB'000
Raw materials	**1,086**	1,028
Work-in-progress	**347**	351
Finished goods	**2,024**	1,571
	3,457	2,950

20. AMOUNTS DUE FROM (TO) CONTRACT CUSTOMERS

	2002 RMB'000	2001 RMB'000
Contract costs incurred plus net profits recognised less recognised losses	**88,965**	54,316
Less: Progress billings	**(87,912)**	(54,399)
	1,053	(83)
Comprising:		
Amounts due from contract customers	**1,109**	3,111
Amounts due to contract customers	**(56)**	(3,194)
	1,053	(83)

21. TRADE DEBTORS

The credit period allowed by the Group to its customers is normally 30-90 days.

The aged analysis of trade debtors is as follows:

	2002 *RMB'000*	2001 *RMB'000*
Within 30 days	**39,769**	3,223
31 – 60 days	**4,927**	–
61 – 90 days	**561**	–
Over 90 days	**737**	393
	45,994	3,616

22. PREPAYMENTS AND OTHER RECEIVABLES

	2002 *RMB'000*	2001 *RMB'000*
Deposits paid for purchase of property, plant and equipment	**14,850**	–
Prepayments and other receivables	**3,936**	4,406
Less: Allowance for doubtful debts	**(2,304)**	(2,137)
	16,482	2,269

23. AMOUNTS DUE FROM RELATED PARTIES

Particulars of current accounts with a director and close family members of a director of the Company disclosed pursuant to section 161B of the Hong Kong Companies Ordinance are as follows:

	Terms of advance	**Balance at 31.12.2002** *RMB'000*	**Balance at 1.1.2002** *RMB'000*	**Maximum amount outstanding during the year** *RMB'000*
Mr. Jiang Qing (Director)	Unsecured, interest free and without fixed repayment terms	**–**	66	66
Fujian Wanan Technology Development Company Limited ("Fujian Wanan") (note a below)	Unsecured, interest free and without fixed repayment terms	**–**	436	686
		–	502	

Note:

(a) Fujian Wanan is a company controlled by close family members of a director of the Company, Mr. Jiang Xiong, till February 2002.

(b) The amounts were fully settled during the year.

24. TRADE AND OTHER PAYABLES

	2002 *RMB'000*	2001 *RMB'000*
Trade creditors	**625**	4,044
Amount payable on acquisition of property, plant and equipment	**10,700**	5,120
Accrued costs and charges	**11,617**	3,746
Receipts in advance	**3,219**	–
	26,161	12,910

24. TRADE AND OTHER PAYABLES *(Continued)*

The aged analysis of trade creditors included in trade and other payables is as follows:

	2002	2001
	RMB'000	*RMB'000*
Within 30 days	**326**	2,626
31 – 60 days	**139**	1,055
61 – 90 days	**–**	–
Over 90 days	**160**	363
	625	4,044

25. AMOUNTS DUE TO RELATED PARTIES

The amounts comprising current accounts with directors of the Company, close family members of a director of the Company and a company controlled by them and were unsecured, interest free and had no fixed repayment terms. The amount were fully repaid during the year.

26. TAX LIABILITIES

	2002	2001
	RMB'000	*RMB'000*
Value added tax	**2,851**	12,084
Sales tax and other levies	**1,213**	991
Income tax	**3,096**	4,227
	7,160	17,302

27. BANK BORROWINGS

	2002 *RMB'000*	2001 *RMB'000*
Bank loan	**–**	4,000
Mortgage loan	**4,449**	–
	4,449	4,000
Secured	**4,449**	–
Unsecured	**–**	4,000
	4,449	4,000
The maturity of the above loans are as follows:		
On demand or within one year	**731**	4,000
More than one year , but not exceeding two years	**731**	–
More than two years, but not exceeding five years	**2,194**	–
More than five years	**793**	–
	4,449	4,000
Less: Amounts due within one year shown under current liabilities	**(731)**	(4,000)
Amount due after one year	**3,718**	–

28. SHARE CAPITAL

Authorised

	No. of shares	*HK$'000*
Shares of HK$0.01 each on incorporation	38,000,000	380
Shares of HK$0.10 each		
Consolidation *(Note a below)*	3,800,000	380
Shares of HK$0.01 each		
Subdivision *(Note b below)*	38,000,000	380
Increase of share capital *(Note c below)*	9,962,000,000	99,620
Balance as at 31 December 2002	**10,000,000,000**	**100,000**

Notes:

(a) On 3 January 2002, pursuant to a resolution in writing passed by the subscriber of the Company, the nominal value of every share of the Company was changed from HK$0.01 to HK$0.10 each.

(b) Pursuant to the resolution in writing passed on 11 March 2002 by the sole shareholder of the Company, each of the authorised, existing issued and unissued shares of HK$0.10 of the Company was sub-divided into 10 shares of HK$0.01 each.

(c) Pursuant to the written resolution passed on 12 July 2002 by the sole shareholder of the Company, the authorised share capital of the Company was increased from HK$380,000 to HK$100,000,000 by the creation of 9,962,000,000 additional shares of HK$0.01 each.

Issued and fully paid

	No. of shares	*HK$'000*
Shares of HK$0.10 each		
Issued on 19 February 2002	1	–
Shares of HK$0.01 each		
Subdivision *(Note b above)*	10	–
Issue of shares in accordance with the Group Reorganisation on 20 September 2002	1,599,999,990	16,000
Placing of new shares on 27 September 2002	400,000,000	4,000
Balance as at 31 December 2002	**2,000,000,000**	**20,000**

28. SHARE CAPITAL *(Continued)*

	RMB'000
Shown in the financial statements	
Balance as at 31 December 2002	**21,200**

Notes:

(a) The Company was incorporated on 3 January 2002 with an authorised share capital of HK$380,000 divided into 38,000,000 shares of HK$0.01 each. On 19 February 2002, one share of HK$0.10 was issued fully paid and allotted to the subscriber of the Company.

(b) On 20 September 2002, the Company issued a total number of 1,599,999,990 new shares of HK$0.01 each for shares in a subsidiary, Wang Sing Technology Limited, pursuant to the Group Reorganisation, details of which were set out in the paragraph headed "Corporate Reorganisation" in Appendix IV of the Prospectus.

(c) On 27 September 2002, the Company issued a total of 400,000,000 new shares of HK$0.01 each at a price of HK$0.40 per share by way of placing.

As the Company was incorporated on 3 January 2002, there were no issued share capital of the Company as at 31 December 2001.

The share capital shown on the consolidated balance sheet as at 31 December 2001 represented the aggregate amount of the capital of the companies comprising the Group attributable to the Company as at that date before the Group Reorganisation.

All the shares which were issued during the period rank pari passu in all respects.

29. 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 expire in January 2012. Under the Scheme, the board of directors of the Company 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 of the Company 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 has been granted by the Company during the period since the adoption of the Scheme.

30. 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	–	–	–	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 from issue of shares for cash by means 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	**139,920**	**(6,692)**	**57,840**	**10,086**	**8,995**	**12,159**	**119,070**	**341,378**

30. RESERVES *(Continued)*

	Share premium RMB'000	Contributed surplus RMB'000	Accumulated profits RMB'000	Total RMB'000
THE COMPANY				
Pursuant to Group Reorganisation	–	170,607	–	170,607
Premium arising from issue of shares for cash by means of placing	165,360	–	–	165,360
Expenses incurred in connection with the issue of shares	(25,440)	–	–	(25,440)
Net profit for the year	–	–	42,664	42,664
At 31 December 2002	**139,920**	**170,607**	**42,664**	**353,191**

(a) Statutory surplus reserve

Pursuant to the articles of association of group companies established in the PRC, the group companies are required to appropriate 10% or an amount to be determined by the directors out of their respective profits after taxation in accordance with the relevant PRC accounting rules and financial regulations before appropriation of profits each year to the statutory surplus reserve until their balances reach 50% of their respective registered capital. In normal circumstances, the statutory surplus reserve shall only be used for making up losses, capitalisation into capital and expansion of their respective production facilities and operations.

(b) Statutory public welfare fund

Pursuant to the articles of association of the group companies established in the PRC, these companies are required to appropriate from their respective aforesaid profits after taxation at the rate of 5% to 10% or an amount to be determined by the directors to the statutory public welfare fund. The statutory public welfare fund can only be utilised on capital items for employees collective welfare. Individual employees only have the right to use these facilities, the titles to which will remain with the group companies. The statutory public welfare fund forms part of the equity and is non-distributable other than in liquidation.

(c) Statutory reserve fund

In accordance with the Law of the PRC on foreign enterprises, Fujian Wanyou is required to transfer an amount of not less than 10% of its profit after tax to the statutory reserve fund, which may be used for making up losses and capitalisation into capital.

30. RESERVES *(Continued)*

(d) Contributed surplus

The contributed surplus of the Company represents the difference between the fair values of the underlying net assets of the subsidiaries at the date on which they were acquired by the Company and the nominal amount of the Company's shares issued under the Group Reorganisation.

(e) Special reserve

The special reserve represents the difference between the nominal value of the shares of the acquired subsidiaries and the nominal value of the Company's shares issued for the acquisition under the Group Reorganisation.

(f) Capital reserve

The capital reserve represents the share premium arising from the issue of shares of a subsidiary to three investors in accordance with the Group Reorganisation.

(g) The Company's reserves available for distribution to shareholders as at 31 December 2002 represents the aggregate of share premium, contributed surplus and accumulated profits of RMB353,191,000.

31. MAJOR NON-CASH TRANSACTIONS

(a) On 20 September 2002, the Company issued an aggregate 1,599,999,990 new shares of HK$0.01 each as consideration for the exchange of investment in a subsidiary held by a director and third parties for the purpose of listing of its shares on the Stock Exchange.

(b) Wang Sing Technology Limited, a wholly-owned subsidiary of the Company, entered into an agreement during the year ended 31 December 2001 with Mr. Jiang Qing to acquire 3% held by him in Fujian Wanyou at a consideration of HK$1.2 million pursuant to the Group Reorganisation. The consideration was paid in March 2002.

32. CAPITAL COMMITMENTS

	2002	2001
	RMB'000	*RMB'000*
Capital expenditure contracted for but not provided in the financial statements in respect of:		
– acquisition of moulds and equipment	**10,917**	–
– acquisition of technical know-how	**3,350**	–
– leasehold improvements	**10,500**	–
	24,767	–

33. OPERATING LEASE COMMITMENTS

At the balance sheet date, the commitments under non-cancellable operating leases in respect of premises are as follows:

	2002	2001
	RMB'000	*RMB'000*
Amounts payable:		
Within one year	**522**	263
In the second to fifth year inclusive	**964**	778
Over five years	**1,615**	1,805
	3,101	2,846

Operating lease payments represent rentals payable by the Group for certain of its office and sales offices. Lease are negotiated for an average term of 2 years and rentals are fixed for an average of 2 years.

34. PARTICULARS OF THE SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2002 are as follows:

Name/ kind of legal entity	**Place/ country of incorporation/ operation**	**Issued and fully paid share capital/ registered capital**	**Attributable equity interest held by the Company Directly**	**Indirectly**	**Principal activities**
Wang Sing Technology Limited/limited liability company	British Virgin Islands	US$4,984,359	100%	–	Investment holding
Fujian Wanyou/wholly foreign-owned enterprise	PRC	HK$50,500,000	–	100%	Production and sales of fire prevention and fighting products
福建省萬友消防工程有限公司 Fujian Wanyou Fire Engineering Company Limited/limited liability enterprise	PRC	RMB30,000,000	–	99%	Provision of fire prevention and fighting systems installation and maintenance services
Wang You Fire Technology Limited/limited liability company	State of Delaware, United States of America	US$1	–	100%	Dormant

Other than Wang Sing Technology Limited, which operates in Hong Kong, all subsidiaries operate in their country of incorporation.

35. RELATED PARTY TRANSACTIONS

During the year, the following related party transactions took place:

1. The Group maintained interest free current accounts with directors of the Company, close family members of a director of the Company and a company controlled by them. Details of the balances due to and from the related parties are set out in Note 25 and 23 respectively.

2. Bank facilities of the Group were secured on guarantees from a company controlled by close family members of a director of the Company, Mr. Jiang Xiong. The guarantees were released during the year.

3. The directors underwent a series of transactions with the Group in preparation for the listing of the Company's shares on the Stock Exchange. Details of the transactions are set out in the paragraph headed "Corporate Reorganisation" in appendix IV of the Prospectus.

36. RETIREMENT BENEFITS SCHEMES

The group companies operating in the PRC participate in defined contribution retirement schemes organized by the relevant local government authorities in the PRC. All eligible PRC employees are entitled to an annual pension equal to a fixed portion of their ending basic salaries at their retirement dates. The Group is required to make specific contributions to the retirement schemes at a rate of 18% (2001: 19%) of basic salary of its eligible PRC employees and have no further obligation for post-retirement benefits beyond the annual contributions made. Pursuant to these arrangements, the retirement plan contributions paid for the year ended 31 December 2002 amounted to approximately RMB1,370,000 (2001: RMB2,391,000).

In accordance with the relevant mandatory provident fund laws and regulations of Hong Kong, the Group operates a Mandatory Provident Fund ("MPF") scheme ("MPF Scheme") for all qualifying Hong Kong employees. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent MPF service provider. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect of MPF Scheme is to make the required contributions under the scheme. The retirement benefits scheme contributions arising from the MPF Scheme charged to the income statement represent contributions payable to the funds by the Group at rates specified in the rules of the scheme.

During the year, the Group made retirement benefits scheme contributions amounting to RMB1,421,000 (2001: RMB2,391,000).

	For the year ended 31 December		
	2000	2001	**2002**
	RMB'000	*RMB'000*	***RMB'000***
RESULTS			
Turnover	84,007	193,988	**259,519**
Profit before taxation	44,643	106,512	**142,272**
Taxation	(184)	(7,728)	**(16,100)**
Profit before minority interests	44,459	98,784	**126,172**
Minority interests	(3,000)	(4,941)	**(295)**
Net profit for the year	41,459	93,843	**125,877**
Earnings per share (RMB cents)			
Basic	3.0	6.8	**7.5**

	As at 31 December		
	2000	2001	**2002**
	RMB'000	*RMB'000*	***RMB'000***
ASSETS AND LIABILITIES			
Total assets	53,446	123,619	**400,966**
Total liabilities	(20,299)	(88,880)	**(37,826)**
Minority interests	(4,156)	(121)	**(562)**
Shareholders' funds	28,991	34,618	**362,578**

Notes:

1. The results for each of the two years ended 31 December 2001 were extracted from the prospectus of the Company dated 23 September 2002. The earnings per share for the two years were computed based on 1,381,600,000 shares that would have been in issue throughout the two years on the assumption that the group reorganisation has been completed as at 1 January 2000.

2. Assets, liabilities and minority interests of the Group as at 31 December 2000 and 2001 were extracted from the prospectus of the Company dated 23 September 2002.

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Wanyou Fire Safety Technology Holdings Limited (the "Company") will be held at Bowen Room, 7th Floor, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong on 17 April 2003 (Thursday) at 3:30 p.m. for the following purposes:

1. To consider and adopt the Audited Financial Statements of the Company and the Report of the Directors and Auditors for the year ended 31 December 2002;

2. To approve and declare a final dividend;

3. To re-elect retiring Directors and authorize the board of directors (the "Board") to fix their remuneration;

4. To re-appoint Auditors and authorise the Board to fix their remuneration; and

5. By way of special business, to consider and, if thought fit, pass with or without amendments, the following resolution as ordinary resolution:

ORDINARY RESOLUTION

"**THAT**:

(a) subject to paragraph (c) of this Resolution, the Directors be and are hereby granted an unconditional general mandate to exercise during the Relevant Period (as hereinafter defined in this Resolution) to exercising all the power of the Company to allot, issue and deal with additional shares in the Company (the "Shares") and to allot, issue or grant securities convertible or exchangeable into Shares, or options, warrants or similar rights to subscribe for Shares or such convertible or exchangeable securities and to make or grant offers, agreements and options in respect thereof;

(b) the mandate referred to in paragraph (a) shall authorize the Directors during the Relevant Period to make or grant offers, agreements, options and rights of exchange or conversion which might require the exercise of such power after the end of the Relevant Period;

(c) the aggregate nominal amount of share capital allotted, issued or dealt with or agreed conditionally or unconditionally to be allotted or issued or dealt with (whether pursuant to options or otherwise) by the Directors pursuant to the mandate referred to in paragraph (a) above, otherwise than pursuant to:

   (i) a Rights Issue;

   (ii) the exercise of rights of subscription or conversion under the terms of any warrants or convertible securities (including, without limitation, the Notes) issued by the Company or any securities which are convertible or exchangeable into Shares;

(iii) the exercise of the subscription rights under options granted under any option scheme or similar arrangement of the Company for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of Shares or rights to acquire Shares; or

(iv) any scrip dividend or similar arrangement providing for the allotment and issue of Shares or other securities of the Company in lieu of the whole or part of a dividend on Shares in accordance with the Bye-laws of the Company,

shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this Resolution and the said approval in paragraph (a) shall be limited accordingly;

(d) for the purpose of this Resolution:

"Relevant Period" means the period from the passing of this Resolution up to:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or the articles of association of the Company to be held; and

(iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting,

whichever is the earliest; and

"Rights Issue" means an offer of Shares or warrants, options or other securities of the Company giving rights to subscribe for Shares open for a period fixed by the Directors to holders of Shares on the register of Shareholders on a fixed record date in proportion to their then holdings of such Shares as at that date (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognized regulatory body or any stock exchange in, any territory applicable to the Company)."

6. By way of special business, to consider and, if thought fit, pass with or without amendments, the following resolution as ordinary resolution:

ORDINARY RESOLUTION

"**THAT**:

(a) subject to paragraph (b) of this Resolution, the exercise by the Directors of all powers of the Company during the Relevant Period (as hereinafter defined in this Resolution) to repurchase its own shares (the "Shares") be and is hereby generally and unconditionally approved;

(b) the aggregate nominal amount of Shares which may be repurchased by the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), or any other stock exchange or any other stock exchange recognized for this purpose by the Securities and Futures Commission of Hong Kong and the Stock Exchange under the Hong Kong Code on Share Repurchase pursuant to the approval in paragraph (a) above shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this Resolution, and the said approval shall be limited accordingly; and

(c) for the purpose of this Resolution:

"Relevant Period" means the period from the passing of this Resolution up to:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or the articles of association of the Company to be held; and

(iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting,

whichever is the earliest."

7. By way of special business, to consider and, if thought fit, pass with or without amendments, the following resolution as ordinary resolution:

ORDINARY RESOLUTION

"**THAT** conditional upon the passing of Ordinary Resolutions No. 5 and 6 set out in this notice, of which this Resolution forms part, the aggregate nominal amount of share capital of the Company that may be allotted, issued or dealt with or agreed conditionally or unconditionally to be allotted, issued or dealt with by the Directors pursuant to and in accordance with the mandate granted under Ordinary Resolution No. 5 be and is hereby increased and extended by the addition thereto of the aggregate nominal amount of the shares in the Company repurchased by the Company pursuant to and in accordance with the mandate granted under Ordinary Resolution No. 6 since the granting of such repurchase mandate, provided that such amount shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this Resolution."

By Order of the Board
Wanyou Fire Safety Technology Holdings Limited
Chan Siu Tat
Company secretary

Hong Kong, 17 March 2003

Principal place of business:
Unit 6-7, Office B, 5th Floor,
K. Wah Centre, No. 191 Java Road,
North Point, Hong Kong

Notes:

1. A member entitled to attend and vote at the Annual General Meeting convened by the above notice is entitled to appoint one or more proxies to attend and vote on his behalf. A proxy need not be a member of the Company.

2. To be valid, a form of proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority must be deposited with the Company's branch share registrar and transfer office in Hong Kong Computershare Hong Kong Investor Services Limited of 17th Floor, Hopewell Centre, 183 Queen's Road East Hong Kong not less than 48 hours before the time appointed for the holding of the Annual General Meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude a member from attending and voting in person.

3. If two or more persons are joint holders of a share of the Company, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the other joint holder(s). For this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.

4. The register of members of the Company will be closed from 14 April 2003 to 17 April 2003, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend, all transfers, accompanied by the relevant share certificates, must be lodged for registration with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited of 17th Floor, Hopewell Centre, 183 Queen's Road East Hong Kong not later than 4:00 p.m. on Friday, 11 April 2003.