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)

Annual Report 2004

*For identification purpose

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

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CORPORATE INFORMATION

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the PRC

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Hong Kong

AUDITORS
CCIF CPA Limited and Cachet Certified Public Accountants Limited

COMPLIANCE OFFICER
Mr. Wang Liang Fa

COMPANY SECRETARY
Mr. Chan Chi Wai, Benny, *CPA*

AUTHORISED REPRESENTATIVES
Mr. Wang Liang Fa
Mr. Chan Chi Wai, Benny, *CPA*

QUALIFIED ACCOUNTANT
Mr. Chan Chi Wai, Benny, *CPA*

MEMBERS OF THE AUDIT COMMITTEE
Mr. Li Long Ling
Mr. Chen Wen Gui
Mr. Yang Chun Bao

H SHARE SHARE REGISTRAR AND TRANSFER OFFICE
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46th Floor, Hopewell Centre
183 Queen's Road East
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PRINCIPAL BANKERS
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383 Jiang Ning Road
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FINANCIAL HIGHLIGHT

PROFIT AND LOSS ACCOUNT

(Expressed in Thousands of Renminbi, except for earnings per share)	**For the year ended 31 December**		
	2004	2003	Change
Turnover	**56,050**	48,372	15.87%
Profit before taxation	**9,171**	8,861	3.50%
Profit attributable to shareholders	**6,232**	6,024	3.45%
Net profit margins	**11.12%**	12.45%	(10.68%)
Earnings per share	**0.039**	0.046	(15.22%)

CHAIRMAN'S STATEMENT

The Company has been transformed to a joint stock limited liability company under the Company Law of the People's Republic of China ("PRC") and the transformation was approved by the People's Government of Shanghai Municipality in November 2000. The initial public offering in Hong Kong in June 2004 raised about RMB32 million, before expenses, for the Company. The listing provided the Company with a funding source to finance its existing operations and future expansion.

Our plans are to focus on the development of new products with the latest technology applications and to further expand and penetrate into the PRC and Europe markets and expansion in the United States market. To fulfill our plans, we have to expand the production capacity of the Company.

RESULTS FOR THE YEAR

For the year ended 31 December 2004, the Company reported total operating revenue of RMB56,050,000 and profit attributable to shareholders of RMB6,232,000. The Company's revenue was derived principally from its sale of fire extinguishers, fire extinguisher cylinders and pressure cylinders in the PRC other than Hong Kong and to overseas (inclusive of Hong Kong), with each accounting for approximately 53% and 47% respectively of the Company's total operating revenue for the year ended 31 December 2004.

LOCAL SALES

Revenue from local sales increased by RMB5 million from RMB25 million in 2003 to RMB30 million in 2004. The Company has managed to secure more famous local customers including the International Formula one event held at Shanghai in September 2004.

EXPORT SALES

Revenue from export sales increased by RMB2 million from RMB24 million in 2003 to RMB26 million in 2004. The Company has obtained a foreign trade licence in September 2004 and has started export sales without using Shanghai Huasheng Enterprise (Group) Company Limited as export agent.

PROSPECT

With the PRC's policy of continuously strengthening and enforcing laws and regulations in respect of fire fighting, the demand for fire prevention and fighting system will continue to grow in the foreseeable future.

The greatest priority going forward is to explore more business opportunities for the existing products and to prepare for the launch of alloy steel fire extinguisher cylinders with capacities of between 10L and 20L. The Company has increased its sales throughout the PRC, mainly in Eastern China and other major cities of China, by expanding its sales and marketing programs and sales force. In addition, the Company will also focus on expanding into the fire extinguisher cylinder markets in the United States and European countries and fire-fighting equipment markets in other Asian countries.

CHAIRMAN'S STATEMENT

FUTURE PLANS

To cope with the increasing demand for fire fighting equipment, the Company is planning to expand its annual production capacity for fire extinguishers from approximately 600,000 units to approximately 2,100,000 units and, for fire extinguisher cylinders and other cylinders from approximately 740,000 units to approximately 2,500,000 units for the year ending 31 December 2006.

LONG TERM STRATEGY

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

OUR PEOPLE

The success of the Company is dependent on our experienced and professional staff. The Board thanks our employees for their invaluable contributions to the business over the past year and counts on their valuable contributions for the continuing success of our new business in the future.

DIRECTORS

My thanks go to the Audit Committee for the painstaking and professional work they have done during the year. I would also like to express my sincere appreciation and thanks to my fellow directors for their support and contributions towards the successful performance of the Company.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Turnover

For the year ended 31 December 2004, the Company recorded a turnover of approximately RMB56,050,000 (2003: RMB48,372,000), representing an increase of approximately 15.9% over the previous year. This significant increase in the Company's turnover is mainly attributable to the growing demand for the fire fighting equipment and pressure cylinders, particularly outside the PRC.

Cost of sales

For the year ended 31 December 2004, the cost of sales for the Company amounted to approximately RMB40,276,000 (2003: RMB32,641,000), representing an increase of approximately 23.4% when compared with the previous year. The cost of sales of the Company mainly include the raw materials, particularly the steel pipes, and labour costs.

Gross profit

For the year ended 31 December 2004, the Company achieved an overall gross profit of approximately RMB15,774,000. The gross profit margin ratio decreased to approximately 28.1% for the year ended 31 December 2004 from approximately 32.5% for the year ended 31 December 2003. The main reason for this result was the rising steel price during the year when compared to the previous year.

Other revenue

Other revenue increased from approximately RMB1,115,000 for the year ended 31 December 2003 to approximately RMB1,868,000 for the year ended 31 December 2004. The increase was mainly due to the write back of provision for doubtful debts of RMB661,000.

Distribution costs

For the year ended 31 December 2004, the Company incurred distribution costs of approximately RMB1,196,000, representing a decrease of approximately 25.9% against the previous year. The decrease was resulted from the tightening of cost control and improvement in packaging and delivery process.

Administrative expenses

For the year ended 31 December 2004, the Company's administrative expenses amounted to approximately RMB6,732,000, representing an increase of approximately 17.9% over the previous year. The Directors attribute the increase mainly to compliance cost for listing in Hong Kong.

Finance costs

Finance costs of approximately RMB543,000 represented the interest expenses incurred on bank loans for the year ended 31 December 2004.

Net profit

For the year ended 31 December 2004, the Company recorded a net profit of approximately RMB6,232,000 (2003: RMB6,024,000), representing an increase of approximately 3.5% from the previous year. The net profit margin ratio reduced to approximately 11.1% for the year ended 31 December 2004 from approximately 12.5% for the year ended 31 December 2003 because of the decrease in gross profit margin resulting from the continuous increase in the price of steel pipes and other raw materials, and the increase in administrative expenses for year ended 31 December 2004.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL REVIEW *(Continued)*

Taxation

The Company is subject to an income tax rate of 33% on taxable profit in accordance with the income tax laws of the PRC. The effective tax rate for the Company for each of the two years ended 31 December 2004 and 31 December 2003 was approximately 32%.

Use of listing proceeds

On 30 June 2004, the Company was successfully listed on the GEM of the Stock Exchange, the Company received listing proceeds (net of listing expenses directly paid out from the listing proceeds) of approximately RMB21.4 million.

On 5 July 2004, the Company entered into a purchase agreement with an independent third party to purchase certain seamless steel pipes in the sum of RMB25,515,000. A deposit of approximately RMB12.8 million was paid on 22 July 2004 in this respect. On 8 December 2004, the purchase agreement was terminated and the relevant parties agreed to assign the deposit to Shanghai High Pressure Container Co., Ltd. (上海高壓容器有限公司) ("SHP") from which the Company agreed to purchase pressure cylinders production equipment. In view of that (1) SHP is a connected person and the entering into of the purchase agreement between the Company and SHP constituted a connected transaction; and (2) completion of this purchase agreement is subject to the approval of the independent shareholders of the Company at an extraordinary general meeting ("EGM"), the RMB12.8 million was refunded to the Company on 29 April 2005.

During the year ended 31 December 2004, RMB5.7 million was used for general working capital and raw materials to expand the production capacity and the balance was approximately RMB15.7 million as at 15 June 2005.

As at 15 June 2005, the Company had approximately RMB15.7 million unused net proceeds in which approximate RMB10.3 million will be returned to SHP to complete the Transaction if approved at the EGM.

PROSPECT

Future plans

To cope with the increasing demand for fire fighting equipment, the Company is planning to expand its annual production capacity for fire extinguishers from approximately 600,000 units to approximately 2,100,000 units and, for fire extinguisher cylinders and other cylinders from approximately 740,000 units to approximately 2,500,000 units for the year ending 31 December 2006.

Long term strategy

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

SIGNIFICANT INVESTMENT HELD

As at 31 December 2004, the Company did not have any significant investment.

MANAGEMENT'S DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

Net current assets

As at 31 December 2004, the Company has net current assets of approximately RMB23,170,000. Current assets as at that date mainly comprised amounts due from related companies, prepayments, deposits and accounts receivables of approximately RMB42,007,000, inventories of approximately RMB7,275,000 and cash and cash equivalents of approximately RMB7,074,000. Current liabilities mainly comprised trade payables of approximately RMB12,146,000, other payables and accrued charges of approximately RMB5,798,000, and short-term bank loans of approximately RMB8,550,000. The increase in net current assets from RMB8,785,000 in 2003 to RMB23,170,000 in 2004 was mainly due to net proceeds from the issue of the Company's listed shares and the profitable operations of the Company.

Liquidity

As at 31 December 2004, the cash and cash equivalents of the Company amounted to RMB7,074,000. The currencies held are mainly in Renminbi. Net cash inflow generated from financing activities amounted to RMB20,886,000, representing primarily funds generated from the issue of listed shares, was the Company's main source of funds for the year ended 31 December 2004.

Borrowings and banking facilities

As at 31 December 2004, the Company had short-term borrowings of approximately RMB8,550,000 (2003: RMB8,550,000). Short-term borrowings of RMB4,900,000 were secured by certain of the Company's property plant and land use rights.

Gearing ratio

The Company's gearing ratio as at 31 December 2004 was 10.5% (2003: 17.3%), which was expressed as a percentage of the total bank borrowings over the total assets.

Capital structure and financial resources

As at 31 December 2004, the Company had net assets of approximately RMB47,765,000. The Company's operations and investments are financed principally by internal resources, bank borrowings and shareholders' equity.

Foreign exchange risk

Effective from 1 January 2003, the Company has been selling its products to overseas customers. Most of the Company's export sales contracts are denominated in Euro or United States dollars. The Company does not enter into any foreign exchange forward contracts to hedge its exposure to Euro and United States dollars. However, the Company's management closely monitors the fluctuation in foreign currency exchange rates, and is of the opinion that the Company's net assets denominated in Euro or United States dollars at 31 December 2004 would not result in significant exchange loss to the Company.

MANAGEMENT'S DISCUSSION AND ANALYSIS

EMPLOYEES AND REMUNERATION POLICIES

An analysis of employees by their duties as at each of the two years ended 31 December 2004 is set out below:

Functions

	Headcount for the year ended 31 December	
	2004	2003
Research and development	**21**	21
Production and engineering	**145**	145
Quality control	**17**	17
Sales and marketing	**18**	18
Human resources	**2**	2
Accounts and finance	**6**	5
Administration	**10**	10
Procurement	**5**	5
	224	223

As at 31 December 2004, the Company had 224 employees (2003: 223 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.

Total staff costs paid during the year was approximately RMB7,204,000 (2003: RMB6,383,000).

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.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

To attain our long-term business goal, the Group has set out implementation plans on pages 90 to 92 of the prospectus of the Company dated 18 June 2004, for the year ended 31 December 2004. The actual progress of these plans over the review period is discussed below:

DEVELOPMENT OF NEW PRODUCTS

Alloy steel fire extinguisher cylinders with capacity from 10L to 20L

Expected project progress	Actual project progress
Procure additional production facilities including rolling, head-forming machine and lathe, and commence production.	Agreed to purchase the additional production facilities from SHP, subject to the approval of the independent Shareholders of the Company at an EGM because SHP is a connected person and the entering into the purchase agreement with SHP constituted a connected transaction.

Auto fire extinguishing system

Expected project progress	Actual project progress
Commence research and development.	Research and development commenced in December 2004 and is in the preliminary stage.

Market expansion and penetration

Expected project progress	Actual project progress
Penetrate into the U.S. market including Florida, for the sale of other cylinders.	The management has made a business trip to the U.S. including Florida, in November 2004.
Explore Taiwan market for the sale of fire fighting equipment.	Not yet commenced.
Purchase DOT testing equipment.	A DOT testing equipment has been purchased in 2004.
Set up a company in Hong Kong.	A representative office has been set up in Hong Kong.

Expansion of production capacity

Expected project progress	Actual project progress
Enhance production technology for 10L to 20L cylinder.	Agreed to purchase the additional production facilities from SHP, subject to the approval of the independent Shareholders of the Company at an EGM because SHP is a connected person and the entering into the purchase agreement with SHP constituted a connected transaction.

USE OF PROCEEDS

On 30 June 2004, the Company was successfully listed on the GEM of the Stock Exchange, the Company received listing proceeds (net of listing expenses directly paid out from the listing proceeds) of approximately RMB21.4 million.

On 5 July 2004, the Company entered into a purchase agreement with an independent third party to purchase certain seamless steel pipes in the sum of RMB25,515,000. A deposit of approximately RMB12.8 million was paid on 22 July 2004 in this respect. On 8 December 2004, the purchase agreement was terminated and the relevant parties agreed to assign the deposit to Shanghai High Pressure Container Co., Ltd. (上海高壓容器有限公司) ("SHP") from which the Company agreed to purchase pressure cylinders production equipment. In view of that (1) SHP is a connected person and the entering into of the purchase agreement between the Company and SHP constituted a connected transaction; and (2) completion of this purchase agreement is subject to the approval of the independent shareholders of the Company at an EGM, the RMB12.8 million was refunded to the Company on 29 April 2005.

During the year ended 31 December 2004, RMB5.7 million was used for general working capital and raw materials to expand the production capacity and the balance was approximately RMB15.7 million as at 15 June 2005.

As at 15 June 2005, the Company had approximately RMB15.7 million unused net proceeds in which approximate RMB10.3 million will be returned to SHP to complete the Transaction if approved at the EGM.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Jiang Zi Qiang (蔣自強), aged 59, is the chairman of the Company. Mr. Jiang is one of the standing members of Shanghai Qingpu Politics Committee (上海青浦區政協委員) and the deputy chairman of the Chamber of Commerce in Hua Xin Town (華新鎮商會副會長). Mr. Jiang is also the general manager of Shanghai Huasheng Meticulous Chemical Company Limited (上海華盛精細化工有限公司) since 1992, and the chairman and general manager of Huasheng Enterprises and Shanghai Hua Xin Aerosol Company Limited (上海華新氣霧劑有限公司) since 1997. In 1997, Mr. Jiang was recognised by Shanghai (Excellent Enterprise and Entrepreneur Assessment Committee) (上海市優秀企業、優秀企業經營者評選委員會) as excellent entrepreneur for the years 1996 and 1997. Mr. Jiang was appointed as an executive Director and the Chairman of the Company on 18 October 2000. Mr. Jiang is the father of Jiang Zhou.

Mr. Wang Liang Fa (王良發), aged 54, graduated from Shanghai Jiaotong University (上海交通大學) with a bachelor degree in economics and finance in September 1985. Mr. Wang has many years of working experience in the research, product development and production management in the field of electronics. Mr. Wang worked as a supervisor of production department, factory manager and general manager of product development department in General Electric (Shanghai) Limited (通用電氣(上海)傳動公司) from 1993 to 1997. Mr. Wang joined Shanghai Qingpu as general manager in 1998 responsible for all the administrative affairs. Mr. Wang was appointed as an executive Director on 18 October 2000.

Mr. Sun Hua Jie (孫華杰), aged 49, has extensive working experience in the fire fighting industry. Mr. Sun joined Qingpu Factory in 1973 responsible for the production operation and was subsequently promoted to factory manager responsible for the daily operation of production lines. Mr. Sun was appointed as an executive Director and deputy general manager of the Company on 18 October 2000.

NON-EXECUTIVE DIRECTORS

Mr. Wang Zhi Yu (王志裕), aged 47, was the deputy general manager of Shanghai Huasheng Meticulous Chemical Company Limited (上海華盛精細化工有限公司) responsible for sales and marketing from 1992 to 1996. Mr. Wang has been the deputy general manager of Huasheng Enterprises since 1997 responsible for its daily operation. He was appointed as a non-executive Director in October 2000.

Mr. Jiang Zhou (蔣洲), aged 29, graduated from Shanghai University (上海大學) in July 1995. Mr. Jiang was the deputy general manager of Sheng Tai Trading Company Limited (生太貿易有限公司) in 1999. Mr. Jiangs also was the deputy general manager of Shanghai Huasheng Meticulous Chemical Company Limited (上海華盛精細化工有限公司) responsible for sales and marketing. Mr. Jiang is the son of Jiang Zi Qiang. Mr. Jiang was appointed as a non-executive Director in October 2000.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTORS *(Continued)*

Mr. Wu Tian Xin (吳天新), aged 43, graduated from Shanghai Jiaotong University (上海交通大學) with a doctorate degree in engineering in November 1993. Mr. Wu possesses substantial and extensive working experience in the field of finance. Mr. Wu held senior positions in PRC reputable institutions including Shanghai Lan Tian Investment Company (上海藍天投資公司) as an investment manager from 1994 to 1995 and manager of financial planning department from 1995 to 1996 and a general manager in securities management headquarter of Jinhua Trust Investment Company Limited (金華信託投資股份有限公司證券總部) from 1997 to 2000. Mr. Wu worked in Beijing Energetic Technology Company Limited (北京神霧熱能技術有限公司) as a vice general manager, and also worked in Zhe Jiang Danxian Ocean Technology Company Limited (浙江舟山海洋科技有限公司) since 2002. Mr. Wu is the general manager of Shanghai APEX and was appointed as a non-executive Director in October 2000.

Mr. Zhao Shu Guang (趙曙光), aged 51, worked in Nanjing Military Office (南京軍區艦務) from 1979 to 1989 and Shanghai Gubei Economic Development Company (上海古北經濟發展總公司) from 1989 to 1997, and has extensive working experience in military product design, research and development. Mr. Zhao was awarded the Second Class Award of Militarily Technological Achievement (軍隊科技進步二等獎) in February 1987 and December 1993 and the Second Class Award of State Technological Achievement (國家科技進步二等獎) in July 1987. Mr. Zhao was appointed as a non-executive Director in October 2000.

Mr. Chen Zhen Qiang (陳振強), aged 48, is the managing director of Fuzhou Tung Shing. Before joining the Company, Mr. Chen worked with Wholesale Union of Fuqing (福清市供銷社) from 1979 to 1990. Mr. Chen was appointed as a non-executive Director in September 2002.

Mr. Zhou Wen Jie (周文杰), aged 59, was employed in the finance department of Shanghai Light Industry School (上海輕工業學校) as an officer from 1986 to 1989 and Shanghai Huasheng Meticulous Chemical Co., Ltd. (上海華盛精細化工有限公司) as manager from 1990 to 1997. Mr. Zhou is a director and the financial controller of Huasheng Enterprises since 1997 and was appointed as a non-executive Director in October 2000.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Li Long Ling (李龍齡), aged 65, is one of the advisers in the City and Town Natural Gas Experts Committee of Ministry of Construction in the PRC (中華人民共和國建設部). Mr. Li is currently working with Shanghai North Coal Gas Co., Ltd. (上海燃氣市北銷售有限公司) as consultant. Mr. Li was appointed as an independent non-executive Director in July 2001.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS *(Continued)*

Mr. Chen Wen Gui (陳文貴), aged 72, graduated from Qing Hua 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 PRC Fire Prevention and Fighting Association (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 (北京陵龍鍠旅遊開發公司). 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 (楊春寶), aged 49, 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 (王國忠), aged 47, graduated from Shanghai Fudan University with a bachelor degree in law in April 1983. Mr. Wang is currently an officer of Shanghai Jin Ma P.R.C. Lawyers (上海金馬律師事務所). Mr. Wang was appointed as an independent non-executive Director in October 2000.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SUPERVISORS

The Company has a committee of Supervisors whose primary duty is the supervision of the discharge of the duties of the senior management of the Company, including the Board, managers and senior officers. The function of the committee of Supervisors is to ensure that the senior management of the Company acts in the interests of the Company, its shareholders and employees and does not perform acts which violate the PRC law or the Articles of Association. The committee of Supervisors reports to the Shareholders in general meeting. The Articles of Association provide the committee of Supervisors with the right to investigate the Company's financial affairs; to carry out supervision to ensure that the directors, managers and other senior management personnel of the Company do not act in contravention of any laws, administrative regulations or the Articles of Association in the performance of their duties; to request that any activities harmful to the interests of the Company by the Directors, managers or other senior management of the Company be rectified; to examine financial reports, business reports, profit distribution plans and other financial documents by the Board to be submitted to Shareholders in general meeting, and in appropriate cases, to appoint on behalf of the Company certified public accountants or certified practising auditors to assist in such review; to propose the convening of extraordinary general meetings of Shareholders; to represent the Company when negotiating with the Directors or when initiating legal proceedings against a Director; and other official functions and powers stipulated in the Articles of Association. The committee of Supervisors currently comprises the following persons:

Supervisors nominated by Shareholders or employees

Mr. Tang Cheng (湯澄), aged 35, graduated from Shanghai Jiaotong University (上海交通大學) with a Doctorate degree in system engineering in July 1997. Mr. Tang possesses over 5 years' working experience in the field of finance. Mr. Tang worked in Jinhua Trust Investment Company Limited (金華信託投資股份有限公司) as a manager of financial service department in 1998. Mr. Tang is currently the assistant to general manager of Shanghai APEX and was appointed as a Supervisor in October 2000.

Mr. Wang Kou Cheng (王叩成), aged 58, worked with Shanghai Machine Tools and Electric Appliance Factory (上海機床電器廠) during the period from 1965 to 1992. Mr. Wang is currently the deputy general manager of Huasheng Enterprises and was appointed as a Supervisor in October 2000.

Mr. Liu Xiong De (劉雄德), aged 56, is the chairman of the labour union of the Company. Mr. Liu joined Qingpu Factory in 1976 as operator in the production department, and was subsequently transferred to the human resources department and promoted to the position of administrator. Mr. Liu was appointed as the chairman of the labour union and a Supervisor of the Company in 1997 and in September 2002 respectively.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

AUDIT COMMITTEE

Members of the audit committee

The audit committee consist of three members, namely, Mr. Li Long Ling, Mr. Chen Wen Gui and Mr. Yang Chun Bao, all being independent non-executive Directors. The audit committee was set up with written terms of reference in compliance with the GEM Listing Rules.

Functions of audit committee

Duties of the audit committee are mainly to review the Company's annual reports and accounts, half-yearly reports and quarterly reports, and to provide the audit committee's advice and comments on these reports and accounts to the Directors. In this regard, members of the audit committee must liaise with the Directors, senior management and qualified accountant of the Company and the audit committee should meet, at least once a year, with the Company's auditors. The audit committee should also consider any significant or unusual items that are, or may need to be, reflected in the reports and accounts and must give consideration to any matters that have been raised by the Company's accountant, compliance office or auditors. The members of audit committee are also responsible for reviewing and supervising the Company's financial reporting and internal control procedures.

COMPLIANCE OFFICER

Mr. Wang Liang Fa, who is also an executive Director.

SENIOR MANAGEMENT

Mr. Shen Jian Zhong (沈建忠), aged 40, is the general manager of the Company. Mr. Shen graduated from Shanghai Machinery Manufacturing School (上海機械製造學校). Before joining the Company, Mr. Shen had worked for Shanghai Sanhe Water & Electric Equipment Factory (上海三和水利電力設備廠), one of the largest public utility enterprise in Shanghai, as quality control manager, production manager and finally the general manager. Mr. Shen joined the Company in 1998 and was promoted as general manager of the Company is November 2004.

Ms. Wang Xiang (王翔), aged 44, is the financial controller of the Company. Ms. Wang graduated from Shanghai University of Finance and Economics (上海財經大學) in 1985 and Shanghai University in 2003. Ms. Wang possesses a Master degree in Science and Engineering. Ms. Wang has been a member of Chinese Institute of Certified Public Accountants. Ms. Wang had worked in Shanghai No. 5 Watch Factory (上海手錶五廠) as finance manager and in Shanghai Watch and Clock Corporation Limited (上海鐘錶有限公司) as chief accountant and chief finance officer and assistant to general manager. Ms. Wang joined the Company in January 2005.

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Mr. Chan Chi Wai, Benny (陳智偉), aged 34, is the qualified accountant and company secretary of the Company. Mr. Chan graduated from Queensland University of Technology, Australia with a bachelor degree in accountancy. He has been a member of Australian Society of CPAs since 1999. Mr. Chan had worked in a subsidiary of a company listed in Hong Kong from 1996 to 1998 and a subsidiary of another company listed in Hong Kong from 1998 to 2002 as accounting manager and subsequently promoted as deputy general manager. Prior to joining the Company, Mr. Chan worked as assistant financial controller, in a company listed on the Main Board, from 2002 to 2004. Mr. Chan joined the Company in April 2004.

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended 31 December 2004.

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 segments is set out in note 4 to the financial statements.

FINANCIAL STATEMENTS AND DIVIDENDS

The results of the Company for the year ended 31 December 2004 are set out in the income statement on page 25.

The state of the Company's affairs as at 31 December 2004 is set out in the balance sheet on page 26.

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 21a 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 27.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31 December 2004, 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 RMB13,432,000.

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-rate basis to existing shareholders.

SUMMARY OF FINANCIAL INFORMATION

The summary of the results of the Company for the last three financial years is set out on page 56.

PURCHASE, SALE OF REDEMPTION OF LISTED SECURITIES

The Company has not redeemed any of its shares during the year. The Company has not purchased or sold any of the Company's shares during the year.

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

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

Executive Directors

Mr. Jiang Zi Qiang
Mr. Wang Liang Fa
Mr. Sun Hua Jie

Non-executive Directors

Mr. Wang Zhi Yu
Mr. Jiang Zhou
Mr. Wu Tian Xin
Mr. Zhao Shu Guang
Mr. Chen Zhen Qiang
Mr. Zhou Wen Jie

Independent Non-executive Directors

Mr. Li Long Ling
Mr. Chen Wen Gui
Mr. Yang Chun Bao
Mr. Wang Guo Zhong

Supervisors

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

In accordance with Articles 102, 123 and 124 of the Company's Articles of Association, all the Directors two third Supervisors shall be elected at the shareholders' general meeting for a term of three years. One third of supervisors shall be elected at the Labour's Meeting for a term of three years. A director or supervisor may serve consecutive terms if re-elected upon the expiration of the terms.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Brief biographical details of Directors, Supervisors and senior management are set out on page 12 to page 16.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the Directors and Supervisors has entered into a service contract with the Company for a term of three years from his/her date of appointment as a Director or, as the case may be, as a Supervisor and thereafter subject to termination by either party giving not less than one month's written notice to the other party.

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

As at 31 December 2004, the interests and short positions of the Directors and Supervisors 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	Type of interests	Capacity	Number of shares *(Note 2)*	Approximate percentage of domestic shares	Approximate percentage of total registered share capital
Mr. Jiang Zi Qiang	Corporate *(Note 1)*	Beneficial owner	63,300,000	48%	33.77%
Mr. Wang Zhi Yu	Personal	Beneficial owner	14,070,000	10.67%	7.51%
Mr. Jiang Zhou	Personal	Beneficial owner	13,190,000	10%	7.04%
Mr. Wang Liang Fa	Personal	Beneficial owner	11,870,000	9%	6.33%

Note:

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.

Save as disclosed above, as at 31 December 2004, none of the Directors and Supervisors 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 2004, the following persons (other than the Directors and Supervisors of the Company) had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Name of shareholder	**Capacity**	**Number of shares**	**Approximate percentage of domestic shares**	**Approximate percentage of H shares**	**Approximate percentage of total registered share capital**
Shanghai Huasheng Enterprises (Group) Company Limited	Beneficial owner	63,300,000	48.00	–	33.77
Mr. Jiang Zi Qiang *(Note 1)*	Interest of a controlled corporation	63,300,000	48.00	–	33.77

Notes:

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

Save as disclosed above, as at 31 December 2004, the Directors were not aware of any other person (other than the Directors and chief executives of the Company) who had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

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.

REPORT OF THE DIRECTORS

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	20.8%
– five largest customers combined	49.1%
Purchases	
– the largest supplier	16.0%
– five largest suppliers combined	45.0%

BOARD PRACTICES AND PROCEDURES

Throughout the year, the Company was in compliance with the Board Practices and Procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules, which applied before the amendment of the GEM Listing Rules relating to the Code on Corporate Governance Practices and Rules on Corporate Governance Report on 1 January 2005. The Company will prepare a Corporate Governance Report in accordance with Rule 18.44 of the GEM Listing Rules for the financial year ending 31 December 2005.

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers all of the Independent Non-executive Directors are independent.

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.

CONNECTED TRANSACTION

The connected transactions undertaken by the Company are set out in note 23 to the financial statements.

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);

(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; and

(iv) 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.

COMPETING INTERESTS

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.

SPONSOR'S INTERESTS

As updated and notified by the Company's sponsor, Shenyin Wanguo Capital (H.K.) Limited ("SW Capital"), neither SW Capital nor its directors, employees or associates had any interest in the share capital of the Company as at 31 December 2004 pursuant to Rules 6.35 and 18.63 of the GEM Listing Rules. Pursuant to the agreement dated 17 June 2004 entered into between the Company and SW Capital, SW Capital has received and will receive a fee for acting as the Company's retained sponsor for the period from 31 December 2004 to 31 December 2006 or until the sponsor agreement is terminated upon the terms and conditions set out therein.

AUDIT COMMITTEE

Pursuant to Rule 5.28 of the GEM Listing Rules, the Company has set up an audit committee on 10 June 2004 according to "A Guide For The Formation of An Audit Committee" compiled by the Hong Kong Institute of Certified Public Accountants. In compliance with Rules 5.29 and 5.33 of the GEM Listing Rules, the authority and responsibility of the audit committee has 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 members are Mr. Li Long Ling, Mr. Chen Wen Gui and Mr. Yang Chun Bao, who are Independent Non-executive Directors of the Company.

Two meetings were held during the year.

REPORT OF THE DIRECTORS

SUBSEQUENT EVENTS

Subsequent to the balance sheet date on 27 April 2005 and 16 June 2005, further supplemental agreements were entered into between the Company and the six agents whereby the completion of the acquisition is subject to, among other things, the approval by the shareholders of the Company at an extraordinary general meeting ("EGM") convened for this purpose and the consideration had been reduced to RMB10,250,000. The six agents had refunded through SHP to the Company the deposit of RMB12,813,000 on 29 April 2005 pending the result of the EGM to be held. Failing in obtaining the approval by the shareholders, the acquisition agreements will be terminated with no penalty to each party.

AUDITORS

PricewaterhouseCoopers were auditors of the Company for the year ended 31 December 2003 and they resigned as auditors on 11 March 2005. CCIF CPA Limited ("CCIF") and Cachet Certified Public Accountants Limited ("Cachet") were appointed to fill the casual vacancy on 18 March 2005.

CCIF and Cachet retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Jiang Zi Qiang
Chairman

Shanghai, The PRC, 21 June 2005

AUDITORS' REPORT

CCIF
CCIF CPA LIMITED
37/F Hennessy Centre
500 Hennessy Road
Causeway Bay Hong Kong

CACHET
Cachet Certified Public Accountants Limited
德揚會計師事務所有限公司
Suite 913, 9/F, Sun Hung Kai Centre
30 Harbour Road, Wanchai, Hong Kong

AUDITORS' REPORT TO THE SHAREHOLDERS OF
SHANGHAI QINGPU FIRE-FIGHTING EQUIPMENT CO., LTD.
(Established as a joint stock company in the People's Republic of China with limited liability)

We have audited the financial statements on pages 25 to 55 which have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

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

BASIS OF OPINION

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

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

OPINION

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 31 December 2004 and its profit and cash flows for the year then ended and have been properly prepared in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance.

CCIF CPA Limited
Certified Public Accountants
Hong Kong, 21 June 2005

Chan Wai Dune, Charles
Practising Certificate Number P00712

Cachet Certified Public Accountants Limited
Certified Public Accountants
Hong Kong, 21 June 2005

Chan Yuk Tong
Practising Certificate Number P03723

INCOME STATEMENT

Year ended 31 December 2004

	Note	2004 RMB'000	2003 RMB'000
TURNOVER	*3*	**56,050**	48,372
COST OF SALES		**(40,276)**	(32,641)
GROSS PROFIT		**15,774**	15,731
OTHER REVENUE	*3*	**1,868**	1,115
OTHER EXPENSES			
Distribution costs		**(1,196)**	(1,614)
Administrative expenses		**(6,732)**	(5,711)
		(7,928)	(7,325)
PROFIT FROM OPERATIONS	*5*	**9,714**	9,521
FINANCE COSTS	*6*	**(543)**	(660)
PROFIT BEFORE TAXATION		**9,171**	8,861
TAXATION	*10*	**(2,939)**	(2,837)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS		**6,232**	6,024
DIVIDENDS		**–**	–
EARNINGS PER SHARE (RMB) – BASIC	*11*	**0.039**	0.046
– DILUTED	*11*	**N/A**	N/A

The notes on pages 30 to 55 form an integral part of these financial statements.

BALANCE SHEET

31 December 2004

	Note	2004 RMB'000	2003 RMB'000
Non-current assets			
Land use rights	*12*	**834**	852
Property, plant and equipment	*13*	**11,001**	10,724
Purchase deposit	*14*	**12,813**	–
Deferred tax assets	*10*	**777**	784
		25,425	12,360
Current assets			
Due from related companies	*23(c)*	**11,189**	4,758
Inventories	*15*	**7,275**	8,011
Trade receivables	*16*	**14,148**	15,720
Prepayments, deposits and other receivables		**16,670**	4,366
Cash and bank balances		**7,074**	4,166
		56,356	37,021
Current liabilities			
Trade payables	*17*	**12,146**	9,006
Other payable and accruals	*18*	**5,798**	4,333
Tax payable		**4,835**	3,591
Due to a shareholder	*23(c)*	**973**	1,753
Due to related companies	*23(c)*	**884**	1,003
Short-term bank loans	*19*	**8,550**	8,550
		33,186	28,236
Net current assets		**23,170**	8,785
Total assets less current liabilities		**48,595**	21,145
Non-current liabilities			
Deferred revenue	*20*	**830**	1,037
NET ASSETS		**47,765**	20,108
CAPITAL AND RESERVES			
Share capital	*21(a)*	**18,743**	13,187
Reserves		**29,022**	6,921
		47,765	20,108

Approved and authorised for issue by the board of directors on 21 June 2005

On behalf of the board

Jiang Zi Qiang
Director

Sun Hua Jie
Director

The notes on pages 30 to 55 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2004

	Share capital RMB'000 *Note 21(a)*	(Share issuance costs)/ share premium RMB'000	Capital reserve RMB'000 *Note 21(b)*	Discretionary common reserve fund RMB'000 *Note 22*	Statutory common welfare fund RMB'000 *Note 22*	Statutory common reserve fund RMB'000 *Note 22*	Retained earnings RMB'000	Total RMB'000
As at 1 January 2003	13,187	(1,483)	(2,978)	–	786	786	7,262	17,560
Net profit for the year	–	–	–	–	–	–	6,024	6,024
Appropriation	–	–	208	–	555	555	(1,318)	–
Direct costs incurred for listing of shares on the GEM	–	(3,476)	–	–	–	–	–	(3,476)
As at 31 December 2003 and 1 January 2004	13,187	(4,959)	(2,770)	–	1,341	1,341	11,968	20,108
Issue of shares	5,556	26,252	–	–	–	–	–	31,808
Net profit for the year	–	–	–	–	–	–	6,232	6,232
Appropriation	–	–	207	1,500	526	526	(2,759)	–
Direct cost incurred for listing of shares on the GEM	–	(10,383)	–	–	–	–	–	(10,383)
As at 31 December 2004	18,743	10,910	(2,563)	1,500	1,867	1,867	15,441	47,765

The notes on pages 30 to 55 form an integral part of these financial statements.

CASH FLOW STATEMENT

Year ended 31 December 2004

	2004 RMB'000	2003 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	**9,171**	8,861
Adjustment for:		
Amortisation of land use rights	**18**	17
Depreciation of property, plant and equipment	**1,029**	1,115
Loss on disposal of property, plant and equipment	**645**	–
Amortisation of government grant	**(207)**	(208)
(Write back of)/provision for doubtful debts	**(661)**	551
Provision for inventory obsolescence	**–**	96
Interest income	**(8)**	(14)
Interest expenses	**539**	657
OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES	**10,526**	11,075
Increase in amounts due from related companies	**(6,431)**	(3,281)
Decrease in amount due from a shareholder	**–**	5,889
(Increase)/decrease in prepayments, deposits and other receivables	**(12,304)**	4,342
Decrease/(increase) in inventories	**736**	(2,814)
Decrease/(increase) in trade receivables	**2,233**	(9,696)
Increase in trade payables	**3,140**	1,402
Increase in other payables and accruals	**1,465**	1,720
(Decrease)/increase in amounts due to related companies	**(119)**	40
(Decrease)/increase in amount due to a shareholder	**(780)**	1,753
	(12,060)	(645)
CASH (USED IN)/GENERATED FROM OPERATIONS	**(1,534)**	10,430
Profits tax paid	**(1,688)**	(8,400)
NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES	**(3,222)**	2,030
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	**8**	14
Government grant received	**–**	3,000
Purchase of property, plant and equipment	**(1,951)**	(1,603)
Payment of purchase deposit *(Note 14)*	**(12,813)**	–
NET CASH (USED IN)/GENERATED FROM INVESTING ACTIVITIES	**(14,756)**	1,411

CASH FLOW STATEMENT

Year ended 31 December 2004

	2004 RMB'000	2003 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES		
Interest paid	(539)	(657)
Inception of borrowings	8,550	13,850
Repayments of borrowings	(8,550)	(17,200)
Issue of share capital	31,808	–
Cost of issue of share capital	(10,383)	–
NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES	20,886	(4,007)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	2,908	(566)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	4,166	4,732
CASH AND CASH EQUIVALENTS AT END OF YEAR	7,074	4,166
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	7,074	4,166

The notes on pages 30 to 55 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2004

1. BACKGROUND OF THE COMPANY

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"). Details of the reorganisation were set out in the prospectus issued by the company on 18 June 2004.

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

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

2. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB"). The financial statements are prepared under the historical cost convention.

The financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and applicable disclosure provisions of the Listing Rules of the GEM of the Stock Exchange.

The IASB has issued a number of new and revised IFRSs which are effective for accounting periods beginning on or after 1 January 2005. The Company has not early adopted these new IFRSs in the financial statements for the year ended 31 December 2004. The Company has already commenced an assessment of the impact of these new IFRSs but is not yet in a position to state whether these new IFRSs would have a significant impact on its results of operations and financial position.

The principal accounting policies adopted by the Company are set out below:

a) Land use rights

Land use rights are stated at cost less accumulated amortisation and impairment losses. Cost represents consideration paid for the rights to use the land for 50 years. Amortisation of land use rights is calculated on a straight-line basis over the period of the land use rights.

b) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

b) Property, plant and equipment and depreciation *(Continued)*

Depreciation is calculated on the straight-line method to write off the cost of each asset to their residual values 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

Major costs incurred in restoring property, plant and equipment to their normal working condition are charged to the income statement. Improvements are capitalised and depreciated over their expected useful lives to the company.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

c) Construction-in-progress

Construction-in-progress represents properties, plant and equipment under construction and is stated at cost less impairment losses. This includes cost of construction, machinery and equipment, installation costs and other direct costs. Construction-in-progress is not depreciated until such time as the assets are completed and ready for their intended use.

d) Research and development costs

Expenditures for research and development are charged against the income statement in the period incurred except for project development costs which comply strictly with the following criteria:

i) the technical feasibility of completing the intangible asset for use or sale can be demonstrated;

ii) there is an intention to complete the intangible asset for use or sell;

iii) the Company has the ability to use or sell the intangible asset;

iv) there is a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset can be demonstrated;

v) there are adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

vi) the expenditures attributable to the intangible asset during its development can be measured reliably.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

e) Operating leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

f) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business less the costs of completion and selling expenses.

g) Trade receivables

Provision is made against trade receivable to the extent that they are considered to be doubtful. Trade receivable in the balance sheet is stated net of such provision.

h) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

i) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as expenses in the period in which they are incurred.

j) Retirement benefit costs

Contributions to retirement schemes for employees in accordance with local rules and regulations are expensed in the income statement as incurred, except to the extent that they are included in cost of intangible assets and inventories not yet recognised as an expense.

k) Foreign currency transactions and balances

Foreign currency transactions are translated into Renminbi using the exchange rates prevailing at the dates of transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2004

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

l) Government grants

Grants from the government in the form of subsidy or financial refunds are recognised when there is reasonable assurance that the grants will be received and all attached conditions are complied with.

Government grants relating to costs are initially recorded as deferred revenue and are recognised in the income statement over the period necessary to match them with the costs they are intended to compensate.

Government grants relating to purchase of property, plant and equipment are initially recorded as deferred revenue and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

m) Impairment loss

At each balance sheet date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount in which case the reversal of the impairment loss is treated as a revaluation increase.

n) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

o) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes below. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

o) Contingent liabilities and contingent assets *(Continued)*

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Company. Contingent assets are not recognised but are disclosed in the notes below when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

p) Revenue recognition

Provided it is probable that the economic benefits associated with a transaction will flow to the Company and the revenue and costs, if applicable, can be measured reliably, revenue is recognised on the following bases:

i) Sale of goods

Sales of goods are recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title has passed. Sales are shown net of sales taxes and discounts.

ii) Processing income

Processing income is recognised upon completion of the related processing services.

iii) Interest income

Interest income from bank deposits is recognised on a time proportion basis, taking into account of the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Company.

q) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred tax.

Deferred tax liabilities are provided in full on all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised.

NOTES TO THE FINANCIAL STATEMENTS

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2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

r) Related parties

Two parties are considered to be related if one party has the ability, directly or indirectly, control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

s) Financial instruments

Financial assets and liabilities carried on the balance sheet include cash and bank deposits, trade and other receivables and payables, balances with related parties, and short-term bank loans. The accounting policies on recognition and measurement of these items are disclosed in the respective accounting policies.

t) Segment reporting

Business segments provide products or services that are subject to risks and returns that are different from those of other business segments. Geographical segments provide products or services within a particular economic environment that is subject to risks and returns that are different from those of components operating in other economic environments.

3. TURNOVER AND REVENUE

	2004	2003
	RMB'000	RMB'000
Turnover		
Sales of goods	**53,519**	45,463
Provision of processing services	**2,531**	2,909
	56,050	48,372
Other revenue		
Amortisation of government grant received relating to purchase of plant and machinery *(Note 20)*	**207**	208
Interest income	**8**	14
Write back of provision for doubtful debts	**661**	–
Exchange gain	**988**	893
Others	**4**	–
	1,868	1,115
Total revenue	**57,918**	49,487

NOTES TO THE FINANCIAL STATEMENTS

31 December 2004

4. SEGMENT INFORMATION

The Company has only one business segment, which is the manufacture and sale of fire fighting equipment products and provision of the related processing services. The Directors consider that its primary reporting format of its segment information is its business segment.

All of the Company's assets are located in the PRC. Effective from 1 January 2003, the Company exports some of its products to overseas customers through Shanghai Huasheng Enterprises (Group) Company Limited ("Huasheng Enterprises") according to an export agency agreement. An analysis of the Company's turnover by geographical segment, as determined by the location of its customers is as follows:

	2004	2003
	RMB'000	RMB'000
PRC other than Hong Kong	**29,978**	24,513
Europe	**12,587**	22,282
Hong Kong	**9,530**	–
Asia except for PRC and Hong Kong	**3,801**	–
Others	**154**	1,577
Total	**56,050**	48,372

5. PROFIT FROM OPERATIONS

Profit from operations is arrived at after charging the following items:

	2004	2003
	RMB'000	RMB'000
Amortisation of land use rights	**18**	17
Auditors' remuneration	**477**	300
Depreciation on property, plant and equipment	**1,029**	1,115
Loss on disposal of property, plant and equipment	**645**	–
Operating lease rentals for land and buildings	**246**	246
Provision for doubtful debts	**–**	551
Provision for inventory obsolescence	**–**	96
Research and development expenditures	**–**	591
Staff costs *(Note 7)*	**7,204**	6,383

NOTES TO THE FINANCIAL STATEMENTS

31 December 2004

6. FINANCE COSTS

	2004 RMB'000	2003 RMB'000
Interest expenses on short-term bank loans	**539**	657
Others	**4**	3
	543	660

7. STAFF COST

	2004 RMB'000	2003 RMB'000
Wages and salaries	**5,825**	4,789
Social security costs	**397**	669
Retirement benefit costs *(Note 8)*	**733**	794
Housing subsidies	**249**	131
Staff costs (including Directors' and Supervisors' emoluments)	**7,204**	6,383
Number of employees (including part-time employees) at the end of each year	**386**	443

8. RETIREMENT BENEFIT COSTS

The employees of the Company participate in a retirement benefit plan organised by the municipal government whereby the Company is required to make monthly contributions to the plan at a rate ranging from 22.5% to 25.5% of the employees' basic salary for the year. The Company has no obligation for the payment of retirement and other post-retirement benefits of employees other than the monthly contributions described above. Expenses incurred by the Company in connection with the retirement benefit plan were RMB733,000 (2003: RMB794,000). There was no forfeited contribution throughout the year.

9. EMOLUMENTS OF DIRECTORS AND HIGHEST PAID INDIVIDUALS

a) Details of emoluments paid to the Directors and Supervisors of the Company are as follows:

	2004	2003
	RMB'000	RMB'000
Basic salaries and allowances	**27**	48
Bonus	**–**	102
Retirement scheme contributions	**23**	13
	50	163
Number of Directors and Supervisors		
– Executive Directors	**3**	3
– Non-executive Directors	**6**	6
– Independent Non-executive Directors	**4**	4
– Supervisors	**3**	3
	16	16

An analysis of Directors' and Supervisors' emoluments by the number of Directors and Supervisors and emolument range is as follows:

	2004	2003
RMBNil – RMB1,000,000	**16**	16

The three Executive Directors received individual emolument of RMB17,000, RMB17,000 and Nil for the year ended 31 December 2004, and RMB67,000, RMB52,000 and Nil for the year ended 31 December 2003, respectively.

The three Supervisors received individual emolument of RMB16,000, Nil and Nil for the year ended 31 December 2004, and RMB44,000, Nil and Nil for the year ended 31 December 2003, respectively.

No emoluments were paid to other Directors of the Company during the years ended 31 December 2004 and 2003.

NOTES TO THE FINANCIAL STATEMENTS

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9. EMOLUMENTS OF DIRECTORS AND HIGHEST PAID INDIVIDUALS *(Continued)*

b) The five individuals whose emoluments were the highest in the Company are as follows:

	2004	2003
Executive Directors and Supervisors	**–**	3
Other individuals	**5**	2
	5	5

c) Details of the emoluments paid to the five highest paid individuals are as follows:

	2004	2003
	RMB'000	RMB'000
Basic salaries and allowances	**189**	74
Bonus	**–**	170
Retirement scheme contributions	**36**	17
	225	261

The emoluments of each of these highest paid individuals in each of the relevant years were below RMB1,000,000.

d) During the year, no Directors, Supervisors or any of the five highest paid individuals of the Company waived any emoluments, and no emoluments have been paid by the Company to the Directors, Supervisors or any of the five highest paid individuals as an inducement to join the Company, or as compensation for loss of office.

NOTES TO THE FINANCIAL STATEMENTS

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10. TAXATION

The Company is subject to the enterprise income tax rate of 33% on the assessable profit for the year in accordance with the income tax law of the PRC.

Details of taxation charged for the year are as follows:

	2004	2003
	RMB'000	RMB'000
Current taxation	**2,932**	3,050
Deferred tax charge/(credit)	**7**	(213)
Tax charge	**2,939**	2,837

Movements of deferred tax assets for the year are as follows:

	2004	2003
	RMB'000	RMB'000
Deferred tax assets, beginning of the year	**784**	571
Deferred tax (charged)/credited to income statement	**(7)**	213
Deferred tax assets, end of the year	**777**	784

Components of deferred tax assets are as follows:

	Provision for doubtful debts		**Others**		**Total**	
	2004	2003	**2004**	2003	**2004**	2003
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
At 1 January	**716**	534	**68**	37	**784**	571
(Charged)/credited to income statement	**(218)**	182	**211**	31	**(7)**	213
At 31 December	**498**	716	**279**	68	**777**	784

NOTES TO THE FINANCIAL STATEMENTS

31 December 2004

10. TAXATION *(Continued)*

The tax on the Company's profit before taxation differs from the theoretical amount that would arise using the tax rate of the home country of the Company as follows:

	2004		2003	
	RMB'000	**%**	RMB'000	%
Profit before taxation	**9,171**		8,861	
Tax at the applicable tax rate of 33%	**3,026**	**33.00**	2,924	33.00
Income that are not subject to tax and expenses that are not deductible for tax purposes:				
– Amortisation of government grant relating to purchase of plant and equipment	**(69)**	**(0.75)**	(69)	(0.78)
– Others	**(18)**	**(0.20)**	(18)	(0.20)
Tax charge and effective tax rate	**2,939**	**32.05**	2,837	32.02

11. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit attributable to shareholders of RMB6,232,000 (2003: RMB6,024,000) divided by weighted average number of shares in issue during the year of 160,031,000 (2003: 131,870,000).

Diluted earnings per share have not been calculated, as there were no dilutive potential ordinary shares during the year (2003: Nil).

12. LAND USE RIGHTS

	2004	2003
	RMB'000	RMB'000
Original prepaid lease payments	**900**	900
Accumulative amortisation	**(66)**	(48)
	834	852

All land in the PRC is owned by the state or is subject to collective ownership and neither individuals nor legal entities may own land.

12. LAND USE RIGHTS *(Continued)*

Payments for land use rights represent prepaid lease payments for the parcels of land in which the Company's plants are located, and are recognised as an expense on a straight-line basis over the estimated period of use of the land use rights. Estimated period of use of a land use right is the land use period according to the land use right certificate (fifty years). As at 31 December 2004, the Company had no future lease payment obligations in respect of the above land use rights (2003: Nil).

The Company's land use right of one of its plants was pledged as collaterals to secure the Company's short-term bank loans.

13. PROPERTY, PLANT AND EQUIPMENT

	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
Cost						
At 1 January 2004	120	6,331	9,178	1,630	1,099	18,358
Additions	56	–	1,625	–	270	1,951
Transfer	(71)	–	71	–	–	–
Disposals	–	–	(850)	(248)	(160)	(1,258)
At 31 December 2004	105	6,331	10,024	1,382	1,209	19,051
Accumulated depreciation and impairment						
At 1 January 2004	–	2,113	3,874	885	762	7,634
Charge for the year	–	189	656	112	72	1,029
Disposals	–	–	(342)	(117)	(154)	(613)
At 31 December 2004	–	2,302	4,188	880	680	8,050
Net book value						
At 31 December 2004	105	4,029	5,836	502	529	11,001
At 31 December 2003	120	4,218	5,304	745	337	10,724

NOTES TO THE FINANCIAL STATEMENTS

31 December 2004

13. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Property, plant and equipment and land use right pledged as security for short-term bank loans were as follows:

	2004	2003
	RMB'000	RMB'000
Net book value of property, plant and equipment pledged	**1,807**	1,879
Net book value of land use rights pledged *(Note 12)*	**681**	696
	2,488	2,575
Corresponding short-term bank loans *(Note 19)*	**(4,900)**	(4,900)

14. PURCHASE DEPOSIT

On 5 July 2004, the Company entered into a purchase agreement with an independent third party to purchase certain seamless steel pipes in the sum of RMB25,515,000. A deposit of RMB12,813,000 was paid on 22 July 2004 in this respect.

On 8 December 2004, the purchase agreement was terminated and the parties mutually agreed to assign the deposit (the "Assigned Deposit") to six agents of Shanghai High Pressure Container Co., Ltd. (上海高壓容器有限公司) ("SHP"), a company which is 65% owned by Huasheng Enterprises, a substantial shareholder of the Company.

Pursuant to the six agreements entered into between the Company and the six agents during October and November 2004, the Company would acquire certain plant and equipment from SHP with an aggregate contract price of RMB12,813,000 which was settled by the Assigned Deposit.

Pursuant to respective supplemental agreements entered into between the Company and the six agents, the completion of the acquisition is subject to, among other things, the installation and testing of the equipment.

Since the terms of the acquisition had not been fulfilled as at 31 December 2004, the amount of RMB12,813,000 was classified as non-current asset in the financial statements which would be transferred to property, plant and equipment upon completion of the acquisition.

Based on a valuation report issued by Castores Magi (Hong Kong) Limited dated 19 April 2005, the fair market value of the equipment was RMB14,700,000 as at 13 April 2005.

14. PURCHASE DEPOSIT *(Continued)*

Subsequent to the balance sheet date on 27 April 2005 and 16 June 2005, further supplemental agreements were entered into between the Company and the six agents whereby the consideration of the plant and equipment had been reduced to RMB10,250,000 and the completion of the acquisition is subject to, among other things, the approval by the shareholders of the Company at an extraordinary general meeting ("EGM") to be convened for this purpose. The six agents had refunded through SHP to the Company the deposit of RMB12,813,000 on 29 April 2005 pending the result of the EGM to be held. Failing in obtaining the approval by the shareholders, the acquisition agreements will be terminated with no penalty to each party.

15. INVENTORIES

	2004	2003
	RMB'000	RMB'000
Raw materials	**2,891**	4,094
Work in progress	**2,771**	2,705
Finished goods	**1,632**	1,177
Low cost consumables	**167**	221
	7,461	8,197
Provision for inventory obsolescence	**(186)**	(186)
	7,275	8,011

No inventories are carried at net realisable value for both years.

NOTES TO THE FINANCIAL STATEMENTS

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16. TRADE RECEIVABLES

Details of the ageing analysis are as follows:

	2004 RMB'000	2003 RMB'000
0 – 30 days	**1,158**	2,964
31 – 60 days	**1,403**	4,581
61 – 90 days	**–**	1,615
91 days – one year	**10,395**	6,238
One year to two years	**966**	1,350
Over two years	**1,734**	1,141
	15,656	17,889
Provision for doubtful debts	**(1,508)**	(2,169)
	14,148	15,720

Credit terms of approximately 60 to 90 days would generally be granted to PRC customers. For overseas customers, the Company would normally grant a credit term of 90 to 120 days.

17. TRADE PAYABLES

Details of the ageing analysis are as follows:

	2004 RMB'000	2003 RMB'000
0 – 30 days	**3,701**	2,449
31 – 60 days	**2,740**	1,420
61 – 90 days	**993**	695
91 days – one year	**3,713**	4,442
Over one year	**999**	–
	12,146	9,006

NOTES TO THE FINANCIAL STATEMENTS

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18. OTHER PAYABLES AND ACCRUALS

Details of other payables and accruals are as follows:

	2004 RMB'000	2003 RMB'000
Advance from customers	**1,301**	728
Payable of Initial Public Offering fees	**–**	2,186
Staff welfare payables	**393**	345
Others	**4,104**	1,074
	5,798	4,333

19. SHORT-TERM BANK LOANS

	2004 RMB'000	2003 RMB'000
Secured	**4,900**	4,900
Guaranteed by:		
– Third parties	**3,650**	3,650
	8,550	8,550

The Company's short-term loans of RMB4,900,000 were secured by certain of the Company's property, plant and land use rights.

NOTES TO THE FINANCIAL STATEMENTS

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20. DEFERRED REVENUE

Deferred revenue represents a government grant of approximately RMB1,869,000 received in two installments in 1999 and 2000 for purchase of plant and equipment. Such plant and equipment was put into operational use in 2000 and has an average useful life of 9 years. Movements of deferred revenue during the relevant years are as follow:

	2004	2003
	RMB'000	RMB'000
At the beginning of the year	**1,037**	1,245
Transfer to income statement *(Note 3)*	**(207)**	(208)
At the end of the year	**830**	1,037

21. SHARE CAPITAL AND CAPITAL RESERVE

a) Share capital

Registered, issued and fully paid:

	2004	2003
	RMB'000	RMB'000
131,870,000 (2003: 131,870,000) domestic shares of RMB0.10 each	**13,187**	13,187
55,560,000 (2003: Nil) H shares of RMB0.10 each	**5,556**	–
	18,743	13,187

Pursuant to a resolution of the Company's shareholders' meeting held on 10 June 2004 and the approval by the China Securities Regulatory Commission, the Company was authorised to increase its share capital to a maximum of RMB18,743,000 immediately after the listing of the Company's H shares on the GEM of the Stock Exchange.

On 30 June 2004, the Company issued 55,560,000 H shares with a par value of RMB0.10 each, at a price of HK$0.54 per H share by placing and public offer.

All domestic shares and H shares of the Company rank pari passu in all other material respects.

NOTES TO THE FINANCIAL STATEMENTS

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21. SHARE CAPITAL AND CAPITAL RESERVE *(Continued)*

b) Capital reserve

	Government grant received capitalised as share capital in the PRC GAAP financial statements	Reversal of revaluation surplus of property, plant and equipment	Total
	RMB'000	RMB'000	RMB'000
Balance at 1 January 2003	(1,245)	(1,733)	(2,978)
Appropriation from retained earnings	208	–	208
Balance at 31 December 2003 and 1 January 2004	(1,037)	(1,733)	(2,770)
Appropriation form retained earnings	207	–	207
Balance at 31 December 2004	(830)	(1,733)	(2,563)

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 ordinary shares of RMB1 each, and was credited as fully paid by capitalising all the Company's then paid-in capital and reserves, calculated based on the Company's PRC GAAP financial statements.

21. SHARE CAPITAL AND CAPITAL RESERVE *(Continued)*

b) Capital reserve *(Continued)*

The deficit of approximately RMB3 million in capital reserve of the Company as at 1 January 2003 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 purchase of plant and equipment as described in Note 20. In accordance with PRC accounting 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 as described above. Under IFRS, this government grant was deferred and credited to the income statement on a straight-line basis over the average useful life of the related assets. An amount of approximately RMB207,000 (2003: RMB208,000), which is equal to the annual amortisation of this deferred revenue, is appropriated from its annual net profit after taxation under IFRS to capital reserve as this income is not distributable. As a consequence, a net deficit in capital reserve of approximately RMB1,245,000 arose in the Company's financial statements prepared under IFRS as at 1 January 2003 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.

22. STATUTORY RESERVES

Pursuant to PRC regulations and the Company's Articles of Association, the Company is required to transfer 10% of its net profit, as determined under the PRC accounting regulations, to statutory common serves fund until the fund aggregates to 50% of the Company's registered capital. The transfer to this reserve must be made before distribution of dividends to shareholders.

The statutory common reserve fund shall only be used to make good previous years' losses, to expand the Company's production operations, or to increase the capital of the Company. Upon approval by a resolution of shareholders' general meeting, the Company may convert its statutory common reserve fund into share capital and issue bonus shares to existing shareholders in proportion to their original shareholdings or to increase the nominal value of each share currently held by them, provided that the balance of the reserve fund after such issue is not less than 25% of the registered capital. 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 discretionary common reserve fund can be applied for the same purposes as those of the statutory common reserve fund.

22. STATUTORY RESERVES *(Continued)*

Pursuant to the PRC regulations and the Company's Articles of Association, the Company is required to transfer 5% to 10% of its net profit, as determined under the PRC accounting regulations to the statutory common welfare fund. This fund can only be used to provide staff welfare facilities and other collective benefits to the Company's employee. This fund is non-distributable other than in liquidation.

23. RELATED PARTY TRANSACTIONS

a) Name and relationship with related parties

Name	Relationship
Huasheng Enterprises	A substantial shareholder that owns 33.77% of the Company's issued share capital
Profit Oasis International Limited	Related company with spouse of Mr. Jiang Zi Qiang, a director of the Company, being a shareholder
Shanghai Qingpu Fire Hose Co., Ltd.	Subsidiary of Huasheng Enterprises
Shanghai Huasheng Polymer Co., Ltd.	Subsidiary of Huasheng Enterprises
Shanghai Huasheng Aerosol Products Co., Ltd.	Subsidiary of Huasheng Enterprises
Shanghai High Pressure Container Co., Ltd.	Subsidiary of Huasheng Enterprises
Shanghai High Pressure Special Gas Cylinder Co., Ltd.	Subsidiary of Shanghai High Pressure Container Co., Ltd.
Shanghai Hua Xin Aerosol Limited Company	With same major shareholder as Huasheng Enterprises
Shanghai Huasheng Meticulous Chemical Co., Ltd.	Subsidiary of Shanghai Hua Xin Aerosol Limited Company

NOTES TO THE FINANCIAL STATEMENTS

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23. RELATED PARTY TRANSACTIONS *(Continued)*

b) Transactions with related parties

	2004 RMB'000	2003 RMB'000
Sales of goods:		
– Shanghai Huasheng Aerosol Products Co., Ltd.	**8**	–
– Shanghai Huasheng Polymer Co., Ltd.	**3**	–
– Shanghai High Pressure Special Gas Cylinder Co., Ltd.	**273**	76
– Shanghai High Pressure Container Co., Ltd.	**844**	81
– Shanghai Huasheng Meticulous Chemical Co., Ltd.	**6**	11
– Shanghai Qingpu Fire Hose Co., Ltd.	**–**	1
– Profit Oasis International Limited	**9,530**	–
	10,664	169
Export agency commission:		
– Huasheng Enterprises	**744**	716
Provision of processing services:		
– Shanghai High Pressure Special Gas Cylinder Co., Ltd.	**2,531**	2,888

In December 2002, an agreement was entered into between the Company and Huasheng Enterprises pursuant to which the Company has appointed the latter as the export sales agent for its fire extinguisher and other cylinder products for a period of 3 years effective from 1 January 2003. Since the effective date of this agreement, the Company exports its products to overseas customers through Huasheng Enterprises and has ceased selling such products to Huasheng Enterprises. Under this agreement and a supplementary agreement entered into in November 2003, Huasheng Enterprises will be entitled to an export agency commission calculated at 3% of the contract value of the goods exported, which amounted to approximately RMB744,000 during the year ended 31 December 2004 (2003: RMB716,000). Pursuant to these agreements, the Company is entitled to all refunds of VAT for export sales.

As part of export sales through Huasheng Enterprises pursuant to the export sale agency agreements, there were export sales of RMB9,530,000 (2003: Nil) by the Company to Profit Oasis International Limited ("Profit Oasis"), a company in which a spouse of a Director of the Company is a shareholder.

NOTES TO THE FINANCIAL STATEMENTS

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23. RELATED PARTY TRANSACTIONS *(Continued)*

b) Transactions with related parties *(Continued)*

In the opinion of the Company's Directors, the export sales agency agreements with Huasheng Enterprises and the sales and processing services provided to related parties are carried out in the normal course of business of the Company and at rates and terms comparable with those charged to and contracted with independent third parties.

	2004 **RMB'000**	2003 RMB'000
Purchase of raw materials:		
– Huasheng Enterprises	**1,723**	–
– Shanghai High Pressure Container Co., Ltd.	**1,005**	197
– Shanghai Huasheng Meticulous Chemical Co., Ltd.	**–**	1
– Shanghai High Pressure Special Gas Cylinder Co., Ltd.	**292**	133
– Shanghai Hua Xin Aerosol Limited Company	**26**	–
– Shanghai Qingpu Fire Hose Co., Ltd.	**51**	147
	3,097	478
Purchase of property, plant and equipment:		
– Shanghai Hua Xin Aerosol Limited Company	**440**	200

In the opinion of the Directors, the purchase of raw materials and property, plant and equipment from related parties 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

31 December 2004

23. RELATED PARTY TRANSACTIONS *(Continued)*

c) Balances with related parties

	2004 RMB'000	2003 RMB'000
Purchase deposit paid to agents of Shanghai High Pressure Special Gas Cylinder Co., Ltd. *(Note 14)*	**12,813**	–
Amounts due from related parties		
– Shanghai High Pressure Special Gas Cylinder Co., Ltd.	**2,646**	1,651
– Shanghai Huasheng Aerosol Products Co., Ltd.	**19**	–
– Shanghai Qingpu Fire Hose Co., Ltd.	**166**	–
– Shanghai Hua Xin Aerosol Limited Company	**–**	190
– Shanghai Huasheng Meticulous Chemical Co., Ltd.	**–**	2,917
– Profit Oasis International Limited	**8,358**	–
	11,189	4,758
Amounts due to related parties		
– Shanghai High Pressure Container Co., Ltd.	**833**	1,002
– Shanghai Huasheng Meticulous Chemical Co., Ltd.	**32**	–
– Shanghai Hua Xin Aerosol Limited Company	**19**	–
– Shanghai Qingpu Fire Hose Co., Ltd.	**–**	1
	884	1,003
Amount due to a shareholder		
– Huasheng Enterprises	**973**	1,753

Other than the purchase deposit paid to agents of Shanghai High Pressure Container Co., Ltd., the above balances with related parties mainly arose from the above-mentioned sales and purchase transactions. These balances are unsecured, interest free and had no fixed term of repayment.

23. RELATED PARTY TRANSACTIONS *(Continued)*

d) Rental of land and buildings from Huasheng Enterprises

Pursuant to an operating lease agreement executed in October 2002, the Company leased the New Ji He Road Plant and the related land use right from Huasheng Enterprises for a period of three years commencing from 30 October 2002 at a monthly rental of RMB20,468. Total rental paid to Huasheng Enterprises amounted to approximately RMB246,000 during the year ended 31 December 2004 (2003: RMB246,000).

In the opinion of the Company's Directors, the leasing arrangement with Huasheng Enterprises is made in the normal course of business of the Company, and the monthly rental is determined at rates and terms comparable with those charged to and contracted with independent third parties.

24. COMMITMENTS

a) Capital commitments

As at 31 December 2004, apart from the acquisition of certain equipment from Shanghai High Pressure Container Co., Ltd. as disclosed in Note 14 to the financial statements, the Company had no other capital commitments for purchase of plant and equipment (2003: Nil).

b) Operating lease commitments

As at 31 December 2004 and 31 December 2003, the total future minimum lease payments in respect of non-cancelable operating leases for land and buildings are as follows:

	2004	2003
	RMB'000	RMB'000
Not later than 1 year	**204**	246
Later than 1 year and not later than 5 years	**–**	204
	204	450

25. FINANCIAL INSTRUMENTS

a) Fair values

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

25. FINANCIAL INSTRUMENTS *(Continued)*

b) Credit risk

The Company has no significant concentration of credit risk with any single counter parties or group of counter parties having similar characteristics, other than the receivables from the subsidiaries and affiliated companies of Huasheng Enterprises (Note 23(c)). Transactions with Huasheng Enterprises and its subsidiaries and affiliated companies are entered into in the normal course of business. Credit risks associated with these transactions are closely monitored by management of the Company, In the opinion of the Directors of the Company such concentration of credit risk on Huasheng Enterprise and its subsidiaries and affiliated companies would not result in significant credit default exposure to the Company as at 31 December 2004.

The carrying amount of cash and bank deposits, trade and other receivables, deposits and prepayments, and balances with related parties represented the Company's maximum exposure to credit risk in relation to financial assets.

c) Interest rate risk

The interest rates and terms of repayments of short-term bank loans are disclosed in Note 19. The Company does not have substantial interest-bearing assets.

The Company's income and operating cash flows are substantially independent of changes in market interest rates.

d) Liquidity risk

The Company's policy is to maintain sufficient cash and cash equivalents to meet its commitments over the next year in accordance with its strategic plan.

e) Foreign exchange risk

Prior to January 2003, 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.

As explained in Note 23(b) effective from 1 January 2003, the Company started selling its products to overseas customers. Most of such 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 2004 would not result in significant exchange loss to the Company.

SUMMARY OF FINANCIAL INFORMATION

For the year ended 31 December 2004

RESULTS

	Year ended 31 December		
	2002 RMB'000	2003 RMB'000	**2004** **RMB'000**
Turnover	45,308	48,372	**56,050**
Profit from operations	13,622	9,521	**9,714**
Finance costs	(765)	(660)	**(543)**
Profit before taxation	12,857	8,861	**9,171**
Taxation	(4,167)	(2,837)	**(2,939)**
Profit attributable to shareholders	8,690	6,024	**6,232**

ASSETS AND LIABILITIES

	As at 31 December		
	2002 RMB'000	2003 RMB'000	**2004** **RMB'000**
Non-current assets	11,676	12,360	**25,425**
Current assets	35,674	37,021	**56,356**
Current liabilities	28,545	28,236	**33,186**
Non-current liabilities	1,245	1,037	**830**