



China Fire Safety Enterprise Group Holdings Limited

中國消防企業集團控股有限公司*

(formerly known as Wanyou Fire Safety Technology Holdings Limited

萬友消防科技控股有限公司)

(Incorporated in the Cayman Islands with limited liability)



Third Quarterly Report 2003

** For identification purpose only*

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

This report, for which the directors (the “Directors”) of China Fire Safety Enterprise Group Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

Third Quarterly Results Announcement for 2003

HIGHLIGHTS

- With the impacts of SARS subsiding, the business activities of the Group are back on track.
- For the three months ended 30th September, 2003, the Group's unaudited turnover increased by 13.3% to RMB86.9 million and profits grew by 2.2% to RMB39.5 million when compared with the corresponding period in 2002.
- Earnings per share for the nine months and three months ended 30th September, 2003 were respectively RMB4.38 cents and RMB1.97 cents per share.

CHANGE OF COMPANY NAME AND STOCK SHORT NAME

At the extraordinary general meeting held on 6th October, 2003, the special resolution for changing the name of the Company from "Wanyou Fire Safety Technology Holdings Limited 萬友消防科技控股有限公司" to "China Fire Safety Enterprise Group Holdings Limited" and that "中國消防企業集團控股有限公司" be adopted as the Chinese name of the Company for identification purpose only, was duly passed. In addition, with effect from 21st October, 2003, the stock short name of the shares in the Company for trading on the Stock Exchange has been changed from "WANYOU FIRE" to "CHINA FIRE" in English and from "萬友消防" to "中國消防" in Chinese.

RESULTS

The board of Directors (the "Board") of the Company is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the nine months and the three months ended 30th September, 2003, together with the comparative figures for the corresponding periods in 2002, as follows:

	Notes	(Unaudited) For the nine months ended 30th September,		(Unaudited) For the three months ended 30th September,	
		2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Turnover	2	197,813	194,008	86,899	76,728
Cost of sales		(89,846)	(77,260)	(39,646)	(30,687)
Gross Profit		107,967	116,748	47,253	46,041
Other revenue		1,108	675	386	485
Distribution costs		(1,119)	(1,393)	(330)	(288)
Administrative expenses		(11,886)	(10,069)	(4,103)	(3,866)
Profit from operations		96,070	105,961	43,206	42,372
Finance costs		(176)	(303)	(62)	(58)
		95,894	105,658	43,144	42,314
Taxation	3	(8,137)	(10,153)	(3,527)	(3,510)
Profit after taxation		87,757	95,505	39,617	38,804
Minority interests		(247)	(234)	(138)	(174)
Net profit for the period		87,510	95,271	39,479	38,630
Interim dividend declared	4	21,200	-	-	-
Earnings per share					
- Basic and diluted (RMB cents)	5	4.38	6.11	1.97	2.39

Notes:

1. Basis of presentation

The Group's unaudited consolidated results have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants. The accounting policies adopted in preparing the unaudited consolidated results for the period ended 30th September, 2003 and 2002 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2002, except that the Group has adopted the SSAP 12 (revised) "Income Taxes" issued by the Hong Kong Society of Accountants which became effective on 1st January, 2003. The adoption of SSAP 12 (revised) has no material impact on the Group's unaudited consolidated results.

2. Turnover

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

	(Unaudited) For the nine months ended 30th September, 2003		(Unaudited) For the three months ended 30th September, 2003	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Revenue from installation contracts	56,504	65,933	19,641	17,549
Sale of goods	116,806	119,225	54,951	50,892
Provision of maintenance services	26,863	11,408	13,188	9,004
	200,173	196,566	87,780	77,445
Less: Sales tax	(2,360)	(2,558)	(881)	(717)
	197,813	194,008	86,899	76,728

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

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

	(Unaudited) For the nine months ended 30th September, 2003		(Unaudited) For the three months ended 30th September, 2003	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Revenue from installation contracts				
– Fujian Province	55,458	65,933	19,641	17,549
– Other Provinces	1,046	–	–	–
	56,504	65,933	19,641	17,549
Sale of goods				
– Fujian Province	67,415	54,846	28,662	24,176
– Other Provinces	49,391	64,379	26,289	26,716
	116,806	119,225	54,951	50,892
Provision of maintenance services				
– Fujian Province	26,863	11,408	13,188	9,004
	200,173	196,566	87,780	77,445
Less: Sales tax	(2,360)	(2,558)	(881)	(717)
	197,813	194,008	86,899	76,728

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

3. Taxation

(Unaudited) For the nine months ended 30th September, 2003		(Unaudited) For the three months ended 30th September, 2003	
2003	2002	2003	2002
RMB'000	RMB'000	RMB'000	RMB'000

The charge comprises:

The PRC – income tax	<u>8,137</u>	<u>10,153</u>	<u>3,527</u>	<u>3,510</u>
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No provision for Hong Kong profits tax has been made as the Group's income neither arises in, nor is derived from Hong Kong.

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

After 福建萬友消防科技有限公司 (Fujian Wanyou Fire Fighting Science and Technology Co., Ltd.) ("Fujian Wanyou"), an indirectly wholly owned subsidiary of the Company, changed its status to a wholly foreign-owned enterprise in December 2001, it is entitled to a two-years' exemption from income tax followed by a three-years' 50% tax reduction commencing from the first-profit-making year with effect from 2002.

There is no significant unprovided deferred taxation for the nine months and three months ended 30th September, 2003 and 2002 and at the respective balance sheet dates.

4. Dividends

For the nine months ended 30th September, 2003		For the three months ended 30th September, 2003	
2003	2002	2003	2002
RMB'000	RMB'000	RMB'000	RMB'000

Final dividend for the year ended
31st December, 2002, paid,
of HK0.5 cent per share

<u>10,600</u>	<u>-</u>	<u>-</u>	<u>-</u>
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Interim dividend, declared,
of HK1 cent per share

<u>21,200</u>	<u>-</u>	<u>-</u>	<u>-</u>
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The Board does not recommend the payment of an interim dividend for the three months ended 30th September, 2003.

5. Earnings per share

The calculation of basic earnings per share for the nine months and three months ended 30th September, 2003 were based on the unaudited consolidated net profit of RMB87,510,000 and RMB39,479,000 respectively (unaudited consolidated net profit for the nine months and three months ended 30th September, 2002: RMB95,271,000 and RMB38,630,000 respectively) and on the weighted average of 2,000,000,000 shares (2002: 1,560,260,806 shares and 1,617,391,304 shares respectively for the nine months and three months ended 30th September, 2002) that would have been in issue throughout the period on the assumption that the group reorganisation (the "Reorganisation") to rationalise the structure of the Group in preparation of

the listing of the Company's shares on the GEM of the Stock Exchange has been completed as at 1st January, 2002. Further details of the Reorganisation are set out in the Company's prospectus (the "Prospectus") dated 23rd September, 2002.

There is no diluted earnings per share as there was no potential dilutive ordinary shares outstanding during the nine months and three months ended 30th September, 2003 and 2002.

MOVEMENT IN RESERVES

	Share premium	Special reserve	Capital reserves	Statutory surplus fund	Statutory Public Welfare fund	Statutory reserve fund	Accu- mulated Profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)							
At 1st January, 2002	-	-	-	7,080	7,493	1,888	7,972	24,433
Arising from issue of shares of a subsidiary	-	-	57,840	-	-	-	-	57,840
Share swap in accordance with the Group Reorganization	-	(6,693)	-	-	-	-	-	(6,693)
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	(25,429)	-	-	-	-	-	-	(25,429)
Net profit for the period	-	-	-	-	-	-	95,271	95,271
At 30th September, 2002	<u>139,931</u>	<u>(6,693)</u>	<u>57,840</u>	<u>7,080</u>	<u>7,493</u>	<u>1,888</u>	<u>103,243</u>	<u>310,782</u>
At 1st January, 2003	139,920	(6,692)	57,840	10,086	8,995	12,159	119,070	341,378
Final dividend paid for the year ended 31st December, 2002	-	-	-	-	-	-	(10,600)	(10,600)
Net profit for the period	-	-	-	-	-	-	87,510	87,510
At 30th September, 2003	<u>139,920</u>	<u>(6,692)</u>	<u>57,840</u>	<u>10,086</u>	<u>8,995</u>	<u>12,159</u>	<u>195,980</u>	<u>418,288</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

With the impacts of SARS subsiding, the business activities of the Group are returning to normal. Through the concerted effort of the management and staff of the Group, for the three months ended 30th September, 2003, the Group's unaudited turnover increased by 13.3% to RMB86.9 million, profits also grew by 2.2% to RMB39.5 million when compared with the corresponding period in 2002.

The Group's turnover is generally divided into three categories: the sale of fire prevention and fighting products, provision of fire prevention system installation services and provision of fire prevention and fighting system maintenance services. For the three months ended 30th September, 2003, the turnover of product sales, installation services and maintenance services increased by 8%, 12% and 46% respectively, as compared with the corresponding period in 2002. On the alleviation of the SARS impact, the business activities of product

sales are returning to normal. Installation services are also gradually back on track as most of those postponed projects have resumed. In addition, the rising awareness of public safety and tightening regulations support the Group's accelerating maintenance revenue. The gross profit margin of the Group for the three months ended 30th September, 2003 decreased to 54.4%, from 60% of the corresponding period in 2002 was mainly due to the increased competition in the market when the cross provinces sales restrictions were lifted.

Prospects

The Directors believe that the China's fire safety industry is growing and the long term growth prospects are strong. However, the lifting of the restriction of cross-provincial sales in 2002 has led to increased competition in the fire safety market and intensifying pressure on prices and profit margins. Although the Group's focus is on maintaining a high rate of organic growth based upon its current core business, the Directors will seek out opportunities for selective acquisitions in order to enlarge and diversify the Group's product offering and expand its operations so as to maintain the Group's competitiveness. Currently, the Group is exploring proposals to expand its product offering to fire retardant materials, centralised electronic emergency lighting system, fire engines and other fire fighting equipment and emergency lighting equipment through increased effort in research and development, acquisitions, forming of joint ventures and other forms of cooperation. In addition, the Group is considering expansion of its operations to other provinces in the PRC. The Group is in negotiations with certain enterprises in the northern and western parts of the PRC (such as Beijing and Sichuan) with a view of possible acquisitions or cooperation arrangements.

It is believed that the Group's strong financial position can support the needs for its future growth, increased commitments to research and development and acquisitions and other cooperation arrangements. However, the Directors will continue to monitor the working capital requirements of the Group and may take out bank loans in future for working capital or investment purposes in order to improve the return on capital.

The Group is continuously strengthening its internal management. On 16th October, 2003, two non-executive directors, Mr. Richard Owen Pyvis and Ms. Josephine Price, were appointed. Mr. Pyvis, the former chief executive officer of CLSA Group, is a veteran in commercial and investment banking while Ms. Price, the managing director of CLSA Private Equity Limited, is a non-executive director of various public and private companies. Their entry onto the Board will certainly enhance the management of the Group, particularly on corporate finance matters and corporate governance. The Group has also set up an executive committee comprising the Chief Executive Officer, Chief Operation Officer, Chief Financial Officer and other division heads to monitor and evaluate operational, administrative and financial matters of the Group. With all these set up, the Group is confident that it will be able to achieve further milestones in its future business development.

INTERESTS OF DIRECTORS

Save as disclosed below, as of 30th September, 2003, none of the Directors or chief executive has any interest or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (Cap. 571 of the Laws of Hong Kong) ("SFO")) which

were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or were required, pursuant to section 352 of the SFO to be entered in the register required to be kept therein or which were required, pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

Name of Director	Company/name of associated corporation	Capacity and types of interest	Number and class of securities	Approximate percentage of shareholding in the same class of securities
Mr. Jiang Xiong	Company	Beneficial owner	1,281,600,000 shares of HK\$0.01 each in the capital of the Company (L)	64.08%

The letter "L" denotes a long position.

Mr. Jiang Xiong, an executive Director and the chairman of the Company, entered into a sale and purchase agreement on 3rd October, 2003 to place a total of 200,000,000 shares of the Company to investors at HK\$0.35 per share (the "Placement"). The shares placed under the Placement represent 10% of the existing issued share capital of the Company, comprising (i) 100,000,000 shares to The Hong Kong Beijing Finance and Investment Limited ("Beijing Finance"), an independent third party which is not connected with any of the directors, chief executive, substantial shareholders or management shareholders of the Company or any of their respective associates (as such terms are defined in the GEM Listing Rules); and (ii) 100,000,000 shares to Cantus Limited, which prior to the Placement held 160,000,000 shares, representing 8% of the existing issued share capital of the Company, each at a price of HK\$0.35 per share. The Placement was completed on 10th October, 2003. In addition, on 8th October, 2003, Mr. Jiang Xiong transferred 100,000,000 shares of the Company to Mr. Jiang Qing, an executive Director and a brother of Mr. Jiang Xiong (the "Transfer"), at a nominal consideration of HK\$1. The shares transferred represent 5% of the existing issued share capital of the Company.

After the Placement and the Transfer, the number of shares held by Mr. Jiang Xiong was reduced to 981,600,000, representing 49.08% of the existing issued share capital of the Company. Mr. Jiang Xiong has undertaken (a) not to reduce his holding of shares in the Company for a period of three months from 8th October, 2003; and (b) for a further period of nine months immediately thereafter, not to reduce his shareholding in the Company such that he would cease to be a controlling shareholder of the Company (as defined in the Hong Kong Code on Takeovers and Mergers), unless with the prior consent of CLSA Limited, Cantus Limited and Beijing Finance.

INTERESTS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

Save as disclosed below, so far as is known to any Director or chief executive of the Company, as at 30th September, 2003, no person (not being a Directors or chief executive of the Company nor a member of the Group) has an interest or short position in the shares, underlying shares or debentures of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

Interests of substantial shareholders

Name of shareholder	Name of member of the Group	Capacity and type of interest	Number and class of securities	Approximate percentage of shareholding
Cantus Limited	Company	Beneficial owner	160,000,000 shares of HK\$0.01 each in the capital of the Company ("Shares") (L)	8%
Aria Investment Partners L.P.	Company	Interest of a controlled corporation	160,000,000 Shares (L) (Note 1)	8%
CLSA Private Equity Management Limited	Company	Investment Manager	160,000,000 Shares (L) (Note 2)	8%
CLSA (S.E.A.) Limited	Company	Interest of a controlled corporation	160,000,000 Shares (L) (Note 3)	8%
Credit Lyonnais Securities Asia BV	Company	Interest of a controlled corporation	160,000,000 Shares (L) (Note 4)	8%
Credit Lyonnais Capital Markets Asia BV	Company	Interest of a controlled corporation	160,000,000 Shares (L) (Note 5)	8%
Credit Lyonnais Capital Markets International SASU	Company	Interest of a controlled corporation	160,000,000 Shares (L) (Note 6)	8%
Credit Lyonnais S.A.	Company	Interest of a controlled corporation	160,000,000 Shares (L) (Note 7)	8%

Notes:

1. Aria Investment Partners, L.P. is beneficially interested in the entire issued share capital of Cantus Limited and is deemed or taken to be interested in the 160,000,000 shares in which Cantus Limited has declared an interest for the purpose of the SFO.
2. CLSA Private Equity Management Limited is the investment manager of Aria Investment Partners, L.P..
3. CLSA (S.E.A.) Limited is beneficially interested in the entire issued share capital of CLSA Private Equity Management Limited and is deemed or taken to be interested in the 160,000,000 shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO.
4. Credit Lyonnais Securities Asia BV is indirectly interested in the entire issued share capital of CLSA Private Equity Management Limited and is deemed or taken to be interested in the 160,000,000 shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO.
5. Credit Lyonnais Capital Markets Asia BV is beneficially interested in 65% of the share capital of Credit Lyonnais Securities Asia BV and is deemed or taken to be interested in the 160,000,000 shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Notes 4 above.
6. Credit Lyonnais Capital Markets International SASU is beneficially interested in the entire issued share capital of Credit Lyonnais Capital Markets Asia BV and is deemed or taken to be interested in the 160,000,000 shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Notes 4 and 5 above.
7. Credit Lyonnais S.A. is beneficially interested in the entire issued share capital of Credit Lyonnais Capital Markets International SASU and is deemed or taken to be interested in the 160,000,000 shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Notes 4, 5 and 6 above.
8. The letter "L" denotes a long position.

Mr. Jiang Xiong entered into a sale and purchase agreement on 3rd October, 2003 to place a total of 200,000,000 shares of the Company to investors at HK\$0.35 per share (the "Placement"). The shares placed under the Placement represent 10% of the existing issued share capital of the Company, comprising (i) 100,000,000 shares to Beijing Finance; and (ii) 100,000,000 shares to Cantus Limited, each at a price of HK\$0.35 per share. The Placement was completed on 10th October, 2003. After the Placement, Beijing Finance and Cantus Limited respectively hold 100,000,000 shares and 262,650,000 shares, representing 5.00% and 13.13% of the existing share capital of the Company.

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

Save as disclosed above, as at 30th September, 2003, no person has an interest or short position in the shares, underlying shares or debentures of the Company which was recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company, or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the period or at any time during the period.

SPONSOR'S INTERESTS

As updated and notified by the Company's sponsor, Core Pacific-Yamaichi Capital Limited ("CPY Capital"), as at 30th September, 2003, Core Pacific-Yamaichi Securities Co., Ltd., an associate (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) of CPY Capital, held 150,000 shares in the Company. Save as disclosed herein, neither CPY Capital nor its directors or employees or associates (as referred to Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in the share capital of the Company as at 30th September, 2003. Pursuant to the sponsor agreement dated 20th September, 2002 entered into between the Company and CPY Capital, CPY Capital has received and will receive fees for acting as the Company's retained sponsor for the remaining period up to 31st December, 2004 or until the sponsor agreement is terminated upon the terms and conditions set out therein.

SHARE OPTION SCHEME

The Company's share option scheme was adopted pursuant to a resolution passed on 20th September, 2002 (the "Scheme") for the primary purpose of providing incentives to directors and eligible employees, and will expire in January 2012. Under the Scheme, the Board may grant options to full-time employees, including directors (executive and non-executive) of the Company and its subsidiaries, to subscribe for shares in the Company.

Subject to the condition that the total number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes of the Company must not exceed 30% of the shares of the Company in issue from time to time, the total number of shares in respect of which options may be granted under the Scheme when aggregated with any shares subject to any other schemes is not permitted to exceed 10% of the shares of the Company as at the date of approval of the Scheme 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 a 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 in general meeting taken on a poll.

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

No option was granted by the Company during the period from the adoption of the Scheme to 30th September, 2003.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the nine months ended 30th September, 2003, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company.

BOARD PRACTICES AND PROCEDURES

Throughout the nine months ended 30th September, 2003, the Company has complied with the code of best practice as set out in Rules 5.28 to 5.39 of the GEM Listing Rules.

AUDIT COMMITTEE

The audit committee comprises two members – Mr. Liu Shi Pu and Mr. Wong Hon Sum, both of whom are independent non-executive Directors. The primary duties of the audit committee are to review the Company's annual report and accounts, half-yearly reports and quarterly reports and to provide advice and comments thereon to the Board. The audit committee will also be responsible for reviewing and supervising the financial reporting process and internal control procedures of the Group.

During the nine months ended 30th September, 2003, the audit committee held three meetings to review and comment on the Company's draft quarterly and interim financial reports.

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

Hong Kong, 14th November, 2003