



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 People's Republic of China)

Stock Code: 8115

ANNUAL REPORT 2006

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

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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 report, 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 report 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 report misleading.

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Chen Shi Da
Mr. Hu Jing Hai
Mr. Zheng Yi Song
Mr. Zhou Jin Hui
Mr. Rao Jun Xi

Non-Executive Directors

Ms. Chai Xiao Fang
Mr. Gong Xu Lin
Ms. Wang Xiang

Independent Non-Executive Directors

Mr. Chen Wen Gui
Mr. Wang Guo Zhong
Mr. Yang Chun Bao
Mr. Zhang Cheng Ying

AUDIT COMMITTEE

Ms. Chai Xiao Fang
Mr. Yang Chun Bao
Mr. Zhang Cheng Ying

AUTHORISED REPRESENTATIVE

Mr. Wong Kwan Pui

COMPANY SECRETARY

Mr. Wong Kwan Pui

AUDITORS

CCIF CPA Limited and
Ascenda Cachet CPA Limited (formerly Cachet
Certified Public Accountants Limited)

PRINCIPAL BANKERS

China Construction Bank Huaxin Sub-branch
Shanghai Rural Commercial Bank Co., Ltd.
Chonggu branch

H SHARE SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor
Services Limited
46th Floor, Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

REGISTERED OFFICE

1988 Jihe Road
Hua Xin Town
Qingpu District, Shanghai
People's Republic of China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 2605, Island place Tower
510 King's Road
North Point
Hong Kong

CHAIRMAN'S STATEMENT

RESULTS FOR THE YEAR

For the year ended 31 December 2006, the Company recorded total revenue of RMB42,841,000 and loss attributable to shareholders of RMB56,306,000. The Company's revenue was derived principally from its sale of fire extinguishers, fire extinguisher cylinders and pressure cylinders in the PRC (excluding Hong Kong) and to overseas (including Hong Kong), with each accounting for 58% and 42% respectively of the Company's revenue for the year ended 31 December 2006.

SALES

The Company's revenue decreased by RMB23,323,000 from RMB66,164,000 in 2005 to RMB42,841,000 in 2006. The Company commenced export sales since 2006 through export agent Shanghai Jiangshixiang International Trading Co., Ltd. (上海蔣仕相國際貿易有限公司).

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.

LONG TERM STRATEGY

We believe that the Company, with its experienced management team and quality products, will be able to sharpen its competitive edge. The Company will become a major enterprise in the manufacturing and sale of fire fighting equipment in the PRC and worldwide..

OUR PEOPLE

The Company will further optimize its staff structure. The Board would like to express gratitude to the employees of the Group for their invaluable contribution to the business.

DIRECTORS

My thanks go to the Directors for their professional work. As at the date of this report, the majority of the Old Directors have resigned from the Board. The new Board will endeavour to work professionally and painstakingly for achieving prosperous performance of the Company in the future.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The year 2006 was a very difficult year for the Company. Total revenue of the Company declined from RMB66,164,000 in the year 2005 to RMB42,841,000 in the year 2006 (representing a decrease of 35.3%). The decline was mainly attributable to the significant decline in the export sales and non-effective 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 6.89% 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 decreased from approximately RMB790,000 in 2005 to RMB681,000 in 2006. The Company maintained most of its cash and cash equivalent balances in Renminbi.

Borrowings and banking facilities

As at 31 December 2006, the Company had short-term borrowings of approximately RMB41,480,000 (2005: RMB8,550,000). 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 2006 was 48.84% (2005: 12.39%).

Capital structure and financial resources

As at 31 December 2006, the Company had net liabilities of approximately RMB18,453,000 (2005: net assets of RMB37,853,000). 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 are denominated in Euro and 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 2006 is immaterial and would not result in significant exchange loss to the Company.

SIGNIFICANT INVESTMENT HELD

As at 31 December 2006, the Company did not have any significant investment (2005: Nil).

EMPLOYEES

As at 31 December 2006, the Company had 345 employees (2005: 353 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.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

As at the date of this annual report, the Directors of the Company include:

EXECUTIVE DIRECTORS

Mr. Zhou Jin Hui, aged 40, is the director of Liancheng Fire Protection Group (Hong Kong) Company Limited (“Liancheng HK”), Liancheng Fire-Fighting Group Company Limited (聯城消防集團股份有限公司) (“Liancheng”), Zhejiang Hengtai Real Estate Joint Stock Co., Ltd(浙江恆泰房地產股份有限公司) (“Hengtai Real Estate”) and Jiangshan Construction Decoration Engineering Ltd. (江山市建築裝飾配套工程有限公司) (“Jiangshan Construction”). Liancheng is the beneficial owner of 131,870,000 domestic shares and Liancheng HK is the beneficial owner of 1,300,000 H shares of the Company. Liancheng HK is wholly owned by Liancheng, which is then owned by Hengtai Real Estate and Rao Jun Xi as to 90% and 10% respectively. Hengtai Real Estate is owned by Mr. Zhou as to 58%. By virtue of Mr. Zhou’s indirect interest in the Company, Mr. Zhou is deemed to be interested in the same 131,870,000 domestic shares held by Liancheng and 1,300,000 H shares held by Liancheng HK under Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the “SFO”). Mr. Zhou established Jiangshan Hengtai Real Estate Co. Ltd. (江山市恆泰房地產有限公司) in 1998 which was converted into Zhejiang Hengtai Real Estate Joint Stock Co., Ltd. in 2003. Prior to this, he established Jiangshan Construction Decoration Engineering Ltd. (江山市建築裝飾配套工程有限公司) in 1996. Mr. Zhou completed the Business Administration Programme in the International Business University of Beijing (北京國際商務學院) and the training program for senior manager in Tsinghua University. In addition, he holds the degree of Master of Business Administration from the University of Management and Technology, Commonwealth of Virginia, the United States of America. Mr. Zhou joined the Company on 30 July 2009.

Mr. Zheng Yi Song, aged 50, is the deputy general manager of Hengtai Real Estate. Prior to working in Hengtai Real Estate, he has worked in Jiangshan City Water Plant (江山市自來水廠) as factory manager, and in Jiangshan City Guaju Equipment Factory Company Limited (江山市蝸居工器材廠有限公司) as the general manager. Mr. Zheng completed the training program for senior manager in Tsinghua University in 2007. In addition, he completed an executive training program in Jiangshan Municipal Party School of the Communist Party of China (中共江山市委黨校). Mr. Zheng is an assistant engineer and assistant economist as registered under the government of Jiang Shan City. Mr. Zheng joined the Company on 30 July 2009.

Mr. Hu Jing Hai, aged 35, is the general manager of Shanghai Petrochemical Firefighting Engineering Co., Ltd.(上海石化消防工程有限公司). Prior to this, he was the vice manager of the news center of the website of China Firefighting (中國消防網站新聞中心), the chief editor of the website of China Water Firefighting (中國水上消防網), the executive of the science education committee (科普教育工作委員會) of China Firefighting Association (中國消防協會). Mr. Hu obtained his bachelors degree of sports news (體育新聞) from Shanghai University of Sport (上海體育學院). Mr. Hu joined the Company on 30 July 2009.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Chen Shi Da, aged 50, is the deputy general manager of the Company since 2007. Prior to his employment with the Company, he was a finance supervisor in Shanghai Huasheng Enterprises (Group) Company Limited (上海華盛企業(集團)有限公司) (“Shanghai Huasheng”), Shanghai Tianhai High Pressure Container Co., Ltd. (上海天海高壓容器有限公司) and Shanghai Qingpu District Dianshan Lake Beverage Factory (上海青浦區淀山湖飲料廠), and was a finance supervisor, financial controller and deputy general manager of Shanghai High Pressure Container Co., Ltd. (上海高壓容器有限公司). Mr. Chen completed the Accounting and Finance Programme in Shanghai TV Secondary Specialized School (上海市電視中等專業學校). He is recognized by Qingpu Transportation Bureau Accounting Sector (Junior Level) Professional Technical Duties Assessment Committee (青浦交通局會計系列(初級)專業技術職務評審委員會) as an assistant accountant. Mr. Chen joined the Company in 7 August 2009.

Mr. Rao Jun Xi, aged 43, is the general manager of Zhejiang Hengtai Real Estate Joint Stock Co., Ltd (浙江恆泰房地產股份有限公司) (“Hengtai Real Estate”) and the deputy general manager of Liancheng Fire-Fighting Group Company Limited (聯城消防集團股份有限公司) (“Liancheng”). Mr. Rao is also a director of Hengtai Real Estate and Liancheng. As at the date of this report, Liancheng is entitled to exercise the voting rights of an aggregate of 131,870,000 domestic shares of the Company. Liancheng Fire Protection Group (Hong Kong) Company Limited (“Liancheng HK”), a wholly-owned subsidiary of Liancheng, is the beneficial owner of 1,300,000 H shares of the Company. Liancheng is owned by Hengtai Real Estate and Mr. Rao as to 90% and 10% respectively. Mr. Rao completed the secretarial programme in Wenzhou University (溫州大學), and holds a master’s degree in economic management from Zhejiang Normal University (浙江師範大學). Prior to working in Hengtai Real Estate, he worked at Bureau of Urban Planning of Jiangshan City in Zhejiang Province (浙江省江山市規劃建設局) as secretary, officer and vice chief of the Property Management Division. In addition, he worked in government of Xujiang Town under Jiangshan City, Zhejiang Province (浙江省江山市須江鎮政府) as mayor of the town. Mr Rao joined the Company on 12 October 2009.

NON-EXECUTIVE DIRECTORS

Mr. Gong Xu Lin, aged 36, is the manager of Liancheng Fire-Fighting Group Company Limited (聯城消防集團股份有限公司) (“Liancheng”). Prior to working with Liancheng, he has been an executive of the Bureau of Justice in Jiangshan City (江山市司法局). Mr. Gong graduated from Zhejiang Law School (浙江法律學校) and completed the law programme jointly organized by China Central Radio & TV University (中央廣播電視大學) and China University of Political Science and Law (中國政法大學). Mr. Gong joined the Company on 7 August 2009.

Ms. Chai Xiao Fang, aged 47, is the financial controller and deputy general manager of Hengtai Real Estate. Ms. Chai completed the training programs for senior manager and financial controller in Tsinghua University in 2006. In addition, she completed the accountancy program in Zhejiang Province Zhonghua Accountancy College (浙江省中華會計函授學院), the economic and management program in Hangzhou University (杭州大學), and the law program in China University of Geosciences (中國地質大學). Ms. Chai joined the Company on 30 July 2009.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Ms. Wang Xiang, aged 49, is the chief financial controller and deputy general manager of Shanghai Huasheng. Prior to working in Shanghai Huasheng, Ms. Wang was the chief accountant and assistant to the general manager of Shanghai Moshida Enterprise Development Company Limited (上海魔士達企業發展有限公司). Ms. Wang completed the Economic Management Programme (經濟管理) in Nanjing Institute of Political Studies of the People's Liberation Army of China (中國人民解放軍南京政治學院), holds the degree of Master of Business Administration from InterAmerican University and the professional postgraduate degree of Management Science and Engineering (管理科學與工程) from Shanghai University (上海大學). She is a certified internal auditor under China Institute of Internal Audit (中國內部審計協會) and a qualified accountant under Shanghai Light Industry Bureau Intermediate Accounting Sector (上海市輕工業局會計系列中級). She is also a certified senior business operator recognized by the Occupational Skill Testing and Instruction Centre of China (中國商業職業技能鑒定指導中心) and the State Senior Business Operator Assessment Committee (全國高級經營師評審委員會). She is a qualified Chinese Certified Public Accountant as recognized by the Ministry of Finance Chartered Public Accountant Examination Committee (財政部註冊會計師考試委員會). She joined the Company in January 2005.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Zhang Cheng Ying, aged 64, was Secretary for the Zhejiang Provincial State-owned Assets Supervision and Administration Commission (浙江省國有資產管理局), and the commissioner and deputy commissioner of the Ministry of Finance (財政部), and has various working experience in the government departments of the People's Republic of China (including Province Civil Air Defence Office (省人民防空辦公室) and Finance Department of Zhejiang Province Finance Supervisory Commissioner Office (財政部駐浙江省財政監察專員辦事處)) during the years from 1971 to 2005. Mr. Zhang is also the independent director of two other companies listed on the Shenzhen Stock Exchange, namely China Garments Company Limited (中國服裝股份有限公司) and SOYEA Technology Co., Ltd (數源科技股份有限公司). Mr. Zhang completed the Industrial and Electrical Automation Programme (工業電氣自動化) in Zhejiang University (浙江大學). Mr. Zhang joined the Company on 7 August 2009.

Mr. Chen Wen Gui, aged 77, graduated from Tsinghua University (清華大學) in July 1958 studying engineering. Mr. Chen held senior posts in the fire fighting related companies, including Fire Prevention and Fighting Bureau of the Ministry of Public Security of the PRC (中華人民共和國公安部消防局) and Fire Prevention and Fighting Association of the PRC (中華人民共和國消防協會). Mr. Chen is currently the honored chairman of Shenzhen Yinte Fire Prevention and Fighting Engineering Company (深圳因特消防工程公司) and senior consultant of Beijing Linglong Huang Travel Development Company (北京陵龍鎧旅遊開發公司). Mr. Chen was the co-author of The Complete Guide of Fire Fighting and Prevention in China (中國消防全書). Mr. Chen was appointed as an independent non-executive Director in October 2000.

Mr. Yang Chun Bao, aged 53, graduated from Mcdonna University in Livonia Michigan in the U.S. with a master degree in business administration in July 1999. Mr. Yang is a qualified accountant and is the deputy supervisor with Shanghai Huashen Certified Public Accountants (上海華申會計師事務所副主任). Mr. Yang was appointed as an independent non-executive Director in October 2000.

Mr. Wang Guo Zhong, aged 51, graduated from Shanghai Fudan University with a bachelor degree in law in April 1983. Mr. Wang is currently an officer of Shanghai Golden Horse Law Firm (上海金馬律師事務所). Mr. Wang was appointed as an independent non-executive Director in October 2000.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Mr. Wong Kwan Pui, aged 50, is the qualified accountant and company secretary of the Company. Mr. Wong is a graduate of the Hong Kong Polytechnic University in Accounting. Mr. Wong is an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Wong has over 30 years of experience in international accounting and auditing, financial planning and management. Mr. Wong joined the Company on 12 May 2006.

Supervisors

In accordance with Articles 124 of the Company's Articles of Association, two-thirds of Supervisors shall be elected at general meetings of the Company for a term of three years. The former Supervisors, Mr. Tang Cheng, Mr. Wang Kou Cheng and Mr. Liu Xiong De, have all resigned from their positions. New appointment of Supervisors is subject to the election at the Company's general meetings.

COMPLIANCE OFFICER

As at 31 December 2006, the Company's compliance officer was Mr. Wang Liang Fa, who has resigned from office as at the date of this report. As at the date of this report, the compliance officer is Mr Rao Jun Xi, who is also a executive Director.

Senior Management

As at the date of this report, the senior management of the Company includes:

Mr. Mao Qian Meng, aged 55, is the Company's deputy general manager. He was the general manager of Xinjiang Yinjian Fire-fighting Equipment Factory(新疆銀劍消防器材廠) and Zhejiang Jiangshan Fire-fighting Equipment Factory (浙江江山市消防器材廠). He joined the Company as deputy general manager in May 2009.

CORPORATE GOVERNANCE REPORT

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.

BOARD OF DIRECTORS

At the date of this report, the Board comprises of 12 members, including five executive Directors, Mr. Chen Shi Da, Mr. Hu Jing Hai, Mr. Zheng Yi Song, Mr. Zhou Jin Hui and Mr. Rao Jun Xi, three non-executive Directors, Ms. Chai Xiao Fang, Mr. Gong Xu Lin and Ms. Wang Xiang, and four independent non-executive Directors, Mr. Chen Wen Gui, Mr. Wang Guo Zhong, Mr. Yang Chun Bao and Mr. Zhang Cheng Ying. Their term of office will end upon the conclusion of next annual general meeting of the Company.

During the year ended 31 December 2006, the Board comprised of 13 members, including three executive Directors, Mr. Jiang Zi Qiang, Mr. Liu Zhu Gen and Mr. Tang Heng Yi, six non-executive Directors, Mr. Wang Zhi Yu, Mr. Jiang Zhou, Mr. Li Zheng Li, Mr. Zhao Shu Guang, Mr. Chen Zhen Qiang and Mr. Zhou Wen Jie, four independent non-executive Directors, Mr. Li Long Ling, Mr. Chen Wen Gui, Mr. Yang Chun Bao and Mr. Wang Guo Zhong (the “Old Directors”). All the Old Directors, except Mr. Chen Wen Gui, Mr. Yang Chun Bao and Mr. Wang Guo Zhong had resigned from the Board subsequent to 31 December 2006.

CORPORATE GOVERNANCE REPORT

The Board conducted five meetings in 2009 to discuss and decide on development strategies, critical operational matters, financial affairs and other matters stipulated in the articles of association of the Company. The following table sets out the attendance of Directors' meetings in 2009:

Directors		Number of Meetings/Attendance
Executive Directors	Zhou Jin Hui	5/5
	Zheng Yi Song	5/5
	Hu Jing Hai	5/5
	Chen Shi Da	5/5
	Rao Jun Xi	2/5
Non-executive Directors	Chai Xiao Fang	5/5
	Gong Xu Lin	5/5
	Wang Xiang	5/5
Independent non-executive Directors	Wang Guo Zhong	5/5
	Chen Wen Gui	4/5
	Yang Chun Bao	5/5
	Zhang Cheng Ying	5/5

CHAIRMAN AND GENERAL MANAGER

During the year 2006, Mr. Jiang Zi Qiang and Mr. Shen Jian Zhong are chairman of the Board and general manager respectively, which are two clearly defined positions. The chairman is responsible for the operation of the Board while the general manager is in charge of ordinary business management. The Articles of Association of the Company set out the respective functions of the chairman and the general manager in detail.

As at the date of this report, chairman of the Board and general manager are Mr. Zhou Jin Hui and Mr. Zheng Yi Song respectively.

EMOLUMENTS OF DIRECTORS

In 2006, none of Directors of the Company received emoluments for the year ended 31 December 2006. Details of emoluments of Directors are set out in Note 9 of the Financial Statements.

APPOINTMENT OF DIRECTORS

Directors of the Company are elected at general meetings with a term of three years for each session. Directors can be re-elected upon expiration of the term. As at the date of this report, to cope with shortage of Directors, the Board has elected several Directors with a term until the commencement of the next general meeting where re-election would be conducted.

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE

Pursuant to Rule 5.28 of the GEM Listing Rules, the Company has set up an audit committee according to “A Guide For The Formation of An Audit Committee” compiled by the Hong Kong Institute of Certified Public Accountants. In compliance with Rule of 5.29 of the GEM Listing Rules, the authority and responsibility of the audit committee have been properly written out. The primary duties of the audit committee are to review and monitor the Company’s financial reporting process and internal control system. The audit committee for the year 2006 comprises of Li Long Ling, Chen Wen Gui and Yang Chun Bao, who are independent non-executive Directors. Yang Chun Bao possesses appropriate professional qualification and financial experience.

Prior to this report, the Company has established an audit committee which is comprised of Yang Chun Bao and Zhang Cheng Ying, who are independent nonexecutive Directors and Chai Xiao Fang, who is a non-executive Director. Yang Chun Bao possesses appropriate professional qualification and financial experience.

Two meetings have been conducted by the audit committee in 2009 for discussion of the operating results, statements of affairs and significant accounting policies and internal auditing issues of the Company for the year ended 31 December 2006, and taking advice of auditors.

The following table sets out the attendance of the committee’s meeting in 2009:

Committee members	Attendance/Number of meetings
Yang Chun Bao	2/2
Zhang Cheng Ying	2/2
Chai Xiao Fang	2/2

REMUNERATION COMMITTEE

The Remuneration Committee of the Company for the year 2006 comprises of one executive Director, Jiang Zi Qiang and two independent non-executive Directors, Yang Chun Bao and Li Long Ling, 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. 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.

Prior to this report, the Company has established a Remuneration Committee which is comprised of Yang Chun Bao and Zhang Cheng Ying, who are independent non-executive directors, and Zhou Jinhui, who is an executive Director.

CORPORATE GOVERNANCE REPORT

NOMINATION COMMITTEE

The Company has established the Nomination Committee according to the relevant provisions of the GEM Listing Rules with written terms of reference. Its primary responsibilities include reviewing and supervising the framework, number of members and composition of the Board and making proposals to the Board in respect of any changes and identifying and nominating suitable persons for appointment of Director.

As at 31 December 2006, the Nomination Committee comprises of one executive Director, Jiang Zi Qiang and two independent non-executive Directors, Yang Chun Bao and Li Long Ling, which is in compliance with the requirement of the GEM Listing Rules that independent non-executive Directors should form the majority of the nomination committee.

As at the date of this report, the Nomination Committee comprises of one executive Director, Zhou Jin Hui and two independent non-executive Directors, Yang Chun Bao and Zhan 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 nomination committee.

AUDITORS' REMUNERATION

CCIF CPA Limited and Cachet Certified Public Accountants Limited ("CCIF and Cachet") were the auditors of the Company for the year ended 31 December 2006. Other than annual auditing services, CCIF and Cachet did not provide non-auditing services to the Company during the year.

Auditors' remuneration for year ended 31 December 2006 is set out in note 6 of the Financial Statement. Besides, the Company paid for auditors' expenses of lodging, meals and traveling during the period when the auditing services were provided.

DIRECTORS' REPORT

The Directors submit their report together with the audited financial statements for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activities of the Company are manufacturing and sale of fire fighting equipment products and provision of the related processing services.

Analysis of the Company's performance for the year by geographic segment is set out in note 5 to the financial statements.

FINANCIAL STATEMENTS AND DIVIDENDS

The results of the Company for the year ended 31 December 2006 are set out in the income statement on page 26.

The state of the Company's affairs as at 31 December 2006 is set out in the balance sheet on page 27.

The Directors do not recommend the payment of a dividend for the year.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Company are set out in note 13 to the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company are set out in note 27 to the financial statements.

RESERVES

Movements in the reserves of the Company during the year are set out in the statement of changes in equity on page 28.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31 December 2006, calculated under the Company Law of the People's Republic of China (the "PRC"), being the jurisdiction in which the Company was established, amounted to RMB Nil.

DIRECTORS' REPORT

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Articles of Association of the Company and there was no restriction against such rights under the laws of the PRC, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

SUMMARY OF FINANCIAL INFORMATION

The summary of the results of the Company for the last four financial years is set out on page 92.

PURCHASE, SALE OF REDEMPTION OF LISTED SECURITIES

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

SHARE OPTIONS

As at the date of this report, no option has been granted or agreed to be granted by the Company to any of its Directors, Supervisors or employees of the Company.

DIRECTORS AND SUPERVISORS

The Directors and Supervisors who held office as at 31 December 2006 are:

Executive Directors

Jiang Zi Qiang, Mr. Jiang was appointed as an executive Director and the Chairman of the Company on 18 October 2000 and has been removed by the Board on 30 July 2009 due to his incapability of performing his duties.

Liu Zhu Gen, Mr. Liu was appointed as an executive Director in December 2006 and has been resigned from office on 30 July 2009.

Tang Heng Yi, Mr. Tang was appointed as an executive Director in December 2006 and has been resigned from office on 7 May 2008.

Non-executive Directors

Jiang Zhou, Mr. Jiang was appointed as a non-executive Director in October 2000 and has been resigned from office on 7 August 2009.

Chen Zhen Qiang, Mr. Chen was appointed as a non-executive Director in September 2002 and has been resigned from office on 7 August 2009.

Wang Zhi Yu, Mr. Wang was appointed as a non-executive Director in October 2000 and has been resigned from office on 22 May 2007.

Li Zheng Li, Mr. Li was appointed as a non-executive Director in December 2006 and has been resigned from office on 7 August 2009.

Zhao Shu Guang, Mr. Zhao was appointed as a non-executive Director in October 2000 and has been resigned from office on 12 October 2009.

Zhou Wen Jie, Mr. Zhou was appointed as a non-executive Director in October 2000 and has been resigned from office on 22 May 2007.

DIRECTORS' REPORT

Independent Non-executive Directors

Chen Wen Gui, Mr. Chen was appointed as an independent non-executive Director in October 2000.
Yang Chun Bao, Mr. Yang was appointed as an independent non-executive Director in October 2000.

Wang Guo Zhong, Mr. Wang was appointed as an independent non-executive Director in October 2000.

Li Long Ling, Mr. Li was appointed as an independent non-executive Director in July 2001 and has been resigned from office on 22 May 2007.

Supervisors

Mr. Tang Cheng
Mr. Wang Kou Cheng
Mr. Liu Xiong De

The Directors who held office up to the date of this report are:

Executive Directors

Zhou Jin Hui
Zheng Yi Song
Chen Shi Da
Hu Jing Hai
Rao Jun Xi

Non-executive Directors

Chai Xiao Fang
Gong Xu Lin
Wang Xiang

Independent Non-executive Directors

Wang Guo Zhong
Chen Wen Gui
Yang Chun Bao
Zhang Cheng Ying

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Brief biographical details of Directors, Supervisors and senior management are set out on page 8 to page 11.

DIRECTORS' REPORT

DIRECTORS' SERVICE CONTRACTS

Up to the date of this report, each of the Directors has entered into a service contract with the Company for a term from the date of appointment as a Director, as the case may be, to the date of the first general meeting after the appointment when the re-election is conducted.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

Apart from the Directors' and Supervisors' service contracts disclosed above, no contracts of significance in relation to the Company's business to which the Company was a party and in which a Director or a Supervisor of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2006, the interests and short positions of the Directors of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors as referred to in Rule 5.46 of the Rules Governing the Listing of Securities on the GEM (the "GEM Listing Rules"), were as follows:

Long positions in shares of the Company

Name	Capacity	Number of shares (Note 2)	Approximate percentage of total issued share capital
Mr. Jiang Zi Qiang	Held by controlled corporation (Note 1)	63,300,000	33.77%
Mr. Wang Zhi Yu	Beneficial owner	14,070,000	7.51%
Mr. Jiang Zhou	Beneficial owner	13,190,000	7.04%
Mr. Tang Heng Yi	Beneficial owner	11,870,000	6.33%

Notes:

1. Mr. Jiang Zi Qiang was deemed to be interested in 63,300,000 shares through his controlling interest in Shanghai Huasheng Enterprises (Group) Company Limited.
2. All represented domestic shares of the Company.

DIRECTORS' REPORT

Save as disclosed above, as at 31 December 2006, none of the Directors of the Company has any interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors as referred to in Rule 5.46 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2006, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company:

Name of Shareholders	Capacity	Number of shares (Note 2)	Approximate percentage of total issued share capital
Shanghai Huasheng Enterprise (Group) Company Limited	Beneficial owner	63,300,000	33.77%
Mr. Jiang Zi Qiang (Note 1)	Held by controlled corporation	63,300,000	33.77%
Mr. Li Zheng Li	Beneficial owner	14,070,000	7.51%
Mr. Jiang Zhou	Beneficial owner	13,190,000	7.04%
Tang Heng Yi	Beneficial owner	11,870,000	6.33%

Notes:

1. Mr. Jiang Zi Qiang owns 89% of Shanghai Huasheng Enterprises (Group) Company Limited. Accordingly, Jiang Zi Qiang is deemed to be interested in the 63,300,000 shares held by Shanghai Huasheng Enterprises (Group) Company Limited.
2. All represented domestic shares of the Company.

Save as disclosed above, the Company has not been notified of any other relevant interests representing 5 percent or more in the issued shares capital of the Company as at 31 December 2006.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

DIRECTORS' REPORT

MAJOR CUSTOMERS AND SUPPLIERS

The percentage of sales and purchases for the year attributable to the Company's major customers and suppliers are as follows:

Sales

- | | |
|-----------------------------------|-----|
| – the largest customer | 46% |
| – five largest customers combined | 71% |

Purchases

- | | |
|-----------------------------------|-----|
| – the largest supplier | 16% |
| – five largest suppliers combined | 56% |

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

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

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this annual report.

CONNECTED TRANSACTION

The connected transactions undertaken by the Company are set out in note 32 to the financial statements.

DIRECTORS' REPORT

The Company has issued an announcement in connection with the sale of fire extinguisher steel cylinders and aluminium cylinders to the subsidiaries of Shanghai Huasheng Enterprises (Group) Company Limited (the Company's then controlling shareholder). Save for the above, the independent non-executive Directors have examined and confirmed that:

- (i) these transactions were executed in the ordinary and usual course of business of the Company;
- (ii) these transactions were executed on normal commercial terms or on terms not less favorable than those given to (or obtained from, wherever applicable) independent third parties (if no comparable transaction can be referred to judge whether the transaction was executed on normal commercial terms); and
- (iii) these transactions were executed in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interest of the Company's shareholders as a whole.

The aggregate amount of each of these transactions has not exceeded the cap amount set out in the waiver letter granted by the Stock Exchange in this regard.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

None of the Directors, the management shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) has any interest in any business that directly or indirectly competes with the business of the Company or has any other conflicts of interest.

AUDITORS

CCIF CPA Limited ("CCIF") and Ascenda Cachet CPA Limited (formerly Cachet Certified Public Accountants Limited) ("Cachet") were auditors of the Company for the years ended 31 December 2004, 2005, 2006, 2007, 2008 and 2009.

On behalf of the Board
Zhou Jin Hui
Chairman

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF 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 established in the People's Republic of China)

We were engaged to audit the financial statements of Shanghai Qingpu Fire-Fighting Equipment Co., Ltd. set out on pages 26 to 91, which comprise the statement of financial position as at 31 December 2006, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Except for the limitation in the scope of our work as explained below, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement. However, because of the matters described in the basis for disclaimer of opinion paragraphs, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

INDEPENDENT AUDITORS' REPORT

BASIS FOR DISCLAIMER OF OPINION

Scope limitation – bank loans, loans receivable from former controlling shareholder and financial effects of the loss on financial guarantees

The current board of directors concluded to recognise the bank loans, accrued interest, penalty interest and legal costs payable and the loans receivable from former controlling shareholder as explained in notes 22(c) and 18 respectively and the financial effects of the loss on financial guarantees as explained in notes 19, 24 and 30. In the absence of sufficient and appropriate evidence, we are unable to ascertain whether the aforesaid conclusion is appropriate.

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 the purpose of the bank loans as explained in note 22(c). In the absence of these bank statements, we were unable to ascertain whether the transactions, if any, in these bank accounts have been properly accounted for in these financial statements. As a consequence, we 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

We have been unable to obtain certain direct confirmations and other sufficient evidence in respect of the existence and accuracy of the trade receivables of approximately RMB27,532,000. A write off of RMB13,908,000 representing the difference between the aforesaid amount and the amount collected up to the date of this report was made in the statement of comprehensive income. In the absence of other alternative audit procedures, we were unable to ascertain that these amounts are fairly presented in the financial statements.

Scope limitation – trade payables

We have been unable to obtain certain direct confirmations and other sufficient evidence in respect of the trade payables of approximately RMB16,281,000 as stated in the statement of financial position as at 31 December 2006. In the absence of other satisfactory audit procedures, we were unable to satisfy ourselves 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 2006 and its net liabilities as at 31 December 2006 and the related disclosures in the financial statements.

INDEPENDENT AUDITORS' REPORT

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, we 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 2006 and of its loss and cash flows for the year then ended in accordance with International Financial Reporting Standards. In all other respects, in our opinion, the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Without further qualifying our opinion, we 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.

ASCENDA CACHET CPA LIMITED
(Formerly Cachet Certified Public Accountants Limited)
Certified Public Accountants
Hong Kong, 23 November 2010
Chan Yuk Tong
Practising Certificate Number P03723

CCIF CPA LIMITED
Certified Public Accountants
Hong Kong, 23 November 2010
Betty P.C. Tse
Practising Certificate Number P03024

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2006

(Expressed in Renminbi)

	Note	2006 RMB'000	2005 RMB'000
Turnover	5	42,841	66,164
Cost of sales		<u>(40,472)</u>	<u>(58,696)</u>
Gross profit		2,369	7,468
Other revenue and income	6	2,678	400
Impairment loss on trade receivables	16(b)	–	(9,200)
Write off on trade receivables	16(a)	(13,908)	–
Impairment loss on loans receivable from former controlling shareholder	18	(11,060)	–
Provision for loss on financial guarantees	24(b)	(33,564)	–
Reimbursement receivables for loss on financial guarantees	19	33,564	–
Impairment loss on reimbursement receivables for loss on financial guarantees	19	(21,748)	–
		(21,748)	–
Distribution costs		(2,543)	(4,401)
Administrative expenses		<u>(11,354)</u>	<u>(7,297)</u>
Loss from operations		(55,566)	(13,030)
Finance costs	7 (a)	<u>(740)</u>	<u>(577)</u>
Loss before tax	7	(56,306)	(13,607)
Income tax	8	–	3,695
Loss for the year and total comprehensive loss for the year		<u><u>(56,306)</u></u>	<u><u>(9,912)</u></u>
Loss for the year and total comprehensive loss for the year attributable to owners of the Company		<u><u>(56,306)</u></u>	<u><u>(9,912)</u></u>
Loss per share (RMB)	12		
– Basic (cents)		<u><u>(30.0)</u></u>	<u><u>(5.3)</u></u>
– Diluted (cents)		<u><u>(30.0)</u></u>	<u><u>(5.3)</u></u>

The accompanying notes form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2006

(Expressed in Renminbi)

	Note	2006 RMB'000	2005 RMB'000
Non-current assets			
Property, plant and equipment	13	20,495	22,593
Lease premiums for land	14	780	798
		21,275	23,391
Current assets			
Inventories	15	6,976	5,724
Trade receivables	16	13,624	30,787
Lease premiums for land	14	18	18
Prepayments, deposits and other receivables	17	3,608	7,789
Loans receivable from former controlling shareholder	18	26,939	–
Reimbursement receivables for loss on financial guarantees	19	11,816	–
Current taxation	20(a)	–	515
Cash and cash equivalents	21	681	790
		63,662	45,623
Current liabilities			
Bank loans	22	41,480	8,550
Trade payables	23	16,281	17,383
Other payables and accruals	24	44,133	3,361
Due to related companies	25	1,080	1,244
		(102,974)	(30,538)
Net current (liabilities)/assets		(39,312)	15,085
Total assets less current liabilities		(18,037)	38,476
Non-current liabilities			
Deferred revenue	26(a)	(416)	(623)
NET (LIABILITIES)/ASSETS		(18,453)	37,853
EQUITY			
Share capital	27	18,743	18,743
Reserves	28	(37,196)	19,110
(CAPITAL DEFICIENCY)/TOTAL EQUITY		(18,453)	37,853

Approved and authorised for issue by the board of directors on 23 November 2010.

On behalf of the board

Director

Director

The accompanying notes form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2006

(Expressed in Renminbi)

	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Statutory reserve fund RMB'000	Discretionary common reserve fund RMB'000	(Accumulated losses)/ retained earnings RMB'000	Total RMB'000
As at 1 January 2005	18,743	10,910	(2,563)	3,734	1,500	15,441	47,765
Total comprehensive loss for the year	-	-	-	-	-	(9,912)	(9,912)
Appropriation	-	-	207	-	-	(207)	-
As at 31 December 2005 and 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	<u>18,743</u>	<u>10,910</u>	<u>(2,149)</u>	<u>3,734</u>	<u>1,500</u>	<u>(51,191)</u>	<u>(18,453)</u>

The accompanying notes form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2006

(Expressed in Renminbi)

	Note	2006 RMB'000	2005 RMB'000
Cash flows from operating activities			
Loss before taxation		(56,306)	(13,607)
Adjustments for:			
Amortisation of lease premiums for land	7(c)	18	18
Depreciation of property, plant and equipment	7(c)	2,379	1,275
Loss/(gain) on disposal of property, plant and equipment	6, 7(c)	35	(13)
Amortisation of government grant	6	(207)	(207)
Reversal of impairment loss on trade receivables	16(b)	(842)	-
Impairment loss on trade receivables	16(b)	-	9,200
Write off on trade receivables	16(a)	13,908	-
Impairment loss on loans receivable from former controlling shareholder	18	11,060	-
Impairment loss on reimbursement receivables	19	21,748	-
Interest income	6	(4)	(10)
Finance costs	7(a)	740	572
Operating loss before changes in working capital		(7,471)	(2,772)
(Increase)/decrease in inventories		(1,252)	1,551
Decrease/(increase) in trade receivables		4,097	(9,119)
Decrease in prepayments, deposits and other receivables		4,181	2,377
(Decrease)/increase in trade payables		(1,102)	5,237
Increase/(decrease) in other payables and accruals		5,139	(2,437)
(Decrease)/increase in amounts due to related companies		(3,164)	360
Cash generated from/(used in) operations		428	(4,803)
PRC enterprise income tax refunded/(paid)	20(a)	515	(878)
Net cash generated from/(used in) operating activities		943	(5,681)
Cash flows from investing activities			
Interest received	6	4	10
Payment for the purchase of property, plant and equipment	13	(322)	(13,147)
Refund of purchase deposit		-	12,813
Proceeds from sale of property, plant and equipment		6	293
Net cash used in investing activities		(312)	(31)
Cash flows from financing activities			
Interest paid	7(a)	(740)	(572)
Proceeds from bank loans		-	8,500
Repayments of bank loans		-	(8,500)
Net cash used in financing activities		(740)	(572)
Net decrease in cash and cash equivalents		(109)	(6,284)
Cash and cash equivalents at 1 January		790	7,074
Cash and cash equivalents at 31 December	21	681	790

The accompanying notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

1. GENERAL INFORMATION

Shanghai Qingpu Fire-Fighting Equipment Co., Ltd. (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 浙江恒泰房地產有限公司 (“浙江恒泰”) as its parent company.

The principal activities of the Company are the 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 circumstances 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

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 year, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments 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 RMB56,306,000 attributable to equity shareholders of the Company for the year ended 31 December 2006;
- as at 31 December 2006, the Company had net current liabilities and net liabilities of approximately RMB39,312,000 and RMB18,453,000 respectively;
- as at 31 December 2006, the bank loans were due for repayment within the next twelve months after 31 December 2006;
- legal actions have been taken by banks and other creditors 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

- (ii) The bank loans borrowed by Mr. Jiang in name of the Company (see note 22(c)) 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 banks or settled subsequent to the end of the reporting period.
- (iii) The underlying bank loans, borrowed by a subsidiary of Shanghai Huasheng, for which financial guarantees have been provided by Mr. Jiang, in name of the Company (see note 30) have been released upon settlement of loans 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 include 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. A summary of the significant accounting policies adopted by the Company is set out below. The IASB has issued certain new and revised IFRSs that are effective or available for early adoption for the current accounting period of the Company. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Company for the current and prior accounting periods reflected in these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(c) **Property, plant and equipment**

Property, plant and equipment are stated in the statement of financial position at cost less accumulated depreciation and impairment losses (see note 2(f)).

Depreciation is calculated to write off the costs of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

Buildings	Shorter of the lease term or 40 years
Machinery	8 to 10 years
Furniture, fixtures and computer equipment	6 years
Motor vehicles	8 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value are reviewed annually.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

(d) **Operating lease charges**

Where the Company has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they were incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(e) Construction-in-progress

Construction-in-progress represents property, plant and equipment under construction and pending installation, and is stated at cost less impairment losses (see note 2(f)). Cost comprises direct costs of construction, machinery and equipment, installation costs and other direct costs.

Construction-in-progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use.

No depreciation is provided in respect of construction-in-progress.

(f) Impairment of assets

(i) Impairment of trade and other current receivables

Trade and other current receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment.

Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganization; and
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate computed at initial recognition of these assets, where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Company is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) *Impairment of other assets*

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that property, plant and equipment and lease premium for land may be impaired or, an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated. In addition, the recoverable amount is estimated annually whether or not there is any indication of impairment.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

– Calculation of recoverable amount

The recoverable amount of an asset is the higher of fair value less costs to sell and its 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 time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying amount of asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

In respect of assets, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, the Company is required to prepare an interim financial report in compliance with IAS 34, Interim financial reporting. At the end of the interim period, the Company applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (notes 2(f)(i) and (ii)).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(g) Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is 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.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(h) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 2(f)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(i) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(j) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(k) Cash and cash equivalents

Cash and cash equivalents comprises cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value, having been within three months of maturity at acquisition.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(l) Employee benefits

(i) *Short term employee benefits and contributions to defined contribution retirement plans*

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) *Termination benefits*

Termination benefits are recognised when, and only when, the Company demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(m) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided that those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when

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determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, in the case of taxable differences, the Company controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of the reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(n) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the “holder”) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Company issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Company’s policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2(n)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Company under the guarantee, and (ii) the amount of that claim on the Company is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(o) Government grants

Government grants are not recognized until there is reasonable assurance that the Company will comply with the conditions attaching to them and that the grants will be received.

Other government grants relating to cost of property, plant and equipment are initially recorded as deferred revenue and are credited to profit or loss on a straight-line basis over the expected useful lives of the related assets.

(p) Revenue recognition

Provided it is probable that the economic benefits will flow to the Company and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when goods are delivered at the customers' premise which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts and returns.

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(q) Translation of foreign currencies

Transactions in foreign currency during the year are translated into Renminbi at the foreign exchange rate quoted by the People's Bank of China ("PBOC rates") prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are translated into Renminbi at the PBOC rates on that date. Exchange differences arising from translation are recognised in profit or loss.

(r) Related parties

For the purpose of these financial statements, a party is considered to be related to the Company if:

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Company or exercise significant influence over the Company in making financial and operating decisions, or has joint control over the Company;
- (ii) the Company and the party are subject to common control;

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

- (iii) the party is a member of key management personnel of the Company or the Company's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
- (iv) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- (v) the party is a post-employment benefit plan which is for the benefit of employees of the Company or of any entity that is a related party of the Company.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(s) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Company's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Company's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

(t) Borrowing costs

Borrowing costs are expensed in profit or loss in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

3. CHANGE IN ACCOUNTING POLICIES

In current year, the Company has, where applicable, applied the following amendments and interpretations (“new IFRSs”) issued by IASB which are or have become effective.

- Amendments to IAS 19 *Employee Benefits*
- Amendments to IAS 21 *The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation*
- Amendments to IAS 39 *Financial Instruments: Recognition and Measurement – Cash Flow Hedge Accounting of Forecast Intra-group Transactions*
- Amendments to IAS 39 *Financial Instruments: Recognition and Measurement – The Fair Value Option*
- Amendments to IAS 39 and IFRS 4 *Financial Guarantee Contracts*
- IFRIC 4 *Determining whether an Arrangement contains a Lease*

The application of the new IFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented.

Early adoption of new/revised IFRSs

For the year ended 31 December 2006, the Company early adopted certain new/revised IFRSs that are effective for up to the financial year ended 31 December 2009 which were pertinent to its operations where early adoption was permitted. The applicable IFRSs are set out below:

	Effective for accounting period beginning on or after
IFRIC 10, “Interim Financial Reporting and Impairment”	1 November 2006
IFRS 7, “Financial Instruments: Disclosures”	1 January 2007
Amendment to IAS 1, “Presentation of Financial Statements: Capital Disclosures”	1 January 2007
IFRS 8, “Operating Segments”	1 January 2009
IAS 1 (Revised 2007), “Presentation of Financial Statements”	1 January 2009
IAS 23 (Revised 2007), “Borrowing Costs”	1 January 2009

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

As a result of the adoption of IFRS 7, the financial statements include expanded disclosure about the significance of the Company's financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by IAS 32, Financial Instruments: Disclosure and Presentation: These disclosures are provided throughout these financial statements, in particular in note 33.

The amendment to IAS 1 introduces additional disclosure requirements to provide information about the level of capital and the Company's objectives, policies and processes for managing capital. These new disclosures are set out in note 28(f).

Both IFRS 7 and the amendment to IAS 1 do not have any material impact on the classification; recognition and measurement of the amounts recognised in the financial instruments.

HKFRS 8 requires segment disclosure to be based on the way that the Company's chief operating decision maker regards and manages the Company, with the amounts reported for each reportable segment being the measures reported to the Company's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. This contrasts with the presentation of segment information in prior years which was based on a disaggregation of the Company's financial statements into segments based on related products and services and on geographical areas. The adoption of HKFRS 8 has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided to the Company's most senior executive management.

As a result of the adoption of IAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised statement of changes in equity. All other items of income and expense are presented in the statement of comprehensive income, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the statement of comprehensive income. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

The Company has not applied any new standard or interpretation that is not yet effective.

4. ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

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, loans receivable and reimbursement receivables

The Company's management estimates impairment 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 judgement 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(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 IFRS8.

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 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 RMB42,841,000 (2005: RMB66,164,000) are revenues of approximately RMB19,770,000 (2005: RMB12,470,000) which arose from sales to the Company's largest customer.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

6. OTHER REVENUE AND INCOME

	<i>Note</i>	2006 RMB'000	2005 RMB'000
Other revenue			
Total interest income on financial assets not at fair value through profit or loss		4	10
Revenue from sales of scrap		764	170
		768	180
Other income			
Reversal of impairment loss on trade receivables	<i>16(b)</i>	842	–
Gain on disposal of property, plant and equipment		–	13
Government grant relating to the purchase of machinery	<i>26(a)</i>	207	207
Government grant – production	<i>26(b)</i>	861	–
		1,910	220
Other revenue and net income		2,678	400

7. LOSS BEFORE TAX

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

(a) Finance costs

	2006 RMB'000	2005 RMB'000
Interest expense on bank loans wholly repayable within 5 years	740	572
Other interest expenses	–	5
Total interest expense on financial liabilities not at fair value through profit or loss	740	577

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(b) Staff costs (including directors' and supervisors' emoluments (see note 9))

	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
Wages and salaries	4,964	5,927
Social security costs	789	365
Retirement benefit costs	912	654
Housing subsidies	62	76
	<u>6,727</u>	<u>7,022</u>

(c) Other items

	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
Amortisation of lease premiums for land	18	18
Depreciation for property, plant and equipment#	2,379	1,275
Auditors' remuneration	547	561
Cost of inventories# (<i>see note 15</i>)	40,472	58,696
Loss on disposal of property, plant and equipment	35	-
Foreign exchange loss, net	-	1,520
Write off on trade receivables	13,908	-
Impairment loss on trade receivables	-	9,200
Research and development costs	2,500	-
Operating lease rentals for land and buildings	246	246
Provision for loss on financial guarantees	33,564	-
Impairment loss on loans receivable from former controlling shareholder	11,060	-
Impairment loss on reimbursement receivables for loss on financial guarantees	<u>21,748</u>	<u>-</u>

Cost of inventories includes RMB6,441,000 (2005: RMB5,999,000) relating to staff costs and depreciation which amount is also included in the respective total amounts disclosed separately above for each of these types of expenses.

(d) Retirement benefit costs

The employees of the Company participates in a defined contribution retirement benefit plan organised 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 retirement benefits plan amounted to RMB912,000 (2005: RMB654,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

8. INCOME TAX IN THE STATEMENT OF COMPREHENSIVE INCOME

(a) Income tax in the statement of comprehensive income represents:

	2006	2005
	RMB'000	RMB'000
PRC Current tax:		
Provision for the year	–	8
Write back of over-provision in previous years	–	(4,480)
Deferred tax:		
Origination of temporary differences	–	353
Attributable to change in tax rate	–	424
	<u>–</u>	<u>424</u>
Tax credit	<u>–</u>	<u>(3,695)</u>

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. In previous years, EIT was provided at 33% on the Company’s assessable profits. The difference between the taxation provided in previous years and that charged at the preferential EIT rate of 15% was written back in the income statement of 2005. No EIT has been provided for in the financial statements for the year ended 31 December 2006, as the Company has no estimated assessable profits derived in PRC for the current year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(b) Reconciliation between tax credit and accounting loss at applicable tax rates:

	2006	2005
	RMB'000	RMB'000
Loss before tax	<u>(56,306)</u>	<u>(13,607)</u>
Notional tax on loss before tax, calculated at the rates applicable to loss in the tax jurisdictions concerned	(8,446)	(2,041)
Write back of over-provision of EIT in previous years due to a change in tax rate	-	(4,480)
Tax effect of non-taxable income	-	(40)
Tax effect of non-deductible expenses	8,336	-
Tax effect of unused tax losses not recognised	110	2,089
Effect on deferred tax balances at 1 January resulting from a change in tax rate	-	424
Reversal of deferred tax assets	<u>-</u>	<u>353</u>
Actual tax credit	<u>-</u>	<u>(3,695)</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

9. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

Details of directors' and supervisors' emoluments disclosed pursuant to section 161 of the Hong Kong Companies Ordinance are as follows:

2006

Name	Fees RMB'000	Other emoluments		Total RMB'000
		Basic salaries and allowances RMB'000	Retirement scheme contributions RMB'000	
Executive directors				
Jiang Zi Qiang (Resigned on 30/7/2009)	-	-	-	-
Liu Zhu Gen (Appointed on 26/12/2006 and resigned on 30/7/2009)	-	-	-	-
Tang Heng Yi (Appointed on 26/12/2006 and resigned on 7/5/2008)	-	-	-	-
Wang Liang Fa (Resigned on 26/12/2006)	-	-	-	-
Sun Hua Jie (Resigned on 26/12/2006)	-	-	-	-
Non-executive directors				
Wang Zhi Yu (Resigned on 22/5/2007)	-	-	-	-
Jiang Zhou (Resigned on 7/8/2009)	-	-	-	-
Wu Tian Xin (Resigned on 26/12/2006)	-	-	-	-
Zhao Shu Guang (Resigned on 21/10/2009)	-	-	-	-
Chen Zhen Qiang (Resigned on 7/8/2009)	-	-	-	-
Zhou Wen Jie (Resigned on 22/5/2007)	-	-	-	-
Li Zhen Li (Appointed on 26/12/2006 and resigned on 7/8/2009)	-	-	-	-
Independent non-executive directors				
Li Long Ling (Resigned on 22/5/2007)	-	-	-	-
Chen Wen Gui	-	-	-	-
Yang Chun Bao	-	-	-	-
Wang Guo Zhong	-	-	-	-
Supervisors				
Tang Cheng	-	-	-	-
Wang Kou Cheng	-	-	-	-
Liu Xiong De	-	16	5	21
	<u>-</u>	<u>16</u>	<u>5</u>	<u>21</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

2005

Name	Fees <i>RMB'000</i>	Other emoluments		Total <i>RMB'000</i>
		Basic salaries and allowances <i>RMB'000</i>	Retirement scheme contributions <i>RMB'000</i>	
Executive directors				
Jiang Zi Qiang (Resigned on 30/7/2009)	-	-	-	-
Wang Liang Fa (Resigned on 26/12/2006)	-	15	2	17
Sun Hua Jie (Resigned on 26/12/2006)	-	20	1	21
Non-executive directors				
Wang Zhi Yu (Resigned on 22/5/2007)	-	-	-	-
Jiang Zhou (Resigned on 7/8/2009)	-	-	-	-
Wu Tian Xin (Resigned on 26/12/2006)	-	-	-	-
Zhao Shu Guang (Resigned on 21/10/2009)	-	-	-	-
Chen Zhen Qiang (Resigned on 7/8/2009)	-	-	-	-
Zhou Wen Jie (Resigned on 22/5/2007)	-	-	-	-
Independent non-executive directors				
Li Long Ling (Resigned on 22/5/2007)	-	-	-	-
Chen Wen Gui	-	-	-	-
Yang Chun Bao	-	-	-	-
Wang Guo Zhong	-	-	-	-
Supervisors				
Tang Cheng	-	-	-	-
Wang Kou Cheng	-	-	-	-
Liu Xiong De	-	19	1	20
	<u>-</u>	<u>54</u>	<u>4</u>	<u>58</u>

For the years ended 31 December 2006 and 2005, no director and supervisor of the Company waived any fee or any other emolument and no emolument has been paid by the Company to any director or supervisor as an inducement to join or upon joining the Company, or as compensation for loss of office.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

Subsequent to the year end date and up to the date of approval of the financial statements, appointments and resignations of the directors are stated below:

- i) Chen Yun was appointed as executive director on 7 May 2008 and resigned on 12 October 2009.
- ii) Li Min Zhi was appointed as non-executive director on 22 May 2007 and resigned on 7 August 2009.
- iii) Zhou Jin Hui was appointed as executive director on 30 July 2009.
- iv) Zheng Yi Song was appointed as executive director on 30 July 2009.
- v) Hu Jing Hai was appointed as executive director on 30 July 2009.
- vi) Chai Xiao Fang was appointed as non-executive director on 30 July 2009.
- vii) Chen Shi Da was appointed as executive director on 7 August 2009.
- viii) Gong Xu Lin was appointed as non-executive director on 7 August 2009.
- ix) Zhang Cheong Ying was appointed as independent non-executive director on 7 August 2009.
- x) Wang Xiang was appointed as non-executive director on 7 August 2009.
- xi) Rao Jun Xi was appointed as executive director on 12 October 2009.

10. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, none (2005: one) is a director whose emoluments is disclosed in note 9. The aggregate of the emoluments in respect of the other five (2005: four) individuals are as follows:

	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>
Basic salaries and allowances	288	255
Retirement scheme contributions	8	2
	<u>296</u>	<u>257</u>

The emoluments of each of these highest paid individuals in each of the relevant years were below HK\$1,000,000.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

None of the five highest paid individuals received any emoluments as an inducement to join or upon joining the Company or as compensation for loss of office, or waived any emolument for the years ended 31 December 2006 and 2005.

11. DIVIDENDS

The directors do not recommend the payment of any dividend for the year ended 31 December 2006 (2005: RMB Nil) in view of the losses for the year.

12. 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 RMB56,306,000 (2005: RMB9,912,000) and divided by the weighted average of 187,430,000 shares (2005: 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 2006 and 2005, the diluted loss per share for both financial years is the same as the basic loss per share.

13. PROPERTY, PLANT AND EQUIPMENT

	Construction- in-progress RMB'000	Buildings RMB'000	Machinery RMB'000	Furniture, fixtures and computer equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost						
At 1 January 2005	105	6,331	10,024	1,382	1,209	19,051
Additions	392	–	12,446	9	300	13,147
Transfer	(433)	382	51	–	–	–
Disposals	–	–	(302)	–	(20)	(322)
At 31 December 2005 and 1 January 2006	64	6,713	22,219	1,391	1,489	31,876
Additions	–	–	256	–	66	322
Transfer	(64)	–	64	–	–	–
Disposals	–	–	(46)	(11)	–	(57)
At 31 December 2006	–	6,713	22,493	1,380	1,555	32,141

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

	Construction- in-progress	Buildings	Machinery	Furniture, fixtures and computer equipment	Motor vehicles	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Accumulated depreciation and impairment						
At 1 January 2005	–	2,302	4,188	880	680	8,050
Charge for the year	–	161	908	81	125	1,275
Written back on disposals	–	–	(37)	–	(5)	(42)
At 31 December 2005 and 1 January 2006	–	2,463	5,059	961	800	9,283
Charge for the year	–	161	2,010	83	125	2,379
Written back on disposals	–	–	(5)	(11)	–	(16)
At 31 December 2006	–	2,624	7,064	1,033	925	11,646
Carrying amount						
At 31 December 2006	–	4,089	15,429	347	630	20,495
At 31 December 2005	64	4,250	17,160	430	689	22,593

Notes:

- At 31 December 2006, a building with a carrying amount of approximately RMB1,809,000 (2005: RMB1,899,000) and the related land lease premium, as detailed in note 14, with a carrying amount of approximately RMB376,000 (2005: RMB384,000) have been pledged as securities for a bank loan of RMB5,550,000 (2005: RMB5,550,000) granted to the Company (note 22(a)).
- At 31 December 2006, apart from the properties as described in note (a) above, the buildings with an aggregate carrying amount of approximately RMB2,280,000 (2005: RMB2,351,000) and the related land lease premium, as detailed in note 14, with an aggregate carrying amount of approximately RMB422,000 (2005: RMB432,000) have been pledged as securities for two bank loans amounting to RMB5,080,000 borrowed by 高壓容器, a subsidiary of Shanghai Huasheng (note 30).
- During the year, Shanghai No. 2 Intermediate People's Court (上海市第二中級人民法院) granted asset preservation orders (the "Orders") to freeze all buildings and the related land lease premium of the Company with a carrying amount of approximately RMB4,089,000 (2005: RMB4,250,000) and RMB798,000 (2005: RMB816,000) respectively for purposes of protecting the interests of the underlying bank of Loan 4 of RMB20,000,000 as detailed in note 22(c). At the end of the reporting period and up to the date of approval of these financial statements, the Orders have not yet been withdrawn.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

14. LEASE PREMIUMS FOR LAND

The Company's lease premiums for land comprises:

	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
Land in the PRC		
– medium-term lease	<u>798</u>	<u>816</u>
Analysed for reporting purposes as:		
Current assets	18	18
Non-current assets	<u>780</u>	<u>798</u>
	<u>798</u>	<u>816</u>

Notes:

- a) At 31 December 2006, the lease premiums for land had been pledged to banks as securities for bank loans. Further details are disclosed in notes 13(a) and (b) and note 22.
- b) The lease premiums for land have been frozen by the Orders as detailed in note 13(c), in 2006. At the end of the reporting period and up to the date of approval of these financial statements, the Orders have not yet been withdrawn.

15. INVENTORIES

	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
Raw materials	2,323	2,402
Work in progress	2,487	1,824
Finished goods	2,015	1,318
Low cost consumables	<u>151</u>	<u>180</u>
	<u>6,976</u>	<u>5,724</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

The amount of inventories recognised as an expense during the year:

	2006	2005
	RMB'000	RMB'000
Carrying amount of inventories sold	40,340	58,510
Write-down of inventories	<u>132</u>	<u>186</u>
	<u>40,472</u>	<u>58,696</u>

16. TRADE RECEIVABLES

	2006	2005
	RMB'000	RMB'000
Trade receivables	13,624	41,495
Less: allowance for doubtful debts (<i>note b</i>)	<u>-</u>	<u>(10,708)</u>
	<u>13,624</u>	<u>30,787</u>

All of the trade receivables are expected to be recovered within one year.

Further details on the Company's credit policy is set out in note 33(a).

a) Write off on trade receivables

As at 31 December 2006, RMB13,908,000 (2005: RMBNil) were written off against trade debtors directly as the amount remained unsettled up to the date of approved of these financial statements and further settlement is remote.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

b) Impairment loss of trade receivables

Impairment losses in respect of trade debtors are recorded using an allowance account unless the Company is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors directly (see note 2(f)).

Movements in the allowance account for doubtful debts

	2006	2005
	RMB'000	RMB'000
At 1 January	10,708	1,508
Reversal of impairment loss	(842)	–
Impairment loss recognised (<i>note i</i>)	–	9,200
Uncollectible amount written off (<i>note ii</i>)	(9,866)	–
	<hr/>	<hr/>
At 31 December	–	10,708

- i) At 31 December 2006, no trade receivables of the Company was individually determined to be impaired (2005: RMB10,708,000).
- ii) RMB9,866,000 (2005: RMB Nil) of the trade receivables previously impaired was written off in 2006 as the amount remained unsettled up to the date of approved of these financial statements and further settlement is remote.

c) Ageing analysis

Ageing analysis of trade receivables (based on invoice date and net of impairment for doubtful debts) as at the end of the reporting period:

	2006	2005
	RMB'000	RMB'000
Within 30 days	2,472	4,312
31 to 60 days	445	3,091
61 to 90 days	199	750
Over 90 days	10,508	22,634
	<hr/>	<hr/>
	13,624	30,787

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

d) Trade receivables that are not impaired

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired are as follows:

	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>
Neither past due nor impaired	3,116	8,153
Less than 1 month past due	445	2,019
1 to 3 months past due	257	4,948
More than 3 months past due	9,806	15,667
	<u>10,508</u>	<u>22,634</u>
	<u>13,624</u>	<u>30,787</u>

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

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that settlements have been received up to the date of approval of these financial statements. The management considered that no impairment allowance is necessary in respect of these balances as they have been subsequently collected. The Company does not hold any collateral over these balances.

e) Trade receivables due from related companies

At 31 December 2006, included in trade receivables is an amount of approximately RMB8,465,000 (2005: RMB9,875,000) and RMB176,000 (2005: RMB3,754,000) due respectively from the Shanghai Huasheng and few related companies controlled by Shanghai Huasheng. The amounts are unsecured, non-interest bearing and have no fixed terms of repayment.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

17. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
Deposits and prepayments	3,324	4,430
Other receivables	283	2,621
VAT receivables	–	419
Due from related companies (<i>note a</i>)	<u>1</u>	<u>319</u>
	<u>3,608</u>	<u>7,789</u>

All of the deposits, prepayments and other receivables are expected to be recovered or recognised as expense within one year.

a) Due from related companies

Name	Notes	Balance at 31/12/2006 <i>RMB'000</i>	Balance at 31/12/2005 and 1/1/2006 <i>RMB'000</i>		Maximum balance during the year 2006 2005 <i>RMB'000</i>	
			Balance at 1/1/2005 <i>RMB'000</i>	Balance at 1/1/2005 <i>RMB'000</i>	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
上海高壓容器 有限公司	(i), (ii) & (iii)	1	1	1	1	1
上海青浦消防 水帶有限公司	(i), (ii) & (iii)	–	318	180	318	318
		<u>1</u>	<u>319</u>	<u>181</u>	<u>318</u>	<u>318</u>

Notes:

- i) The amounts due from related companies are unsecured, non-interest bearing and have no fixed terms of repayment.
- ii) The companies are controlled by Shanghai Huasheng, the former controlling shareholder of the Company.
- iii) The amounts are non-trade in nature and represents the balance of cash advanced and settlement made during the years ended 31 December 2005 and 2006.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

18. LOANS RECEIVABLE FROM FORMER CONTROLLING SHAREHOLDER

	<i>Note</i>	2006 RMB'000	2005 RMB'000
Bank loans, penalty interest	22(c)	35,930	–
Bank loan interests and legal costs	24(c)	2,069	–
		37,999	–
Less: Impairment loss		(11,060)	–
		26,939	–

The loans are unsecured, bear the same interest amounts as those stated in note 22(c) and repayable on demand.

As at 31 December 2006, loans receivable of approximately RMB11,060,000 (2005: RMB Nil) was determined to be impaired as the loans receivable were long outstanding and settlement is remote.

The movement in the allowance account for doubtful debts during the year is as follows:

	2006 RMB'000	2005 RMB'000
At 1 January	–	–
Impairment loss recognised	11,060	–
At 31 December	11,060	–

19. REIMBURSEMENT RECEIVABLES FOR LOSS ON FINANCIAL GUARANTEES

	<i>Note</i>	2006 RMB'000	2005 RMB'000
Reimbursement receivable from a related company for loss on financial guarantees			
Loans amount	30	33,396	–
Loan interests and legal costs		168	–
	24(b)	33,564	–
Less: impairment loss		(21,748)	–
		11,816	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

Note:

The amounts are unsecured, bear the same interest amount as those stated in note 24(b) and repayable on demand. Subsequent to the end of the reporting period, the carrying amount was fully settled.

As at 31 December 2006, reimbursement receivables of approximately RMB21,748,000 (2005: RMB Nil) was determined to be impaired as the reimbursement receivables were long outstanding and without settlement.

The movement in the allowance account for doubtful debts during the year is as follows:

	2006 RMB'000	2005 RMB'000
At 1 January	-	-
Impairment loss recognised	<u>21,748</u>	<u>-</u>
At 31 December	<u><u>21,748</u></u>	<u><u>-</u></u>

20. INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION

(a) Current tax in the statement of financial position represents:

	2006 RMB'000	2005 RMB'000
PRC enterprise income tax		
At 1 January	515	(4,835)
Provision for the year	-	(8)
(Refund)/payment during the year	(515)	878
Over-provision in previous years	<u>-</u>	<u>4,480</u>
At 31 December	<u><u>-</u></u>	<u><u>515</u></u>

(b) **Deferred tax assets and liabilities recognised**

The components of deferred tax assets/(liabilities) recognised in the statement of financial position and the movements during the year are as follows:

	Impairment for bad and doubtful debts		Others		Total	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Deferred tax arising from:						
At 1 January	-	498	-	279	-	777
Effect of change in tax rate (note 8)	-	(272)	-	(152)	-	(424)
Reversal of deferred tax assets (note 8)	<u>-</u>	<u>(226)</u>	<u>-</u>	<u>(127)</u>	<u>-</u>	<u>(353)</u>
At 31 December	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 2(m), the Company has not recognised deferred tax assets in respect of tax losses of approximately RMB14,661,000 (2005: RMB13,925,000) arising from the operation in the PRC as it is not probable that future taxable profits against which the losses can be utilised will be available.

At 31 December 2006, the Company's tax losses will expire in the following years:

	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>
In 2011	736	–
In 2010	<u>13,925</u>	<u>13,925</u>
	<u><u>14,661</u></u>	<u><u>13,925</u></u>

(d) The Company had no other significant deferred taxation not provided for during the year and at the end of the reporting period.

21. CASH AND CASH EQUIVALENTS

	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>
Deposits with banks	680	644
Cash on hand	<u>1</u>	<u>146</u>
Cash and cash equivalents in the statement of financial position and the statement of cash flows	<u><u>681</u></u>	<u><u>790</u></u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

22. BANK LOANS

At 31 December 2006, bank loans were partly secured and partly unsecured as follows:

	<i>Note</i>	2006 RMB'000	2005 RMB'000
Bank loans			
– secured	<i>(a)</i>	5,550	5,550
– unsecured	<i>(b)</i>	–	3,000
– unsecured	<i>(c)</i>	35,930	–
		<u>41,480</u>	<u>8,550</u>
Repayable within 1 year or on demand		<u>41,480</u>	<u>8,550</u>

The above bank loans are carried at amortised cost.

Notes:

- a) The bank loan of RMB5,550,000 (2005: RMB5,550,000) was secured by mortgaging the building and the related land lease premium of the Company, as detailed in note 13(a). The loan bore interest of 6.7% per annum and for a period from 21 May 2005 to 25 July 2006. The Company failed to repay the bank loan on due date.

Subsequent to the end of the reporting period, the bank commenced legal action against the Company. On 24 July 2007, a 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, the bank was entitled to take priority in settling the outstanding balance due from the Company from the proceeds of selling the building and the related land lease premium of the Company pledged to the bank (as disclosed in note 13(a)). Subsequent to the end of the reporting period, on 7 April 2010, the loan was repaid and the litigation was then settled. The Company is currently applying for the release of the aforesaid mortgage. Further details are disclosed in note 31(a).

- b) The bank loan of RMB3,000,000 at 31 December 2005 was secured by the corporate guarantees 10% as from 銘源實業 and 90% as from an independent third party, 中國經濟技術投資擔保有限公司上海分公司 (“中國經濟技術”). The loan bore interest of 6.7% per annum and for a period from 30 April 2005 to 15 April 2006. During the year, the Company repaid RMB300,000 and the balance of the loan was repaid by 中國經濟技術 as guarantor. The Company recorded the amount RMB2,700,000 repayable to 中國經濟技術 as other payable in note 24(a).

On 14 December 2006, 中國經濟技術 commenced legal action against the Company for recovery of the amount paid by it as guarantor. Further details of the legal action is disclosed in note 31(b).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

- c) During the year 2006, the Company received two orders from Shanghai legal courts ordering the Company to pay a total sum of RMB25,000,000 to two banks for two loans (Loans 2 and 4 below) alleged to have been borrowed by the Company. The then board of directors (not including Mr. Jiang Zi Qiang, the then chairman of the board who resigned as director of the Company on 30 July 2009 (“Mr. Jiang”)) (the “Board”) discovered that these two loans were borrowed by Mr. Jiang in the name of the Company in 2004 and 2005. In addition to these two bank loans, two more bank loans (Loans 1 and 3 below) totalling RMB14,000,000 which were also borrowed by Mr. Jiang in name of the Company in 2004 and 2005 were also discovered. These four bank loans altogether amounting to RMB39,000,000 (the “Loans”) were firstly deposited in the Company’s bank accounts and then either transferred to Shanghai Huasheng or to Shanghai Huasheng’s related company or subsidiaries by the order of Mr. Jiang. The Company’s books have no record of these bank accounts. These Loans had never been considered, authorized or approved by the Board at the time when such transactions were respectively made. All of those transactions as contemplated under the underlying loan agreements and the transfers or usage of the Loans had never been considered, authorized or approved by the Board at the time when such transactions respectively took place and were not recorded in the accounting books and records or the published financial statements of the Company. Subsequent to the end of the reporting period, Shanghai Huasheng issued a certificate dated 27 May 2009 stating that the Loans had ultimately been used for the benefit of Shanghai Huasheng and its subsidiary and Shanghai Huasheng has undertaken to repay the Loans and related interests.

During the year 2006, the legal courts ordered that the Company is liable to repay Loans 2 and 4 to the banks, on the basis that Loans 2 and 4 were borrowed by Mr. Jiang under the name of the Company.

Based on the legal opinion of the Company’s PRC legal adviser, the Company is liable to repay the Loans together with interests accrued, penalty interests and legal costs. The Company, however, has the rights to seek compensation from Shanghai Huasheng and/or Mr. Jiang in respect of any amount repaid by the Company.

In view of the legal courts orders and the legal opinion, the current Board of directors determined to recognise the Loans payable of RMB35,930,000 and the interests accrued, penalty interests and legal costs of RMB2,069,000 (see note 24(c)) to be paid for these Loans to the banks as liabilities and the corresponding amount as reimbursement receivables from former controlling shareholder in note 18 of the same amount.

The following are details of the Loans:

	Guarantors	Term of bank loan	Interest rate (per annum)	Loan amount RMB'000	Loan balance at 31/12/2006 RMB'000
Loan 1	Shanghai Huasheng	14/9/2004 – 12/9/2005	6.9%	10,000	6,930
Loan 2	An independent third party and Mr. Jiang	8/12/2004 – 7/12/2005	6.1%	5,000	5,000
Loan 3	Shanghai Huasheng	6/6/2005 – 3/12/2005	4.2%	4,000	4,000
Loan 4	Shanghai Huasheng	11/3/2005 – 7/3/2006	6.1%	20,000	20,000
				39,000	35,930

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

Loan 1

During the year, part of the loan amounting to RMB3,070,000 was repaid. Subsequent to the end of the reporting period, the remaining balance of Loan 1 was fully settled in 2007.

Loan 2

Legal action was taken by the bank against the Company for the recovery of the loan on 9 October 2006. In May 2008, subject to repayment of another loan borrowed by 上海高壓特種氣瓶有限公司 (“特種氣瓶”) (a subsidiary of Shanghai Huasheng) together with the related interests totaling amounted to approximately RMB4,729,000, the underlying bank of Loan 2 agreed to waive all amounts due by the Company to it. The aforesaid amount was fully repaid prior to 30 September 2008. On 31 December 2008, the bank issued a certificate stating that the overdue loan due from the Company together with interest accrued and default interest has been waived. Further details are disclosed in note 31(c).

Loan 3

The loan was repaid in 2009.

Loan 4

Legal action was taken by the bank against the Company for the recovery of the loan on 19 December 2006. Subsequent to the end of the reporting period, on 30 July 2010, Agricultural Bank of China, Shanghai Jingan Branch (中國農業銀行上海靜安支行) (“農業銀行”), Shanghai Huasheng and the Company entered into a 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 subject to the full settlement of principal amount of RMB20,000,000. 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. Further details are disclosed in note 31(d).

23. TRADE PAYABLES

Trade payables with the following ageing analysis as of the end of the reporting period:

	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
Within 30 days	4,223	6,228
31 to 60 days	2,810	3,816
61 to 90 days	1,430	1,438
Over 90 days	7,818	5,901
	<u>16,281</u>	<u>17,383</u>

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

At 31 December 2006, trade payables included an aggregate amount of approximately RMB560,000 (2005: RMB1,655,000) and RMB801,000 (2005: RMB Nil) due to related companies controlled by Shanghai Huasheng and the spouse of Mr. Jiang respectively. The amounts are unsecured, non-interest bearing and have no fixed terms of repayment.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

24. OTHER PAYABLES AND ACCRUALS

Details of other payables and accruals as at the end of the reporting period are as follows:

	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
Advance from customers	717	231
Staff welfare payables	1,215	474
Accruals	1,353	756
Other payable (<i>note a</i>)	2,700	-
Others	2,501	1,900
VAT payable	14	-
Provision for loss on financial guarantees (<i>note b</i>)	33,564	-
Provision for related expenses of bank loans (<i>note c</i>)	2,069	-
	<u>44,133</u>	<u>3,361</u>
Financial liabilities measured at amortised cost	<u>44,133</u>	<u>3,361</u>

All of the other payables and accruals are expected to be settled within one year.

Note:

- a) Other payable relates to an unpaid balance of a bank loan borrowed by the Company and settled by a guarantor of the loan. Further details are disclosed in note 31(b).
- b) Provision for loss on financial guarantees arises from its underlying bank loans which were defaulted together with interests accrued, penalty interests and legal costs. Further details are disclosed in note 30. The movement of the provision as follows:

	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
At 1 January	-	-
Charge for the year	33,564	-
	<u>33,564</u>	<u>-</u>
At 31 December	<u>33,564</u>	<u>-</u>

- (c) Provision for bank loans related expenses represents the interests accrued, penalty interests and legal costs to be paid for bank loans as described in note 22(c). The movement of the provision is as follows:

	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
At 1 January	-	-
Charge for the year	2,069	-
	<u>2,069</u>	<u>-</u>
At 31 December	<u>2,069</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

25. DUE TO RELATED COMPANIES

	<i>Note</i>	2006 RMB'000	2005 RMB'000
上海高壓容器有限公司(“高壓容器”)	<i>a, b & c</i>	59	487
上海華盛精細化工有限公司(“精細化工”)	<i>a, b & c</i>	2	2
Shanghai Huasheng	<i>a & c</i>	1,019	755
		1,080	1,244

Notes:

- a) The amounts due to related companies are unsecured, non-interest bearing and have no fixed terms of repayment.
- b) The companies are controlled by Shanghai Huasheng, the former controlling shareholder of the Company.
- c) The amounts are non-trade in nature and represents the balance of cash advanced from and settlement made during the years ended 31 December 2005 and 2006.

26. GOVERNMENT GRANTS

(a) Deferred revenue

Deferred revenue represents a government grant of approximately RMB1,869,000 received in two instalments in 1999 and 2000 for the purchase of machinery. Such machinery were put into operational use in 2000 with an average useful life of nine years. Movements of deferred revenue during the relevant years are as follows:

	2006 RMB'000	2005 RMB'000
At 1 January	623	830
Released to statement of comprehensive income (<i>note 6</i>)	(207)	(207)
At 31 December	416	623

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(b) Government grant – production

In June 2005, the Company entered into an agreement with The State Environmental Protection Administration (國家環境保護總局) (“SEPA”) follow with the rule of 中國消防行業哈龍整體淘汰計劃 governed by the SEPA and the World Bank. Pursuant to the agreement, the SEPA agreed to provide a government grant of US\$110,000 to the Company for the production of a new model of fire extinguisher with target units of 180,000 in 2005. The Company received RMB 89,000 and RMB 772,000 on 31 August 2005 and 15 December 2006 respectively. On 19 April 2006, Shanghai Audit Authority (上海審計局) certified that the Company has achieved the target production units of the new model of fire extinguisher in 2005, and therefore the government grant of US\$110,000 (equivalent to RMB861,000) is recognised as other income in the statement of comprehensive income during the year.

27. SHARE CAPITAL

Registered, issued and fully paid:

	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>
131,870,000 (2005: 131,870,000) unlisted domestic shares of RMB0.10 each	13,187	13,187
55,560,000 (2005: 55,560,000) H shares of RMB0.10 each	5,556	5,556
	<u>18,743</u>	<u>18,743</u>

All of the shares issued by the Company rank pari passu.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

28. RESERVES

	Share premium <i>RMB'000</i>	Capital reserve <i>RMB'000</i>	Statutory reserve fund <i>RMB'000</i>	Discretionary reserve fund <i>RMB'000</i>	(Accumulated losses)/ retained profits <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2005	10,910	(2,563)	3,734	1,500	15,441	29,022
Total comprehensive loss for the year	-	-	-	-	(9,912)	(9,912)
Appropriation	-	207	-	-	(207)	-
At 31 December 2005 and 1 January 2006	10,910	(2,356)	3,734	1,500	5,322	19,110
Total comprehensive loss for the year	-	-	-	-	(56,306)	(56,306)
Appropriation	-	207	-	-	(207)	-
At 31 December 2006	<u>10,910</u>	<u>(2,149)</u>	<u>3,734</u>	<u>1,500</u>	<u>(51,191)</u>	<u>(37,196)</u>

(a) Share premium

Share premium arose from the issuance of shares at prices in excess of their par value.

(b) Capital reserve

	Government grant received capitalised as share capital in the PRC GAAP financial statements <i>RMB'000</i>	Reversal of revaluation surplus of property, plant and equipment <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2005	(830)	(1,733)	(2,563)
Appropriation	<u>207</u>	<u>-</u>	<u>207</u>
At 31 December 2005 and 1 January 2006	(623)	(1,733)	(2,356)
Appropriation	<u>207</u>	<u>-</u>	<u>207</u>
At 31 December 2006	<u>(416)</u>	<u>(1,733)</u>	<u>(2,149)</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

Pursuant to a shareholders' resolution in October 2000, the Company was converted from a limited liability company into a joint stock limited liability company on 1 December 2000. The Company's registered and issued share capital was RMB13,187,000, divided into 13,187,000 domestic shares of RMB1.00 each, and was credited as fully paid by capitalizing all the Company's then paid-in capital and reserves, calculated based on the Company's PRC GAAP financial statements.

The deficit of approximately RMB2,563,000 in capital reserve of the Company as at 1 January 2005 represents the excess of the net assets of the Company calculated based on its PRC GAAP financial statements over that calculated based on its financial statements prepared under IFRS when the conversion took place in 2000. Such excess resulted from:

- i) The deferred government grant of approximately RMB1,869,000 for the purchase of machinery as described in note 26(a). In accordance with PRC accounting standards and regulations, this government grant was recorded as capital reserve when received, which had been subsequently capitalised as the Company's issued share capital in 2000. Under IFRS, this government grant was deferred and credited to profit or loss on a straight-line basis over the average useful life of the related assets. An amount of approximately RMB207,000 (2005: RMB207,000), which is equal to the annual amortisation of this deferred revenue, is appropriated from its annual result after tax under IFRS to capital reserve as this income is not distributable. As a consequence, a net deficit in capital reserve of approximately RMB830,000 arose in the Company's financial statements prepared under IFRS as at 1 January 2005 in this respect.
- ii) In connection with a transfer of equity capital between investors of Shanghai Qingpu Fire-Fighting Equipment Factory in 1996, the Company's property, plant and equipment was revalued, and a revaluation surplus of approximately RMB1,733,000 was recorded as paid-in capital in its PRC GAAP financial statements. In the Company's financial statements prepared under IFRS, all property, plant and equipment was stated at historical cost. Accordingly, an adjustment of the same amount was recorded as a deficit of capital reserve.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(c) Statutory reserve fund

According to PRC regulations and the Company's Articles of Association, the Company is required to transfer 10% of its profit after tax, as determined under the PRC accounting standards and regulations, to statutory reserve fund until the fund reaches 50% of the Company's registered capital. The transfer to this reserve must be made before distributing dividends to shareholders.

The statutory reserve fund can be used to make good previous years' losses if any. It may be converted into share capital by issuing new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital.

Before 1 January 2006, according to the Company's Articles of Association, the Company is required to transfer 10% of its net profit, as determined in accordance with the PRC accounting standards and regulations, to the statutory welfare fund. This fund could only be used on capital items for the collective benefit of the Company's employees (such as for the construction of dormitories, canteens and other staff welfare facilities). This fund was non-distributable other than upon liquidation. Transfers to this fund must be made before distributing dividends to shareholders.

According to the Company Law of the PRC which was revised on 27 October 2005, the Company is no longer required to make profit appropriation to the statutory welfare fund commencing from 1 January 2006. Pursuant to the notice "Cai Qi [2006] No. 67." issued by the Ministry of Finance, the balance of this fund as at 31 December 2005 was transferred to the statutory reserve fund.

(d) Discretionary common reserve fund

The Company may, at its discretion and subject to approval of its shareholders, transfer its retained earnings balance to its discretionary common reserve fund. The usage of discretionary common reserve fund is similar to that of the statutory reserve fund.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

(e) Distributability of reserve

At 31 December 2006, the Company had no reserve available for distribution (2005: RMB5,322,000).

(f) Capital management

The Company's primary objectives when managing capital are to safeguard the Company's ability as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balance. The management reviews the capital structure by considering the cost of capital and the risks associated with each class of capital. In view of this, the Company will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt as it sees fit and appropriate.

The Company monitors its capital structure on the basis of the gearing ratio, calculated as net debt divided by total capital. The gearing ratios at 31 December 2006 and 2005 were as follows:

	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
Total borrowings	103,390	31,161
Less: Cash and cash equivalents (<i>note 21</i>)	<u>(681)</u>	<u>(790)</u>
Net debt	102,709	30,371
Total equity	<u>(18,453)</u>	<u>37,853</u>
Total capital	<u><u>84,256</u></u>	<u><u>68,224</u></u>
Gearing ratio	<u><u>122%</u></u>	<u><u>45%</u></u>

The Company is not subject to externally imposed capital requirements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

29. COMMITMENTS

- (a) Capital commitments outstanding at 31 December 2006 not provided for in the financial statements were as follows:

	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
Contracted for	13	—

- (b) At 31 December 2006, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings are payable as follows:

	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
Within 1 year	246	246
After 1 year but within 5 years	204	450
	450	696

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

NOTES TO THE FINANCIAL STATEMENTS

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30. 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 of these loans totaling 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 together with the interests accrued, penalty interests and legal costs of approximately RMB168,000 (see note 24(b)). The corresponding amount was taken up as reimbursement receivables from a related company (see note 19).

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 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 31/12/2006 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
Financial guarantee 2	高壓容器	The Company, Mr. Jiang and his wife	21/9/2005– 30/8/2006	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
Financial guarantee 4	高壓容器	The Company and Shanghai Huasheng	17/11/2004– 10/11/2005 (note 1)	4,000	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
				134,980	33,396
				134,980	33,396

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.

NOTES TO THE FINANCIAL STATEMENTS

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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 note 31(e).

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 RMB 2,300,000 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 note 31(e).

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 note 31(f).

NOTES TO THE FINANCIAL STATEMENTS

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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) (“建設銀行”) 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 note 31(g).

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. Further details are disclosed in note 31(h).

NOTES TO THE FINANCIAL STATEMENTS

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31. LITIGATION

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

- 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 (as disclosed in note 13(a)). 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 14 December 2006, 中國經濟技術 commenced an action against the Company in the People's Court of Qingpu, Shanghai (上海市青浦人民法院), 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.
- c) 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

- d) 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 (see note 22(c)), 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 RMB 4,750,000 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.
- 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 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 (Financial guarantee 1 and 2 as described in note 30). On 11 December 2007, judgment was issued under which (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 is entitled to take priority in settling 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 Company repaid the outstanding principal loan amount of RMB5,080,000 and overdue interest of approximately RMB2,132,000 were repaid. The Company issued a letter to 華新農村銀行 requested for the release of the pledged properties. Up to the date of approval of the financial statements, the pledge has not yet been released.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

- 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. Subsequent to the end of the reporting period, 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

- 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 RMB1,904,000. These legal actions ceased upon settlement of outstanding debts.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

32. MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Company entered into the following material related party transactions.

a) Key management personnel remuneration

Remuneration for key management personnel of the Company is the amounts paid to the Company's directors and supervisors as disclosed in note 9.

b) Transactions with related parties

	<i>Note</i>	2006 RMB'000	2005 RMB'000
Sales of goods:			
– 氣霧劑製品	<i>a, c</i>	8	17
– 特種氣瓶	<i>a, c</i>	–	199
– 高壓容器	<i>a, c</i>	3,036	989
– 精細化工	<i>a, c</i>	19	19
– 消防水帶	<i>a, c</i>	–	5
		<u>3,063</u>	<u>1,229</u>
Export agency commission:			
– Shanghai Huasheng	<i>b</i>	<u>–</u>	<u>306</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

	<i>Note</i>	2006 RMB'000	2005 RMB'000
Purchase of raw materials:			
– 特種氣瓶	<i>a, c</i>	96	69
– 精細化工	<i>a, c</i>	–	7
– 高壓容器	<i>a, c</i>	79	968
– 消防水帶	<i>a, c</i>	–	100
		<u>175</u>	<u>1,144</u>
Purchase of property, plant and equipment:			
– 高壓容器	<i>a</i>	–	10,250
Technical support expenses			
– Shanghai Huasheng	<i>a, c</i>	–	200
Rental of land and buildings			
– Shanghai Huasheng	<i>c</i>	246	246

Notes:

- a) The companies are controlled by Shanghai Huasheng, the former controlling shareholder of the Company.
- b) The export agency commission is calculated at 3% of the contract value of the goods exported.
- c) In the opinion of the Board, the sales and purchase transactions, technical support and rental were carried out in the normal course of business of the Company and at prices and terms comparable with those charged by and contracted with third parties.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

33. FINANCIAL RISK MANAGEMENT AND FAIR VALUES

The Company's major financial instruments include borrowings, trade receivables and trade payables. Details of the financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include credit risk, liquidity risk, currency risk, interest rate risk and other price risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

a) Credit risk

- (i) As at 31 December 2006, the maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position after deducting any impairment allowance.
- (ii) In respect of trade and other receivables (including loans receivable from former controlling shareholder and reimbursement receivables for loss on financial guarantees), in order to minimize risk, the management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. Credit evaluations of its customers' financial position and condition is performed on each and every major customer periodically. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Company does not require collateral in respect of its financial assets. Debts are usually due within 90 days from the date of billing.
- (iii) In respect of trade receivables, the Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk. At the end of the reporting period, the Company has a certain concentration of credit risk as 8% (2005: 15%) and 42% (2005: 43%) of the trade receivables was due from the Company's largest customer and the five largest customers respectively.
- (iv) The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Further quantitative disclosures in respect of the Company's exposure to credit risk arising from trade and other receivables are set out in note 16.
- (v) The maximum exposure to credit risk in respect of financial guarantees at the end of the reporting period is disclosed in note 30.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

b) Liquidity risk

The Company is responsible for its own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to board approval. The Company's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants to ensure that it maintains sufficient amount of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. The Company relies on bank borrowings and non-interest bearing borrowings from the former controlling shareholder as the significant source of liquidity. As at 31 December 2006, the Company did not have any un-utilised banking facilities.

The following liquidity table set out the remaining contractual maturities at the end of the reporting period of the Company's non-derivative financial liabilities based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period and the earliest date the Company required to pay:

	2006			2005		
	Within 1 year or on demand <i>RMB'000</i>	Total contractual undiscounted cash flow <i>RMB'000</i>	Carrying amount <i>RMB'000</i>	Within 1 year or on demand <i>RMB'000</i>	Total contractual undiscounted cash flow <i>RMB'000</i>	Carrying amount <i>RMB'000</i>
Non-derivative financial liabilities						
Bank loans	41,480	41,480	41,480	8,550	8,550	8,550
Trade and other payables	60,414	60,414	60,414	20,744	20,744	20,744
Due to related companies	1,080	1,080	1,080	1,244	1,244	1,244
	102,974	102,974	102,974	30,538	30,538	30,538

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

c) Interest rate risk

The Company is exposed to cash-flow interest rate risk in relation to variable-rate bank borrowings (see note 22 for details of these borrowings). The Company does not have substantial interest-bearing assets.

(i) Interest rate profile

The following table details the interest rate profile of the Company's borrowings at the end of the reporting period:

	2006		2005	
	Effective interest rates	<i>RMB'000</i>	Effective interest rates	<i>RMB'000</i>
Variable-rate borrowings:				
Bank loans	10.8%	<u>41,480</u>	10.8%	<u>8,550</u>

(ii) Sensitivity analysis

At 31 December 2006, it is estimated that a general increase/decrease of 100 basis points in interest rates for variable-rate borrowings, with all other variables held constant, would increase/decrease the Company's loss after tax and accumulated losses by approximately RMB415,000 (2005: RMB86,000). Other components of equity would not change in response to the general increase/decrease in interest rates.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at that date. The 100 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next the end of the reporting period. The analysis is performed on the same basis for 2005.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

d) Currency risk

The Company did not have material foreign exchange risk. It did not have material transactions in foreign currency, nor did it enter into any foreign exchange forward contracts.

Most of export sales contracts are denominated in Euro and 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 and United States dollars as at 31 December 2006 is immaterial and would not result in significant exchange loss to the Company.

e) Fair value

The carrying amounts of the cash and bank deposits, trade and other receivables, trade and other payables, short-term bank loans and balances with related parties approximate their fair values because of the short term maturity of these items.

34. NON-CASH TRANSACTION

During the year ended 31 December 2006, the Company's bank loan of RMB3,000,000 was settled by certain guarantors of the loan. The amounts payable by the Company to those guarantors are carried in other payable account (see note 24 and note 32(a)).

During the year ended 31 December 2006, the Company recognized the bank loans payable and the related expenses (including interests accrued, penalty interest and legal costs) as liabilities carried in the bank loan amount and other payable amount respectively and the corresponding loans receivable as an asset carried in the loans receivable due from the former controlling shareholder (see note 18, note 22(c) and note 24(c)).

During the year ended 31 December 2006, the Company recognized the financial guarantees and the related expenses (including interest, penalty interest and legal costs) as liabilities carried in other payable amount and the corresponding reimbursement receivables as assets carried in the reimbursement receivables due from a related company (see note 19, note 24(b) and note 30).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

35. CHARGE OF ASSETS

At 31 December 2006, the buildings and the related land lease premiums having an aggregated carrying amount of approximately RMB4,089,000 (2005:RMB4,250,000) and RMB798,000 (2005:RMB816,000) have been pledged as securities for bank loans of the Company and 高壓容器, a subsidiary of Shanghai Huasheng.

36. SUBSEQUENT EVENTS

In addition to the information disclosed in notes 22(a), 22(c), 30 and 31 to the financial statements, 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 RMB2,245,000. These legal actions ceased upon settlement of outstanding debts.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

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.

e) Setting up a branch

On 22 November 2010, the Company and an independent third party entered into an agreement to set up a branch engaging in manufacture and distribution of the Company's fire fighting equipment products. The agreement is for a period of ten years. The Company will contribute its product brand name and production technical expertise while the other party will contribute the land, the factory premises and cash of RMB3,500,000.

37. COMPARATIVE FIGURES

As a result of the early adoption of certain new/revised IFRSs that are effective for up to the financial year ended 31 December 2009 as described in details in note 3, certain comparative figures have been adjusted to conform to current year's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2006.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

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

Up to the date of issue of these financial statements, the IASB 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 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 recognize 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.

FIVE YEAR FINANCIAL SUMMARY

For the year ended 31 December 2006

RESULTS

	Year ended 31 December				
	2002	2003	2004	2005	2006
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Note 1)</i>	<i>(Note 1)</i>			
Turnover	<u>45,308</u>	<u>48,372</u>	<u>56,050</u>	<u>66,164</u>	<u>42,841</u>
Profit/(loss) from operations	12,610	9,611	9,706	(13,030)	(55,566)
Net finance costs	<u>247</u>	<u>(750)</u>	<u>(535)</u>	<u>(577)</u>	<u>(740)</u>
Profit/(loss) before taxation	12,857	8,861	9,171	(13,607)	(56,306)
Taxation (charge)/credit	<u>(4,167)</u>	<u>(2,837)</u>	<u>(2,939)</u>	<u>3,695</u>	<u>-</u>
Profit/(loss) attributable to shareholders	<u>8,690</u>	<u>6,024</u>	<u>6,232</u>	<u>(9,912)</u>	<u>(56,306)</u>

ASSETS AND LIABILITIES

	As at 31 December				
	2002	2003	2004	2005	2006
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Note 1)</i>	<i>(Note 1)</i>			
Non-current assets	11,676	12,360	25,425	23,391	21,275
Current assets	35,674	37,021	56,356	45,623	63,662
Current liabilities	(28,545)	(28,236)	(33,186)	(30,538)	(102,974)
Non-current liabilities	<u>(1,245)</u>	<u>(1,037)</u>	<u>(830)</u>	<u>(623)</u>	<u>(416)</u>

Notes:

- (1) The results and assets and liabilities of the Company for the two year ended 31 December 2003 have been extracted from the prospectus of the Company dated 18 June 2005.