



Shanghai Qingpu Fire-Fighting Equipment Co., Ltd.*
上海青浦消防器材股份有限公司
(a joint stock limited company incorporated in the PRC)
(Stock Code: 8115)

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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This announcement for which the directors of Shanghai Qingpu Fire-Fighting Equipment Co., Ltd. collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to Shanghai Qingpu Fire-Fighting Equipment Co., Ltd. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

* For identification purposes only

RESULTS FOR THE YEAR

The Board of Directors (the “Board”) of Shanghai Qingpu Fire-Fighting Co., Ltd. (the “Company”) is pleased to announce the audited consolidated results of the Company for the year ended 31 December 2007, together with the comparative figures for year 2006 as follows:

STATEMENT OF COMPREHENSIVE INCOME

For the Year Ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
Turnover	5	38,302	42,841
Cost of sales		<u>(36,600)</u>	<u>(40,472)</u>
Gross Profit		1,702	2,369
Other revenue and income	6	1,321	2,678
Write off on trade receivables		(320)	(13,908)
Write off on deposits and prepayments		(202)	–
Impairment loss on loans receivable from former controlling shareholder		(1,235)	(11,060)
Provision for loss on financial guarantees		(887)	(33,564)
Reimbursement receivable for loss on financial guarantees		887	33,564
Impairment loss on reimbursement receivable for loss on financial guarantees		(825)	(21,748)
		(825)	(21,748)
Distribution costs		(1,463)	(2,543)
Administrative expenses		<u>(8,270)</u>	<u>(11,354)</u>
Loss from operations		(9,292)	(55,566)
Finance costs	7	<u>(530)</u>	<u>(740)</u>
Loss before tax	7	(9,822)	(56,306)
Income tax	8	<u>–</u>	<u>–</u>
Loss for the year and total comprehensive loss for the year		<u><u>(9,822)</u></u>	<u><u>(56,306)</u></u>
Loss for the year and total comprehensive loss for the year attributable to owners of the Company		<u><u>(9,822)</u></u>	<u><u>(56,306)</u></u>
Loss per share (RMB)			
Basic (cents)	9	<u><u>(5.2)</u></u>	<u><u>(30.0)</u></u>
Diluted (cents)	9	<u><u>(5.2)</u></u>	<u><u>(30.0)</u></u>

STATEMENT OF FINANCIAL POSITION

At 31 December 2007

	<i>Notes</i>	2007 HK\$'000	2006 <i>HK\$'000</i>
Non-Current Assets			
Property, plant and equipment		18,451	20,495
Lease premiums for land		762	780
		19,213	21,275
Current Assets			
Inventories		6,521	6,976
Trade receivables	<i>10</i>	11,250	13,624
Lease premiums for land		18	18
Prepayments, deposits and other receivables		1,355	3,608
Loans receivable from former controlling shareholder		19,508	26,939
Reimbursement receivables for loss on financial guarantees		11,878	11,816
Cash and cash equivalents		1,201	681
		51,731	63,662
Current Liabilities			
Bank loans		33,730	41,480
Trade payables	<i>11</i>	12,776	16,281
Other payables and accruals		45,008	44,133
Due to related companies		7,497	1,080
		99,011	102,974
Net Current Liabilities		(47,280)	(39,312)
Total Assets less Current Liabilities		(28,067)	(18,037)
Non-current Liabilities			
Deferred revenue		(208)	(416)
Net Liabilities		(28,275)	(18,453)
Equity			
Equity attributable to owners of the Company			
Share capital		18,743	18,743
Reserves		(47,018)	(37,196)
Capital Deficiency		(28,275)	(18,453)

STATEMENT OF CHANGES IN EQUITY

For the Year Ended 31 December 2007

	Share capital <i>RMB'000</i>	Share premium <i>RMB'000</i>	Capital reserve <i>RMB'000</i>	Statutory reserve fund <i>RMB'000</i>	Discretionary common reserve fund <i>RMB'000</i>	(Accumulated losses)/ retained earnings <i>RMB'000</i>	Total <i>RMB'000</i>
As at 1 January 2006	18,743	10,910	(2,356)	3,734	1,500	5,322	37,853
Total comprehensive loss for the year	-	-	-	-	-	(56,306)	(56,306)
Appropriation	-	-	207	-	-	(207)	-
As at 31 December 2006 and 1 January 2007	18,743	10,910	(2,149)	3,734	1,500	(51,191)	(18,453)
Total comprehensive loss for the year	-	-	-	-	-	(9,822)	(9,822)
Appropriation	-	-	208	-	-	(208)	-
As at 31 December 2007	<u>18,743</u>	<u>10,910</u>	<u>(1,941)</u>	<u>3,734</u>	<u>1,500</u>	<u>(61,221)</u>	<u>(28,275)</u>

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Company was established in The People's Republic of China (the "PRC") as a collective enterprise under the name of Shanghai Qingpu Fire-Fighting Equipment Factory ("上海青浦消防器材廠"). In 1999, it was transformed into a limited liability company. Through a series of equity transfers and capital injections in 2000, the Company was transformed into a joint stock limited liability company on 1 December 2000 and renamed as Shanghai Qingpu Fire-Fighting Equipment Co., Ltd. ("上海青浦消防器材股份有限公司").

On 30 June 2004, 55,560,000 new H shares in the Company were issued and listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Since 30 June 2004 and up to August 2008, 上海華盛企業(集團)有限公司 ("Shanghai Huasheng") who held 33.7% equity interest of the Company was considered as the former controlling shareholder of the Company. During the same period, Shanghai Huasheng considered 上海銘源實業集團有限公司 ("銘源實業") as its parent company.

During 2008, 聯城消防集團股份有限公司 ("Liancheng") acquired the entire domestic shares of the Company. Liancheng is currently holding around 70% equity interest of the Company. Liancheng considered 浙江恒泰房地產股份有限公司 ("浙江恒泰") as its parent company.

The principal activities of the Company are manufacture and sale of fire-fighting equipment products.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation of the financial statements

Items included in the financial statements of the Company are measured using the currency that best reflects the economic substance of the underlying events and circumstance relevant to the Company. These financial statements are presented in Renminbi ("RMB"), rounded to the nearest thousand except for per share data. Renminbi is the Company's functional and presentation currency.

The measurement basis used in the preparation of the financial statements is the historical cost basis. The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of resulting in a material adjustment in the next year are disclosed in note 4.

In preparing the financial statements, the directors have considered the future liquidity of the Company notwithstanding:

- the loss of approximately RMB9,822,000 attributable to equity shareholders of the Company for the year ended 31 December 2007;
- as at 31 December 2007, the Company had net current liabilities and net liabilities of approximately RMB47,280,000 and RMB28,275,000 respectively;
- as at 31 December 2007, the bank loans were due for repayment within the next twelve months after 31 December 2007;
- legal actions have been taken by banks for recovery of loans and financial guarantees; and
- legal actions have been taken by suppliers for recovery of trade debts.

The directors adopted the going concern basis in the preparation of the financial statements and implemented the following measures in order to improve the working capital position, immediate liquidity and cash flow position of the Company:

- (i) 聯城消防集團股份有限公司 (“Liancheng”), being the immediate holding company of the Company since August 2008, has undertaken to provide continuous financial supports to the Company by granting an unsecured, interest free, shareholders’ loan facility in the sum of not exceeding RMB50 million for a term of two years, which is extendable for further two years, so as to enable the Company to continue its day-to-day operations as a viable going concern notwithstanding any present or future difficulties.
- (ii) The bank loans borrowed by Mr. Jiang in name of the Company that had ultimately been used for the benefits of 上海華盛企業(集團)有限公司 (“Shanghai Huasheng”) (which was the then former controlling shareholder) and its subsidiaries have been waived by bank or settled subsequent to the end of the reporting period.
- (iii) The underlying bank loans, borrowed by a subsidiary of Shanghai Huasheng, for which the financial guarantees have been provided by Mr. Jiang, in name of the Company have been repaid after the reporting period.
- (iv) The Company would take relevant measures in order to tighten cost controls over various operating expenses and to seek new investments and business opportunities with an aim to attain profitable and positive cash flow operations.
- (v) Shanghai Huasheng will negotiate with banks to extend the repayment schedule and the possibility to waive certain portion of the liabilities.

In the opinion of the directors, in light of the various measures/arrangements implemented to date, together with the expected results of other measures, the Company will have sufficient cash resources to satisfy its future working capital and other financial requirements. Accordingly, the directors are satisfied that it is appropriate to prepare the financial statements on a going concern basis.

Should the Company be unable to continue to operate as a going concern, adjustments would have been made to write down the value of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities respectively. The effect of these adjustments has not been reflected in the financial statements.

b) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) promulgated by the International Accounting Standards Board (the “IASB”). IFRSs includes International Accounting Standards (the “IASs”) and related interpretations. These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

The Company has not applied the new standard or interpretation that is not yet effective as disclosed in note 3.

3. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective and which have not been adopted in these financial statements.

Standards and Interpretations in issue but not yet adopted

As part of improvements to IFRSs (2009) issued in April 2009, the International Accounting Standards Board amended the requirements of IAS 17 Leases regarding the classification of leases of land. Prior to amendment, IAS 17 generally required leases of land with an indefinite useful life to be classified as operating leases. This was inconsistent with the general principles of the Standard, and the relevant guidance has been removed due to concerns that it could lead to accounting that did not reflect the substance of arrangements. Following the amendments, leases of land are classified as either “finance” or “operating” in accordance with the general principles of IAS 17. These amendments are effective for annual periods beginning on or after 1 January 2010, and they are to be applied retrospectively to unexpired leases at 1 January 2010 if the necessary information was available at the inception of the lease. Otherwise, the revised Standard will be applied based on the facts and circumstances existing on 1 January 2010 (i.e. the date of adoption of the amendments) and the Company will recognise assets and liabilities related to land leases newly classified as financial leases at their fair values on that date; any difference between those fair values will be recognised in retained earnings.

The directors anticipate that these amendments to IAS 17 will be adopted in the Company's financial statements for the period beginning 1 January 2010. It is likely that the changes will affect the classification of some of the Company's leases of land. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed. In particular, the directors will be considering the extent to which information is available for retrospective application.

4. ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company's management makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(i) Going concern

The Company's management's assessment of the going concern assumption involves making a judgment, at a particular point of the time, about the future outcome of events or conditions which are inherently uncertain. Major events or conditions that individually or collectively may cast significant doubt about the going concern assumption are set out in note 2(a) to the financial statements.

(ii) Impairment for doubtful debts arising from trade receivables, loan receivable and reimbursement receivables

The Company's management estimates impairment losses for doubtful debts resulting from the inability of the customers and related companies to make the required payments. The Company's management bases the estimates on the aging of the balances of the customers and current accounts with the related companies, customer creditworthiness, and historical write-off experience. If the financial condition of the customers and related companies were to deteriorate, actual write offs would be higher than estimated.

(iii) Write down of inventories

If the costs of inventories fall below their net realisable values, a write down of inventories is recognised. Net realisable value represents the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. The Company's management bases the estimates on all available information, including the current market prices of the finished goods and raw materials, and historical operating costs. If the actual selling prices were to be lower or the costs of completion and other distribution costs were to be higher than estimated, the actual write down of inventories could be higher than estimated.

(iv) Impairment of property, plant and equipment and lease premiums for land

The recoverable amount of an asset is the higher of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset, which requires significant judgment relating to level of revenue and amount of operating costs. The Company's management uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and operating costs. Changes in these estimates could have a significant impact on the carrying amount of the assets and could result in additional impairment charge or reversal of impairment in future periods.

(v) Carrying value of property, plant and equipment and estimation on depreciation charge

The Company determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitors' actions in response to severe industry cycle. Management will revise the depreciation charge where useful lives are different from previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

5. TURNOVER AND SEGMENT INFORMATION

Turnover primarily represents income arising from the Company's principal activities, being manufacture and sale of fire-fighting equipment products, net of value added tax, trade discounts and return.

For the purposes of resources allocation and performance assessment, the chief operating decision maker, Executive Director, regularly reviews the financial information of the Company. The reportable operating results report to the chief operating decision makers are the net loss of the Company and the reportable assets and liabilities report to the chief operating decision makers are the Company's assets and liabilities. Accordingly, the Company does not have separately reportable segments in accordance with IFRS 8.

Based on these reports, the decision-maker has determined that no business segment information is presented as over 90% of the Company's sales and operating results are derived from the manufacturing and sales of fire-fighting equipment products, which is considered as one business segment with similar risks and returns.

The Company is domiciled in the PRC. The decision-maker has also determined that no geographical segment information is presented as over 90% of the Company's sales and operating results are derived within the PRC and over 90% operating assets of the Company are located in the PRC, which is considered as one geographic location with similar risks and returns.

Information about major customers

Included in revenues arising from sales of fire-fighting equipment products of approximately RMB38,302,000 (2006: RMB42,841,000) are revenues of approximately RMB29,363,000 (2006: RMB19,770,000) which arose from sales to the Company's largest customer.

6. OTHER REVENUE AND INCOME

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Other revenue		
Total interest income on financial assets not at fair value through profit or loss	3	4
Revenue from sales of scrap	<u>856</u>	<u>764</u>
	<u>859</u>	<u>768</u>
Other income		
Reversal of impairment loss on trade receivable	-	842
Exchange gain	254	-
Government grant relating to the purchase of machinery	208	207
Government grant – production	<u>-</u>	<u>861</u>
	<u>462</u>	<u>1,910</u>
Other revenue and income	<u>1,321</u>	<u>2,678</u>

7. LOSS BEFORE TAX

Loss before tax is arrived at after charging the following items:

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
(a) Finance costs		
Interest expense on bank loans wholly repayable within 5 years	<u>530</u>	<u>740</u>
Total interest expense on financial liabilities not at fair value through profit or loss	<u>530</u>	<u>740</u>
(b) Staff costs (including directors' and supervisors' emoluments)		
Wages and salaries	5,318	4,964
Social security costs	834	789
Retirement benefit costs	897	912
Housing subsidies	<u>51</u>	<u>62</u>
	<u>7,100</u>	<u>6,727</u>

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
(c) Other items		
Amortisation of lease premiums for land	18	18
Depreciation for property, plant and equipment	2,265	2,379
Auditors' remuneration	509	547
Costs of inventories	36,600	40,472
Loss on disposal of property, plant and equipment	53	35
Write off on deposits and prepayments	202	–
Write off on trade receivables	320	13,908
Research and development costs	–	2,500
Operating lease rentals for land and building	255	246
Provision for loss on financial guarantee	887	33,564
Impairment loss on loans receivable from former controlling shareholder	1,235	11,060
Impairment loss on reimbursement receivables for loss on financial guarantees	<u>825</u>	<u>21,748</u>

- (d) The employees of the Company participates in a defined contribution retirement benefit plan organized by the municipal government whereby the Company is required to make monthly contributions to the plan at a certain rate of the employees' salary, bonus and certain allowance. The Company has no obligation for the payment of retirement and other post-retirement benefits of employees other than the monthly contributions described above. Forfeited contribution cannot be used by the employer to reduce the existing level of contributions throughout the year. Expenses incurred by the Company in connection with the retirement benefits plan were RMB897,000 (2006: RMB912,000).

8. INCOME TAX IN THE STATEMENT OF COMPREHENSIVE INCOME

No Hong Kong profits tax and PRC Enterprise Income Tax has been provided for in the financial statements as the Company has no estimated assessable profits derived from Hong Kong and PRC for both financial years.

Pursuant to the relevant PRC tax regulations, High and New Technology Enterprises (“HNTE”) operating within a designated High and New Technology Development Zone (“HNTDZ”) are entitled to a reduced Enterprise Income Tax (“EIT”) rate of 15%. The certification as a HNTE is subject to an annual review by the relevant government bodies.

In June 2005, the Company renewed its HNTE certification granted by Science & Technology Commission of Shanghai Municipality for the years of 2005 and 2006. The Company was registered in the designated HNTDZ and has obtained an approval to enjoy a preferential EIT rate of 15% since 2001.

On 16 March 2007, the PRC promulgated the Law of the People's Republic of China on Enterprise Income Tax (the “New Law”) by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the tax rate from 15% to 25% of the Company from 1 January 2008. The deferred tax balance has been adjusted to reflect the tax rates that are expected to apply to the respective periods when the asset is realised or the liability is settled (adjust as appropriate).

9. LOSS PER SHARE

(a) Basic loss per share

The calculation of the basic loss per share is based on the loss attributable to equity holders of the Company of RMB9,822,000 (2006: RMB56,306,000) and divided by the weighted average of 187,430,000 shares (2006: 187,430,000 shares) in issue during the year.

(b) Diluted loss per share

As there was no diluted potential share outstanding during the years ended 31 December 2007 and 2006, the diluted loss per share for both financial years is the same as the basic loss per share.

10. TRADE RECEIVABLES

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Trade receivables	11,250	13,624
Less: allowance for doubtful debts	—	—
	<u>11,250</u>	<u>13,624</u>

Trade receivables are due within 90 days from the date of billing.

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Within 30 days	535	2,472
31 to 60 days	388	445
61 to 90 days	171	199
Over 90 days	10,156	10,508
	<u>11,250</u>	<u>13,624</u>

11. TRADE PAYABLES

The following is an aged analysis of trade payables of the end of the reporting period:

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Within 30 days	2,091	4,223
31 to 60 days	2,828	2,810
61 to 90 days	574	1,430
Over 90 days	7,283	7,818
	<u>12,776</u>	<u>16,281</u>

All of the trade payables are expected to be settled within one year.

DIVIDEND

The directors do not recommend the payment of any dividend for the year ended 31 December 2007 (2006: Nil) in view of loss for the year.

COMMITMENTS

- (a) Capital commitments outstanding at 31 December 2007 not provided for in the financial statements were as follows:

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Contracted for	<u> -</u>	<u> 13</u>

- (b) At 31 December 2007, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings are payable as follows:

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Within 1 year	204	246
After 1 year but within 5 years	<u> -</u>	<u> 204</u>
	<u> 204</u>	<u> 450</u>

The Company leases certain land and buildings from a related party under operating leases. The leases typically run for an initial period of 3 years. None of the leases includes contingent rentals.

FINANCIAL GUARANTEES

During the year 2006, the Company received an order from Shanghai legal court ordering the Company, as one of the guarantors, to pay RMB17,366,000 (Financial guarantee 3 below) to a bank for a loan borrowed by 上海高壓容器有限公司 (“高壓容器”), a subsidiary of the Company’s former controlling shareholder of which it was defaulted. This financial guarantee was not known to the Company’s Board of directors. The Board further discovered that the Company also acted as guarantor for another four bank loans. All these loans totaling to RMB129,670,000 were borrowed by 高壓容器 in 2004 to 2006. For these loans, during 2004 to 2006, Mr. Jiang, in name of the Company provided guarantees to a total extent of RMB33,396,000. These guarantees had never been considered, authorised or approved by the Board at the time when such transactions were respectively made. All those transactions as contemplated under the underlying financial guarantees had never been considered, authorised or approved by the Board at the time when such transactions were respectively taken place and were not recorded in the accounting books and records or the published financial statements of the Company.

Based on the legal opinion of the Company's PRC legal adviser, the Company is liable to repay the underlying outstanding loans which were defaulted together with interests accrued, penalty interests and legal costs of which the Company is one of the co-guarantors under the financial guarantees provided. The Company, however, has the right to seek compensation from Shanghai Huasheng and/or Mr. Jiang in respect of any amount repaid by the Company.

In view of the legal court order and the legal opinion, the current Board of directors decided to make provision for loss arising from the underlying loans of the financial guarantees which were defaulted of approximately RMB33,396,000 (2006: RMB33,396,000) together with the interests accrued, penalty interests and legal costs of approximately RMB1,055,000 (2006: RMB168,000). The corresponding amount was taken up as reimbursement receivables from a related company.

On 6 August 2010, Liancheng and the Company entered into a shareholder's loan agreement, pursuant to which Liancheng agreed to grant an unsecured and interest free shareholder's loan amounting to RMB37,150,000 for settling the existing debts and guarantee liabilities of the Company. This shareholder loan is repayable on or before 31 December 2011. RMB26,400,000 of this loan had already been advanced to the Company and had been applied for the intended purposes. Liancheng undertakes to waive the outstanding balance of this shareholder's loan on the date when the resumption application is approved by the Stock Exchange. On the date of these financial statements, trading of the Company's H shares on the GEM remains suspended since 21 December 2006.

The following are details of the loans which are secured by the financial guarantees:

	Borrower	Co-guarantor (joint and several)	Term of bank loan	Original loan amount RMB'000	Amount Attributable to the Company	
					At 31/12/2007 RMB'000	At 31/12/2006 RMB'000
Financial guarantee 1	高壓容器	The Company, Mr. Jiang and his wife	21/9/2005 – 30/8/2006	2,780	2,780	2,780
Financial guarantee 2	高壓容器	The Company, Mr. Jiang and his wife	21/9/2005 – 30/8/2006	2,300	2,300	2,300
Financial guarantee 3	高壓容器	The Company and Shanghai Huasheng	29/12/2004 – 1/12/2005	20,000	17,366	17,366
Financial guarantee 4	高壓容器	The Company and. Shanghai Huasheng	17/11/2004 – 10/11/2005 (note 1)	4,000	3,950	3,950
Financial guarantee 5	高壓容器	The Company, Shanghai Huasheng and 銘源實業	1 year (note 2)	105,900	7,000	7,000
				<u>134,980</u>	<u>33,396</u>	<u>33,396</u>

Notes:

- (1) 高壓容器, Shanghai Huasheng and the bank entered into a loan extension agreement on 10 November 2005. Pursuant to the agreement, the loan has been extended to 9 May 2006.
- (2) 高壓容器 and the bank entered into a loan extension agreement on 31 May 2007. Pursuant to the agreement, the loan has been extended to 30 April 2008.

Financial guarantee 1

A loan of RMB2,780,000 was borrowed by 上海高壓容器有限公司 (“高壓容器”), a subsidiary of Shanghai Huasheng, from 上海農村商業銀行股份有限公司華新支行 (“華新農村銀行”) on 21 September 2005 and repayable on 30 August 2006. The loan was secured by a highest limit property pledge agreement to an extent of RMB 2,780,000 on certain properties of the Company and personal guarantees put up by Mr. Jiang and his wife. Subsequent to the end of the reporting period, on 23 August 2007, the bank commenced legal action against the Company. On 11 December 2007, a judgment was issued whereby 高壓容器, the guarantors and the Company were ordered to fulfill their obligations. In April 2010, the loan was repaid and the Company is currently applying for the release of the aforesaid property pledge. Further details are disclosed in section “Litigation”.

Financial guarantee 2

A loan of RMB2,300,000 was borrowed by 高壓容器 from 華新農村銀行 on 21 September 2005 and repayable on 30 August 2006. The loan was secured by a highest limit property pledge agreement to an extent of RMB2,300,000 on certain properties of the Company and personal guarantees put up by Mr. Jiang and his wife. Subsequent to the end of the reporting period, on 23 August 2007, the bank commenced legal action against the Company. On 11 December 2007, a judgment was issued whereby 高壓容器, the guarantors and the Company were ordered to fulfill their obligations. In April 2010, the loan was repaid and the Company is currently applying for the release of the aforesaid property pledge. Further details are disclosed in section “Litigation”.

Financial guarantee 3

A loan of RMB20,000,000 was borrowed by 高壓容器 from Bank of Shanghai, Putuo Branch (上海銀行股份有限公司普陀支行) on 29 December 2004 and repayable on 1 December 2005. The Company, Shanghai Huasheng and Mr. Jiang acted as guarantors in favour of the bank. On 5 December 2006, the bank commenced legal action against the Company for recovery of the loan. On 25 December 2009, an agreement was entered into among the bank, 高壓容器 and the guarantors whereby the bank agreed to waive the remaining bank loan and loan interests if 高壓容器 repay RMB9,500,000 on or before 1 January 2010. In January 2010, the agreed amount of RMB9,500,000 was repaid and the Company’s financial guarantee was released. Further details in relation to the legal action are disclosed in section “Litigation”.

Financial guarantee 4

A loan of RMB4,000,000 was borrowed by 高壓容器 from China Construction Bank Co., Limited, Shanghai Qingpu Branch (中國建設銀行股份有限公司上海青浦支行) on 17 November 2004 and repayable on 10 November 2005. The Company and Shanghai Huasheng acted as guarantors in favour of the bank. Subsequent to the end of the reporting period, on 19 July 2007, the bank commenced legal action against the Company. On 14 August 2007, a judgment was issued under which (i) 高壓容器 was ordered to repay the principal sum of approximately RMB3,950,000, together with interest accrued, default interest and litigation costs, and (ii) the Company, as one of the guarantors, was ordered to fulfill its obligation to repay 建設銀行 if 高壓容器 failed to do so. In December 2008, the outstanding loan was fully repaid by installments and the financial guarantee of the Company was released. Further details are disclosed in section “Litigation”.

Financial guarantee 5

A loan of RMB105,900,000 was borrowed by 高壓容器 from 華夏銀行股份有限公司上海分公司 (“華夏銀行”) on 26 May 2006. The loan was drawn down by 高壓容器 by seven instalments from 30 May 2006 to 22 June 2006. The due date of each instalment was one year from date of drawn down. Mr. Jiang in name of the Company, in May and June 2006 entered into two highest limit property pledge agreements on certain properties of the Company for a total extent of RMB7,000,000. The loan was also secured by guarantees put up by 上海銘源 and Shanghai Huasheng. On 29 April 2008, the bank assigned the loan to 中國長城資產管理公司上海辦事處 (“中國長城資產”). Subsequent to the end of the reporting period, in August 2008 中國長城資產 took legal action against the Company for recovery of the loan. On 8 April 2009, a judgment was issued by Shanghai No. 1 Intermediate People’s Court ordering the guarantors and the Company to fulfill their obligations. On 13 January 2010, 中國長城資產, 高壓容器, 銘源實業, Shanghai Huasheng and the Company entered into a debt reduction agreement (債務減讓協議) whereby 中國長城資產 agrees to release all the other parties to the agreement from their liabilities upon receiving RMB70,000,000. By way of 民事調解書 dated 28 January 2010, 中國長城資產 agreed to release the property pledge of the Company upon receiving the first RMB35,000,000. In May 2010, RMB20,000,000 was paid to 中國長城資產. As the remaining RMB15,000,000 has not yet been paid, the property pledge of the Company has not yet been released as at the date of these financial statements.

LITIGATION

The Company had the following litigations during or outstanding at the end of reporting date.

- (a) On 26 June 2007, 重固農村銀行, as the plaintiff, commenced an action against the Company, as the defendant, in the People’s Court of Qingpu, Shanghai, to demand repayment for such sum owed by the Company under the loan agreement dated 19 August 2005, which sum (to the extent of approximately RMB5,550,000) was secured by a building and the related land lease premium of the Company, pledged under the highest limit property pledge agreement executive in favour of 重固農村銀行 on 19 August 2005. On 24 July 2007, judgment was issued under which (i) the Company was ordered to repay the principal sum of RMB4,730,000, together with default interest and litigation costs; and (ii) if the Company was in default in making the aforesaid

payments, 重固農村銀行 was entitled to take priority in settling the outstanding balance due from the Company from the proceeds of selling a building and the related land lease premium of the Company pledged to the bank. Subsequent to the end of the reporting period, on 7 April 2010, the Company has repaid the outstanding loan and the litigation was then settled.

- (b) On 9 October 2006, 興業銀行股份有限公司浦東支行 (“興業銀行”), as the plaintiff, commenced an action against, among others, the Company, as the first defendant, in the People’s Court of Pudong Xinqu, Shanghai (上海市浦東新區人民法院), to demand repayment for such sum under the loan agreement dated 1 December 2004 due to 興業銀行. On 29 March 2007, a judgment under which the Company was ordered to repay the principal sum of RMB5,000,000 (see note 22(c)), together with interest accrued, default interest and litigation costs. Subsequent to the end of the reporting period, in May 2008, the Company, 興業銀行 and 特種氣瓶 entered into an agreement (“興業 Settlement Agreement”). Pursuant to this agreement, 興業銀行 agreed to waive the entire balance due from the Company subject to 特種氣瓶 repaying its outstanding loan of approximately RMB4,729,000 due to 興業銀行 on or before 30 September 2008. In September 2008, the outstanding loan due to 興業銀行 was settled and accordingly 興業銀行 waived the outstanding balance due from the Company. On 31 December 2008, 興業銀行 issued a certificate stating that the overdue loan due from the Company together with interest accrued and default interest has been waived. On 8 May 2009, 特種氣瓶 issued a certificate stating that it will not claim the Company for any economic compensation that would arise from the 興業 Settlement Agreement.
- (c) On 19 December 2006, Agricultural Bank of China, Shanghai Jingan Branch (中國農業銀行上海靜安支行) (“農業銀行”), as plaintiff, commenced an action against, among others, the Company, as the first defendant, in the Shanghai No. 2 Intermediate People’s Court, to demand repayment for such sum owed by the Company under the loan agreement dated 11 March 2005. On 14 June 2007, judgment was issued by the Shanghai No. 2 Intermediate People’s Court. Subsequently, 農業銀行 appeal to the 上海市高級人民法院. On 18 September 2007, same judgment as Shanghai No. 2 Intermediate People’s Court was issued by 上海市高級人民法院 under which the Company was ordered to repay the principal sum of RMB20,000,000, together with interest accrued, default interest and litigation costs. In addition, Shanghai No. 2 Intermediate People’s Court has granted asset preservation orders to freeze all the buildings and the related land lease premium of the Company as disclosed in note 13(c) and note 14(b). On July 2010, 農業銀行, Shanghai Huasheng and the Company entered into an interest reduction agreement (減免利息協議). Pursuant to the agreement, 農業銀行 agreed to reduce the interest accrued to RMB4,750,000 and the Company to pay the reduced interest together with the principal sum of RMB 20,000,000 by installments. The principal sum has been fully repaid by September 2010 but the interest of RMB4,750,000 remains unpaid as of the date of these financial statements.

- (d) On 14 December 2006, 中國經濟技術 commenced an action against the Company in the People's Court of Qingpu, Shanghai (上海市清浦人民法院), to demand repayment of RMB2,700,000 which 中國經濟技術 paid to the bank as guarantor to 重固農村銀行 on 29 November 2006. On 29 January 2007, judgment was issued ordering the Company to repay the principal sum of RMB2,700,000, together with default interest and litigation costs. Subsequent to the end of the reporting period, in February 2007 the amount due to 中國經濟技術 was repaid and the litigation was then settled.
- (e) On 23 August 2007, 華新農村銀行, as the plaintiff, commenced an action against, among others, the Company, as the second defendant, in the People's Court of Qingpu, Shanghai, to demand repayment for two sums of RMB2,780,000 and RMB2,300,000 owed by 高壓容器 under two loan agreements, both dated 21 September 2005, which sum was secured by two buildings and the related land lease premium of the Company under two financial guarantees executed in favour of 華新農村銀行 on 16 September 2005. On 11 December 2007, judgment was issued whereby (i) 高壓容器 was ordered to repay the principal sum of RMB5,080,000, together with interest accrued, default interest and litigation costs, and (ii) if 高壓容器 is in default in making the aforesaid payments, 華新農村銀行 has priority in getting the outstanding balance from the proceeds of selling the pledged buildings and the related land lease premium. Subsequent to the end of the reporting period, in April 2010, the principal sum of RMB5,080,000 together with interest of approximately RMB2,132,000 were repaid and the Company's and therefore the Company issued a letter to 華新農村銀行 to request for release the pledged properties. Up to the date of approval of the financial statements, the pledge has not yet been released.
- (f) On 5 December 2006, Bank of Shanghai, Putuo Branch, (上海銀行股份有限公司普陀支行) ("上海銀行"), as the plaintiff, commenced an action against, among others, the Company, as the third defendant, in the Shanghai No. 2 Intermediate People's Court, to demand repayment for an amount of approximately RMB17,366,000 owed by 高壓容器 under the loan agreement dated 29 December 2004, which sum is secured by the guarantee dated 29 December 2004 given by the Company in favour of 上海銀行. On 26 December 2006, judgment was issued but 上海銀行 did not agree and appeal. On 8 February 2007, judgment was issued under which (i) 高壓容器 was ordered to repay the principal sum of approximately RMB17,366,000, together with interest accrued, default interest and litigation costs; and (ii) the Company, as one of the guarantors, was ordered to fulfill its obligation to repay for 高壓容器 if it failed to do so. On 25 December 2009, an agreement was entered into among 上海銀行, 高壓容器 and the guarantors. Pursuant to the agreement, 上海銀行 agreed to waive the bank loan of RMB7,866,000 subject to 高壓容器 repaying an amount of RMB9,500,000 on or before 1 January 2010. In January 2010, RMB9,500,000 was repaid to 上海銀行, the financial guarantee was released and the litigation was then settled.

- (g) On 19 July 2007, China Construction Bank Co., Limited, Shanghai Qingpu Branch (中國建設銀行股份有限公司上海青浦支行) (“建設銀行”), as the plaintiff, commenced an action against, among others, the Company, as the third defendant, in the People’s Court of Qingpu, Shanghai, to demand repayment for sums owed by 高壓容器 under loan agreement dated 10 November 2004, which sum is secured by the guarantee dated 10 November 2004 given by the Company in favour of 建設銀行. On 14 August 2007, judgment was issued under which (i) 高壓容器 was ordered to repay the principal sum of approximately RMB3,950,000, together with interest accrued, default interest and litigation costs, and (ii) the Company, as one of the guarantors, was ordered to fulfill its obligation to repay 建設銀行 if 高壓容器 failed to do so. Subsequent to the end of the reporting period, in December 2008, 高壓容器 fully repaid 建設銀行 by instalments and therefore the financial guarantee was released and the litigation was then settled.
- (h) A loan of RMB105,900,000 was borrowed by 高壓容器 from 華夏銀行股份有限公司上海分公司 (“華夏銀行”) on 26 May 2006. The loan was drawn down by 高壓容器 by seven instalments from 30 May 2006 to 22 June 2006. The due date of each instalment was one year from date of drawn down. Mr. Jiang in name of the Company, in May and June 2006 entered into two highest limit property pledge agreements on certain properties of the Company for a total extent of RMB7,000,000. The loan was also secured by guarantees put up by 上海銘源 and Shanghai Huasheng. On 29 April 2008, the bank assigned the loan to 中國長城資產管理公司上海辦事處 (“中國長城資產”). Subsequent to the end of the reporting period, in August 2008 中國長城資產 took legal action against the Company for recovery of the loan. On 8 April 2009, a judgment was issued by Shanghai No. 1 Intermediate People’s Court ordering the guarantors and the Company to fulfill their obligation. On 13 January 2010, 中國長城資產, 高壓容器, 銘源實業, Shanghai Huasheng and the Company entered into a debt reduction agreement (債務減讓協議) whereby 中國長城資產 agrees to release all the other parties to the agreement from their liabilities upon receiving RMB70,000,000. By way of 民事調解書 dated 28 January 2010, 中國長城資產 agreed to release the property pledge of the Company upon receiving the first RMB35,000,000. In May 2010, RMB20,000,000 was paid to 中國長城資產. As the remaining RMB15,000,000 has not yet been paid, the property pledge of the Company has not yet been released as at the date of these financial statements.
- (i) Litigations against the Company – Suppliers

During the year, legal actions against the Company were brought up by certain suppliers for recovery of trade debts amounting to approximately RMB1,174,000. These legal actions ceased upon settlement of outstanding debts.

CHARGE OF ASSETS

As at 31 December 2007, the buildings and the related land lease premium having an aggregated carrying amount of approximately RMB3,928,000 (2006: RMB4,089,000) and RMB780,000 (2006: RMB798,000) have been pledged as securities for bank loans of the Company and 高壓容器, a subsidiary of Shanghai Huasheng.

SUBSEQUENT EVENTS

The Company has the following subsequent events:

(a) Unconditional mandatory cash offer

On 1 April 2009, Liancheng and its legal adviser in the PRC announced that, Liancheng has obtained all the required written approvals from the relevant PRC government departments for making an unconditional mandatory cash offer to all the issued shares of the Company not already owned or agreed to be acquired by Liancheng and its concerted parties pursuant to Rule 26.1 of the Hong Kong Code on Takeovers and Mergers.

Pursuant to an announcement dated 17 April 2009, as Liancheng became interested in more than 30% of the voting rights of the Company on 15 August 2008 after Liancheng has acquired the entire domestic shares of the Company, the mandatory cash offer to all the H shares issued by the Company (“H Share Offer”) was triggered on 15 August 2008. The composite document containing details of the H Share Offer has been dispatched to the shareholders on 9 June 2009. The H Share Offer price at the highest consideration of RMB0.18957 per share was converted into Hong Kong dollar based on the exchange rate of RMB1 : HK\$1.1375 prevailing on 15 August 2008. The H Share Offer was closed on 30 June 2009. Up to the latest time for acceptance of the H Share Offer, valid acceptances of the H Share Offer was received in respect of a total of 1,300,000 H Shares, (i) representing approximately 0.69% of the total issued share capital of the Company and (ii) representing approximately 2.34% of the total number of issued H Shares of the Company.

(b) Subsequent litigations against the Company – Suppliers

Subsequent to the end of the reporting period, legal actions against the Company were brought up by certain suppliers for recovery of trade debts amounting to approximately RMB1,071,000. These legal actions ceased consequential to settlement of debts.

(c) Subsequent litigations against the Company – regulatory body

On 7 August 2009, a judgment has been made by the People’s Court of Qingpu, Shanghai (上海市青浦區人民法院) imposing a penalty of RMB50,000 (plus a handling fee of RMB650) against the Company, and such penalty sum shall be paid to Shanghai Qingpu Environmental Protection Bureau (上海市青浦區環境保護局). On 21 August 2010, the People’s Court of Qingpu, Shanghai suspended the execution of the order. In consideration of the insignificant amount involved, no provision was made in the financial statements of the Company.

(d) Subsequent agreement with Liancheng

On 6 August 2010, Liancheng and the Company entered into a shareholder’s loan agreement, pursuant to which Liancheng agreed to grant an unsecured and interest free shareholder’s loan amounting to RMB37,150,000 for settling the existing debts and guarantee liabilities of the Company. This shareholder loan is repayable on or before 31 December 2011. RMB26,400,000 of this loan had already been advanced to the Company and had been applied for the intended purposes. Liancheng undertakes to waive the outstanding balance of this shareholder’s loan on the date when the resumption application is approved by the Stock Exchange. On the date of these financial statements, trading of the Company’s H shares on the GEM remains suspended since 21 December 2006.

AN EXTRACT OF AUDITORS’ REPORT

BASIS FOR DISCLAIMER OF OPINION

Scope limitation – prior year’s audit scope limitation affecting opening balances and comparative figures

As detailed in the auditors’ report dated 23 November 2010, the auditors disclaimed their opinion on the Company’s financial statements for the year ended 31 December 2006 because of the significance of the possible effects of the limitations in evidence made available to the auditors that, in particular, the auditors were unable to obtain sufficient and appropriate evidence to satisfy themselves as to whether the recognition of the bank loans, accrued interests, penalty interest and legal costs payable, the loans receivable from former controlling shareholder and the financial effects of the financial guarantees were appropriate. The auditors were unable to obtain direct confirmation and other sufficient evidence in respect of the trade receivables and payables as at 31 December 2006. In addition, the Company was unable to obtain certain bank statements of bank accounts opened in name of the Company by the former chairman of the Company for purpose of the bank loans. In the absence of these bank statements, the auditors were unable to ascertain whether transactions, if any, in these bank accounts had been properly accounted for in the financial statements. Any adjustments that might have found to be necessary in respect thereof had the auditors obtained sufficient and appropriate evidence would have had a consequential effect on (i) the net liabilities of the Company as at 31 December 2006 and (ii) the Company’s loss and cash flows for the current year and the prior year and the related disclosures

in the financial statements. In respect of the limitation of scope in prior year in the areas as described above, they were not able to express their opinion as to whether the balances brought forward as at 1 January 2007 and the comparative figures were fairly stated in the financial statements.

Scope limitation – bank accounts

The Company was unable to obtain certain bank statements of bank accounts opened in name of the Company by the former chairman of the Company for purpose of the bank loans. In the absence of these bank statements, the auditors are unable to ascertain whether transactions, if any, in these bank accounts have been properly accounted for in these financial statements. As a consequence, they were unable to assess whether there would be any consequential impact on the financial statements.

Scope limitation – trade receivables and write off on trade receivables

The auditors have been unable to obtain sufficient direct confirmation and other sufficient evidence in respect of the trade receivables of approximately RMB25,478,000. A write off on trade receivables of approximately RMB14,228,000 representing the difference between the aforesaid amount and the amount collected up to the date of this report was made of which approximately RMB320,000 and RMB13,908,000 was charged in the statement of comprehensive income for the current and prior years respectively. In the absence of other alternative audit procedures, they are unable to ascertain that these amounts are fairly presented in the financial statements.

Scope limitation – trade payables

The auditors have been unable to obtain sufficient direct confirmation and other sufficient evidence in respect of the trade payables of approximately RMB12,776,000 as stated in the statement of financial position as at 31 December 2007. In the absence of other satisfactory audit procedures, they are unable to satisfy themselves as to whether the balance of trade payables is fairly presented in these financial statements.

Any adjustments that might found to be necessary in respect of the matters referred to above would have consequential effects on the loss and cash flows of the Company for the year ended 31 December 2007 and its net liabilities as at 31 December 2007 and the related disclosures in the financial statements.

Disclaimer of opinion: disclaimer on view given by financial statements

Because of the significance of the matters described in the basis for disclaimer of opinion paragraph, the auditors do not express an opinion on the financial statements as to whether they give a true and fair view of the state of the Company's affairs as at 31 December 2007 and of its loss and cash flows for the year then ended in accordance with International Financial Reporting Standards. In all other respects, in their opinion, the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Without further qualifying their opinion, the auditors draw attention to note 2(a) to the financial statements concerning the adoption of the going concern basis on which the financial statements have been prepared. As explained in note 2(a) to the financial statements, the financial statements have been prepared on the going concern basis, the validity of which depends upon the ongoing financial support from the immediate holding company, the Company's ability to generate sufficient cash flows from future operations to cover the Company's operating costs and the outcome of the negotiations with banks to extend the repayment schedule and waiver of certain portion of the liabilities due to them. The financial statements do not include any adjustments that would result from the failure of such measures. Details of the circumstances relating to this material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern are described in note 2(a) to the financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The year 2007 was a very difficult year for the Company. Total revenue of the Company declined from RMB42,841,000 in the year 2006 to RMB38,302,000 in the year 2007 (representing a decrease of 10.6%). The decline was mainly attributable to the noneffective approach in handling the overall market by the management.

The International Market of High Pressure Cylinders:

The gas application technology has reached rather high standard in developed countries, yet it is still hovering at an initial stage in the PRC. So far, there are more than 130 varieties of gases for cylinder inflation worldwide, and approximately 80 varieties of gases are used for cylinder inflation in the PRC. The production capacity of relatively large-scale cylinder manufacturers in the world has reached 2 to 3 million cylinders per year, while the largest cylinder manufacturer in the PRC is merely able to produce 500,000 to 600,000 cylinders per year. In terms of total industrial output, the output of gas industry in the PRC was RMB13 billion in the year 2000, which is expected to amount to RMB30 billion in the year 2010. The PRC recorded a sales volume of 840,000 in high pressure seamless cylinders in the year 2000, with sales amount reaching RMB350 million, and the sales volume of high pressure seamless cylinders in the PRC surged to 1.9 million in the year 2009. The ownership of seamless cylinders in the world has reached approximately 200 million at present, of which the US ranked the top with 75 million, followed by the European Union with 50 million, Japan with 30 million, the PRC with 8 million and other countries with 47 million. Given the relatively low price of seamless cylinders in the PRC, the demand of the PRC's seamless cylinders from the international market is expected to increase, with the volume escalating at a rate of 50,000 to 100,000 cylinders per year.

The Domestic Fire Extinguisher Market

The fire extinguisher industry in the PRC pocketed a sales revenue of RMB3.91 billion in the year 2005, and that in the year 2006 amounted to RMB4.21 billion, representing a year-on-year increase of 7.67%. In the year 2007, the sales revenue of the fire extinguisher in the PRC exceeded RMB4.5 billion, representing an increase of 7.60% with that of 2006. With the increasing attention attached from the PRC government on the fire-fighting industry, the fire extinguisher industry will experience new opportunities and considerable development prospects.

Outlook

The demand for fire-safety and fire-fighting systems will keep lifting in the PRC against the backdrop of the rapid development of the PRC's real estate industry and the enhanced laws on fire-fighting. The volume of fire-fighting equipment procurement in the PRC from other countries in the world has been soaring as well. In addition to fire-fighting equipment, the gas cylinder products of the Company can also be applied to many other industries such as medical treatment, automobile and environmental protection, indicating a prosperous prospect. The Company is also endeavouring to develop new products and expand customer resources.

Future Plan

The Company intends to cement internal management, strengthen operating efficiency, develop new products and control production costs. Efforts will be made to develop domestic operating networks and export agents, with an aim to expand sales. Upon sharpening the competitive edge and expanding customer resources, the Company will also increase equipment utilisation and expand production. The Company will conduct its businesses in multiple channels in a move to improve its performance.

LIQUIDITY AND FINANCING

The cash and cash equivalents of the Company increased from approximately RMB681,000 in 2006 to RMB1,201,000 in 2007. The Company maintained most of its cash and cash equivalent balances in Renminbi.

Borrowings and banking facilities

As at 31 December 2007, the Company had short-term borrowings of approximately RMB33,730,000 (2006: RMB41,480,000). Part of the short-term borrowings was secured by certain property, plant and equipment together with land use rights of the Company.

Gearing ratio

The Company's gearing ratio, which was expressed as a percentage of the total bank borrowings over total assets, as at 31 December 2007 was 47.54% (2006: 48.84%).

Capital structure and financial resources

As at 31 December 2007, the Company had net liabilities of approximately RMB28,275,000 (2006: RMB18,453,000). The Company's operations and investments are financed principally by internal resources, bank borrowings and shareholders' equity.

Foreign exchange risk

Effective from 1 January 2003, the Company has been selling its products to overseas customers. Most of the Company's export sales contracts are denominated in Euro or United States dollars. The Company does not enter into any foreign exchange forward contracts to hedge its exposure to Euro and United States dollars. However, the Company's management closely monitors the fluctuation in foreign currency exchange rates, and is of the opinion that the Company's net assets denominated in Euro or United States dollars at 31 December 2007 would not result in significant exchange loss to the Company.

SIGNIFICANT INVESTMENT HELD

As at 31 December 2007, the Company did not have any significant investment (2006: Nil).

EMPLOYEES

As at 31 December 2007, the Company had 276 employees (2006: 345 employees). Remuneration is determined by reference to market terms and the performance, qualifications, and experience of individual employee. Other benefits include contributions to retirement scheme.

Under relevant local government regulations, the Company is required to make contributions to a defined contribution retirement scheme for all qualified employees in the PRC. The Company has, in compliance with relevant local government regulations, made payment for such scheme during the year. The Company has no obligation for the payment of other retirement and non-retirement benefits of employees other than the contributions described above.

The Company has not experienced any significant labour disputes or strikes which have led to the disruption of its normal business operations. The Directors consider that the Company's relationship with its employees to be good.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, the Company did not purchase, sell or redeem any of the Company's listed securities.

CORPORATE GOVERNANCE

Pursuant to rule 18.44 (2) and Appendix 16 of the GEM Listing Rules, the Company wish to state that it has complied with all code provisions set out in the Code on Corporate Governance Practices contained in the Appendix 15 of the GEM Listing Rules (the “Code”) during the year.

(1) Corporate Governance Practices

The Company is committed to promoting good corporate governance, with the objectives of (i) the maintenance of responsible decision making, (ii) the improvement in transparency and disclosure of information to shareholders, (iii) the continuance of respect for the rights of shareholders and the recognition of the legitimate interests of the shareholders, and (iv) the improvement in management of risk and the enhancement of performance by the Company. The Company has applied in Appendix 15 of the GEM Listing Rules with these objectives in mind.

(2) Directors’ Securities Transactions

The Company has adopted a code of conduct regarding directors’ securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of the directors of the Company, all directors have complied with the required standard of dealings and code of conduct regarding securities transactions by directors.

AUDIT COMMITTEE

The Company has an audit committee (the “Audit Committee”) established with written terms of reference in compliance with GEM Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal controls of the Group and to provide advice to the directors of the Company.

The Audit Committee comprises one non-executive director Ms. Chai Xiao Fang and two independent non-executive directors of the Company, namely Mr. Yang Chun Bao and Mr. Zhang Cheng Ying.

The Audit Committee has reviewed the Group’s audited final results for the year ended 31 December 2007 and has provided advice and comments thereon.

REMUNERATION COMMITTEE

The Company has established the Remuneration Committee according to the relevant provisions of the GEM Listing Rules with written terms of reference. Its primary responsibility is to make proposals to the Board with respect to the overall remuneration policy and framework for Directors and senior management of the Company and the establishment of formal and transparent procedure for formulating the remuneration policy.

The Remuneration Committee comprises of one executive Director, Zhou Jin Hui and two independent non-executive Directors, Yang Chun Bao and Zhang Cheng Ying, which is in compliance with the requirement of the GEM Listing Rules that independent non-executive Directors should form the majority of the remuneration committee.

As at the date of this announcement, the executive Directors are Mr. Chen Shi Da, Mr. Hu Jing Hai, Mr. Zheng Yi Song, Mr. Zhou Jin Hui and Mr. Rao Jun Xi; the non-executive Directors are Ms. Chai Xiao Fang, Mr. Gong Xu Lin and Ms. Wang Xiang; and the independent non-executive Directors are Mr. Chen Wen Gui, Mr. Wang Guo Zhong, Mr. Yang Chun Bao and Mr. Zhang Cheng Ying.

By order of the Board
Shanghai Qingpu Fire-Fighting Equipment Co., Ltd.
Zhou Jin Hui
Director

Hong Kong, 23 November 2010

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