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**THIS COMPOSITE DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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If you are in any doubt as to any aspect of this Composite Document or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Shanghai Qingpu Fire-Fighting Equipment Co., Ltd.\* (the "Company"), you should at once hand this Composite Document and the accompanying Form of Acceptance to the purchaser(s) or transferee(s) or to the bank, the licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s). This Composite Document should be read in conjunction with the accompanying Form of Acceptance, the contents of which form part of the terms of the H Share Offer contained herein.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this Composite Document and the accompanying Form of Acceptance, make no representation as to their accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Composite Document and the accompanying Form of Acceptance.

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**Liancheng Fire Protection Group  
(Hong Kong) Company Limited**

*(a company incorporated in Hong Kong  
with limited liability)*



Shanghai Qingpu Fire-Fighting Equipment Co., Ltd.\*  
上海青浦消防器材股份有限公司

*(a joint stock limited company incorporated in the PRC)*  
**(Stock Code: 8115)**

**COMPOSITE DOCUMENT IN RELATION TO  
MANDATORY UNCONDITIONAL CASH OFFER BY  
CIMB-GK SECURITIES (HK) LIMITED AND  
BOCOM INTERNATIONAL (ASIA) LIMITED ON BEHALF OF  
LIANCHENG FIRE PROTECTION GROUP (HONG KONG) COMPANY LIMITED,  
A WHOLLY OWNED SUBSIDIARY OF  
LIANCHENG FIRE-FIGHTING GROUP COMPANY LIMITED\*  
FOR ALL THE ISSUED H SHARES IN  
SHANGHAI QINGPU FIRE-FIGHTING EQUIPMENT CO., LTD.\*  
(OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE ACQUIRED BY  
LIANCHENG FIRE-FIGHTING GROUP COMPANY LIMITED\*  
AND PARTIES ACTING IN CONCERT WITH IT)**

*Joint Financial Advisers to the Offeror*



**CIMB-GK Securities (HK) Limited**



**交銀國際(亞洲)有限公司**  
BOCOM INTERNATIONAL (ASIA) LIMITED

*Independent financial adviser to the Independent Board Committee*

**OSK Capital Hong Kong Limited**

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Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed "Definitions" in this Composite Document.

A letter from CIMB-GK and BOCOM containing, among other things, details of the H Share Offer is set out on pages 7 to 15 of this Composite Document. A letter from the Board is set out on pages 16 to 31 of this Composite Document. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders, and a letter from the Independent Financial Adviser containing its advice and recommendation to the Independent Board Committee in respect of the H Share Offer, are set out on pages 32 to 33 and pages 34 to 52 of this Composite Document respectively.

The procedures for acceptance and settlement of the H Share Offer are set out in Appendix I to this Composite Document and in the accompanying Form of Acceptance. Acceptances of the H Share Offer should be received by the Registrar, by no later than 4:00 p.m. on 30 June 2009 (or such later time and/or date as the Offeror may decide and announce in accordance with the Takeovers Code).

The Composite Document will be available for inspection on the website of the Stock Exchange at <http://www.hkex.com.hk> and on the website of the Company at <http://www.shqingpu.com> as long as the H Share Offer remain open.

\* For identification purposes only

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## CHARACTERISTICS OF GEM

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GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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## EXPECTED TIMETABLE

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2009

H Share Offer commence. . . . .	.9 June
Latest time and date for acceptance of the H Share Offer ( <i>Note 1</i> ) . . . . .	.4:00 p.m. on 30 June
Closing Date ( <i>Note 2</i> ) . . . . .	.30 June
Announcement of the results of the H Share Offer posted on the Stock Exchange's website ( <i>Note 2</i> ) . . . . .	.by 7:00 p.m. on 30 June
Latest date for posting of remittances for the amounts due in respect of valid acceptances received under the H Share Offer ( <i>Note 3</i> ) . . . . .	.10 July

*Notes:*

1. Acceptance of the H Share Offer shall be irrevocable and not capable of being withdrawn except as permitted under the Takeovers Code as described in paragraph 5 in the section headed "Right of Withdrawal" in Appendix I to this Composite Document.
2. The H Share Offer, which is unconditional, will be closed on 30 June 2009. An announcement will be issued through the Stock Exchange's website by 7:00 p.m. on 30 June 2009 stating the results of the H Share Offer. The Offeror does not intend to revise the terms, or extend the period, of the H Share Offer and does not reserve the rights to do so.
3. Remittances in respect of the cash consideration (after deducting the seller's ad valorem stamp duty in case of the H Share Offer) payable for the H Shares tendered under the H Share Offer will be posted to the Independent Shareholders by ordinary post at their own risk as soon as practicable but in any event within 10 days of the date of receipt by the Registrar, of duly completed acceptance.

**Unless otherwise expressly stated, all time references contained in this Composite Document refer to Hong Kong time.**

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## DEFINITIONS

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*In this Composite Document, unless the context otherwise requires, the following terms shall have the following meanings:*

“acting in concert”	has the same meaning ascribed to it under the Takeovers Code
“associates”	has the same meaning ascribed to it under the GEM Listing Rules
“Board”	board of Directors
“BOCOM”	BOCOM International (Asia) Limited, a company licensed with the SFC to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
“Business Day”	means a day (other than a Saturday or Sunday and days on which a tropical cyclone warning signal no. 8 or above or a black rainstorm warning signal is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.) on which licensed banks generally are opened for business in Hong Kong
“CCASS”	the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited
“CIMB-GK”	CIMB-GK Securities (HK) Limited, a company licensed with the SFC to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
“Closing Date”	30 June 2009, being the closing date of the H Share Offer
“Company”	上海青浦消防器材股份有限公司 (Shanghai Qingpu Fire-Fighting Equipment Co., Ltd.*), a joint stock limited company incorporated in the PRC with limited liability and whose H Shares are listed on GEM

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## DEFINITIONS

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“Composite Document”	this composite offer document (with the Form of Acceptance in respect of the H Share Offer) jointly issued by the Offeror and the Company to all Shareholders in accordance with the Takeovers Code containing, amongst other things, details of the H Share Offer, the recommendations of the Independent Board Committee and the advice of the Independent Financial Adviser
“Director(s)”	director(s) of the Company
“Domestic Shares”	ordinary shares in the share capital of the Company, with a nominal value of RMB0.10 each, which are subscribed for in RMB by PRC nationals and/or PRC incorporated entities
“Executive”	Executive Director of the Corporate Finance Division of the SFC or any of his delegates
“First Batch Share Transfer Agreements”	collectively, 5 share transfer agreements entered into by Liancheng with (i) Mr. Li Zheng Li (李錚理) in respect of 5,048,125 Domestic Shares; (ii) Ms. Li Min Zhi (李敏智) in respect of 2,366,250 Domestic Shares; (iii) Shanghai Hede in respect of 8,410,000 Domestic Shares; (iv) Fuzhou Tung Shing in respect of 8,410,000 Domestic Shares; and (v) Shanghai Huasheng/Fudan Time-Control in respect of 63,300,000 Domestic Shares, and details of which are disclosed in the section headed “First Batch Share Transfer Agreements” in the Letter from the Board of this Composite Document
“First PRC Legal Opinion”	the PRC legal opinion of King and Wood dated 31 March 2009 in relation to the transfers of the Domestic Shares as contemplated under each of the First Batch Share Transfer Agreements and the Second Batch Share Transfer Agreements
“Form of Acceptance”	the accompanying form of acceptance and transfer in respect of the H Share Offer
“Fudan Time-Control”	杭州復旦時控科技有限公司 (Hangzhou Fudan Time-Control Science Technology Co., Ltd.*)

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## DEFINITIONS

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“Fuzhou Tung Shing”	福州東晟貿易有限公司 (Fuzhou Tung Shing Trade Company Limited*), a limited liability company established in the PRC
“GEM”	Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	Rules Governing the Listing of Securities on GEM (as amended from time to time)
“Highest Consideration”	RMB0.18957, being the highest consideration paid for the acquisition of the Domestic Shares pursuant to the First Batch Share Transfer Agreements and the Second Batch Share Transfer Agreements
“H Share Offer”	mandatory unconditional cash offer to be made jointly by CIMB-GK and BOCOM on behalf of Liancheng HK for all the H Shares not already owned or agreed to be acquired by Liancheng HK or parties acting in concert with it in accordance with the Takeovers Code
“H Share Offer Price”	HK\$0.216 per H Share, equivalent to RMB0.18957 at the exchange rate of RMB1: HK\$1.1375
“H Shares”	overseas listed foreign shares in the share capital of the Company, with a nominal value of RMB0.10 each, all of which are listed on GEM, and subscribed for and traded in Hong Kong dollars
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board, established under Rule 2.1 of the Takeovers Code, constituted to advise the Independent Shareholders on the terms of the H Share Offer
“Independent Financial Adviser”	OSK Capital Hong Kong Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed by the Company to advise the Independent Board Committee as to whether or not the H Share Offer is fair and reasonable

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## DEFINITIONS

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“Independent Shareholders”	Shareholders other than the Offeror or parties acting in concert with it
“Jiang’s Loans”	the total loan amount of approximately RMB39 million under the Loan Agreements entered into by Mr. Jiang under the name of the Company, which had never been considered, authorized or approved by the Board at the time when such transactions were respectively made
“Joint Announcement”	the joint announcement made by the Company and the Offeror dated 17 April 2009 in relation to, among other things, the Transfers and the H Share Offer
“Last Trading Day”	20 December 2006, being the last trading day of the H Shares on the Stock Exchange prior to the suspension of trading of the H Shares with effect from 9:30 a.m. on 21 December 2006
“Latest Practicable Date”	5 June 2009, being the latest practicable date prior to the printing of this Composite Document for the purpose of ascertaining certain information contained herein
“Liancheng”	Liancheng Fire-Fighting Group Company Limited* (聯城消防集團股份有限公司), a joint stock limited company incorporated in the PRC
“Liancheng HK” or the “Offeror”	Liancheng Fire Protection Group (Hong Kong) Company Limited, a company incorporated in Hong Kong with limited liability on 10 March 2009 and a wholly owned subsidiary of Liancheng
“Loan Agreements”	certain loan agreements entered into by Mr. Jiang under the name of the Company with several banks in 2004 and 2005 for a total loan amount of approximately RMB39 million, which had never been considered, authorized or approved by the Board at the time when such agreements were respectively entered into



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## DEFINITIONS

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“Mr. Jiang”	Mr. Jiang Zi Qiang (蔣自強), the chairman of the Board, who, according to members of the Board (except Mr. Jiang), had entered into the Loan Agreements and the Security Agreements (as defined herein), whereby the transactions as contemplated thereunder had never been considered, authorized or approved by the Board at the time when such transactions were respectively made, and was not contactable since November 2007
“Offer Period”	has the meaning ascribed to it in the Takeovers Code and commencing from 7 January 2009, being the date of the first holding announcement made in relation to the H Share Offer
“Overseas Shareholder(s)”	Shareholder(s) whose addresses, as shown on the register of members of the Company, are outside Hong Kong
“Power of Attorney”	collectively, 4 sets of power of attorney given by each of Mr. Li Zheng Li (李錚理), Ms. Li Min Zhi (李敏智), Mr. Tang Heng Yi (湯恒義) and Mr. Jiang Zhou (蔣洲), pursuant to which, each of Mr. Li Zheng Li (李錚理), Ms. Li Min Zhi (李敏智), Mr. Tang Heng Yi (湯恒義) and Mr. Jiang Zhou (蔣洲) agreed to irrevocably grant the power to exercise the voting rights of an aggregate of 44,335,625 Domestic Shares held by them to Liancheng
“PRC”	People’s Republic of China
“Registrar”	Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong
“Relevant Period”	the period being the date falling six months from the date of commencement of the Offer Period up to and including the Latest Practicable Date
“Second Batch Share Transfer Agreements”	collectively, 4 share transfer agreements entered into by Liancheng with (i) Mr. Li Zheng Li (李錚理) in respect of 15,144,375 Domestic Shares; (ii) Ms. Li Min Zhi (李敏智) in respect of 7,098,750 Domestic Shares; (iii) Mr. Tang Heng Yi (湯恒義) in respect of 8,902,500 Domestic Shares; and (iv) Mr. Jiang Zhou (蔣洲) in respect of an aggregate of 13,190,000 Domestic Shares, and details of which are disclosed in the section headed “Second Batch Share Transfer Agreements” in the Letter from the Board of this Composite Document

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## DEFINITIONS

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“Second PRC Legal Opinion”	the PRC legal opinion of King and Wood dated 31 March 2009 in relation to the making of the H Share Offer by Liancheng HK
“SFC”	Securities and Futures Commission of Hong Kong
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shanghai Hede”	上海和德投資諮詢有限責任公司 (Shanghai Hede Investment and Consultation Company Limited*), a company with limited liability established in the PRC
“Shanghai High Pressure”	上海高壓容器有限公司 (Shanghai High-Pressure Container Co. Ltd.*), the subsidiary of Shanghai Huasheng
“Shanghai Huasheng”	上海華盛企業(集團)有限公司 (Shanghai Huasheng Enterprises (Group) Company Limited*), the former controlling Shareholder of the Company
“Shares”	Domestic Shares and H Shares
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Code on Takeovers and Mergers of Hong Kong
“Transferred Money”	the money from Jiang’s Loans of approximately RMB39 million that had ultimately been used for the benefit of Shanghai Huasheng (which was the then controlling Shareholder) and its subsidiaries
“Transfers”	transfers of the Domestic Shares as contemplated under each of the First Batch Share Transfer Agreements and each of the Second Batch Share Transfer Agreements
“RMB”	Renminbi, the lawful currency of the PRC
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

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## LETTER FROM CIMB-GK AND BOCOM

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**CIMB-GK Securities (HK) Limited**



**交銀國際(亞洲)有限公司**  
**BOCOM INTERNATIONAL (ASIA) LIMITED**

9 June 2009

*To the Independent Shareholders*

Dear Sir or Madam,

**MANDATORY UNCONDITIONAL CASH OFFER BY  
CIMB-GK SECURITIES (HK) LIMITED AND  
BOCOM INTERNATIONAL (ASIA) LIMITED ON BEHALF OF  
LIANCHENG FIRE PROTECTION GROUP (HONG KONG) COMPANY LIMITED,  
A WHOLLY OWNED SUBSIDIARY OF  
LIANCHENG FIRE-FIGHTING GROUP COMPANY LIMITED\*  
FOR ALL THE ISSUED H SHARES IN  
SHANGHAI QINGPU FIRE-FIGHTING EQUIPMENT CO., LTD.\*  
(OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE ACQUIRED BY  
LIANCHENG FIRE-FIGHTING GROUP COMPANY LIMITED\*  
AND PARTIES ACTING IN CONCERT WITH IT)**

### **INTRODUCTION**

Trading in the H Shares was suspended with effect from 9:30 a.m. on 21 December 2006 and has remained suspended. Further announcement will be made in this regard in compliance with the GEM Listing Rules.

On 17 April 2009, the Offeror and the Company jointly announced, amongst other things, that pursuant to the First Batch Share Transfer Agreements, the Second Batch Share Transfer Agreements and the Power of Attorney, Liancheng had become the registered owner of 87,534,375 Domestic Shares after the transfers as contemplated under the First Batch Share Transfer Agreements and will become the registered owner of a further 44,335,625 Domestic Shares after the transfers as contemplated under the Second Batch Share Transfer Agreements, and was authorized under the Power of Attorney to exercise the voting rights of 44,335,625 Domestic Shares. As a result, Liancheng is entitled to exercise the voting rights of an aggregate of 131,870,000 Domestic Shares, representing (i) the entire voting rights of all Domestic Shares in issue by the Company; and (ii) the voting rights of approximately 70.36% of the total issued share capital of the Company as at the date of the Joint Announcement.

As Liancheng became interested in 30% or more of the voting rights of the Company on 15 August 2008, the mandatory H Share Offer was triggered on 15 August 2008. Under Rule 26.1 of the Takeovers Code, Liancheng and parties acting in concert with it are required to make a mandatory unconditional cash offer to acquire all the issued Shares (other than those already owned or agreed to be acquired by Liancheng or parties acting in concert with it).

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## LETTER FROM CIMB-GK AND BOCOM

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The details of the Transfers are set out under the section headed “The Transfers” in the Letter from the Board; and the principal terms of the H Share Offer are set out under the section headed “The H Share Offer” of this letter. CIMB-GK and BOCOM, as the joint financial advisers to the Offeror, are making the H Share Offer on behalf of the Offeror.

This letter, together with Appendix I to this Composite Document and the accompanying Form of Acceptance, sets out, among other things, the terms and other details of the H Share Offer, information on the Offeror and his intention regarding the Company. Your attention is also drawn to the Letter from the Board as well as the respective letter of advice from the Independent Board Committee in respect of the H Share Offer to the Independent Shareholders. OSK Capital Hong Kong Limited, which has been appointed as the independent financial adviser to advise the Independent Board Committee on the H Share Offer, as contained in this Composite Document.

### THE H SHARE OFFER

CIMB-GK and BOCOM, on behalf of the Offeror, hereby make the H Share Offer to acquire all the H Shares not already owned or agreed to be acquired by Liancheng and parties acting in concert with it on the following basis:

#### The H Share Offer

For each H Share . . . . . HK\$0.216 in cash

The H Share Offer Price represents the Highest Consideration of RMB0.18957 per Domestic Share converted into Hong Kong dollars based on exchange rate of RMB1: HK\$1.1375 prevailing on 15 August 2008 (represents the daily average exchange rate from RMB to HK\$ as quoted from Bloomberg).

As at the Latest Practicable Date, the Company does not have any outstanding options, warrants or derivatives or other securities which are convertible into the H Shares and/or the Domestic Shares.

#### Comparison of value

Trading in the H Shares was suspended with effect from 9:30 a.m. on 21 December 2006 and has remained suspended as at the Latest Practicable Date.

The offer price of HK\$0.216 per H Share represents:

- (i) a premium of approximately 13.7% over the closing price of HK\$0.19 per H Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 9.1% over the average closing price of HK\$0.198 per H Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;

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## LETTER FROM CIMB-GK AND BOCOM

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- (iii) a premium of approximately 8.0% over the average closing price of HK\$0.20 per H Share as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the Last Trading Day;
- (iv) a discount of approximately 5.3% to the audited net asset value of approximately RMB0.20 per Share (representing approximately HK\$0.228 per Share) as at 31 December 2005 (being the latest published audited net asset value of the Company prior to the Latest Practicable Date); and
- (v) a discount of approximately 5.3% to the unaudited net asset value of approximately RMB0.20 per Share (representing approximately HK\$0.228 per Share) as at 30 June 2006 (being the latest published unaudited net asset value of the Company prior to the Latest Practicable Date).

However, the Shareholders should note that given the changes in financial or trading position or outlook of the Company since 31 December 2005 and the litigations involved by the Company (for details, please refer to the section headed “VI Material Changes” in Appendix II on page II-45 of this Composite Document and the section headed “9. Litigation” in Appendix IV on page IV-9 of this Composite Document), the unaudited net asset value of the Company, subject to audit, may be reduced significantly.

### **Highest and lowest H Share prices**

The highest and lowest closing prices of the H Shares quoted on the Stock Exchange during the six-month period preceding the Last Trading Day up to and including the date of this Composite Document were HK\$0.25 per H Share during the periods from 21 June 2006 to 11 August 2006 and from 4 September 2006 to 20 November 2006 and HK\$0.19 per H Share during the period from 18 December 2006 to 20 December 2006, respectively.

### **Total consideration**

There are 55,560,000 H Shares subject to the H Share Offer. The H Share Offer is valued at approximately HK\$12.0 million based on the H Share Offer Price of HK\$0.216 per H Share.

The Offeror will finance the H Share Offer with its internal resources. The Offeror does not have any arrangement with any principal lenders or arrangers for the purpose of financing the H Share Offer and hence there will be no payment of interest on, repayment of or security for any liability incurred for funding the H Share Offer which will depend on any significant extent on the business of the Company. CIMB-GK and BOCOM are satisfied that sufficient financial resources are available to the Offeror to meet acceptances in full of the H Share Offer.

### **Effect of accepting the H Share Offer**

The H Shares to be acquired under the H Share Offer shall be fully paid and free from all liens, charges, encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights attaching to them as at the date hereof, including the right to receive in full all dividends and other distributions, if any, declared, made or paid on or after the date hereof.

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## LETTER FROM CIMB-GK AND BOCOM

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### Stamp duty

Seller's ad valorem stamp duty at a rate of 0.1% of the market value of the H Shares or consideration payable by the Offeror in respect of the relevant acceptances of the H Share Offer, whichever is higher, will be deducted from the amount payable to the relevant Shareholder on acceptance of the H Share Offer. The Offeror will arrange for payment of the seller's ad valorem stamp duty on behalf of the accepting Shareholders in connection with the acceptance of the H Share Offer and the transfer of the H Shares.

### Payment

Payment in cash in respect of acceptances of the H Share Offer, net of seller's ad valorem stamp duty, will be made as soon as practicable but in any event within 10 days from the date of receipt of duly completed acceptances.

### Compulsory acquisition

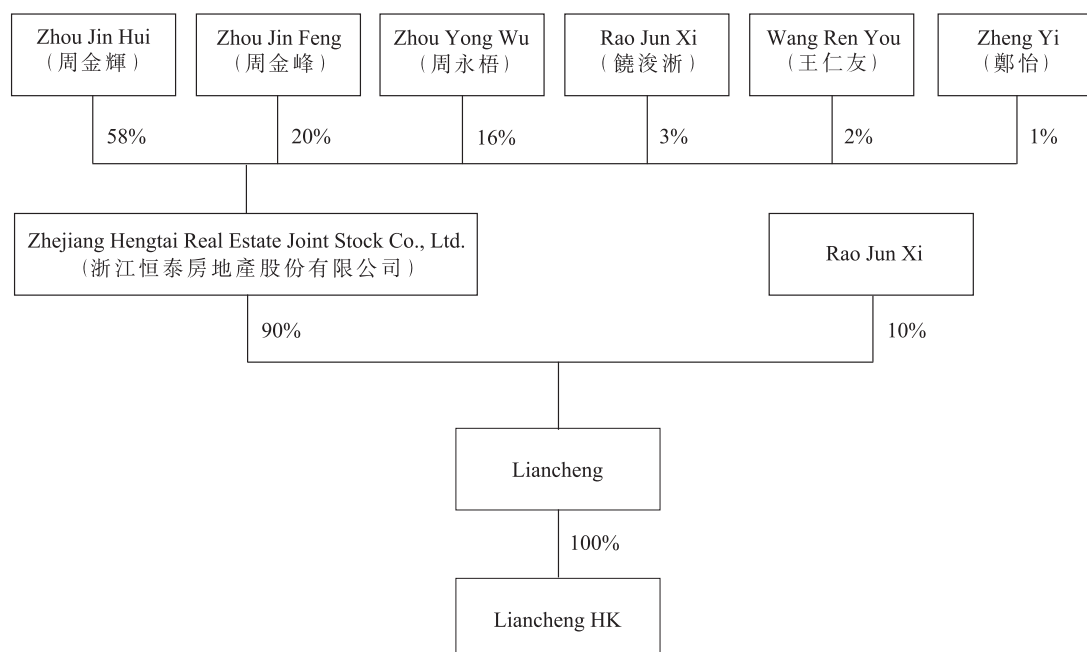
The Offeror does not intend to apply any right which may be made available to it to acquire compulsorily any H Shares outstanding after the closing of the H Share Offer.

### INFORMATION OF THE COMPANY

Information on the Company is set out in the section headed "Information of the Company" in the Letter from the Board in this Composite Document.

### INFORMATION ON THE OFFEROR

Liancheng HK, a wholly owned subsidiary of Liancheng, is a company incorporated in Hong Kong with limited liability on 10 March 2009. Liancheng HK has not conducted any business since its incorporation. Mr. Zhou Jin Hui is the sole director of Liancheng HK. The shareholding structure of Liancheng HK is set out as follows:



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## LETTER FROM CIMB-GK AND BOCOM

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Liancheng is a joint stock limited company incorporated under the laws of the PRC on 16 March 2006 with a registered capital of RMB50 million. Liancheng is principally engaged in the sales of fire fighting equipment, investment and provision of investment consultancy services (save for those restricted by the PRC government). Liancheng is owned by Zhejiang Hengtai Real Estate Joint Stock Co., Ltd. and Mr. Rao Jun Xi as to 90% and 10% respectively.

Zhejiang Hengtai Real Estate Joint Stock Co., Ltd., the controlling shareholder of Liancheng, is a joint stock limited company incorporated under the laws of the PRC on 10 July 1998 with a registered capital of RMB150 million. Zhejiang Hengtai Real Estate Joint Stock Co., Ltd is principally engaged in property development and the sales of construction materials. Zhejiang Hengtai Real Estate Joint Stock Co., Ltd is owned by Mr. Zhou Jin Hui, Mr. Zhou Jin Feng, Mr. Zhou Yong Wu, Mr. Rao Jun Xi, Mr. Wang Ren You and Mr. Zheng Yi as to 58%, 20%, 16%, 3%, 2% and 1% respectively.

Mr. Zhou Jin Hui, the controlling shareholder of Zhejiang Hengtai Real Estate Joint Stock Co., Ltd., is also the director of Liancheng, Liancheng HK, Zhejiang Hengtai Real Estate Joint Stock Co., Ltd. (formerly known as Jiangshan Hengtai Real Estate Co. Ltd.) and Jiangshan Construction Decoration Engineering Ltd. (江山市建築裝飾配套工程有限公司). He established Jiangshan Hengtai Real Estate Co. Ltd. (江山市恒泰房地產有限公司) in 1998 which was converted into Zhejiang Hengtai Real Estate Joint Stock Co., Ltd. in 2003. Prior to this, he established Jiangshan Construction Decoration Engineering Ltd. in 1996. Mr. Zhou completed the Business Administration Programme in the International Business University of Beijing (北京國際商務學院) and the training programme for senior manager in Tsinghua University. In addition, he holds the degree of Master of Business Administration from the University of Management and Technology, Commonwealth of Virginia, the United States of America. He is the son of Mr. Zhou Yong Wu and brother of Mr. Zhou Jin Feng.

Mr. Zhou Jin Feng is the director of Liancheng and Zhejiang Hengtai Real Estate Joint Stock Co., Ltd. He completed the training programme for senior manager in Tsinghua University. He is the son of Mr. Zhou Yong Wu and brother of Mr. Zhou Jin Hui.

Mr. Zhou Yong Wu is the father of Mr. Zhou Jin Hui and Mr. Zhou Jin Feng.

Mr. Rao Jun Xi, the general manager of Zhejiang Hengtai Real Estate Joint Stock Co., Ltd., is the director and the general manager of Liancheng. He completed the secretarial programme in Wenzhou University (溫州大學), and holds a master's degree in economic management from Zhejiang Normal University (浙江師範大學).

Mr. Wang Ren You is the director of Liancheng, the deputy executive general manager of Zhejiang Hengtai Real Estate Joint Stock Co., Ltd. and the general manager of Jiangshan Hengtai Construction Engineering Co., Ltd. (江山市恒泰工程建設有限公司). He completed the industrial and non-industrial construction programme from Zhejiang University (浙江大學) and also the training programme for senior manager in Tsinghua University.

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## LETTER FROM CIMB-GK AND BOCOM

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Mr. Zheng Yi is the general manager of Anhui Huangshan Qinyuan Real Estates Development Co., Ltd. (安徽省黃山市沁園房地產開發有限公司) (formerly known as Anhui Huangshan Hengtai Real Estates Co., Ltd. (安徽省黃山市恒泰房地產有限公司)). He completed a finance programme in Zhejiang Radio and TV University (浙江廣播電視大學).

As disclosed in the paragraphs headed “First Batch Share Transfer Agreements” and “Second Batch Share Transfer Agreements” under the section headed “The Transfers” in the Letter from the Board in this Composite Document, Mr. Tang Heng Yi, Mr. Li Zheng Li, Ms. Li Min Zhi and Mr. Jiang Zhou owned 8,902,500 Domestic Shares, 20,192,500 Domestic Shares, 9,465,000 Domestic Shares and 13,190,000 Domestic Shares respectively immediately prior to the Transfers. Mr. Tang Heng Yi, Mr. Li Zheng Li, Ms. Li Min Zhi and Mr. Jiang Zhou are presumed to be parties acting in concert with Liancheng and the Offeror. Save as the above Shares held by Mr. Tang Heng Yi, Mr. Li Zheng Li, Ms. Li Min Zhi and Mr. Jiang Zhou, none of Liancheng, the Offeror and parties acting in concert with them owned any Shares or any other securities of the Company prior to the Transfers.

Save for the aforesaid, to the best of the knowledge, information and belief of the Directors after having made all reasonable enquiries, the Offeror and its beneficial owners are third parties independent of and not connected with the Company and its connected persons (as defined in the GEM Listing Rules) prior to the Transfers.

### **LIANCHENG’S INTENTION ON THE COMPANY**

Following the closing of the H Share Offer, Liancheng intends that the Company will continue with its existing principal activities, being the research, development, manufacture and sale of fire fighting equipment in the PRC. Save as disclosed in the paragraph headed “Board Composition of the Company” below, Liancheng has no intention to make any material changes to the existing management, re-deploy the employees or any fixed assets and/or businesses of the Company as a result of the H Share Offer. In view of the loss making history of the Company as indicated in its 2006 quarterly reports, Liancheng will conduct an operational, business and financial review on the Company after the closing of the H Share Offer with a view to formulate a business plan and strategy for streamlining the Company’s existing business operation and to improve the future business development of the Company. The intention of Liancheng is to assist the Company to expand its scale of operation, in order to restore its profitability and to strengthen the shareholders’ value by capitalizing on the business expertise and connection of the shareholders of Liancheng. It is intended that Liancheng would build on the existing foundation of the Company to position the Company as a procurement centre for an alliance of fire fighting equipment dealers in PRC. In this regard, Liancheng has been in discussions with various fire fighting equipment dealers in the PRC market and has entered into contracts with numerous fire fighting equipment dealers located in different regions of the PRC, appointing Liancheng as an agent for centralized procurement and distribution. As the Company is principally engaged in the fire fighting equipment business in the PRC, it will be logical for the Company to involve in the alliance contracts between the fire fighting equipment dealers and Liancheng. In this regard, Liancheng intends to conduct a review on the possible restructuring of these contracts, including but not limited to the



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## LETTER FROM CIMB-GK AND BOCOM

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potential transfer of these contracts and the related business to the Company. The implementation of any such future transfer to the Company will be subject to compliance with all applicable provisions of the GEM Listing Rules and all relevant regulations. As at the Latest Practicable Date, Liancheng did not have any concrete plan to inject any assets or business into the Company or to procure the Company to acquire or dispose of any assets following the close of the H Share Offer.

Given Liancheng's intention to expand the Company's business, Liancheng considers that it is required to strengthen the capital base and enhance the working capital of the Company. In such circumstances, the Company may be required to undertake fund raising exercise, including equity financing, debt financing and/or bank borrowings as the circumstances necessitate.

Trading in the H Shares has remained suspended as at the Latest Practicable Date. It is the intention of Liancheng to maintain the listing status of the Company on the Stock Exchange after closing of the H Share Offer. A viable resumption proposal will be submitted to the Stock Exchange to demonstrate, among other things, that the Company (i) complies with Rule 17.26 of the GEM Listing Rules; (ii) has in place adequate financial reporting system and internal control procedures; (iii) has sufficient working capital for the operation; and (iv) addresses concerns raised by the auditors if any qualification arise from the audit report to seek its approval for the resumption of trading in the H Shares. The despatch of this Composite Document does not necessarily indicate that the Stock Exchange will approve the resumption proposal and/or that the trading in the H Shares will be resumed.

**Trading in the H Shares on the Stock Exchange will remain suspended until further notice. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the H Shares.**

The auditors of the Company are in the course of finalisation of the financial statements for each of the three years ended 31 December 2008, pending for the outstanding information from the management.

According to the members of the Board (except Mr. Jiang), Mr. Jiang, the chairman of the Board, had under the name of the Company entered into the Loan Agreements for a total loan amount of approximately RMB39 million, and Shanghai Huasheng has confirmed that the Transferred Money had ultimately been used for the benefit of Shanghai Huasheng (which was the then controlling Shareholder) and its subsidiaries. All those transactions as contemplated under the Loan Agreements and the transfers and usage of the Transferred Money had never been considered, authorized or approved by the Board at the time when such transactions were respectively made and were not reflected in the accounting books and records or the published financial statements of the Company. Since November 2007, the Company made various attempts to contact Mr. Jiang including telephone calls, physical visits or enquiry through Mr. Jiang's son but in vain. The present Board has been trying to provide information and explanation to the auditors in relation to the audit. Given Mr. Jiang, the chairman of the Board, is not contactable and there has been a significant turnover in management of the Company, the present Board expects that the audit could only be completed after the restructuring of the Board after the H Share Offer where at such time, the new management would be able to assist the auditors in the finalization of their audits.

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## LETTER FROM CIMB-GK AND BOCOM

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### BOARD COMPOSITION OF THE COMPANY

As at the Latest Practicable Date, the executive Directors are Mr. Jiang, Mr. Liu Zhu Gen and Mr. Chen Yun, the non-executive Directors are Mr. Jiang Zhou, Mr. Li Zheng Li, Mr. Zhao Shu Guang, Mr. Chen Zhen Qiang and Ms. Li Min Zhi and the independent non-executive Directors are Mr. Chen Wen Gui, Mr. Yang Chun Bao and Mr. Wang Guo Zhong.

It is intended that Mr. Jiang will be removed from the Board. It is also intended that Mr. Jiang Zhou, Mr. Li Zheng Li, Ms. Li Min Zhi, Mr. Liu Zhu Gen, Mr. Chen Yun, Mr. Zhao Shu Guang, Mr. Chen Zhen Qiang and Mr. Yang Chun Bao will resign as Directors and new Directors will be nominated with effect from the earliest time permitted for resignation and appointment of directors under the Takeovers Code. Details of the change of the Board composition and the biographies of the newly appointed Directors will be announced in due course.

### MAINTAINING THE LISTING STATUS OF THE COMPANY

Liancheng intends to maintain the listing of the H Shares on the Stock Exchange after the close of the H Share Offer. The Company and the Offeror will undertake to the Stock Exchange to take appropriate steps as soon as possible following the close of the H Share Offer to ensure that there will be at least the minimum prescribed percentage of the Shares held by the public as required by the GEM Listing Rules. As the Company and the Offeror are unable to ascertain at this stage the level of acceptances of the H Shares by the holders of H Shares under the H Share Offer, the aforesaid parties have not decided the exact steps/actions that will be taken by them after the close of the H Share Offer to restore the public float of the Shares, if required. Notwithstanding this, the Company and the Offeror consider that the appropriate actions to be taken shall include placing down of sufficient number of accepted H Shares by the Offeror for this purpose. The Company and the Offeror will issue a separate announcement as and when necessary regarding the decision of any such placing down, if the circumstances warrant.

### EFFECT OF ACCEPTING THE H SHARE OFFER

By accepting the H Share Offer, the Independent Shareholders will sell their Shares and Share Options fully paid and free from all liens, charges, encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights attaching to them including the right to receive in full all dividends and other distributions (in respect of the H Shares), if any, declared, made or paid on or after the date on which the H Share Offer are made, being the date of posting of this Composite Document.

### OVERSEAS SHAREHOLDERS

As at the Latest Practicable Date, the Company has no Overseas Shareholders holding H Shares. As the H Share Offer made to persons not resident in Hong Kong may be affected by the laws of the relevant jurisdiction in which they are resident, Overseas Shareholders who are citizens, residents or nationals of a jurisdiction outside Hong Kong should observe any applicable legal or regulatory requirements and, where necessary, seek legal advice. It is the responsibility of the Overseas Shareholders who wish to accept the H Share Offer to satisfy themselves as to the full observance of the laws and regulations of the relevant jurisdictions

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## LETTER FROM CIMB-GK AND BOCOM

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in connection with the acceptance of the H Share Offer (including the obtaining of any governmental or other consent which may be required or the compliance with other necessary formalities and the payment of any transfer or other taxes due in respect of such jurisdictions). Subject to compliance with the Takeovers Code, the Offeror reserves the right to make special arrangements regarding the terms of the H Share Offer in relation to the Independent Shareholders not resident in Hong Kong. If it comes to the attention of the Offeror that there are Shareholders not resident in Hong Kong, the Offeror will make the necessary enquiry regarding the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body with regard to the availability of the H Share Offer to the Independent Shareholders not resident in Hong Kong.

### ACCEPTANCE AND SETTLEMENT

Your attention is drawn to the further details regarding the procedures for acceptance, settlement and acceptance period and revisions as set out in Appendix I to this Composite Document and the Form of Acceptance.

### GENERAL

To ensure equality of the treatment of all Shareholders, those registered Shareholders who hold H Shares as nominee for more than one beneficial owner should, as far as practicable, treat the holding of each beneficial owner separately. In order for the beneficial owners of the H Shares whose investments are registered in nominee names to accept the H Share Offer, it is essential that they provide instructions to their nominees of their intentions with regard to the H Share Offer.

All documents and remittances will be sent to the Independent Shareholders through ordinary post at their own risk. These documents and remittances will be sent to them at their respective addresses as they appear in the register of members or, in the case of joint Shareholders, to the Shareholder whose name appears first in the said register of members, unless otherwise specified in the relevant Form of Acceptance completed and returned by the Independent Shareholders. None of the Company, the Offeror and the parties acting in concert with it, CIMB-GK, BOCOM and the Registrar or any of their respective directors will be responsible for any loss or delay in transmission of such documents and remittances or any other liabilities that may arise as a result thereof.

Your attention is drawn to the additional information set out in the appendices to this document.

Yours faithfully,  
For and on behalf of

**CIMB-GK Securities (HK) Limited**

**Alex Lau**

*Director*

*Head of Corporate Finance*

**Mabel Lam**

*Senior Vice President*

**BOCOM International (Asia) Limited**

**Wilfred Sum**

*Director*

**Griffin Tse**

*Director*

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## LETTER FROM THE BOARD

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Shanghai Qingpu Fire-Fighting Equipment Co., Ltd.\*  
上海青浦消防器材股份有限公司

(a joint stock limited company incorporated in the PRC)  
(Stock Code: 8115)

*Executive Directors:*

Mr. Jiang Zi Qiang  
Mr. Liu Zhu Gen  
Mr. Chen Yun

*Registered office:*

1988 Jihe Road  
Hua Xin Town  
Qingpu District Shanghai  
PRC

*Non-executive Directors:*

Mr. Jiang Zhou  
Mr. Li Zheng Li  
Mr. Zhao Shu Guang  
Mr. Chen Zhen Qiang  
Ms. Li Min Zhi

*Principal place of business  
in Hong Kong:*

Room 1005B, 10th Floor  
Empire Centre  
68 Mody Road  
Tsim Sha Tsui East  
Kowloon  
Hong Kong

*Independent non-executive Directors:*

Mr. Chen Wen Gui  
Mr. Yang Chun Bao  
Mr. Wang Guo Zhong

9 June 2009

*To the Independent Shareholders*

Dear Sir or Madam,

**THE TRANSFERS OF THE DOMESTIC SHARES IN  
SHANGHAI QINGPU FIRE-FIGHTING EQUIPMENT CO., LTD.\*;  
MANDATORY UNCONDITIONAL CASH OFFER BY  
CIMB-GK SECURITIES (HK) LTD AND  
BOCOM INTERNATIONAL (ASIA) LIMITED ON BEHALF OF  
LIANCHENG FIRE PROTECTION GROUP (HONG KONG) COMPANY LIMITED,  
A WHOLLY OWNED SUBSIDIARY OF  
LIANCHENG FIRE-FIGHTING GROUP COMPANY LIMITED\*  
FOR ALL THE ISSUED H SHARES IN  
SHANGHAI QINGPU FIRE-FIGHTING EQUIPMENT CO., LTD.\*  
(OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE ACQUIRED BY  
LIANCHENG FIRE-FIGHTING GROUP COMPANY LIMITED\*  
AND PARTIES ACTING IN CONCERT WITH IT)**

Trading in the H Shares was suspended with effect from 9:30 a.m. on 21 December 2006 and has remained suspended pending the release of announcement relating to the outstanding

\* For identification purposes only

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## LETTER FROM THE BOARD

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financial statements of the Company and the submission to the Stock Exchange of a viable resumption proposal to demonstrate, among other things, that the Company (i) complies with Rule 17.26 of the GEM Listing Rules; (ii) has in place adequate financial reporting system and internal control procedures; (iii) has sufficient working capital for the operation; and (iv) addresses concerns raised by the auditors if any qualification arise from the audit report to seek its approval for the resumption of trading in the H Shares. The Company is still in the course of preparing the resumption proposal. Further announcement will be made in this regard in compliance with the GEM Listing Rules. The despatch of this Composite Document does not necessarily indicate that the Stock Exchange will approve the resumption proposal and/or that the trading in the H Shares will be resumed.

**Trading in the H Shares on the Stock Exchange will remain suspended until further notice. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the H Shares.**

On 17 April 2009, the Offeror and the Company jointly announced, amongst other things, that pursuant to the First Batch Share Transfer Agreements, the Second Batch Share Transfer Agreements and the Power of Attorney, Liancheng had become the registered owner of 87,534,375 Domestic Shares after the transfers as contemplated under the First Batch Share Transfer Agreements and will become the registered owner of a further 44,335,625 Domestic Shares after the transfers as contemplated under the Second Batch Share Transfer Agreements, and was authorized under the Power of Attorney to exercise the voting rights of 44,335,625 Domestic Shares. As a result, Liancheng is entitled to exercise the voting rights of an aggregate of 131,870,000 Domestic Shares, representing (i) the entire voting rights of all Domestic Shares in issue by the Company; and (ii) the voting rights of approximately 70.36% of the total issued share capital of the Company as at the Latest Practicable Date.

As Liancheng became interested in 30% or more of the voting rights of the Company on 15 August 2008, the mandatory H Share Offer was triggered on 15 August 2008. Under Rule 26.1 of the Takeovers Code, Liancheng and parties acting in concert with it are required to make a mandatory unconditional cash offer to acquire all the issued Shares (other than those already owned or agreed to be acquired by Liancheng or parties acting in concert with it).

CIMB-GK and BOCOM, as the joint financial advisers to the Offeror, is making the H Share Offer on behalf of the Offeror. Details of the H Share Offer are set out in the letter from CIMB-GK and BOCOM on pages 7 to 15 of this Composite Document, Appendix I to this Composite Document and the accompanying Form of Acceptance.

The executive Directors are Mr. Jiang, Mr. Liu Zhu Gen and Mr. Chen Yun, the non-executive Directors are Mr. Jiang Zhou, Mr. Li Zheng Li, Mr. Zhao Shu Guang, Mr. Chen Zhen Qiang and Ms. Li Min Zhi and the independent non-executive Directors are Mr. Chen Wen Gui, Mr. Yang Chun Bao and Mr. Wang Guo Zhong. An Independent Board Committee, comprising Mr. Chen Wen Gui, Mr. Yang Chun Bao and Mr. Wang Guo Zhong, all being the independent non-executive Directors, was established to advise the Independent Shareholders on the terms of the H Share Offer. Given (i) Mr. Jiang Zhou, Mr. Li Zheng Li and Ms. Li Min

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## LETTER FROM THE BOARD

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Zhi, all being non-executive Directors, are vendors of the Second Batch Share Transfer Agreements, and (ii) Shanghai Hede which is owned by Mr. Zhao Shu Guang (a non-executive Director) and Fuzhou Tung Shing which is owned by Mr. Chen Zhen Qiang (a non-executive Director) are vendors of the First Batch Share Transfer Agreements, as such, all the non-executive Directors are interested in or involved in the Transfers and are considered not appropriate to be appointed as members to the Independent Board Committee. OSK Capital Hong Kong Limited has been appointed as the independent financial adviser to advise the Independent Board Committee on the terms of the H Share Offer.

The purpose of this Composite Document is to provide you with, among other things, information relating to the Company, the Offeror and the H Share Offer, and to set out the letter from the Independent Board Committee containing its recommendations to the Independent Shareholders and the letter from the Independent Financial Adviser containing its advice to the Independent Board Committee in respect of the H Share Offer.

### THE TRANSFERS

#### First Batch Share Transfer Agreements

Set out below are details of the First Batch Share Transfer Agreements:

	Date of the agreement	Purchaser	Vendor	Number of Domestic Shares transferred pursuant to the First Batch Share Transfer Agreements	Consideration per Domestic Share (RMB)	Percentage of total issued share capital of the Company (including the Domestic Shares and H Shares)	Effective date of the transfer (Note 4)
1	10 July 2008	Liancheng	Mr. Li Zheng Li, a non-executive Director	5,048,125	0.100 (Note 1)	2.69%	10 July 2008
2	10 July 2008	Liancheng	Ms. Li Min Zhi, a non-executive Director	2,366,250	0.100 (Note 1)	1.26%	10 July 2008
3	12 July 2008	Liancheng	Shanghai Hede	8,410,000	0.118 (Note 1)	4.49%	15 August 2008
4	17 July 2008	Liancheng	Fuzhou Tung Shing	8,410,000	0.118 (Note 1)	4.49%	15 August 2008
5	12 July 2008/ 18 July 2008	Liancheng	Shanghai Huasheng/ Fudan Time-Control (Note 2)	63,300,000 (Note 2)	0.18957 (Notes 1 & 3)	33.77%	15 August 2008
		<b>Sub total:</b>		<b>87,534,375</b>		<b>46.70%</b>	

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## LETTER FROM THE BOARD

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*Notes:*

1. The consideration for each of the above First Batch Share Transfer Agreements was determined between Liancheng and each respective vendors to the First Batch Share Transfer Agreements after arm's length negotiations. The consideration for each of the above First Batch Share Transfer Agreements had been paid to the respective vendors to the First Batch Share Transfer Agreements by Liancheng.
2. Reference is made to the announcements made by the Company on 8 August 2006, 12 September 2006, 17 October 2006, 15 November 2006, 7 December 2006, 24 April 2007, 25 June 2007, 24 July 2007 and 23 August 2007 (the "Announcements"). As disclosed in the Announcements, these 63,300,000 Domestic Shares (the "Frozen Shares") (which were subject to the freezing measures imposed by (i) 杭州市中級人民法院 (the "Hangzhou Intermediate People's Court"); and (ii) 上海市青浦區人民法院 (the "People's Court of Qingpu, Shanghai") were sold by the Hangzhou Intermediate People's Court to Fudan Time-Control in the third auction conducted by Hangzhou Intermediate People's Court on 20 December 2006 (the "Hangzhou Auction"). However, given for the reasons as stated in the announcement made by the Company on 24 April 2007, the Hangzhou Auction was concluded to be unenforceable, and the Frozen Shares were still registered in the name of Shanghai Huasheng but were still subject to the freezing measures imposed by the People's Court of Qingpu Shanghai. For the purpose of acquiring the Frozen Shares registered in the name of Shanghai Huasheng by Liancheng, Liancheng entered into (i) an agreement (as supplemented by the tri-partite agreement dated 17 October 2008 between Liancheng, Shanghai Huasheng and Fudan Time-Control) with Shanghai Huasheng on 12 July 2008, in which it is agreed that 63,300,000 Domestic Shares registered in the name of Shanghai Huasheng shall be transferred to Liancheng; and (ii) two agreements (i.e. the agreements for transfer of rights of Fudan Time-Control on the Frozen Shares acquired in Hangzhou Auction and the agreements for transfer of the Frozen Shares) (as supplemented by the tri-partite agreement dated 17 October 2008) with Fudan Time-Control on 18 July 2008, in which it is agreed that the rights of Fudan Time-Control on the Frozen Shares and the Frozen Shares shall be transferred to Liancheng. Based on the First PRC Legal Opinion, the Frozen Shares (i.e. 63,300,000 Domestic Shares registered in the name of Shanghai Huasheng) were released by the People's Court of Qingpu, Shanghai on 13 August 2008, and transferred to Liancheng on 15 August 2008.
3. According to the agreements entered into by Liancheng for acquiring the Frozen Shares as mentioned in note 2 above (as supplemented by the tri-partite agreement dated 17 October 2008 between Shanghai Huasheng, Fudan Time-Control and Liancheng), it is agreed that for the purpose of acquiring the Frozen Shares by Liancheng, Liancheng shall pay (i) the consideration of RMB0.1 per Domestic Share to Shanghai Huasheng, which shall then be paid to Fudan Time-Control and applied towards settlement of part of the consideration payable by Liancheng to Fudan Time-Control; and (ii) an additional amount of RMB0.08957 per Domestic Share to Fudan Time-Control. The aforesaid consideration had been paid by Liancheng to each of Shanghai Huasheng and Fudan Time-Control in the manner as stated above. As a result, the aggregate consideration paid by Liancheng for acquiring the Frozen Shares was RMB0.18957 per Domestic Share, which also represents the Highest Consideration pursuant to the First Batch Share Transfer Agreements and the Second Batch Share Transfer Agreements.
4. The transfers of the Domestic Shares pursuant to the share transfer agreements entered into by Liancheng with (i) Mr. Li Zheng Li in respect of 5,048,125 Domestic Shares; and (ii) Ms. Li Min Zhi in respect of 2,366,250 Domestic Shares took effect on 10 July 2008. The transfers of the Domestic Shares pursuant to share transfer agreements entered into by Liancheng with (i) Shanghai Hede in respect of 8,410,000 Domestic Shares; (ii) Fuzhou Tung Shing in respect of 8,410,000 Domestic Shares; and (iii) Shanghai Huasheng in respect of 63,300,000 Domestic Shares took effect on 15 August 2008. As such, all of the share transfers made pursuant to the First Batch Share Transfer Agreements have been completed.

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## LETTER FROM THE BOARD

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### Second Batch Share Transfer Agreements

Set out below are details of the Second Batch Share Transfer Agreements:

	Date of the agreement	Purchaser	Vendor	Number of Domestic Shares to be transferred pursuant to the Second Batch Share Transfer Agreements	Consideration per Domestic Share (RMB)	Percentage of total issued share capital of the Company (including the Domestic Shares and H Shares)	Effective date of the transfer
1	15 August 2008	Liancheng	Mr. Tang Heng Yi, a former executive Director, whose resignation took effect from 7 May 2008	8,902,500	0.180 <i>(Note 1)</i>	4.75%	The transfer of 8,902,500 Domestic Shares shall be completed upon the fulfillment of Offeror's obligation for the H Share Offer. <i>(Note 2)</i>
2	15 August 2008	Liancheng	Mr. Li Zheng Li, a non-executive Director	15,144,375	0.180 <i>(Note 1)</i>	8.08%	The transfer of 15,144,375 Domestic Shares shall take effect within 10 days after the expiration of the lock-up period for disposing of the Domestic Shares imposed under the PRC Company Laws (i.e. six months after resignation of Mr. Li Zheng Li as a non-executive Director) <i>(Note 3)</i>



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**LETTER FROM THE BOARD**

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	<b>Date of the agreement</b>	<b>Purchaser</b>	<b>Vendor</b>	<b>Number of Domestic Shares to be transferred pursuant to the Second Batch Share Transfer Agreements</b>	<b>Consideration per Domestic Share (RMB)</b>	<b>Percentage of total issued share capital of the Company (including the Domestic Shares and H Shares)</b>	<b>Effective date of the transfer</b>
3	15 August 2008	Liancheng	Ms. Li Min Zhi, a non-executive Director	7,098,750	0.180 <i>(Note 1)</i>	3.79%	The transfer of 7,098,750 Domestic Shares shall take effect within 10 days after the expiration of the lock-up period for disposing of the Domestic Shares imposed under the PRC Company Laws (i.e. six months after resignation of Ms. Li Min Zhi as a non-executive Director) <i>(Note 3)</i>

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## LETTER FROM THE BOARD

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Date of the agreement	Purchaser	Vendor	Number of Domestic Shares to be transferred pursuant to the Second Batch Share Transfer Agreements	Consideration per Domestic Share (RMB)	Percentage of total issued share capital of the Company (including the Domestic Shares and H Shares)	Effective date of the transfer	
4	7 July 2008	Liancheng	Mr. Jiang Zhou, a non-executive Director	1 <sup>st</sup> tranche: 3,297,500  2 <sup>nd</sup> tranche: 9,892,500	0.146 <i>(Note 1)</i>	7.04%	The transfer of 1st tranche of 3,297,500 Domestic Shares shall be completed upon the fulfillment of Offeror's obligation for the H Share Offer. <i>(Note 4)</i>
							The transfer of 2nd tranche of 9,892,500 Domestic Shares shall take effect within 200 days after the resignation of Mr. Jiang Zhou as a non-executive Director <i>(Note 3)</i>
			<b>Sub total:</b>	<b>44,335,625</b>	<b>23.66%</b>		

*Notes:*

- The consideration for each of the above Second Batch Share Transfer Agreements was determined between Liancheng and each respective vendors to the Second Batch Share Transfer Agreements after arm's length negotiations. The consideration for each of the above Second Batch Share Transfer Agreements had been paid to the respective vendors to the Second Batch Share Transfer Agreements by Liancheng.
- According to the share transfer agreement of Mr. Tang Heng Yi, the transfer of 8,902,500 Domestic Shares had taken effect by 17 November 2008, which is within 10 days after the expiration of the lock-up period for disposing of the Domestic Shares imposed under the PRC Company Laws (i.e. six months after the resignation of Mr. Tang Heng Yi as an executive Director). Subject to the registration of the transfer to be processed by China Securities Depository and Clearing Corporation Limited, the transfer will be completed without legal impediment. Based on the First PRC Legal Opinion, China Securities Depository and Clearing Corporation Limited (中國證券登記結算有限責任公司) will not process the registration of the transfer of the Domestic Shares from Mr. Tang Heng Yi until the fulfillment of Offeror's obligation for the H Share Offer.

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## LETTER FROM THE BOARD

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3. The timing of the completion of the transfers depends on the resignation of Mr. Li Zheng Li, Ms. Li Min Zhi and Mr. Jiang Zhou as non-executive Director respectively as there is a lock-up period of six months for the disposal of the Domestic Shares imposed under the PRC Company Law after the resignation of director. Each of Mr. Li Zheng Li, Ms. Li Min Zhi and Mr. Jiang Zhou intended to resign as Directors immediately after the closing date of the H Share Offer.
4. Pursuant to the share transfer agreement dated 7 July 2008 entered into between Liancheng and Mr. Jiang Zhou, the first tranche of 3,297,500 Domestic Shares shall be transferred within 10 days after the signing of the said share transfer agreement. Subject to the registration of the transfer to be processed by China Securities Depository and Clearing Corporation Limited, the transfer will be completed without legal impediment. Based on the First PRC Legal Opinion, China Securities Depository and Clearing Corporation Limited will not process the registration of the transfer of the 1st tranche Domestic Shares of Mr. Jiang Zhou to Liancheng until the fulfillment of Offeror's obligation for the H Share Offer.

According to the advice of King and Wood, the PRC legal advisers to Liancheng, the Transfers do not require any relevant approval from the China Securities Regulatory Commission.

### **Power of Attorney**

Four sets of power of attorney, all dated 15 August 2008, were given by each of Mr. Jiang Zhou, Mr. Tang Heng Yi, Mr. Li Zheng Li and Ms. Li Min Zhi, pursuant to which, each of such persons agreed to irrevocably grant the power to exercise the voting rights of an aggregate of 44,335,625 Domestic Shares held by them to Liancheng from the date of the Power of Attorney to the date when the Domestic Shares held by each of them are transferred to Liancheng pursuant to each of the Second Batch Share Transfer Agreements.

Based on the First PRC Legal Opinion:

- (i) upon the effective date of transfers of the Domestic Shares as contemplated under each of the First Batch Share Transfer Agreements, Liancheng became the registered owner and was beneficially interested in 87,534,375 Domestic Shares, representing approximately 46.70% of the Company's total issued share capital of the Company;
- (ii) upon the expiry of the relevant lock-up periods for disposing of the Domestic Shares imposed on each of Mr. Jiang Zhou, Mr. Li Zheng Li and Ms. Li Min Zhi, subject to non occurrence of any new incidents which would affect the Second Batch Share Transfer Agreements to take effect, there is no legal impediment for the transfers of the Domestic Shares (for Mr. Jiang Zhou, the 2nd tranche of Domestic Shares) as contemplated under each of the Second Batch Share Transfer Agreements to take effect. The registration of the transfer of the Domestic Shares from Mr. Tang Heng Yi to Liancheng and the 1st tranche of Domestic Shares from Mr. Jiang Zhou to Liancheng will be processed by China Securities Depository and Clearing Corporation Limited upon the fulfillment of Offeror's obligation for the H Share Offer; and

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## LETTER FROM THE BOARD

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- (iii) there is no legal impediment as to PRC law for the exercise of the voting rights of 44,335,625 Domestic Shares, representing approximately 23.66% of the total issued share capital of the Company, granted under each set of the Power of Attorney given by Mr. Jiang Zhou, Mr. Tang Heng Yi, Mr. Li Zheng Li and Ms. Li Min Zhi from the date of signing of the Power of Attorney to the date when the Domestic Shares held by each of them are transferred to Liancheng pursuant to each of the Second Batch Share Transfer Agreements.

### THE H SHARE OFFER

Pursuant to the First Batch Share Transfer Agreements, the Second Batch Share Transfer Agreements and the Power of Attorney, Liancheng became the registered owner of 87,534,375 Domestic Shares and will become the registered owner of 44,335,625 Domestic Shares after the transfers as contemplated under the First Batch Share Transfer Agreements and the Second Batch Share Transfer Agreements respectively, and was authorized under the Power of Attorney to exercise the voting rights of 44,335,625 Domestic Shares. As a result, Liancheng is entitled to exercise the voting rights of an aggregate of 131,870,000 Domestic Shares, representing (i) the entire voting rights of all Domestic Shares in issue of the Company; and (ii) the voting rights for approximately 70.36% of the total issued share capital of the Company as at the date of this Composite Document. As Liancheng became interested in 30% or more of the voting rights of the Company on 15 August 2008, the mandatory H Share Offer was triggered on 15 August 2008. Under Rule 26.1 of the Takeovers Code, Liancheng and parties acting in concert with it are required to make a mandatory unconditional cash offer to acquire all the issued Shares (other than those already owned or agreed to be acquired by Liancheng or parties acting in concert with it).

Liancheng had approached certain professional advisers in Hong Kong to advise it on the implications of the relevant rules and regulations in Hong Kong (including but not limited to the implications on the Takeovers Code) on the First Batch Share Transfer Agreements, the Second Batch Share Transfer Agreements and the Power of Attorney. Given the different legal and regulatory regimes and requirements in Hong Kong and the PRC, the professional advisers to Liancheng have taken necessary time after their respective engagement by Liancheng to perform necessary enquiries on the relevant PRC laws and regulations which are applicable to Liancheng and the implications of such PRC laws and regulations on the obligations of Liancheng under the Takeovers Code. Based on the Second PRC Legal Opinion, Liancheng has obtained the required approvals from the Ministry of Commerce (商務部), the Zhejiang Provincial Development and Reform Commission (浙江省發展和改革委員會) and the State Administration of Foreign Exchange, Quzhou City Branch (國家外匯管理局衢州市中心支局) for Liancheng HK to make the H Share Offer.

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## LETTER FROM THE BOARD

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### The H Share Offer

CIMB-GK and BOCOM, on behalf of the Offeror, hereby make the H Share Offer to acquire all the H Shares not already owned or agreed to be acquired by Liancheng and parties acting in concert with it on the following basis:

For each H Share . . . . . HK\$0.216 in cash

The H Share Offer Price represents the Highest Consideration of RMB0.18957 per Domestic Share converted into Hong Kong dollars based on the exchange rate of RMB1: HK\$1.1375 prevailing on 15 August 2008 (represents the daily average exchange rate from RMB to HK\$ as quoted from Bloomberg).

As at the Latest Practicable Date, the Company does not have any outstanding options or warrants or derivatives or other securities which are convertible into the H Shares and/or the Domestic Shares.

### Comparison of value

Trading in the H Shares was suspended with effect from 9:30 a.m. on 21 December 2006 and has remained suspended as at the Latest Practicable Date.

The offer price of HK\$0.216 per H Share represents:

- (i) a premium of approximately 13.7% over the closing price of HK\$0.19 per H Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 9.1% over the average closing price of HK\$0.198 per H Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;
- (iii) a premium of approximately 8.0% over the average closing price of HK\$0.20 per H Share as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the Last Trading Day;
- (iv) a discount of approximately 5.3% to the audited net asset value of approximately RMB0.20 per Share (representing approximately HK\$0.228 per Share) as at 31 December 2005 (being the latest published audited net asset value of the Company prior to the Latest Practicable Date); and
- (v) a discount of approximately 5.3% to the unaudited net asset value of approximately RMB0.20 per Share (representing approximately HK\$0.228 per Share) as at 30 June 2006 (being the latest published unaudited net asset value of the Company prior to the Latest Practicable Date).

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## LETTER FROM THE BOARD

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However, the Shareholders should note that given the changes in financial or trading position or outlook of the Company since 31 December 2005 and the litigations involved by the Company (for details, please refer to the section headed “VI Material Changes” in Appendix II on page II-45 of this Composite Document and the section headed “9. Litigation” in Appendix IV on page IV-9 of this Composite Document), the unaudited net asset value of the Company, subject to audit, may be reduced significantly.

### **Highest and lowest H Share prices**

The highest and lowest closing prices of the H Shares quoted on the Stock Exchange during the six-month period preceding the Last Trading Day up to and including the date of this Composite Document were HK\$0.25 per H Share during the periods from 21 June 2006 to 11 August 2006 and from 4 September 2006 to 20 November 2006 and HK\$0.19 per H Share during the period from 18 December 2006 to 20 December 2006, respectively.

### **Effect of accepting the H Share Offer**

The H Shares to be acquired under the H Share Offer shall be fully paid and free from all liens, charges, encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights attaching to them as at the date hereof, including the right to receive in full all dividends and other distributions, if any, declared, made or paid on or after the date hereof.

### **FURTHER DETAILS IN RESPECT OF THE H SHARE OFFER**

Further details of the H Share Offer including, among other things, the terms of the H Share Offer and the procedures for acceptance and settlement of the H Share Offer, are contained in the letter from CIMB-GK and BOCOM of this Composite Document, in Appendix I to this Composite Document and in the Form of Acceptance.

## LETTER FROM THE BOARD

### SHAREHOLDING STRUCTURE OF THE COMPANY

The issued share capital of the Company as at the Latest Practicable Date comprises:

Shareholders	Number of Shares held as at the Latest Practicable Date	Approximate percentage of shareholding (%)	Number of Shares held after the completion of the Transfers	Approximate percentage of shareholding (%)
<i>Domestic Shares</i>				
Liancheng	87,534,375	46.70	131,870,000	70.36
Mr. Tang Heng Yi <sup>Note 1</sup>	8,902,500	4.75	–	–
Mr. Li Zheng Li <sup>Note 1</sup>	15,144,375	8.08	–	–
Ms. Li Min Zhi <sup>Note 1</sup>	7,098,750	3.79	–	–
Mr. Jiang Zhou <sup>Note 1</sup>	13,190,000	7.04	–	–
Total number of Domestic Shares held by the Offeror and parties acting in concert with it				
	131,870,000	70.36	131,870,000	70.36
<i>H Shares</i>				
Public shareholders	55,560,000	29.64	55,560,000	29.64
Total number of H Shares	55,560,000	29.64	55,560,000	29.64
Total number of Shares	187,430,000	100.00	187,430,000	100.00

*Note:*

- 1 The respective effective date of transfer of 44,335,625 Domestic Shares as contemplated under the Second Batch Share Transfer Agreements shall take place after (i) the lock-up period for disposing of the Domestic Shares imposed under the PRC Company Laws (i.e. six months after resignation of each of Mr. Jiang Zhou, Mr. Li Zheng Li and Ms. Li Min Zhi as Directors); and (ii) the fulfillment of Offeror's obligation for the H Share Offer as required by China Securities Depository and Clearing Corporation Limited to process the registration of the transfer of the Domestic Shares from Mr. Tang Heng Yi to Liancheng, and before such effective dates, each of Mr. Jiang Zhou, Mr. Li Zheng Li, Ms. Li Min Zhi and Mr. Tang Heng Yi agreed to irrevocably grant the power to exercise the voting rights of an aggregate of 44,335,625 Domestic Shares held by them to Liancheng from the date of the Power of Attorney to the date when the Domestic Shares held by each of them are transferred to Liancheng pursuant to each of the Second Batch Share Transfer Agreements. Please refer to the section headed "Second Batch Share Transfer Agreements" and "Power of Attorney" in this Composite Document for details.

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## LETTER FROM THE BOARD

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### INFORMATION ON THE COMPANY

The Company is principally engaged in research, development, manufacture and sale of fire fighting equipment in the PRC. Trading in the H Shares was suspended with effect from 9:30 a.m. on 21 December 2006 and has remained suspended pending the release of announcement relating to the outstanding financial statements of the Company for the years ended 31 December 2006, 2007 and 2008, respectively, and the submission to the Stock Exchange of a viable resumption proposal to demonstrate, among other things, that the Company (i) complies with Rule 17.26 of the GEM Listing Rules; (ii) has in place adequate financial reporting system and internal control procedures; (iii) has sufficient working capital for the operation; and (iv) addresses concerns raised by the auditors if any qualification arise from the audit report to seek its approval for the resumption of trading in the H Shares. Pursuant to Rule 9.01 and Rule 9.14 of the GEM Listing Rules, the Stock Exchange may cancel the listing of the Company in circumstances including, but not limited to, those set out in Rule 9.04 of the GEM Listing Rules and in circumstances where trading in the H Shares has been continuously suspended for a prolonged period without the Company taking adequate actions to restore trading. The Company is still in the course of preparing the resumption proposal. Further announcement will be made in this regard in compliance with the GEM Listing Rules. The despatch of this Composite Document does not necessarily indicate that the Stock Exchange will approve the resumption proposal and/or that the trading in the H Shares will be resumed.

**Trading in the H Shares on the Stock Exchange will remain suspended until further notice. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the H Shares.**

The auditors of the Company are in the course of finalisation of the financial statements for the years ended 31 December 2006 to 2008, pending for the outstanding information from the management.

According to the members of the Board (except Mr. Jiang), Mr. Jiang, the chairman of the Board, had under the name of the Company entered into the Loan Agreements for a total loan amount of approximately RMB39 million, and Shanghai Huasheng has confirmed that the Transferred Money had ultimately been used for the benefit of Shanghai Huasheng (which was the then controlling Shareholder) and its subsidiaries. All those transactions as contemplated under the Loan Agreements and the transfers and usage of the Transferred Money had never been considered, authorized or approved by the Board at the time when such transactions were respectively made and were not reflected in the accounting books and records or the published financial statements of the Company. Since November 2007, the Company made various attempts to contact Mr. Jiang including telephone calls, physical visits or enquiry through Mr. Jiang's son but in vain. The present Board has been trying to provide information and explanation to the auditors in relation to the audit. Given Mr. Jiang, the chairman of the Board, is not contactable and there has been a turnover of key management of the Company, the present Board expects that the audit could only be completed after the restructuring of the Board after the H Share Offer where at such time, the new directors would be able to assist the auditors in the finalization of their audits.



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## LETTER FROM THE BOARD

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### FINANCIAL INFORMATION OF THE COMPANY

Certain financial information of the Company, as extracted from (i) the annual report of the Company for the year ended 31 December 2005, the date to which the latest audited financial statements of the Company were made up, (ii) the interim report of the Company for the six months ended 30 June 2006, and (iii) the third quarterly report of the Company for the nine months ended 30 September 2006, the date to which latest unaudited financial statements of the Company were made up, are set out as follows:

	For the year ended 31 December		For the six months ended 30 June	For the nine months ended 30 September
	2004	2005	2006	2006
	(Audited)	(Audited)	(Unaudited)	(Unaudited)
	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	56,050	66,164	20,082	31,946
Profit/(Loss) before taxation	9,171	(13,607)	(1,217)	(1,306)
Profit/(Loss) attributable to equity holders	6,232	(9,912)	(1,217)	(1,306)
Net assets	47,765	37,853	36,636	(Note)

*Note: The value of net assets was not disclosed in the third quarterly report of the Company for the nine months ended 30 September 2006.*

### INFORMATION OF THE OFFEROR

Your attention is drawn to the section headed "Information on the Offeror" in the letter from CIMB-GK and BOCOM as set out on page 10 of this Composite Document.

### INTENTION OF THE OFFEROR REGARDING THE COMPANY

#### Business

Your attention is drawn to the section headed "Liancheng's Intention on the Company" in the letter from CIMB-GK and BOCOM as set out on page 12 of this Composite Document.

#### Directors, management and employees

The Board has confirmed that, save as disclosed in the section headed "Board Composition of the Company" in the letter from CIMB-GK and BOCOM as set out in this Composite Document, there are no other matters that need to be brought to the attention of the Independent Shareholders in relation to the appointment of new Directors.

Save as disclosed therein, the Offeror does not intend that there would be any material changes to the existing management and employees of the Company following the closing of the H Share Offer.

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## LETTER FROM THE BOARD

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### **Compulsory acquisition**

The Offeror does not intend to apply any right which may be made available to it to acquire compulsorily any H Shares outstanding after the closing of the H Share Offer.

### **Maintaining of listing status of the Company**

Liancheng intends to maintain the listing of the H Shares on the Stock Exchange after the close of the H Share Offer. The Company and the Offeror will undertake to the Stock Exchange to take appropriate steps as soon as possible following the close of the H Share Offer to ensure that there will be at least the minimum prescribed percentage of Shares held by the public as required by the GEM Listing Rules. As the Company and the Offeror are unable to ascertain at this stage the level of acceptances of the H Shares by the holders of H Shares under the H Share Offer, the aforesaid parties have not decided the exact steps/actions that will be taken by them after the close of the H Share Offer to restore the public float of the Shares, if required. Notwithstanding this, the Company and the Offeror consider that the appropriate actions to be taken shall include placing down of sufficient number of accepted H Shares by the Offeror for this purpose. The Company and the Offeror will issue a separate announcement as and when necessary regarding the decision of any such placing down, if the circumstances warrant.

### **RECOMMENDATIONS**

Your attention is drawn to the letter from the Independent Board Committee to the Independent Shareholders and the letter from the Independent Financial Adviser as set out on pages 32 to 33 and pages 34 to 52 of this Composite Document respectively, which set out their respective recommendations in relation to the H Share Offer and the principal factors considered by them in arriving at their recommendations.

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## LETTER FROM THE BOARD

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### ADDITIONAL INFORMATION

In considering what action to take in connection with the H Share Offer, the Independent Shareholders should consider their own tax positions and, if they are in any doubt, they should consult their professional advisers. You are recommended to read this Composite Document together with the Form of Acceptance for details of the H Share Offer. Your attention is also drawn to the additional information contained in the Appendices to this Composite Document.

On behalf of the Board  
**Shanghai Qingpu Fire-Fighting Equipment Co. Ltd.\***  
**Mr. Li Zheng Li**  
*Director*

\* *For identification purposes only*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Shanghai Qingpu Fire-Fighting Equipment Co., Ltd.\*  
上海青浦消防器材股份有限公司

*(a joint stock limited company incorporated in the PRC)*

**(Stock Code: 8115)**

**MANDATORY UNCONDITIONAL CASH OFFER BY  
CIMB-GK SECURITIES (HK) LIMITED AND  
BOCOM INTERNATIONAL (ASIA) LIMITED ON BEHALF OF  
LIANCHENG FIRE PROTECTION GROUP (HONG KONG) COMPANY LIMITED,  
A WHOLLY OWNED SUBSIDIARY OF  
LIANCHENG FIRE-FIGHTING GROUP COMPANY LIMITED\*  
FOR ALL THE ISSUED H SHARES IN  
SHANGHAI QINGPU FIRE-FIGHTING EQUIPMENT CO., LTD.\*  
(OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE ACQUIRED BY  
LIANCHENG FIRE-FIGHTING GROUP COMPANY LIMITED\*  
AND PARTIES ACTING IN CONCERT WITH IT)**

9 June 2009

*To the Independent Shareholder*

Dear Sir or Madam,

We refer to the composite document dated 9 June 2009 (the “Composite Document”) jointly issued by the Offeror and the Company of which this letter forms part. Terms defined in the Composite Document shall have the same meanings in this letter unless the context otherwise requires. We have been appointed as members of the Independent Board Committee to consider the H Share Offer and to advise you as to whether, in our opinion, the terms of the H Share Offer are fair and reasonable so far as your interests are concerned. We, being the members of the Independent Board Committee, have declared that we are independent and do not have any conflict of interest in respect of the H Share Offer and are therefore able to consider the terms of the H Share Offer and make recommendations to the Independent Shareholders. OSK Capital Hong Kong Limited has been appointed to advise us in respect of the H Share Offer.

Details of its advice and the principal factors taken into consideration in arriving at its recommendation are set out in the “Letter from the Independent Financial Adviser” of the Composite Document. We also wish to draw your attention to: (i) the “Letter from the Board”; (ii) the “Letter from CIMB-GK and BOCOM”; and (iii) the additional information, all set out in the Composite Document and the appendices thereto.

\* *For identification purposes only*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Having taken into account the terms of the H Share Offer and the advice and recommendation of the Independent Financial Adviser, we concur with the advice of the Independent Financial Adviser that the terms of the H Share Offer are fair and reasonable so far as the Independent Shareholders are concerned and accordingly, we recommend the Independent Shareholders to accept the H Share Offer.

Notwithstanding our recommendations, the Independent Shareholders should consider carefully the terms and conditions of the H Share Offer.

Yours faithfully,

**For and on behalf of the Independent Board Committee**

**Mr. Chen Wen Gui**

**Mr. Yang Chun Bao**

**Mr. Wang Guo Zhong**

*Independent non-executive Directors*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*The following is the text of a letter of advice from the Independent Financial Adviser to the Independent Board Committee for the purpose of inclusion in the Composite Document.*

### **OSK Capital Hong Kong Limited**

**僑豐融資有限公司**

Subsidiary of OSK Investment Bank Berhad, Malaysia

9 June 2009

*The Independent Board Committee*

Shanghai Qingpu Fire-Fighting Equipment Co., Ltd.\*

Room 1005B, 10th Floor

Empire Centre

68 Mody Road

Tsim Sha Tsui East

Kowloon

Hong Kong

Dear Sirs,

**MANDATORY UNCONDITIONAL CASH OFFER BY  
CIMB-GK SECURITIES (HK) LIMITED AND  
BOCOM INTERNATIONAL (ASIA) LIMITED ON BEHALF OF  
LIANCHENG FIRE PROTECTION GROUP (HONG KONG) COMPANY LIMITED,  
A WHOLLY OWNED SUBSIDIARY OF  
LIANCHENG FIRE-FIGHTING GROUP COMPANY LIMITED\*,  
FOR ALL THE ISSUED H SHARES IN  
SHANGHAI QINGPU FIRE-FIGHTING EQUIPMENT CO., LTD.\*  
(OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE ACQUIRED BY  
LIANCHENG FIRE-FIGHTING GROUP COMPANY LIMITED\*  
AND PARTIES ACTING IN CONCERT WITH IT)**

### **INTRODUCTION**

We refer to our appointment as the independent financial adviser to the Independent Board Committee in connection with the H Share Offer, details of which are set out in the Composite Document. This letter forms part of the Composite Document. Capitalised terms used in this letter have the same meanings as defined in the Composite Document, unless the context requires otherwise.

As stated in the letter from the Board set out in the Composite Document, the Independent Board Committee established to give advice and recommendation to the Independent Shareholders on the H Share Offer comprises Mr. Chen Wen Gui, Mr. Yang Chun Bo and Mr. Wang Guo Zhong, all of whom are independent non-executive Directors. The Company has

\* For identification purposes only

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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stated that (i) Shanghai Hede, which is owned by Mr. Zhao Shu Guang (a non-executive Director), and Fuzhou Tung Shing, which is owned by Mr. Chen Zhen Qiang (a non-executive Director), are vendors of the Domestic Shares transferred to Liancheng under the First Batch Share Transfer Agreements, and (ii) Mr. Jiang Zhou, Mr. Li Zheng Li and Ms Li Min Zhi, all being non-executive Directors, are vendors of the Domestic Shares transferred to Liancheng under the Second Batch Share Transfer Agreements; accordingly, all the non-executive Directors are interested in or involved in the Transfers and are considered not appropriate to be appointed as members of the Independent Board Committee. We, OSK Capital Hong Kong Limited (“OSK Capital”), have been appointed as the independent financial adviser to advise the Independent Board Committee as to the fairness and reasonableness of the terms of the H Share Offer so far as the interests of the Independent Shareholders as a whole are concerned and whether or not to accept the H Share Offer. Our appointment has been approved by the Independent Board Committee.

None of OSK Capital, its employees nor its shareholders has any financial or other connections with any of the Company, the Offeror and any party acting, or presumed to be acting, in concert with the Company and/or the Offeror in the past two years, and accordingly OSK Capital is considered eligible to give independent advice on the H Share Offer. Apart from the normal fixed professional fees payable to us in connection with this appointment, there is no inducement fee, break fee or other special fee arrangement between OSK Capital and the Company.

In formulating our opinion, we have relied upon the information, facts and representations contained in the Composite Document, those documents published or released by the Company and those supplied or made by the Directors (except Mr. Jiang whom the Company has been unable to contact prior to the issue of this letter) and management of the Company to us. We have assumed that all such information, facts and representations were true and accurate in all respects at the time they were supplied or made and continue to be true and accurate at the date of the Composite Document and can be relied upon. We have no reason to doubt the truth, accuracy and completeness of such information and representations and have confirmed with the Directors (except Mr. Jiang) and management of the Company that no material facts have been withheld or omitted from such information and representations. The Directors (save for Mr. Jiang) jointly and severally accept full responsibility for the accuracy of the information contained in the Composite Document and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Composite Document or to us have been arrived at after due and careful consideration and there are no other facts not contained in the Composite Document the omission of which would make any statement in the Composite Document relating to the Company misleading.

We consider that we have been provided with sufficient information to enable us to reach an informed view. We have not, however, conducted any independent verification of such information or any independent in-depth investigation into the business, affairs, financial position or prospects of the Company nor have we carried out any in-depth research on the Company or the current state of or likely prospects of the industries in which the Company operates.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### BACKGROUND AND TERMS OF THE OFFERS

Liancheng has acquired the voting rights attaching to 131,870,000 Domestic Shares, representing all the Domestic Shares outstanding and approximately 70.36% of the outstanding voting rights of the Company pursuant to the First Batch Share Transfer Agreements and the Second Batch Share Transfer Agreements. Prior to the Transfers, Liancheng and its concert parties did not hold any voting rights in the Company. According to Rule 26.1 of the Takeovers Code, Liancheng has triggered an obligation to make a mandatory unconditional cash offer for all outstanding H Shares. Accordingly, Liancheng, through the Offeror, is making the H Share Offer.

Under the H Share Offer, the Offeror is making an offer to every H Shareholder to buy its holding in the H Shares at the H Share Offer Price of HK\$0.216 for every H Share in cash. The Independent Shareholders may refer to the letter from CIMB-GK and BOCOM, the joint financial advisers to the Offeror, and the letter from the Board in the Composite Document for details of the H Share Offer.

CIMB-GK and BOCOM have confirmed that they are satisfied that there are sufficient financial resources available to the Offeror to meet acceptance in full of the H Share Offer.

### PRINCIPAL FACTORS

In formulating our opinion in respect of the H Share Offer, we have taken into consideration, among other things, the following principal factors:

#### I. PROLONGED SUSPENSION

Listing of the H Shares on GEM commenced on 30 June 2004. The Domestic Shares are not listed on any stock exchanges.

On 8 August 2006, the Company announced that Zhejiang Mechanical Devices Import and Export Company Limited commenced legal proceedings against Shanghai Dazhi Enterprise Development Limited and Shanghai Huasheng, the controlling shareholder of the Company prior to the Transfers, in respect of a defaulted outstanding amount owed by Shanghai Dazhi Enterprise Development Limited to Zhejiang Mechanical Devices Import and Export Company Limited which was guaranteed by Shanghai Huasheng (the "Debt"). Shanghai Huasheng was beneficially owned by Mr. Jiang Zi Qiang, a Director, as to 89%. The 63,300,000 Domestic Shares (the "Frozen Shares") held by Shanghai Huasheng were subject to freezing measures imposed by 杭州市中級人民法院 (the "Hangzhou Intermediate People's Court") on or about 16 November 2004. On 4 April 2005, the Hangzhou Intermediate People's Court granted a judgment against Shanghai Huasheng for repayment of the Debt. The Hangzhou Intermediate People's Court then issued a notice for the auction of the Frozen Shares with a view to raising proceeds to repay the Debt.

Trading in the H Shares on GEM has been suspended at the request of the Company since 21 December 2006 pending the release of an announcement relating to a possible change in control of the Company.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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On 24 April 2007, the Company announced that on 20 December 2006, 上海市青浦區人民法院 (the “People’s Court of Qingpu, Shanghai”) imposed freezing measures on the Frozen Shares in relation to a defaulted outstanding loan owed by Shanghai Huasheng to Shanghai Weiyi Soybean Technical Company Limited. On 20 December 2006, the same date as the freezing order issued by the People’s Court of Qingpu, Shanghai, the Frozen Shares were sold in an auction organized and held by the Hangzhou Intermediate People’s Court (the “Hangzhou Auction”) to Fudan Time-Control. The Company said it has obtained a legal opinion on 12 March 2007 that the sale of the Frozen Shares at the Hangzhou Auction was not in accordance with the relevant laws and regulations in the PRC and hence the Hangzhou Auction was not enforceable, and accordingly, Shanghai Huasheng was still the registered holder of the Frozen Shares at such time.

Under the First Batch Share Transfer Agreements, the Frozen Shares were legally and beneficially transferred to Liancheng. To transfer the Frozen Shares to Liancheng, Liancheng entered into (i) an agreement (as supplemented by a tripartite agreement dated 17 October 2008 (the “Tripartite Agreement”) entered into between Liancheng, Shanghai Huasheng and Fudan Time-Control) with Shanghai Huasheng on 12 July 2008, under which Shanghai Huasheng agreed to transfer the Frozen Shares to Liancheng; and (ii) two agreements (as supplemented by the Tripartite Agreement) with Fudan Time-Control on 18 July 2008, under which Fudan Time-Control has agreed to transfer its rights in respect of the Frozen Shares and the Frozen Shares to Liancheng. Based on the PRC Legal Opinion, the Frozen Shares were released by the People’s Court of Qingpu, Shanghai on 13 August 2008, and transferred to Liancheng on 15 August 2008.

The last published financial statements of the Company are the third quarterly results of the Company for the nine months ended 30 September 2006. The Company has failed to publish its financial statements for the year ended 31 December 2006 and any financial statements thereafter in breach of the GEM Listing Rules.

Liancheng has stated in its letter to the Independent Shareholders that it intends to maintain the listing of the H Shares on GEM after the close of the H Share Offer.

The Company is in the course of preparing a resumption proposal to the Stock Exchange addressing, inter alia, that the Company (i) complies with Rule 17.26 of the GEM Listing Rules, which requires every company listed on GEM to have a sufficient level of operations or have tangible assets of sufficient value and/or intangible assets for which a sufficient potential value can be demonstrated to the Stock Exchange to warrant the continued listing of the relevant company’s securities on GEM; (ii) has in place an adequate financial reporting system and internal control procedures; (iii) has sufficient working capital for its operation; and (iv) addresses concerns raised by the Company’s auditors if any qualification arises from the audit report. Further announcement(s) will be made by the Company in this regard in compliance with the GEM Listing Rules. The Company will also need to publish all outstanding financial reports in accordance with the GEM Listing Rules before trading in the H Shares on GEM can resume. The Independent Shareholders should note that resumption of trading in the H Shares is subject to the Company being able to prepare a viable resumption proposal acceptable to and approved by the Stock Exchange. Prior to the implementation of a resumption proposal acceptable to the Stock Exchange, trading in the H Shares on GEM will remain suspended.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Pursuant to the GEM Listing Rules, the Stock Exchange may delist the Company from GEM if trading in the H Shares has been continuously suspended for a long period of time and the Company fails to take adequate actions to restore trading. The Company intends to submit to the Stock Exchange a valid resumption proposal in compliance with the applicable requirements of the GEM Listing Rules and acceptable to the Stock Exchange.

### II. FINANCIAL RESULTS AND POSITION OF THE COMPANY

#### Principal business

The Company is principally engaged in the manufacture and sale of fire fighting equipment products and provision of related processing services.

#### Income statements

Set out below are the audited income statements of the Company for each of the three years ended 31 December 2005 and the unaudited income statements of the Company for the nine months ended 30 September 2005 and 2006 (extracted from the relevant published annual reports and interim report of the Company):

	Audited for the year ended 31 December			Unaudited for the nine months ended 30 September	
	2003 RMB'000	2004 RMB'000	2005 RMB'000	2005 RMB'000	2006 RMB'000
<b>Turnover</b>	<b>48,372</b>	<b>56,050</b>	<b>66,164</b>	<b>47,496</b>	<b>31,946</b>
Cost of sales	<u>(32,641)</u>	<u>(40,276)</u>	<u>(58,696)</u>	<u>(39,665)</u>	<u>(28,155)</u>
<b>Gross profit</b>	<b>15,731</b>	<b>15,774</b>	<b>7,468</b>	<b>7,831</b>	<b>3,791</b>
Other revenues <sup>†</sup>	1,115	1,868	400	161	158
Other expenses					
Distribution costs	(1,614)	(1,196)	(4,401)	(2,302)	(1,859)
Administrative expenses	(5,711)	(6,732)	(16,497)	(3,491)	(2,793)
	<u>(7,325)</u>	<u>(7,928)</u>	<u>(20,898)</u>	<u>(5,793)</u>	<u>(4,652)</u>
<b>Profit/(Loss) from operations</b>	<b>9,521</b>	<b>9,714</b>	<b>(13,030)</b>	<b>2,199</b>	<b>(703)</b>
Finance costs	<u>(660)</u>	<u>(543)</u>	<u>(577)</u>	<u>(1,124)</u>	<u>(603)</u>
Profit/(Loss) before taxation	8,861	9,171	(13,607)	1,075	(1,306)
Taxation credit/(charge)	<u>(2,837)</u>	<u>(2,939)</u>	<u>3,695</u>	<u>(289)</u>	<u>—</u>
<b>Profit/(Loss) attributable to shareholders</b>	<b><u>6,024</u></b>	<b><u>6,232</u></b>	<b><u>(9,912)</u></b>	<b><u>786</u></b>	<b><u>(1,306)</u></b>

<sup>†</sup> Other revenues include subsidy income which arose from the amortization of a government grant of RMB1,869,000 received by the Company in 1999 and 2000 in relation to certain purchases of plant and equipment.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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No dividend has been declared by the Company since listing of the H Shares on GEM.

### Balance sheets

Set out below are the audited balance sheets of the Company as at 31 December 2003, 2004 and 2005 and the unaudited balance sheet of the Company as at 30 June 2006 (extracted from the relevant published annual reports and interim report of the Company):

	<b>Audited as at 31 December</b>			<b>Unaudited as at 30</b>
	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>June</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Non-current assets</b>				
Land use rights	852	834	816	807
Property, plant and equipment	10,724	11,001	22,593	21,964
Purchase deposit	–	12,813	–	–
Deferred tax assets	784	777	–	–
	<b>12,360</b>	<b>25,425</b>	<b>23,409</b>	<b>22,771</b>
<b>Current assets</b>				
Due from related companies	4,758	11,189	3,090	3,290
Inventories	8,011	7,275	5,724	7,321
Trade receivables, net	15,720	20,652	27,031	24,847
Prepayments, deposits and other receivables	4,366	10,166	7,470	5,598
Tax recoverable	–	–	515	–
Cash and bank balances	4,166	7,074	790	403
	<b>37,021</b>	<b>56,356</b>	<b>44,620</b>	<b>41,459</b>
<b>Current liabilities</b>				
Trade payables	9,006	12,146	15,728	14,417
Other payable and accruals	4,333	5,798	3,361	2,692
Tax payable	3,591	4,835	–	–
Due to a shareholder	1,753	973	755	399
Due to related companies	1,003	884	1,159	1,017
Short-term bank loans	8,550	8,550	8,550	8,550
	<b>28,236</b>	<b>33,186</b>	<b>29,553</b>	<b>27,075</b>

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**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

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	<b>Audited as at 31 December</b>			<b>Unaudited</b>
	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>as at 30</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<b>June</b>
				<b>2006</b>
				<i>RMB'000</i>
<b>Net current assets</b>	<b>8,785</b>	<b>23,170</b>	<b>15,067</b>	<b>14,384</b>
<b>Total assets less current liabilities</b>	21,145	48,595	38,476	37,155
<b>Non-current liabilities</b>				
Deferred revenue	1,037	830	623	519
<b>Net assets</b>	<b><u>20,108</u></b>	<b><u>47,765</u></b>	<b><u>37,853</u></b>	<b><u>36,636</u></b>
<b>Capital and Reserves</b>				
Share capital	13,187	18,743	18,743	18,743
Reserves	6,921	29,022	19,110	17,893
	<b><u>20,108</u></b>	<b><u>47,765</u></b>	<b><u>37,853</u></b>	<b><u>36,636</u></b>

After publication of the interim report of the Company for the nine months ended 30 September 2006, the Company has not published any further annual report or interim report.

**Financial performance of the Company**

For the two years ended 31 December 2003 and 2004, the Company reported revenue of approximately RMB48.4 million and approximately RMB56.1 million respectively, and net profits of approximately RMB6.0 million and approximately RMB6.2 million respectively.

For the year ended 31 December 2005, despite that the Company's revenue grew by approximately 18% to approximately RMB66.2 million, the Company reported a net loss of approximately RMB9.9 million for the year. The gross profit margin deteriorated in 2005 to approximately 11.3% from approximately 28.1% in 2004. We understand from the Company that the erosion of the gross profit margin in 2005 was attributable to, among other factors, the rising steel price at that time. Further, while the revenue of the Company grew by approximately 18% for 2005, the distribution costs and the administrative expenses of the Company rose rapidly by approximately 268% and approximately 145% respectively to approximately RMB4.4 million and RMB16.5 million respectively. The 2005 annual report of the Company explained that the increase in the distribution costs was attributable to the increase in export sales and the increase in the cost of transportation in the PRC while the increase in the administrative expenses was attributable to the compliance cost in respect of the listing of the Company on GEM and the increase in the provision for doubtful debts which amounted to RMB9.2 million in 2005. As set out in the audited financial statements of the Company for the year ended 31 December 2005, export sales of the Company represented approximately 59.1% of the total turnover of the Company as compared with approximately 46.5% for the year ended 31 December 2004.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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In addition to the loss attributable to shareholders, the Company also had a net cash outflow from operations of RMB5.7 million and an overall net cash outflow of RMB6.3 million for the same period.

It was stated in the Company's 2005 annual report that *"The Directors have been (i) in negotiations with new or existing bankers and third parties with a view to obtaining new facilities and/or renewals of the existing banking facilities granted to the Company, and (ii) closely monitoring the settlement of the Company's receivables. Provided that the Company's existing bankers renew the existing facilities, or to the extent that existing facilities are not renewed they are replaced by new facilities made available from existing or new bankers, the Directors consider the Company will have sufficient funds to support its ongoing operations. Should the Company fail to obtain the required banking facilities, the Company may not have adequate financial resources to support its ongoing operations, and therefore, adjustments would have to be made to restate the value of the Company's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify the non-current assets and liabilities as current assets and liabilities."*

Based on the unaudited income statement of the Company for the nine months ended 30 September 2006 published in the interim report of the Company, the revenue of the Company decreased by approximately 32% (when compared with the previous corresponding period) to approximately RMB31.9 million and the Company reported a net loss of approximately RMB1.3 million.

The unaudited net asset value of the Company amounted to approximately RMB36.6 million as at 30 June 2006. The net asset value of the Company per Share of RMB0.20 (equivalent to approximately HK\$0.228) as at 30 June 2006 represents a premium of approximately 5.5% over the H Share Offer Price.

The net assets and net current assets of the Company strengthened in 2004 after the fund raising under the initial public offering of the Company. A net amount of approximately HK\$20 million was raised under such initial public offering. However, the net assets and net current assets of the Company decreased after 2004. The net assets of the Company decreased from approximately RMB47.8 million as at 31 December 2004 to approximately RMB37.9 million as at 31 December 2005 and to approximately RMB36.6 million as at 30 June 2006. The net current assets of the Company also decreased from approximately RMB23.1 million as at 31 December 2004 to approximately RMB15.1 million as at 31 December 2005 and further dropped to approximately RMB14.3 million as at 30 June 2006. The cash and bank balances of the Company significantly reduced to RMB403,000 as at 30 June 2006, representing only approximately 1.4% of the total cost of sales of the Company for the six months ended 30 June 2006. This suggests a worsening position of the Company's liquid assets.

The Company has not published any further interim report or annual report since the publication of its quarterly report for the nine months ended 30 September 2006. The above financial information of the Company, including the income statements, cash flow information and balance sheets, represents the financial position and performance of the Company of more than two years ago. Accordingly, undue reliance should not be placed upon such information for the purpose of endeavouring to understand the present financial position and performance of the Company.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As at 30 June 2006, on-balance sheet debts of the Company amounted to approximately RMB10.0 million. The total on-balance sheet indebtedness of the Company as at 31 March 2009 amounted to RMB40.38 million as shown in the indebtedness statement made by the Company in the Composite Document. As at 31 March 2009, the Company also had off-balance sheet contingent liabilities of RMB29.446 million. The Independent Shareholders may refer to the indebtedness statement made by the Company in Appendix II to the Composite Document for details.

The statement of material changes after 31 December 2005 made by the Board is set out in Appendix II to the Composite Document.

Based on the statement of material changes and information provided by the Company, we note the following developments of the Company since 31 December 2005:

- Mr. Jiang is the Chairman and was a key management of the Company. It was stated in the prospectus of the Company issued in June 2004 that the Company believed that the Company's success was attributable to its key management and personnel, in particular, Mr. Jiang Zi Qiang. However, the Company has since November 2007 not been able to contact Mr. Jiang Zi Qiang and Mr. Jiang Zi Qiang has not been carrying out his duties and responsibilities as a Director and a senior management staff of the Company.
- The Company stated that it has identified after 31 December 2005 that Mr. Jiang on behalf of the Company, as borrower, entered into the Loan Agreements in 2004 and 2005 without the authorization of the Board. Under the Loan Agreements, the Company borrowed a total of RMB39 million from various financial institutions. According to the Company, as confirmed by Shanghai Huasheng, the proceeds from the Jiang's Loans had ultimately been used for the benefit of Shanghai Huasheng Group instead of the Company. As at 31 March 2009, RMB24 million (before interest) of the Jiang's Loans were still outstanding (the "Unauthorised Loans"). The Company confirms that it is negotiating with, among other parties, the various lenders and Shanghai Huasheng in respect of the repayments of the Unauthorised Loans with a view to agreeing the responsibility of Shanghai Huasheng and any haircut with the lenders. The Company is obliged to repay all the Unauthorized Loans as opined on by the Company's PRC legal adviser. If the Company has to repay the outstanding Unauthorised Loans in full of RMB24 million and any accrued interest, it may or may not be able to recover the payment from Mr. Jiang Zi Qiang and/or Shanghai Huasheng.
- The Company also stated that it has identified after 31 December 2005 that Mr. Jiang on behalf of the Company, as guarantor, entered into a number of Security Agreements in favour of some financial institutions guaranteeing and/or providing security in respect of the Shanghai High Pressure's Loans, without the authorization of the Board. As at 31 March 2009, the outstanding Shanghai High Pressure's Loans guaranteed by the Company amounted to RMB29.446 million (before interest) (the "Unauthorised Guaranteed Loans"). The Company is only one of the guarantors under the Security Agreements. Apart from a guaranteed amount of RMB7 million, lenders of all the remaining outstanding Unauthorised Guaranteed Loans of RMB22.446 million have taken legal actions against the borrower and the guarantors. Judgements have been handed down against, among others, the Company. The Company confirms that

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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it is negotiating with, among other parties, the various lenders in respect of the repayments of the Unauthorised Guaranteed Loans and that the actual amount that have to be repaid by the Company under the security agreements cannot be ascertained as at the date of this letter. Nevertheless, it should be noted that the Company is obliged to honour such unauthorized guarantees as opined on by the Company's PRC legal adviser. The Company may have to repay the outstanding Unauthorised Guaranteed Loans in full of RMB29.446 million and any accrued interest and may or may not be able to recover the payment from Mr. Jiang Zi Qiang, Shanghai High Pressure; or alternatively, the other co-guarantors in respect of the amount which shall be held responsible by them.

- The absence of Mr. Jiang, high turnover of the Company's senior management, the once tightened credit environment in the PRC and the global economic downturn have, among other factors, affected the trading position and prospects of the Company. The level of operations and sales of the Company have reduced significantly after 31 December 2005.
- The liquidity position of the Company has worsened since 31 December 2005 mainly due to the increase in the Company's indebtedness (including those unauthorized loans as described above) and the reduced scale of the Company's operations. The Company may also have to provide provisions against its receivables, inventories and some fixed assets after 31 December 2005. Independent Shareholders should also note that the Company is not in a position to ascertain all its liabilities and contingent liabilities as it has not been able to contact Mr. Jiang, who has been found to have entered into the Loan Agreements and Security Agreements on behalf of the Company without the Board's authorization.
- Apart from the Unauthorised Loans and the Unauthorised Guaranteed Loans, all debts of the Company have fallen due and are in default. The Company has also not been able to settle some of its trade payable timeously. A number of litigations have been brought by the Company's suppliers in respect of those overdue trade payable amounts. The Independent Shareholders may refer to the section headed "Litigations" set out in Appendix IV to the Composite Document for further details of the relevant litigations.
- The Company has a deficiency of net assets after having taken into account, among other things, the liabilities under the Unauthorized Loans and may require fresh capital in order to meet its various actual and contingent liabilities.

We have discussed with the Board's authorized Director in respect of the material changes of the trading and financial positions of the Company after 31 December 2005 and understand that the Company is now facing financial uncertainty and a number of difficulties.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### Prospects

After 31 December 2005, we understand that the prospects of the Company has adversely been affected by a number of reasons including (i) the increase in the financial burden of the Company as it is held responsible for repaying Unauthorized Loans (as detailed in the Company's indebtedness statement and statement of material charges in the Composite Document) which in turn led to the Company's liquidity problems; (ii) the absence of Mr. Jiang, the Chairman, from his key management role since November 2007; (iii) change in other senior management staff of the Company; and (iv) the worsened economic environment.

Mr. Jiang was formerly the controlling shareholder of Shanghai Huasheng which in turn is the former controlling shareholder of the Company. The Company used to engage Shanghai Huasheng as its export agent. We understand from the Company that it stopped engaging Shanghai Huasheng as the Company's export agency in August 2006. Since then the Company has been selling its products to, among other customers, a domestic company in the PRC which will in turn sell the Company's products overseas. The Company confirms that Mr. Jiang has ceased to hold any equity interest in Shanghai Huasheng. The Company continues to lease certain premises from Shanghai Huasheng as production facilities for a term of 10 years from 30 October 2008 to 30 October 2018.

Sales of the Company have significantly reduced after 31 December 2005. The recognition of the unauthorized borrowings may also likely lead to the recognition of significant expenses.

As set out in the letter from CIMB-GK and BOCOM, Liancheng is principally engaged in the sale of fire fighting equipment, investment and investment consultancy services (save for those restricted by the PRC government). It is the intention of Liancheng to support the development of the Company's fire-fighting equipment manufacture and sale business. It is stated in the letter from CIMB-GK and BOCOM that Liancheng has established a business network with various fire-fighting equipment dealers in the PRC. Liancheng intends to help the Company expand its scale of operation with a view to restoring its profitability, and to strengthen the shareholders' value by leveraging on the business expertise and connections of the shareholders of Liancheng, including the business relationships between Liancheng and various fire-fighting equipment dealers in the PRC. The Independent Shareholders may refer to the letter from the Offeror for more information on the biographies of the ultimate shareholders of Liancheng.

To revitalize the business of the Company, Liancheng will conduct a detailed review of the operations of the Company after the H Share Offer. Liancheng considers that it is necessary to strengthen the Company's capital base and enhance the Company's working capital and so intends that the Company may undertake fund raising exercises, including equity financing and/or debt financing as the circumstances necessitate.

We consider that there is a degree of uncertainty in respect of the future development of the Company. Liancheng, being itself a player in the fire-fighting equipment market in the PRC, acquiring a majority stake in the Company may be well-placed to help the Company restructure its business and financial position.



## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### III. H SHARE OFFER PRICE

#### Determination of the H Share Offer Price

As explained above in this letter, Liancheng has triggered a mandatory general offer obligation under Rule 26.1 of the Takeovers Code as a result of the Transfers, pursuant to which it has acquired approximately 70.36% of the outstanding voting rights in the Company.

The table below sets out details of the Transfers:

	Date of the agreement	Vendor	Number of Domestic Shares transferred	Average consideration per Domestic Share (RMB)
1	7 July 2008	Jiang Zhou, a non-executive Director	13,190,000	0.146
2	10 July 2008	Li Zheng Li, a non-executive Director	5,048,125	0.100
3	10 July 2008	Li Min Zhi, a non-executive Director	2,366,250	0.100
4	12 July 2008	Shanghai Hede	8,410,000	0.118
5	17 July 2008	Fuzhou Tung Shing	8,410,000	0.118
6	12 July 2008/ 18 July 2008	Shanghai Huasheng/ Fudan Time-Control	63,300,000	0.18957
7	15 August 2008	Tang Heng Yi, a former executive Director, whose resignation took effect from 7 May 2008	8,902,500	0.180
8	15 August 2008	Li Zheng Li, a non-executive Director	15,144,375	0.180
9	15 August 2008	Li Min Zhi, a non-executive Director	7,098,750	0.180
		Total	131,870,000	0.1688

The H Share Offer Price represents the highest consideration per Domestic Share acquired by Liancheng of RMB0.18957 among the transactions under the Transfers, which converted into HK\$0.216 at an exchange rate of RMB1 to HK\$1.1375 (being the exchange rate quoted on Bloomberg as at 15 August 2008, the date when Liancheng effectively acquired more than 30% of the outstanding voting rights in the Company and became obliged to make a mandatory general offer for all the H Shares). For the information of the Independent Shareholders, (1) as at the Latest Practicable Date, the exchange rate of RMB to HK\$ was RMB1 to HK\$1.1344 as quoted on Bloomberg, and (2) the average consideration per Domestic Share acquired by Liancheng under the Transfers is RMB0.1688.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### Share price performance of the H Shares

The H Share Offer Price of HK\$0.216 represents:

- (i) a premium of approximately 13.7% over the closing price of HK\$0.19 per H Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 9.1% over the average closing price of HK\$0.198 per H Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day; and
- (iii) a premium of approximately 8.0% over the average closing price of HK\$0.20 per H Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day.

The Independent Shareholders should note that trading in the H Shares has been suspended for over 2 years and so not much reliance should be placed upon the above comparison of the H Share Offer Price to the closing prices of the H Shares prior to trading suspension in December 2006.

The diagram below sets out the closing price per H Share since listing of the H Shares on GEM on 30 June 2004.



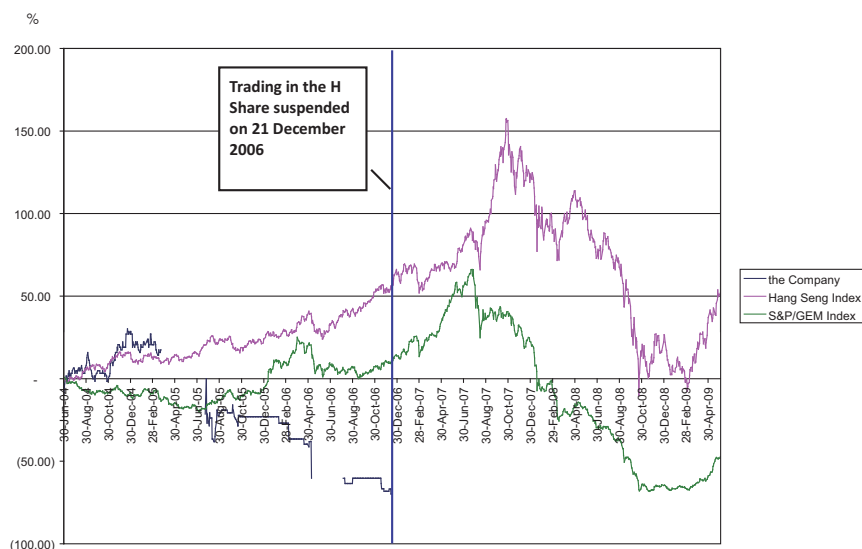
Source: Infocast

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The chart below shows the comparative performance of the closing price of the H Shares against the Hang Seng Index and the GEM Index since the listing of the H Shares on 30 June 2004.



Source: Infocast

During the period from 31 March 2005 to 27 July 2005, trading in the H Shares was suspended mainly as a result of the Company's failure to publish its financial statements in accordance with the GEM Listing Rules. Since then the market price of the H Shares had been on a downward trend. The closing price per H Share fell to HK\$0.19 on the Last Trading Day, representing a decrease of approximately 64.8% as compared with the offer price of HK\$0.54 per H Share under the Company's initial public offering in June 2004.

Since the Last Trading Day, the stock market in Hong Kong has been volatile. The Hang Seng Index and the GEM Index continued to rise to their peak in the second half of 2007 and then experienced a sharp fall in 2008 partly as a result of the world-wide financial turmoil. For the information of the Independent Shareholders, the Hang Seng Index closed at 19,240 on the Last Trading Day and at 18,680 on the Latest Practicable Date, representing a fall of approximately 2.91%; and the GEM Index closed at 1,198 on the Last Trading Day and at 570 on the Latest Practicable Date, representing a decrease of approximately 52.4%. The Independent Shareholders should note that the above information does not constitute any indication as to the likely share price performance of the H Shares had they not been suspended from trading.

### Peer comparison

The Company is principally engaged in the manufacture and sale of fire fighting equipment products and the provision of related processing services.

The Company reported an audited net loss of approximately RMB9.9 million for the year ended 31 December 2005 and an unaudited net loss of approximately RMB1.3 million for the nine months ended 30 September 2006 (being the latest published financial results of the Company). The Company has not issued any further annual report or interim report since its interim report for the nine months ended 30 September 2006.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Price-earnings ratio is a benchmark commonly used for measuring the valuation of listed manufacturing companies, like the Company. However, as the Company did not report any profit based on its latest published annual report or interim report, it is not possible to calculate the price-earnings ratio for the H Share Offer Price by dividing the market value of the Company based upon the H Share Offer Price by the latest earnings of the Company. The Independent Shareholders should study carefully the material adverse changes to the trading and financial position of the Company after 31 December 2005 as described above in this letter and in the Composite Document. It is not feasible to compare the price-earnings ratio for the H Share Offer Price with the price-earnings ratios of other publicly listed companies in Hong Kong which are engaged in business related to fire fighting equipment.

However, for the purposes of providing some reference information in relation to comparable companies listed on the Main Board or GEM, notwithstanding its very limited value, we have identified two companies listed on the Main Board which are engaged in businesses relating to fire fighting equipment. Set out below are the details in respect of such identified comparable companies:

<b>Company name</b>	<b>Stock code</b>	<b>Principal business</b>	<b>As at Latest Practicable Date</b>	
			<b>Share price</b>	<b>Price- earnings ratio</b>
China Fire Safety Enterprise Group Holdings Limited	445	Installation of fire prevention and fighting systems, production and sale of fire prevention and fighting equipment and provision of maintenance services.	HK\$0.395	14.00
GST Holdings Limited	416	Development, manufacturing, sale and installation of fire detection and control systems and security systems for residential, commercial and industrial uses.	HK\$2.69	12.12

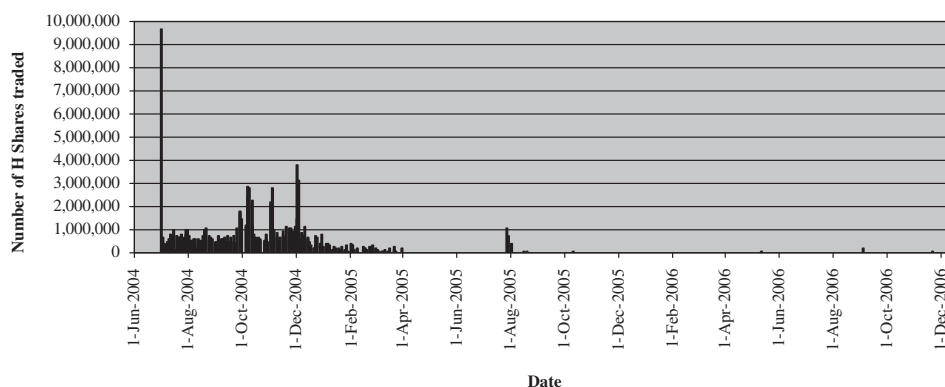
*Source: Infocast*

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### IV. LIQUIDITY OF H SHARES

55,560,000 H Shares were issued upon completion of the initial public offering of the H Shares in June 2004. The number of H Shares has remained unchanged since the Company's listing on GEM on 30 June 2004. Since 21 December 2006, trading of the H Shares on GEM has been suspended.

Set out below are details of the daily trading volumes of the H Shares during the period from 30 June 2004 (being the initial trading day of the H Shares) to 20 December 2006 (being the day before the date of suspension of trading of the H Shares):



*Source: Infocast*

Set out below is a table setting out (i) the monthly trading volumes of the H Shares and (ii) the monthly trading volumes of the H Shares as a percentage of the total number of the H Shares in issue:

Year	Month	Number of H Shares traded during the month	Total number of H Shares traded during the month as a percentage of total number of H Shares in issue
2004	June <sup>(1)</sup>	9,648,000	17.4%
	July	13,768,000	24.8%
	August	13,360,000	24.0%
	September	15,508,000	27.9%
	October	21,368,000	38.5%
	November	23,588,000	42.5%
	December	18,560,000	33.4%

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Year	Month	Number of H Shares traded during the month	Total number of H Shares traded during the month as a percentage of total number of H Shares in issue
2005	January	3,872,000	7.0%
	February	3,456,000	6.2%
	March	1,640,000	3.0%
	April <sup>(2)</sup>	–	–
	May <sup>(2)</sup>	–	–
	June <sup>(2)</sup>	–	–
	July	1,796,000	3.2%
	August	700,000	1.3%
	September	32,000	0.1%
	October	120,000	0.2%
	November	4,000	less than 0.1%
	December	–	–
2006	January	–	–
	February	–	–
	March	16,000	less than 0.1%
	April	32,000	0.1%
	May	124,000	0.2%
	June <sup>(2)</sup>	–	–
	July <sup>(2)</sup>	–	–
	August	12,000	less than 0.1%
	September	180,000	0.3%
	October	–	–
	November	124,000	0.2%
	December	172,000	0.3%

*Source: Infocast*

- (1) The H Shares were listed and commenced trading on GEM on 30 June 2004.
- (2) The trading of the H Shares remained suspended during the subject month.

During the first year of listing of the H Shares in 2004 (since the listing of H Shares on 30 June 2004), the monthly trading volume of H Shares as a percentage of the total number of H Shares in issue (the “Monthly Trading Percentage(s)”) ranged between 17% and 43%.

During the second year of listing of the H Shares in 2005, the trading volume of H Shares substantially contracted during the year. The Monthly Trading Percentage was 7% for January 2005 and declined during the year to less than 0.1% for November 2005. No trading in H Shares occurred in December 2005.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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During the third year of listing of the H Shares in 2006, the trading volume of the H Shares remained very thin. The Monthly Trading Percentages did not exceed 0.4% throughout the year.

Since 21 December 2006, the trading in the H Shares on GEM has remained suspended. As explained above, resumption of trading in the H Shares is subject to the implementation of a resumption proposal acceptable to the Stock Exchange. There is no assurance as to if and when trading in the H Shares on GEM will resume. Even if trading of H Shares resumes, there may not be a liquid market for the H Shares given the past history of thin trading liquidity.

### CONCLUSION AND RECOMMENDATION

Having considered the principal factors as discussed above, and in particular that:

- (i) the H Share Offer is a result of Liancheng acquiring a majority interest in the Company under the Transfers and the H Share Offer Price represents the highest consideration per Domestic Share paid by Liancheng pursuant to the Transfers;
- (ii) trading in the H Shares on GEM has been suspended for over 2 years since 21 December 2006 and resumption of trading in the H Shares is subject to the Company being able implement a viable resumption proposal acceptable to the Stock Exchange, and if and when trading in the H Shares on GEM can resume, it is uncertain whether there will be an active trading market for the H Shares and at what price the H Shares will trade;
- (iii) the H Share Offer Price represents a premium of approximately 8% over the average closing price of HK\$0.20 per H Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day, which was over two years ago; and
- (iv) as detailed in the statement of material changes after 31 December 2005 made by the Board as set out in Appendix II to the Composite Document, a number of material changes have occurred since 31 December 2005 which have adversely affected the Company,

we are of the opinion that the terms of the H Share Offer are fair and reasonable and advise the Independent Board Committee to recommend the Independent Shareholders to consider accepting the H Share Offer.

If the Independent Shareholders have confident in the future development and business performance of the Company through it being able to leverage on the business position and connections of Liancheng and its shareholders, and believe that such performance will be reflected in the future market price of the H Shares if there is an active open market, they may wish to consider holding onto their H Shares and not accepting the H Share Offer. However, such Independent Shareholders should carefully study the risks associated with their

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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investment in the H Shares, in particular those in respect of the uncertainty and difficulties being faced by the Company in respect of its current financial and trading positions, and the maintenance of the Company's GEM listing status. Independent Shareholders who wish to exit from their investments in the Company may wish to consider accepting the H Share Offer.

Independent Shareholders should carefully consider all factors and exercise their own judgement in respect of the merits and drawbacks of accepting or declining the H Share Offer as every H Shareholder may have different investment concerns and objectives.

We have not considered the tax implications on the Independent Shareholders of their acceptances or non-acceptances of the H Share Offer since these are particular to their own individual circumstances. In particular, the Independent Shareholders who are resident outside Hong Kong or subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax position with regard to the H Share Offer and, if in any doubt, should consult their own professional advisers.

Yours faithfully,

For and on behalf of

**OSK Capital Hong Kong Limited**

**Allen Tze**

**Jeffrey Mak**

*Director*

*Assistant Director*



**1. FURTHER PROCEDURES FOR ACCEPTANCE**

- (a) If the H Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your H Shares is/are in your name, and you wish to accept the H Share Offer, you must send the duly completed Form of Acceptance together with the relevant H Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar in accordance with the Takeovers Code.
- (b) If the H Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your H Shares is/are in the name of a nominee company or a name other than your own, and you wish to accept the H Share Offer whether in full or in respect of part of your holding of your H Shares, you must either:
- (i) lodge your H Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) with the nominee company, or other nominee, with instructions authorising it to accept the H Share Offer on your behalf and requesting it to deliver the duly completed Form of Acceptance together with the relevant H Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar; or
  - (ii) arrange for the H Shares to be registered in your name by the Company through the Registrar, and send the duly completed Form of Acceptance together with the relevant H Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar; or
  - (iii) if your H Shares have been lodged with your licensed securities dealer/registered institution in securities/custodian bank through CCASS, instruct your licensed securities dealer/registered institution in securities/custodian bank to authorise HKSCC Nominees Limited to accept the H Share Offer on your behalf on or before the deadline set by HKSCC Nominees Limited. In order to meet the deadline set by HKSCC Nominees Limited, you should check with your licensed securities dealer/registered institution in securities/custodian bank for the timing on the processing of your instruction, and submit your instruction to your licensed securities dealer/registered institution in securities/custodian bank as required by them; or

- (iv) if your H Shares have been lodged with your investor participant's account maintained with CCASS, authorise your instruction via the CCASS Phone System or CCASS Internet System on or before the deadline set out by HKSCC Nominee Limited.
- (c) If the H Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your H Shares is/are not readily available and/or is/are lost and you wish to accept the H Share Offer in respect of your H Shares, the Form of Acceptance should nevertheless be completed and delivered to the Registrar together with a letter stating that you have lost one or more of your H Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) or that it/they is/are not readily available. If you find such document(s) or if it/they become(s) available, the relevant H Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) should be forwarded to the Registrar as soon as possible thereafter. If you have lost your H Share certificate(s), you should also write to the Registrar for a letter of indemnity which, when completed in accordance with the instructions given, should be returned to the Registrar.
- (d) If you have lodged transfer(s) of any of your H Shares for registration in your name and have not yet received your H Share certificate(s), and you wish to accept the H Share Offer in respect of your H Shares, you should nevertheless complete the Form of Acceptance and deliver it to the Registrar together with the transfer receipt(s) duly signed by yourself. Such action will be deemed to be an irrevocable authority to CIMB-GK, BOCOM and/or the Offeror or their respective agent(s) to collect from the Registrar on your behalf the relevant H Share certificate(s) when issued and to deliver such certificate(s) to the Registrar as if it was/they were delivered to the Registrar with the Form of Acceptance.
- (e) Acceptance of the H Share Offer will be treated as valid only if the completed Form of Acceptance is received by the Registrar no later than 4:00 p.m. on Tuesday, 30 June 2009 or such later time and/or date as the Offeror may determine and announce with the consent of the Executive, and is:
- (i) accompanied by the relevant H Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) and, if those H Share certificate(s) is/are not in your name, such other documents in order to establish your right to become the registered holder of the relevant H Share; or
- (ii) from a registered Shareholder or his personal representative (but only up to the amount of the registered holding and only to the extent that the acceptance relates to H Shares which are not taken into account under another subparagraph of this paragraph (e)); or

(iii) certified by the Registrar or the Stock Exchange.

If the Form of Acceptance is executed by a person other than the registered Shareholder, appropriate documentary evidence of authority to the satisfaction of the Registrar must be produced.

- (f) No acknowledgement of receipt of any Form of Acceptance, H Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.
- (g) The address of the Registrar and Transfer Office is at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.

## **2. SETTLEMENT OF THE H SHARE OFFER**

Provided that the Form of Acceptance and documents for the transfer of the H Shares, and H Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) are in complete and good order and have been received by the Registrar by not later than the latest time for acceptance, a cheque for the amount due to each of the Independent Shareholders less seller's ad valorem stamp duty in respect of the H Shares tendered by them under the H Share Offer will be despatched to each of them as soon as practicable by ordinary post at their own risk but in any event within 10 days of the date on which all the relevant documents are received by the Registrar to render such acceptance complete and valid. The Offeror will then pay the stamp duty to the stamp office.

The settlement of the consideration to which any Independent Shareholder(s) is/are entitled under the H Share Offer will be satisfied in full in accordance with the terms of the H Share Offer without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such Shareholder(s).

## **3. ACCEPTANCE PERIOD AND REVISIONS**

In accordance with the Takeovers Code, the H Share Offer must initially be open for acceptance for at least 21 days following the date on which the Composite Document is posted. If, in the course of the H Share Offer, the Offeror revise the terms of the H Share Offer, all Independent Shareholders, whether or not they have already accepted the H Share Offer, will be entitled to the revised terms. The revised H Share Offer must be kept open for at least 14 days following the date on which the revised offer document is posted. The Offeror does not intend to revise the terms, or extend the period, of the H Share Offer and does not reserve the rights to do so. All Forms of Acceptance must be received by the Registrar by 4:00 p.m. on Tuesday, 30 June 2009 and the H Share Offer will close at the same time.

**4. ANNOUNCEMENT**

- (a) By 6:00 p.m. on Tuesday, 30 June 2009 (or such later time and/or date as the Executive may in exceptional circumstances permit), the Offeror must inform the Executive and the Stock Exchange of the results of the H Share Offer. The Offeror must publish an announcement on the Stock Exchange's website by 7:00 p.m. on the Closing Date stating the results of the H Share Offer.
  
- (b) The announcement must state the following:
  - (i) the total number of H Shares and rights over H Shares for which acceptances of the H Share Offer have been received;
  
  - (ii) the total number of H Shares and rights over H Shares held, controlled or directed by the Offeror or parties acting in concert with them before the Offer Period; and
  
  - (iii) the total number of H Shares and rights over H Shares acquired or agreed to be acquired during the Offer Period by the Offeror or parties acting in concert with them.

The announcement must specify the percentages of the relevant classes of the issued share capital of the Company and the percentages of voting rights represented by these numbers of Shares.

- (c) As required under the Takeovers Code, all documents in relation to the H Share Offer, in respect of which the Executive has confirmed that it has no further comments thereon, will be made in accordance with the requirements of the GEM Listing Rules.

**5. RIGHT OF WITHDRAWAL**

Acceptances of the H Share Offer tendered by the Independent Shareholders shall be irrevocable and cannot be withdrawn except in circumstances set out in Rule 19.2 of the Takeovers Code, which provides that if the Offeror is unable to comply with any of the requirements of Rule 19 of the Takeovers Code, the Executive may require that the Independent Shareholders be granted a right of withdrawal, on terms acceptable to the Executive, until such requirements can be met.

**6. STAMP DUTY**

Seller's ad valorem stamp duty at a rate of 0.1% of the market value of the H Shares or consideration payable by the Offeror in respect of the relevant acceptances of the H Share Offer, whichever is higher (at the discretion of the Collector of Stamp Duty), will be deducted from the amount payable to the relevant Independent Shareholder on acceptance of the H Share Offer. The Offeror will arrange for payment of the seller's ad valorem stamp duty on behalf of accepting Shareholders in connection with the acceptance of the H Share Offer and the transfer of the H Shares.

**7. TAXATION**

The Independent Shareholders are recommended to consult their own professional advisors if they are in any doubt as to the taxation implications of their accepting the H Share Offer. None of the Company, the Offeror, nor any of their respective directors nor any persons involved in the H Share Offer accepts responsibility for any taxation effects on, or liabilities of, any person or persons as a result of their acceptance of the H Share Offer.

**8. GENERAL**

- (a) All communications, notices, Form of Acceptance, H Shares certificate(s), transfer receipt(s), other documents of title or indemnity and remittances to settle the consideration payable under the H Share Offer to be delivered by or sent to or from the Independent Shareholders will be delivered by or sent to or from them, or their designated agents, at their own risk. None of the Company, the Offeror, CIMB-GK, BOCOM, the Registrar, nor any of their respective directors or other parties involved in the H Share Offer or any of this respective agents accepts any liability for any loss in postage or any other liabilities that may arise as a result thereof.
- (b) The provisions set out in the Form of Acceptance form part of the terms of the H Share Offer.
- (c) The accidental omission to despatch the Composite Document and/or Form of Acceptance or any of them to any person to whom the H Share Offer are made will not invalidate the H Share Offer in any way.
- (d) The H Share Offer and all acceptances will be, governed by and construed in accordance with the laws of Hong Kong. The H Share Offer is made in accordance with the Takeovers Code.
- (e) Due execution of the Form of Acceptance will constitute an authority to any of the Offeror, CIMB-GK or BOCOM or such person or persons as the Offeror, CIMB-GK or BOCOM may direct to complete and execute any document on behalf of the person accepting the H Share Offer and to do any other act that may be necessary or expedient for the purpose of vesting in the Offeror, CIMB-GK or BOCOM, or such person or persons as it may direct, the H Shares in respect of which such person has accepted the H Share Offer.

- (f) References to the H Share Offer in the Composite Document and in the Form of Acceptance shall include any revision and/or extension thereof.
- (g) Acceptance of the H Share Offer by any person or persons will be deemed to constitute a warranty by such person or persons to the Offeror, CIMB-GK or BOCOM that the H Shares acquired under the H Share Offer are sold by any such person or persons free from all liens, charges, options, claims, equities, adverse interests, rights of pre-emption, third party rights or encumbrances whatsoever and together with all rights accruing or attaching thereto as at the date of this Composite Document, including, without limitation, in the case of the H Shares, the rights to receive in full all future dividends or other distributions declared, paid or made, if any, on or after the date of this Composite Document.
- (h) The making of the H Share Offer to persons resident in any jurisdiction outside Hong Kong may be prohibited or affected by the laws of the relevant jurisdictions. The Independent Shareholders who are so resident should obtain appropriate legal advice or inform themselves about and observe any applicable legal requirements. It is the responsibility of any person who is a citizen, resident or national of a jurisdiction outside Hong Kong and who wishes to accept the H Share Offer to satisfy himself/herself/itself as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental or other consent, exchange control and any registration or filing which may be required in compliance with all necessary formalities, taxation, regulatory and/or legal requirements. Any such persons shall be fully responsible for the payment of any transfer or other taxes and duties imposed by whomsoever payable in respect of that jurisdiction. Acceptance of the H Share Offer by any such person will constitute a warranty by such person that such person is permitted under all applicable laws to accept the H Share Offer, and any revision thereof, and such acceptance shall be valid and binding in accordance with all applicable laws.
- (i) The English texts of the Composite Document and the Form of Acceptance shall prevail over the Chinese texts for the purpose of interpretation, in case of any inconsistency.

## I. FINANCIAL SUMMARY

The following table is a summary of the results of the Company for the three years ended 31 December 2005, for the six months ended 30 June 2006 and for the nine months ended 30 September 2006, extracted from the Company's (i) accountants' report for the year ended 31 December 2003 by PricewaterhouseCoopers; (ii) annual reports for the year ended 31 December 2004 and 2005 by CCIF CPA Limited and Cachet Certified Public Accountants Limited, all of which are not qualified; (iii) the interim report for the six months ended 30 June 2006; and (iv) the quarterly report for the nine months ended 30 September 2006. The following should be read together with the section headed "VI Material Changes" as set out in this appendix.

## RESULTS

	For the year ended 31 December			For the six months ended	For the nine months ended
	2003	2004	2005	30 June 2006	30 September 2006
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Unaudited)
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	48,372	56,050	66,164	20,082	31,946
Cost of sales	(32,641)	(40,276)	(58,696)	(17,668)	(28,155)
Gross profit	<u>15,731</u>	<u>15,774</u>	<u>7,468</u>	<u>2,414</u>	<u>3,791</u>
(Loss)/profit before taxation	8,861	9,171	(13,607)	(1,217)	(1,306)
Taxation	(2,837)	(2,939)	3,695	-	-
(Loss)/profit for the year	<u>6,024</u>	<u>6,232</u>	<u>(9,912)</u>	<u>(1,217)</u>	<u>(1,306)</u>
Attributable to:					
Equity holders of the Company	<u>6,024</u>	<u>6,232</u>	<u>(9,912)</u>	<u>(1,217)</u>	<u>(1,306)</u>
Dividends	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
(Loss)/earnings per share attributable to equity holders of the Company					
- Basic	<u>0.046</u>	<u>0.039</u>	<u>(0.053)</u>	<u>(0.006)</u>	<u>(0.007)</u>
- Diluted	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

Note: There was no profit or loss attributable to minority interest and no extraordinary or exceptional items during the three years ended 31 December 2003, 2004 and 2005, the six months ended 30 June 2006 and the nine months ended 30 September 2006, respectively.

**II. AUDITED FINANCIAL STATEMENTS OF THE COMPANY**

The following is the audited financial statements of the Company for the year ended 31 December 2005 as extracted from the annual report 2005 of the Company. The following should be read together with the section headed “VI Material Changes” as set out in this appendix.

**INCOME STATEMENT**

*Year ended 31 December 2005*

	<i>Note</i>	<b>2005</b> <i>RMB'000</i>	<b>2004</b> <i>RMB'000</i>
<b>TURNOVER</b>	4	66,164	56,050
<b>COST OF SALES</b>		<u>(58,696)</u>	<u>(40,276)</u>
<b>GROSS PROFIT</b>		7,468	15,774
<b>OTHER REVENUE AND GAINS</b>	4	400	1,868
<b>OTHER EXPENSES</b>			
Distribution costs		(4,401)	(1,196)
Administrative expenses		(16,497)	(6,732)
		<u>(20,898)</u>	<u>(7,928)</u>
<b>(LOSS)/PROFIT FROM OPERATIONS</b>	6	(13,030)	9,714
<b>FINANCE COSTS</b>	7	<u>(577)</u>	<u>(543)</u>
<b>(LOSS)/PROFIT BEFORE TAXATION</b>		(13,607)	9,171
<b>TAXATION CREDIT/(CHARGE)</b>	11	<u>3,695</u>	<u>(2,939)</u>
<b>(LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS</b>		<u>(9,912)</u>	<u>6,232</u>
<b>DIVIDENDS</b>		<u>–</u>	<u>–</u>
<b>(LOSS)/EARNINGS PER SHARE (RMB)</b>	12		
– Basic		(0.053)	0.039
– Diluted		<u>N/A</u>	<u>N/A</u>



## BALANCE SHEET

31 December 2005

	<i>Note</i>	<b>2005</b> <i>RMB'000</i>	<b>2004</b> <i>RMB'000</i>
<b>Non-current assets</b>			
Land use rights	<i>13</i>	816	834
Property, plant and equipment	<i>14</i>	22,593	11,001
Purchase deposit	<i>15</i>	–	12,813
Deferred tax assets	<i>11</i>	–	777
		23,409	25,425
<b>Current assets</b>			
Due from related companies	<i>24(c)</i>	3,090	11,189
Inventories	<i>16</i>	5,724	7,275
Trade receivables	<i>17</i>	27,031	20,652
Prepayments, deposits and other receivables		7,470	10,166
Tax recoverable		515	–
Cash and bank balances		790	7,074
		44,620	56,356
<b>Current liabilities</b>			
Trade payables	<i>18</i>	15,728	12,146
Other payable and accruals	<i>19</i>	3,361	5,798
Tax payable		–	4,835
Due to a shareholder	<i>24(c)</i>	755	973
Due to related companies	<i>24(c)</i>	1,159	884
Short-term bank loans	<i>20</i>	8,550	8,550
		29,553	33,186
<b>Net current assets</b>		15,067	23,170
<b>Total assets less current liabilities</b>		38,476	48,595
<b>Non-current liabilities</b>			
Deferred revenue	<i>21</i>	(623)	(830)
<b>NET ASSETS</b>		<u>37,853</u>	<u>47,765</u>
<b>CAPITAL AND RESERVES</b>			
Share capital	<i>22(a)</i>	18,743	18,743
Reserves		19,110	29,022
		<u>37,853</u>	<u>47,765</u>

## STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2005

	Share premium/ (share issuance costs)	Share capital RMB'000 (note 22(a))	Discretionary common reserve fund RMB'000 (note 23)	Statutory common welfare fund RMB'000 (note 23)	Statutory common reserve fund RMB'000 (note 23)	Retained earnings RMB'000	Total RMB'000
As at 1 January 2004	13,187	(4,959)	(2,770)	-	1,341	11,968	20,108
Issue of shares	5,556	26,252	-	-	-	-	31,808
Direct cost incurred for listing of shares on the GEM	-	(10,383)	-	-	-	-	(10,383)
Net profit for the year	-	-	-	-	-	6,232	6,232
Appropriation	-	-	207	1,500	526	(2,759)	-
As at 31 December 2004 and 1 January 2005	18,743	10,910	(2,563)	1,500	1,867	15,441	47,765
Net loss for the year	-	-	-	-	-	(9,912)	(9,912)
Appropriation	-	-	207	-	-	(207)	-
As at 31 December 2005	<u>18,743</u>	<u>10,910</u>	<u>(2,356)</u>	<u>1,500</u>	<u>1,867</u>	<u>5,322</u>	<u>37,853</u>

**CASH FLOW STATEMENT**

Year ended 31 December 2005

	<b>2005</b>	<b>2004</b>
	<i>RMB'000</i>	<i>RMB'000</i>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
(Loss)/profit before taxation	(13,607)	9,171
Adjustment for:		
Amortisation of land use rights	18	18
Depreciation of property, plant and equipment	1,275	1,029
(Gain)/loss on disposal of property, plant and equipment	(13)	645
Amortisation of government grant	(207)	(207)
Provision for/(write back of) doubtful debts	9,200	(661)
Interest income	(10)	(8)
Interest expenses	572	539
<b>OPERATING (LOSS)/PROFIT BEFORE WORKING CAPITAL CHANGES</b>		
	(2,772)	10,526
Decrease/(increase) in amounts due from related companies	8,099	(6,431)
Decrease/(increase) in prepayments, deposits and other receivables	2,696	(12,304)
Decrease in inventories	1,551	736
(Increase)/decrease in trade receivables	(15,579)	2,233
Increase in trade payables	3,582	3,140
(Decrease)/increase in other payables and accruals	(2,437)	1,465
(Increase)/decrease in amounts due to related companies	275	(119)
Decrease in amount due to a shareholder	(218)	(780)
	<u>(2,031)</u>	<u>(12,060)</u>
<b>CASH USED IN OPERATIONS</b>		
Profits tax paid	(4,803)	(1,534)
	<u>(878)</u>	<u>(1,688)</u>
<b>NET CASH USED IN OPERATING ACTIVITIES</b>		
	(5,681)	(3,222)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	10	8
Purchase of property, plant and equipment	(13,147)	(1,951)
Refund/(payment) of purchase deposit ( <i>Note 15</i> )	12,813	(12,813)
Proceeds from disposal of property, plant and equipment	293	-
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		
	(31)	(14,756)

	2005 <i>RMB'000</i>	2004 <i>RMB'000</i>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Interest paid	(572)	(539)
Inception of borrowings	8,500	8,550
Repayments of borrowings	(8,500)	(8,550)
Issue of share capital	–	31,808
Cost of issue of share capital	–	(10,383)
<b>NET CASH (USED IN)/GENERATED FROM FINANCING ACTIVITIES</b>	<u>(572)</u>	<u>20,886</u>
<b>(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>	(6,284)	2,908
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>7,074</u>	<u>4,166</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u><u>790</u></u>	<u><u>7,074</u></u>
<b>ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	<u><u>790</u></u>	<u><u>7,074</u></u>

**NOTES TO THE FINANCIAL STATEMENTS***31 December 2005***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 ("IFRS") issued by the International Accounting Standards Board (the "IASB"). The financial statements are prepared under the historical cost convention except that certain financial instruments are stated at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

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.

In the current year, the Company has adopted the new and revised Standards and Interpretations issued by the IASB and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB below, which are relevant to its operations and effective for accounting periods beginning on 1 January 2005.

IAS 1	Presentation of Financial Statements
IAS 2	Inventories
IAS 8	Accounting policies, Changes in Accounting Estimates and Errors
IAS 10	Events after the Balance Sheet Date
IAS 16	Property, Plant and Equipment
IAS 17	Leases
IAS 21	The Effects of Changes in Foreign Exchange Rates
IAS 24	Related Party Disclosures
IAS 32	Financial Instruments: Disclosure and Presentation
IAS 33	Earnings per Share
IAS 39	Financial Instruments: Recognition and Measurement

The adoption of these new and revised Standards and Interpretations has had no material effect on how the results for the current or prior accounting period are prepared. Accordingly, no prior year adjustment has been made.

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but yet effective:

IAS 1 (Amendment)	Presentation of Financial Statements – Capital Disclosures
IAS 19 (Amendment)	Employee Benefits
IAS 21 (Amendment)	Net Investment in a Foreign Operation
IAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
IAS 39 (Amendment)	The Fair Value Option
IAS 39 and IFRS 4 (Amendment)	Financial Guarantee Contracts
IFRS 1 (Amendment) and IFRS 6 (Amendment)	First-time Adoption of International Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
IFRS 6	Exploration for and Evaluation of Mineral Resources
IFRS 7	Financial Instruments: Disclosures
IFRIC 3	Emission Rights
IFRIC 4	Determining whether an Arrangement Contains a Lease
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IFRIC 6	Liabilities arising from Participating in a Special Market – Waste Electrical and Electronic Equipment
IFRIC 7	Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies
IFRIC 8	Scope of IFRS 2

The Company has commenced considering the potential impact of the above new and amendments to IFRSs but is not yet in a position to determine whether these new and amendments to IFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new and amendments to IFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

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

**(a) Going concern concept**

The Company recorded a loss attributable to shareholders of RMB9,912,000 for the year ended 31 December 2005. The Company also had a net cash outflow from operations of RMB5,681,000 and an overall net cash outflow of RMB6,284,000 for the same period. The Directors have been (i) in negotiations with new or existing bankers and third parties with a view to obtaining new facilities and/or renewals of the existing banking facilities granted to the Company, and (ii) closely monitoring the settlement of the Company's receivables.

Provided that the Company's existing bankers renew the existing facilities, or to the extent that existing facilities are not renewed they are replaced by new facilities made available from existing or new bankers, the Directors consider the Company will have sufficient funds to support its ongoing operations.

Should the Company fail to obtain the required banking facilities, the Company may not have adequate financial resources to support its ongoing operations, and therefore, adjustments would have to be made to restate the value of the Company's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify the non-current assets and liabilities as current assets and liabilities.

**(b) 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.

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

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

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.

**(d) 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.

**(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 or 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.

**(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.

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) 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.

*(iii) Processing income*

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

**(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.

**(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. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

**(i) Sales of goods**

Sales of goods are recognised when the Company has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assumed.

**(ii) Net realisable value of inventories**

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result changes in customers taste and competitor actions in response to severe industry cycles. Management reassesses the estimations by each balance sheet date.

**(iii) Trade and other receivables**

The Company's management determines the provision for impairment of trade and other receivables. This estimate is based on the credit history of its customers and the current market condition. Management reassesses the provision by each balance sheet date.

**(iv) Estimated useful lives of property, plant and equipment**

The Company's management determines the estimated useful lives for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions.

### 4. TURNOVER AND REVENUE

	2005 <i>RMB'000</i>	2004 <i>RMB'000</i>
Turnover:		
Sales of goods	66,164	53,519
Provision of processing services	–	2,531
	66,164	56,050
Other revenue and gains:		
Amortisation of government grant received relating to purchase of plant and machinery ( <i>Note 21</i> )	207	207
Interest income	10	8
Write back of provision for doubtful debts	–	661
Net foreign exchange gain	–	988
Gain on disposal of property, plant and equipment	13	–
Others	170	4
	400	1,868
Total revenue	66,564	57,918

## APPENDIX II FINANCIAL INFORMATION OF THE COMPANY

### 5. 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. An analysis of the Company's turnover by geographical segment, as determined by the location of its customers is as follows:

	<b>2005</b>	<b>2004</b>
	<i>RMB'000</i>	<i>RMB'000</i>
PRC other than Hong Kong	27,072	29,978
Europe	17,105	12,587
Hong Kong	19,864	9,530
Asia except for PRC and Hong Kong	1,585	3,801
Others	538	154
	66,164	56,050
Total	66,164	56,050

### 6. (LOSS)/PROFIT FROM OPERATIONS

(Loss)/profit from operations is arrived at after charging the following items:

	<b>2005</b>	<b>2004</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Amortisation of land use rights	18	18
Depreciation on property, plant and equipment	1,275	1,029
Auditors' remuneration	561	477
Cost of inventories sold	58,696	40,276
Loss on disposal of property, plant and equipment	–	645
Net foreign exchange loss	1,520	–
Operating lease rentals for land and buildings	246	246
Provision for doubtful debts	9,200	–
Staff costs ( <i>note 8</i> )	7,022	7,204
	7,022	7,204
	7,022	7,204

### 7. FINANCE COSTS

	<b>2005</b>	<b>2004</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Interest expenses on short-term bank loans	572	539
Others	5	4
	577	543
	577	543

## 8. STAFF COSTS

	2005 <i>RMB'000</i>	2004 <i>RMB'000</i>
Wages and salaries	5,927	5,825
Social security costs	365	397
Retirement benefit costs ( <i>Note 9</i> )	654	733
Housing subsidies	76	249
	<u>          </u>	<u>          </u>
Staff costs (including Directors' and Supervisors' emoluments – <i>note 10</i> )	<u>7,022</u>	<u>7,204</u>

## 9. 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 RMB654,000 (2004: RMB733,000). There was no forfeited contribution throughout the year.

## 10. EMOLUMENTS OF DIRECTORS, SUPERVISORS AND HIGHEST PAID INDIVIDUALS

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

	2005 <i>RMB'000</i>	2004 <i>RMB'000</i>
Basic salaries and allowances	54	27
Retirement scheme contributions	4	23
	<u>          </u>	<u>          </u>
	<u>58</u>	<u>50</u>

Details of emoluments paid to every Director and Supervisor for the year ended 31 December 2005 are set out below:

Name	Fees <i>RMB'000</i>	Other emoluments		Total <i>RMB'000</i>
		Basic salaries and allowances <i>RMB'000</i>	Retirement scheme contributions <i>RMB'000</i>	
Executive Directors				
Jiang Zi Qiang	–	–	–	–
Wang Liang Fa	–	15	2	17
Sun Hua Jie	–	20	1	21
Non-executive Directors				
Wang Zhi Yu	–	–	–	–
Jiang Zhou	–	–	–	–
Wu Tian Xin	–	–	–	–
Zhao Shu Guang	–	–	–	–
Chen Zhen Qiang	–	–	–	–
Zhou Wen Jie	–	–	–	–
Independent non-executive Directors				
Li Long Ling	–	–	–	–
Chen Wen Gui	–	–	–	–
Yang Chun Bao	–	–	–	–
Wang Guo Zhong	–	–	–	–
Supervisors				
Tang Cheng	–	–	–	–
Wang Kou Cheng	–	–	–	–
Liu Xiong De	–	19	1	20
	–	54	4	58

Details of emoluments paid to every Director and Supervisor for the year ended 31 December 2004 are set out below:

Name	Other emoluments			Total RMB'000
	Fees RMB'000	Basic salaries and allowances RMB'000	Retirement scheme contributions RMB'000	
Executive Directors				
Jiang Zi Qiang	–	–	–	–
Wang Liang Fa	–	9	8	17
Sun Hua Jie	–	9	8	17
Non-executive Directors				
Wang Zhi Yu	–	–	–	–
Jiang Zhou	–	–	–	–
Wu Tian Xin	–	–	–	–
Zhao Shu Guang	–	–	–	–
Chen Zhen Qiang	–	–	–	–
Zhou Wen Jie	–	–	–	–
Independent non-executive Directors				
Li Long Ling	–	–	–	–
Chen Wen Gui	–	–	–	–
Yang Chun Bao	–	–	–	–
Wang Guo Zhong	–	–	–	–
Supervisors				
Tang Cheng	–	–	–	–
Wang Kou Cheng	–	–	–	–
Liu Xiong De	–	9	7	16
	–	27	23	50

No emoluments were paid to other Directors of the Company during the years ended 31 December 2005 and 2004.

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

	2005 RMB'000	2004 RMB'000
Executive Directors and Supervisors	1	–
Other individuals	4	5
	5	5

- (c) Of the five individuals with the highest emoluments, one (2004: Nil) are Directors and Supervisors whose emoluments are disclosed in note 10(a). The aggregate of the emoluments in respect of the other four (2004: five) individuals are as follows:

	<b>2005</b> <i>RMB'000</i>	<b>2004</b> <i>RMB'000</i>
Basic salaries and allowances	255	189
Retirement scheme contributions	2	36
	<u>257</u>	<u>225</u>

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.

## 11. TAXATION

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

The Company is subject to the Income Tax Law of the PRC and the normal EIT rate applicable is 33%. As the Company is recognised as a HNTE and is operating and registered in the designated HNTDZ, it is entitled to a reduced EIT rate of 15%. Accordingly, the Company is subject to EIT at a rate of 15%.

In June 2005, the Company renewed its HNTE certification granted by Science & Technology Commission of Shanghai Municipality for the years of 2005 and 2006. The Company was registered in the designated HNTDZ and has obtained an approval to enjoy a preferential EIT rate of 15% since 2001. In previous years, EIT was provided at 33% on the Company’s assessable profits. The difference between the taxation provided in previous years and that charged at the preferential EIT rate of 15% was written back to the current year income statement.

No provision for Hong Kong profits tax has been made as the Company had no assessable profits arising in Hong Kong during the year (2004: Nil).

	<b>2005</b> <i>RMB'000</i>	<b>2004</b> <i>RMB'000</i>
<b>Current taxation:</b>		
Current year	8	2,932
Write back of over-provision in previous years	(4,480)	–
<b>Deferred taxation:</b>		
Current year	353	7
Attributable to change in tax rate	424	–
Tax (credit)/charge	<u>(3,695)</u>	<u>2,939</u>

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

	<b>2005</b> <i>RMB'000</i>	<b>2004</b> <i>RMB'000</i>
Balance at 1 January	777	784
Charged to income statement	<u>(777)</u>	<u>(7)</u>
Balance at 31 December	<u><u>–</u></u>	<u><u>777</u></u>

Components of deferred tax assets are as follows:

	<b>Provision for doubtful debts</b>		<b>Others</b>		<b>Total</b>	
	<b>2005</b> <i>RMB'000</i>	<b>2004</b> <i>RMB'000</i>	<b>2005</b> <i>RMB'000</i>	<b>2004</b> <i>RMB'000</i>	<b>2005</b> <i>RMB'000</i>	<b>2004</b> <i>RMB'000</i>
At 1 January	498	716	279	68	777	784
Effect of change in tax rate	(272)	–	(152)	–	(424)	–
Credited to income statement	–	(218)	–	211	–	(7)
Reversal of deferred tax assets	<u>(226)</u>	<u>–</u>	<u>(127)</u>	<u>–</u>	<u>(353)</u>	<u>–</u>
At 31 December	<u><u>–</u></u>	<u><u>498</u></u>	<u><u>–</u></u>	<u><u>279</u></u>	<u><u>–</u></u>	<u><u>777</u></u>

A potential deferred tax asset, which represents mainly temporary difference arising from tax losses carried forward, has not been recognised in the financial statements as, in the opinion of the Directors, it is uncertain that such asset will be realised in the foreseeable future. The Company has unrecognised deferred tax asset in respect of tax losses of RMB2,089,000 (2004: Nil) to carry forward against future taxable profit. These tax losses will expire in the next five years.



## APPENDIX II FINANCIAL INFORMATION OF THE COMPANY

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

	2005		2004	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
(Loss)/profit before taxation	<u>(13,607)</u>		<u>9,171</u>	
Tax at the applicable tax rate of 15% (2004: 33%)	(2,041)	15.00	3,026	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	(31)	0.22	(69)	(0.75)
– Others	(9)	0.07	(18)	(0.20)
Tax effect of unused tax losses not recognised	2,089	(15.35)	–	–
Write back of overprovision for previous years due to a change in tax rate	(4,480)	32.92	–	–
Decrease in opening deferred tax assets resulting from change in tax rate	424	(3.11)	–	–
Reversal of deferred tax assets	<u>353</u>	<u>(2.59)</u>	<u>–</u>	<u>–</u>
Tax (credit)/charge	<u>(3,695)</u>	<u>27.16</u>	<u>2,939</u>	<u>32.05</u>

### 12. (LOSS)/EARNINGS PER SHARE

The calculation of the basic (loss)/earnings per share is based on the loss attributable to shareholders of RMB9,912,000 (2004: profit attributable to shareholders of RMB6,232,000) divided by the weighted average number of shares in issue during the year of 187,430,000 (2004: 160,031,000).

Diluted (loss)/earnings per share have not been calculated as there were no dilutive potential ordinary shares during the year (2004: Nil).

### 13. LAND USE RIGHTS

	2005	2004
	<i>RMB'000</i>	<i>RMB'000</i>
Cost	900	900
Accumulated amortisation	<u>(84)</u>	<u>(66)</u>
Net book value	<u>816</u>	<u>834</u>

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.

Payments for land use rights represent prepaid lease payments for the parcels of land in which the Company's plants are located. As at 31 December 2005, the Company had no future lease payment obligations in respect of the above land use rights (2004: Nil).

As at the balance sheet date, the land use right of one of the Company's plants with a net book value of RMB666,000 (2004: RMB681,000) was pledged to secure for the Company's short-term bank loans (note 20).

## 14. PROPERTY, PLANT AND EQUIPMENT

	Construction- in-progress <i>RMB'000</i>	Buildings <i>RMB'000</i>	Machinery <i>RMB'000</i>	Furniture, fixtures and computer equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Cost</b>						
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
<b>Accumulated depreciation and impairment</b>						
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
<b>Net book value</b>						
At 31 December 2004	105	4,029	5,836	502	529	11,001
<b>Cost</b>						
At 1 January 2005	105	6,331	10,024	1,382	1,209	19,051
Additions	392	–	12,446	9	300	13,147
Transfer	(433)	382	51	–	–	–
Disposals	–	–	(302)	–	(20)	(322)
At 31 December 2005	64	6,713	22,219	1,391	1,489	31,876
<b>Accumulated depreciation and impairment</b>						
At 1 January 2005	–	2,302	4,188	880	680	8,050
Charge for the year	–	161	908	81	125	1,275
Disposals	–	–	(37)	–	(5)	(42)
At 31 December 2005	–	2,463	5,059	961	800	9,283
<b>Net book value</b>						
At 31 December 2005	64	4,250	17,160	430	689	22,593
At 31 December 2004	105	4,029	5,836	502	529	11,001

As at the balance sheet date, certain property, plant and equipment with an aggregate book value of RMB1,898,000 (2004: RMB1,807,000) were pledged as security for the Company's short-term bank loans (note 20).

#### 15. 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 RMB12,812,690 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 approximately 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 subjected 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 approximately RMB12,813,000 was classified as non-current asset in the financial statements.

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.

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 approximately RMB10,250,000. The purchase of the plant and equipment was approved by the shareholders of the Company at the extraordinary general meeting on 7 December 2005.

The deposit of approximately RMB12,813,000 was repaid by the six agents to the Company on 29 April 2005. Upon the approval of the acquisition by the shareholders on 7 December 2005, the revised consideration of approximately RMB10,250,000 was paid by the Company to SHP in December 2005.

#### 16. INVENTORIES

	2005 <i>RMB'000</i>	2004 <i>RMB'000</i>
Raw materials	2,535	2,891
Work in progress	1,827	2,771
Finished goods	1,360	1,632
Low cost consumables	188	167
	5,910	7,461
Provision for inventory obsolescence	(186)	(186)
	5,724	7,275

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

## APPENDIX II FINANCIAL INFORMATION OF THE COMPANY

### 17. TRADE RECEIVABLES

Details of the ageing analysis are as follows:

	<b>2005</b>	<b>2004</b>
	<i>RMB'000</i>	<i>RMB'000</i>
0 – 30 days	4,690	2,815
31 – 60 days	10,011	1,549
61 – 90 days	1,759	284
91 days – one year	17,968	13,289
One year to two years	3,311	2,489
Over two years	–	1,734
	37,739	22,160
Provision for doubtful debts	(10,708)	(1,508)
	27,031	20,652

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.

### 18. TRADE PAYABLES

Details of the ageing analysis are as follows:

	<b>2005</b>	<b>2004</b>
	<i>RMB'000</i>	<i>RMB'000</i>
0 – 30 days	6,228	3,701
31 – 60 days	3,816	2,740
61 – 90 days	1,438	993
91 days – one year	1,979	3,713
Over one year	2,267	999
	15,728	12,146
	15,728	12,146

### 19. OTHER PAYABLES AND ACCRUALS

Details of other payables and accruals are as follows:

	<b>2005</b>	<b>2004</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Advance from customers	231	1,301
Staff welfare payables	474	393
Others	2,656	4,104
	3,361	5,798
	3,361	5,798

**20. SHORT-TERM BANK LOANS**

	<b>2005</b> <i>RMB'000</i>	<b>2004</b> <i>RMB'000</i>
Secured	5,550	4,900
Guaranteed by:		
– Third parties	3,000	3,650
	<u>8,550</u>	<u>8,550</u>

The Company's short-term bank loans of RMB5,550,000 (2004: RMB4,900,000) were secured by a pledge of certain of the Company's land use rights (note 13) together with certain property, plant and equipment (note 14) with an aggregate net book value of RMB2,564,000 (2004: RMB2,488,000).

**21. 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:

	<b>2005</b> <i>RMB'000</i>	<b>2004</b> <i>RMB'000</i>
Balance at 1 January	830	1,037
Transfer to income statement ( <i>note 4</i> )	(207)	(207)
Balance at 31 December	<u>623</u>	<u>830</u>

**22. SHARE CAPITAL AND CAPITAL RESERVE****(a) Share capital**

Registered, issued and fully paid:

	<b>2005</b> <i>RMB'000</i>	<b>2004</b> <i>RMB'000</i>
131,870,000 domestic shares of RMB0.10 each	13,187	13,187
55,560,000 H shares of RMB0.10 each	5,556	5,556
	<u>18,743</u>	<u>18,743</u>

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 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.

Save for the liquidity restrictions imposed on domestic shares, all domestic shares and H shares of the Company rank pari passu in all other material respects.

## (b) Capital reserve

	<b>Government grant received capitalised as share capital in the PRC GAAP financial statements RMB'000</b>	<b>Reversal of revaluation surplus of property, plant and equipment RMB'000</b>	<b>Total RMB'000</b>
Balance at 1 January 2004	(1,037)	(1,733)	(2,770)
Appropriation from retained earnings	207	–	207
Balance at 31 December 2004 and 1 January 2005	(830)	(1,733)	(2,563)
Appropriation from retained earnings	207	–	207
Balance at 31 December 2005	<u>(623)</u>	<u>(1,733)</u>	<u>(2,356)</u>

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 capitalizing all the Company's then paid-in capital and reserves, calculated based on the Company's PRC GAAP financial statements.

The deficit of approximately RMB3 million in capital reserve of the Company as at 1 January 2004 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 21. 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 (2004: RMB207,000), 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 RMB1,038,000 arose in the Company's financial statements prepared under IFRS as at 1 January 2004 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.

## 23. 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 reserve 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.

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.

#### 24. 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 Zhi Qiang, a director of the Company, being a shareholder
Shanghai Qingpu Fire Hose Co., Ltd.	Subsidiary of Huasheng Enterprises
Shanghai Huasheng Aerosol Products Co., Ltd.	Subsidiary of Huasheng Enterprises
Shanghai High Pressure Container Co., Ltd. ("SHP")	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

##### (b) Transactions with related parties

	2005 RMB'000	2004 RMB'000
Sales of goods:		
– Shanghai Huasheng Aerosol Products Co., Ltd.	28	8
– Shanghai Huasheng Polymer Co., Ltd.	–	3
– Shanghai High Pressure Special Gas Cylinder Co., Ltd.	199	273
– SHP	989	844
– Shanghai Huasheng Meticulous Chemical Co., Ltd.	19	6
– Shanghai Qingpu Fire Hose Co., Ltd.	5	–
– Profit Oasis International Limited	–	9,530
	1,240	10,664
Export agency commission:		
– Huasheng Enterprises	306	744
Provision of processing services:		
– Shanghai High Pressure Special Gas Cylinder Co., Ltd.	–	2,531

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 was entitled to an export agency commission calculated at 3% of the contract value of the goods exported, which amounted to approximately RMB306,000 during the year (2004: RMB744,000). Pursuant to these agreements, the Company is entitled to all refunds of VAT for export sales.

During the year ended 31 December 2004, there were export sales of RMB9,530,000 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, as part of export sales through Huasheng Enterprises pursuant to the export sale agency agreements.

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.

	<b>2005</b> <i>RMB'000</i>	<b>2004</b> <i>RMB'000</i>
Purchase of raw materials:		
– Huasheng Enterprises	–	1,723
– SHP	968	1,005
– Shanghai Huasheng Meticulous Chemical Co., Ltd.	7	–
– Shanghai High Pressure Special Gas Cylinder Co., Ltd.	69	292
– Shanghai Hua Xin Aerosol Limited Company	–	26
– Shanghai Qingpu Fire Hose Co., Ltd.	100	51
	<u>1,144</u>	<u>3,097</u>
Purchase of property, plant and equipment:		
– SHP ( <i>note 15</i> )	10,250	–
– Shanghai Hua Xin Aerosol Limited Company	–	440
	<u>10,250</u>	<u>440</u>
Technical support expenses		
– Huasheng Enterprises	200	–
	<u>200</u>	<u>–</u>

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.



**APPENDIX II FINANCIAL INFORMATION OF THE COMPANY**

**(c) Balances with related parties**

	<b>2005</b>	<b>2004</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Purchase deposit paid to agents of SHP ( <i>note 15</i> )	–	12,813
Amounts due from related parties		
– Shanghai High Pressure Special Gas Cylinder Co., Ltd.	2,755	2,646
– Shanghai Huasheng Aerosol Products Co., Ltd.	36	19
– Shanghai Qingpu Fire Hose Co., Ltd.	299	166
– Profit Oasis International Limited	–	8,358
	<u>3,090</u>	<u>11,189</u>
Amounts due to related parties		
– SHP	927	833
– Shanghai Huasheng Meticulous Chemical Co., Ltd.	12	32
– Shanghai Hua Xin Aerosol Limited Company	220	19
	<u>1,159</u>	<u>884</u>
Amount due to a shareholder		
– Huasheng Enterprises	755	973

Other than the purchase deposit paid to agents of SHP, 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.

**(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. The operating lease agreement was renewed in October 2005 for a period of three years commencing from 30 October 2005 at a monthly rental of RMB20,468. Total rental paid to Huasheng Enterprises amounted to approximately RMB246,000 during the year ended 31 December 2005 (2004: 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.

**25. COMMITMENTS**

**(a) Capital commitments**

As at 31 December 2005, the Company had no capital commitments (2004: Capital commitments of RMB12,813,000 for the acquisition of certain plant and equipment from SHP as disclosed in note 15 to the financial statements).

**(b) Operating lease commitments**

As at 31 December 2005 and 31 December 2004, the total future minimum lease payments in respect of non-cancelable operating leases for land and buildings are as follows:

	2005 <i>RMB'000</i>	2004 <i>RMB'000</i>
Not later than 1 year	246	204
Later than 1 year and not later than 5 years	450	–
	<u>696</u>	<u>204</u>

**26. FINANCIAL INSTRUMENTS****(a) Fair values**

The carrying amounts of the cash and bank deposits, 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.

**(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 24(c)). Transactions with the 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 2005.

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 20. 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 24(b) effective from 1 January 2003, the Company started selling its products to overseas customers. Most of export sales contracts are denominated in Euro and United States dollars. The Company does not enter into any foreign exchange forward contracts to hedge its exposure to Euro and United States dollars. However, the Company's management closely monitors the fluctuation in foreign currency exchange rates, and is of the opinion that the Company's net assets denominated in Euro and United States dollars as at 31 December 2005 would not result in significant exchange loss to the Company.

## 27. COMPARATIVE FIGURES

With a review of financial statements presentation, certain items in the financial statements were reclassified which would result in a more appropriate presentation of events or transactions. Accordingly, comparative figures have been reclassified to conform with the current year's presentation.

## III INTERIM REPORT

The following is the unaudited financial statements of the Company for the six months ended 30 June 2006 as extracted from the interim report 2006 of the Company. The following should be read together with the section headed "VI Material Changes" as set out in this appendix.

## INCOME STATEMENT

	<i>Note</i>	<b>Three months ended</b>		<b>Six months ended</b>	
		<b>30th June,</b>		<b>30th June,</b>	
		<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	3	12,029	21,968	20,082	34,936
Cost of sales		<u>(10,177)</u>	<u>(18,886)</u>	<u>(17,668)</u>	<u>(28,808)</u>
Gross profit		1,852	3,082	2,414	6,128
Other revenue	3	1	1	2	4
Subsidy income	5	52	52	104	104
Distribution costs		(789)	(1,158)	(1,348)	(1,698)
Administrative expenses		<u>(1,052)</u>	<u>(2,285)</u>	<u>(2,006)</u>	<u>(3,312)</u>
Operating profit/(loss)	6	64	(308)	(834)	1,226
Finance costs	7	<u>(170)</u>	<u>(195)</u>	<u>(383)</u>	<u>(334)</u>
(Loss)/profit before taxation		(106)	(503)	(1,217)	892
Taxation	8	<u>–</u>	<u>211</u>	<u>–</u>	<u>(250)</u>
(Loss)/profit attributable to Shareholders		<u>(106)</u>	<u>(292)</u>	<u>(1,217)</u>	<u>642</u>
(Loss)/earnings per share (RMB)	10	<u>(0.001)</u>	<u>(0.002)</u>	<u>(0.006)</u>	<u>0.003</u>

## BALANCE SHEET

		<b>Unaudited As at 30th June, 2006 RMB'000</b>	<b>Audited As at 31st December, 2005 RMB'000</b>
	<i>Note</i>		
<b>Non-current assets</b>			
Lease premium for land	<i>11</i>	807	816
Property, plant and equipment		21,964	22,593
		22,771	23,409
<b>Current assets</b>			
Inventories		7,321	5,724
Trade receivables	<i>12</i>	24,847	27,031
Other receivables, deposits and prepayments		5,598	7,470
Amount due from related companies		3,290	3,090
Tax receivable		–	515
Cash and bank deposits		403	790
		41,459	44,620
<b>Current liabilities</b>			
Trade payables	<i>13</i>	14,417	15,728
Other payables and accruals		2,692	3,361
Amount due to related companies		1,017	1,159
Amount due to a shareholder		399	755
Short-term bank loans		8,550	8,550
		27,075	29,553
<b>Net current assets</b>		14,384	15,067
<b>Total assets less current liabilities</b>		37,155	38,476
<b>Non-current liabilities</b>			
Deferred revenue		519	623
<b>Net assets</b>		36,636	37,853
<b>Financed by:</b>			
Share capital	<i>14</i>	18,743	18,743
Reserves	<i>14</i>	17,893	19,110
<b>Shareholders' funds</b>		36,636	37,853

## STATEMENT OF CHANGES IN EQUITY

	Share capital <i>RMB'000</i>	Share premium <i>RMB'000</i>	Capital reserve <i>RMB'000</i>	Statutory common reserve fund <i>RMB'000</i>	Discretionary common reserve fund <i>RMB'000</i>	Statutory common welfare fund <i>RMB'000</i>	Retained earnings <i>RMB'000</i>	Total <i>RMB'000</i>
Six months ended 30th June, 2006								
Balance at 1st January, 2006	18,743	10,910	(2,356)	1,867	1,500	1,867	5,322	37,853
Net loss for the period	-	-	-	-	-	-	(1,217)	(1,217)
Appropriation	-	-	104	-	-	-	(104)	-
Balance at 30th June, 2006	<u>18,743</u>	<u>10,910</u>	<u>(2,252)</u>	<u>1,867</u>	<u>1,500</u>	<u>1,867</u>	<u>4,001</u>	<u>36,636</u>
Six months ended 30th June, 2005								
Balance at 1st January, 2005	18,743	10,910	(2,563)	1,867	1,500	1,867	15,441	47,765
Net profit for the period	-	-	-	-	-	-	642	642
Appropriation	-	-	104	-	-	-	(104)	-
Balance at 30th June, 2005	<u>18,743</u>	<u>10,910</u>	<u>(2,459)</u>	<u>1,867</u>	<u>1,500</u>	<u>1,867</u>	<u>15,979</u>	<u>48,407</u>

## CASH FLOW STATEMENT

	<b>Six months ended</b>	
	<b>30th June,</b>	
	<b>2006</b>	<b>2005</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash generated from/(used in) operating activities	385	(1,787)
Net cash (used in)/generated from investing activities	(274)	11,968
Net cash used in financing activities	(498)	(266)
Net (decrease)/increase in cash and cash equivalents	(387)	9,915
Cash and cash equivalents, at beginning of period	790	7,074
Cash and cash equivalents, at end of period	<u>403</u>	<u>16,989</u>

Notes:

## 1. GENERAL

The Company was incorporated as a joint stock company with limited liability in the People's Republic of China ("PRC") on 1st December, 2000 and its H shares were listed on the GEM on 30th June, 2004. The Company is principally engaged in manufacturing and sale of fire-fighting equipment and pressure cylinders.

## 2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed financial statements of the Company have been prepared in accordance with International Accounting Standard ("IAS") No. 34 "Interim Financial Reporting" and International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and the Rules Governing the Listing of Securities on GEM. The financial information has been prepared under the historical cost convention.

In the current period, the Company has adopted, for the first time, the following IFRSs and Interpretations issued by the IASB and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB, which are effective for the accounting year commencing on or after 1st January, 2006:

IAS 1 (Amendment)	Presentation of Financial Statements – Capital Disclosures
IAS 19 (Amendment)	Employee Benefit
IAS 21 (Amendment)	Net Investment in a Foreign Operation
IAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
IAS 39 (Amendment)	The Fair Value Option
IAS 39 and IFRS 4 (Amendment)	Financial Guarantee Contracts
IFRS 1 (Amendment) and IFRS 6 (Amendment)	First-time Adoption of International Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
IFRS 6	Exploration for and Evaluation of Mineral Resources
IFRIC 4	Determining whether an Arrangement Contains a Lease
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IFRIC 6	Liabilities arising from Participating in a Special Market – Waste Electrical and Electronic Equipment

The adoption of these IFRSs and Interpretations have not had any significant impact on the results for the current or prior accounting periods and, accordingly, no prior period adjustment has been required.

The condensed financial statements for the three months and six months ended 30th June, 2006 are unaudited, but have been reviewed by the audit committee of the Company.

The accounting policies adopted are consistent with those described in the 2005 annual financial statements.

## 3. TURNOVER AND REVENUES

The Company is principally engaged in the manufacture and sale of fire fighting equipment products and provision of the related processing services. Revenues recognized during the Relevant Periods are as follows:

	Unaudited Three months ended 30th June,		Unaudited Six months ended 30th June,	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Turnover				
Sale of goods	12,030	21,968	20,082	34,936
Provision of processing services	—	—	—	—
Total turnover	12,030	21,968	20,082	34,936
Interest income	1	1	2	4
Total revenues	<u>12,031</u>	<u>21,969</u>	<u>20,084</u>	<u>34,940</u>

## 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.

All of the Company's assets are located in the PRC. An analysis of the Company's turnover by geographical segment, as determined by the location of its customers, is as follows:

	Unaudited Three months ended 30th June,		Unaudited Six months ended 30th June,	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
PRC other than Hong Kong	10,224	10,327	17,413	14,596
Hong Kong	674	8,553	1,553	15,098
Europe	879	3,088	863	4,891
Others	253	—	253	351
Total	<u>12,030</u>	<u>21,968</u>	<u>20,082</u>	<u>34,936</u>

## 5. SUBSIDY INCOME

	Unaudited Three months ended 30th June,		Unaudited Six months ended 30th June,	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Amortization of government grant received relating to purchase of plant and equipment	<u>52</u>	<u>52</u>	<u>104</u>	<u>104</u>

## 6. OPERATING PROFIT

	Unaudited Three months ended 30th June,		Unaudited Six months ended 30th June,	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Amortization of lease premium for land	4	4	9	9
Depreciation on property, plant and equipment	352	261	703	515
Loss on disposal of property, plant and equipment	–	–	–	52
Repair and maintenance expenditures	–	24	–	24
Research and development expenditures	–	–	–	–
Amortization of government grant	(52)	(52)	(104)	(104)
Operating lease rentals for land and buildings	62	62	123	123
Provision for doubtful debts	–	–	–	–
Staff costs	642	1,979	2,960	3,376
Auditors' remuneration	283	53	283	53
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

## 7. FINANCE COSTS

	Unaudited Three months ended 30th June,		Unaudited Six months ended 30th June,	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Interest on bank borrowings wholly repayable within 5 years	169	129	312	266
Exchange loss	–	65	68	66
Others	1	1	3	2
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
	<u>170</u>	<u>195</u>	<u>383</u>	<u>334</u>



## 8. TAXATION

The Company is subject to the enterprise income tax rate of 15% on the assessable profit for the Relevant Periods in accordance with the income tax law of the PRC.

Details of taxation charged for the Relevant Periods are as follows:

	Unaudited Three months ended 30th June,		Unaudited Six months ended 30th June,	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Current taxation	–	(211)	–	250
Deferred tax credit	–	–	–	–
Tax (credit)/charge	–	(211)	–	250

Movements of deferred tax assets for the Relevant Periods are as follows:

	Unaudited Three months ended 30th June,		Unaudited Six months ended 30th June,	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Deferred tax assets, beginning of the period	–	777	–	777
Deferred tax credited to income statement	–	–	–	–
Deferred tax assets, end of the period	–	777	–	777

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:

	Unaudited Three months ended 30th June,		Unaudited Six months ended 30th June,	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
(Loss)/profit before tax	(106)	(503)	(1,217)	892
Tax at the applicable tax rate of 15% (2005: 33%)	(16)	(167)	(182)	294
Income that are not subject to tax and expenses that are not deductible for tax purposes:				
– Amortization of government grant relating to purchase of plant and equipment	–	(17)	–	(34)
– Others	–	(27)	–	(10)
Tax losses not yet recognized	16	–	182	–
Tax (credit)/charge	–	(211)	–	250

**9. DIVIDEND**

No dividend have been paid or declared by the Company during the period ended 30th June, 2006.

**10. EARNINGS (LOSS) PER SHARE**

The calculation of the loss per share for the six months ended 30th June, 2006 is based on the loss attributable to shareholders of RMB1,217,000 (profit attributable to shareholders for the six months ended 30th June, 2005: RMB642,000), and the weighted average number of approximately 187,430,000 ordinary shares (30th June, 2005: 187,430,000) in issue during the period.

Diluted earnings per share have not been calculated, as there were no dilutive potential ordinary shares during the Relevant Periods.

**11. LEASE PREMIUM FOR LAND**

Leasehold land premiums are up-front payments to acquire long-term interests in lessee-occupied properties. The premiums are stated at cost and are amortized over the period of the lease on a straightline basis to the income statement.

	<b>Unaudited 30th June, 2006 RMB'000</b>	<b>Audited 31st December, 2005 RMB'000</b>
Net book value as at 30th June and 31st December	807	816
Current portion that must be amortized within one year	(18)	(18)
	<u>789</u>	<u>798</u>
Non-current portion	<u>789</u>	<u>798</u>

**12. TRADE RECEIVABLES**

Details of the ageing analysis are as follows:

	<b>Unaudited 30th June, 2006 RMB'000</b>	<b>Audited 31st December, 2005 RMB'000</b>
0 – 30 days	2,652	4,690
31 – 60 days	2,276	10,011
61 – 90 days	802	1,759
91 days to one year	14,738	17,968
One year to two years	5,789	3,311
Over two years	996	–
	<u>27,253</u>	<u>37,739</u>
Provision for doubtful debts	(2,406)	(10,708)
	<u>24,847</u>	<u>27,031</u>

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.

**APPENDIX II FINANCIAL INFORMATION OF THE COMPANY**

**13. TRADE PAYABLES**

Details of the ageing analysis are as follows:

	<b>Unaudited 30th June, 2006 RMB'000</b>	<b>Audited 31st December, 2005 RMB'000</b>
0 – 30 days	4,436	6,228
31 – 60 days	1,768	3,816
61 – 90 days	2,012	1,438
91 days to one year	5,312	1,979
Over one year	889	2,267
	<u>14,417</u>	<u>15,728</u>

**14. SHARE CAPITAL**

**(i) Share capital**

	<b>Issued and fully paid Ordinary share of RMB0.1 each RMB</b>
	<b>No. of shares</b>
As at 30th June, 2006 and 31st December, 2005	<u>187,430,000</u> <u>18,743,000</u>

**(ii) Capital reserve**

	<b>Unaudited</b>		
	<b>Government grant received capitalized as share capital in the PRC GAAP financial statements RMB'000 Note (a)</b>	<b>Reversal of revaluation surplus of property, plant and equipment RMB'000 Note (b)</b>	<b>Total RMB'000</b>
Six months ended 30th June, 2006			
Balance at 1st January, 2006	(623)	(1,733)	(2,356)
Appropriation	104	–	104
Balance at 30th June, 2006	<u>(519)</u>	<u>(1,733)</u>	<u>(2,252)</u>
Six months ended 30th June, 2005			
Balance at 1st January, 2005	(830)	(1,733)	(2,563)
Appropriation	104	–	104
Balance at 30th June, 2005	<u>(726)</u>	<u>(1,733)</u>	<u>(2,459)</u>

As mentioned in (i) above, all of the Company's paid-in capital and reserves in 2000 were capitalized as the Company's issued share capital upon conversion into a joint stock limited company. The deficit of approximately RMB3.2 million in capital reserve of the Company as at 1st January, 2002 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 International Financial Reporting Standards ("IFRS") when the conversion took place in 2000. Such excess resulted from:

- (a) The deferred government grant of approximately RMB1,869,000 for purchase of plant and equipment. In accordance with PRC accounting regulations, this government grant was recorded as capital reserve when received, which had been subsequently capitalized 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 RMB208,000, which is equal to the annual amortization 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 RMB1,453,000 arose in the Company's financial statements prepared under IFRS as at 1st January, 2002 in this respect.
- (b) 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.

#### 15. OPERATING LEASE COMMITMENTS

As at 30th June, 2006, the total future minimum lease payments in respect of non-cancelable operating leases for land and buildings are as follows:

	<b>Unaudited</b>	
	<b>At 30th June,</b>	
	<b>2006</b>	<b>2005</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Within on year	–	82
Over one year but within 5 years	–	–
	–	82

## IV QUARTERLY REPORT

The following is the unaudited financial statements of the Company for the nine months ended 30 September 2006 as extracted from the third quarterly report of the Company. The following extract should be read together with the section headed “VI Material Changes” as set out in Appendix II – Financial Information of the Company of this Composite Document.

## INCOME STATEMENT

	<i>Notes</i>	Unaudited nine months ended 30 September		Unaudited three months ended 30 September	
		2006 <i>RMB'000</i>	2005 <i>RMB'000</i>	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
Turnover	3	31,946	47,496	11,864	12,560
Cost of sales		<u>(28,155)</u>	<u>(39,665)</u>	<u>(10,487)</u>	<u>(10,857)</u>
Gross profit		3,791	7,831	1,377	1,703
Other revenues	3	2	5	–	1
Subsidy income	4	156	156	52	52
Distribution costs		<u>(1,859)</u>	<u>(2,302)</u>	<u>(511)</u>	<u>(604)</u>
Administrative expenses		<u>(2,793)</u>	<u>(3,491)</u>	<u>(787)</u>	<u>(179)</u>
Operating (loss)/profit		(703)	2,199	131	973
Finance costs	5	<u>(603)</u>	<u>(1,124)</u>	<u>(220)</u>	<u>(790)</u>
(Loss)/profit before taxation		(1,306)	1,075	(89)	183
Taxation	6	<u>–</u>	<u>(289)</u>	<u>–</u>	<u>(39)</u>
(Loss)/profit attributable to shareholders		<u><u>(1,306)</u></u>	<u><u>786</u></u>	<u><u>(89)</u></u>	<u><u>144</u></u>
(Loss)/earnings per share (RMB)	7	<u><u>(0.007)</u></u>	<u><u>0.004</u></u>	<u><u>(0.001)</u></u>	<u><u>0.001</u></u>

Notes:

## 1. GENERAL

The Company was incorporated as a joint stock company with limited liability in the People's Republic of China ("PRC") on 1 December 2000 and its H shares were listed on the GEM on 30 June 2004. The Company is principally engaged in manufacturing and sale of fire-fighting equipment and pressure cylinders.

## 2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed financial statements of the Company have been prepared in accordance with International Accounting Standard ("IAS") No. 34 "Interim Financial Reporting" and International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and the Rules Governing the Listing of Securities on GEM. The financial information has been prepared under the historical cost convention.

In the current period, the Company has adopted, for the first time, the following IFRSs and Interpretations issued by the IASB and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB, which are effective for the accounting year commencing on or after 1 January 2006:

IAS 1 (Amendment)	Presentation of Financial Statements – Capital Disclosures
IAS 19 (Amendment)	Employee Benefit
IAS 21 (Amendment)	Net Investment in a Foreign Operation
IAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
IAS 39 (Amendment)	The Fair Value Option
IAS 39 and IFRS 4 (Amendment)	Financial Guarantee Contracts
IFRS 1 (Amendment) and IFRS 6 (Amendment)	First-time Adoption of International Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
IFRS 6	Exploration for and Evaluation of Mineral Resources
IFRIC 4	Determining whether an Arrangement Contains a Lease
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IFRIC 6	Liabilities arising from Participating in a Special Market – Waste Electrical and Electronic Equipment

The adoption of these IFRSs and Interpretations have not had any significant impact on the results for the current or prior accounting periods and, accordingly, no prior period adjustment has been required.

The condensed financial statements for the three months and nine months ended 30 September 2006 are unaudited, but have been reviewed by the audit committee of the Company.

The accounting policies adopted are consistent with those described in the 2005 annual financial statements.

## 3. TURNOVER

The Company's turnover is derived principally from the sales of fire fighting equipment products and provision of the related processing services.

An analysis of the Company's turnover is as follows:

	Unaudited nine months ended 30 September		Unaudited three months ended 30 September	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Turnover:				
Sale of goods	31,946	47,496	11,864	12,560
Provision of processing services	—	—	—	—
Total turnover	31,946	47,496	11,864	12,560
Interest income	2	5	—	1
Total revenues	<u>31,948</u>	<u>47,501</u>	<u>11,864</u>	<u>12,561</u>

## 4. SUBSIDY INCOME

	Unaudited nine months ended 30 September		Unaudited three months ended 30 September	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Amortisation of government grant received relating to purchase of plant and equipment	<u>156</u>	<u>156</u>	<u>52</u>	<u>52</u>

## 5. FINANCE COSTS

	Unaudited nine months ended 30 September		Unaudited three months ended 30 September	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Interest expenses on bank loans repayable within 5 years	526	427	214	161
Exchange loss	73	693	5	627
Others	4	4	1	2
	<u>603</u>	<u>1,124</u>	<u>220</u>	<u>790</u>

## 6. TAXATION

The Company is subject to the enterprise income tax rate of 15% on the assessable profit for the Relevant Periods in accordance with the income tax law of the PRC.

Details of taxation charged for the Relevant Periods are as follows:

	Unaudited nine months ended 30 September		Unaudited three months ended 30 September	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Current taxation	–	221	–	(29)
Deferred tax charge	–	68	–	68
Tax charge	–	289	–	39

Movements of deferred tax assets for the Relevant Periods are as follows:

	Unaudited nine months ended 30 September		Unaudited three months ended 30 September	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Deferred tax assets, beginning of the period	–	777	–	777
Deferred tax charged to income statement	–	(68)	–	(68)
Deferred tax assets, end of the period	–	709	–	709

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

	Unaudited nine months ended 30 September		Unaudited three months ended 30 September	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
(Loss)/profit before taxation	(1,306)	1,075	(89)	183
Tax at the applicable tax rate of 15% (2005: 33%)	(196)	(355)	(13)	61
Income that are not subject to tax and expenses that are not deductible for tax purposes:				
– Amortization of government grant relating to purchase of plant and equipment	–	(51)	–	(17)
– Others	196	(15)	13	(5)
Tax charge	–	289	–	39



## 7. EARNINGS PER SHARE

The calculation of the basic earnings per share for the nine months ended 30 September 2006 was based on the loss attributable to shareholders of RMB1,306,000 (profit attributable to shareholders for nine months ended 30 September 2006: RMB786,000), and the weighted average number of approximately 187,430,000 ordinary shares (30 September 2006: 187,430,000) in issue during the period.

Diluted earning per share have not been calculated, as there were no dilutive potential ordinary shares during the Relevant Periods.

## V INDEBTEDNESS

### Borrowings

As at the close of business on 31 March 2009, being the latest practicable date for the purpose of ascertaining the information contained in the indebtedness statement prior to the printing of this circular (the “**Indebtedness Date**”), the Company had outstanding bank and other borrowings of approximately RMB40.38 million, comprising secured bank loans of approximately RMB28.65 million and amounts due to related companies of approximately RMB11.73 million. The bank loans of approximately RMB28.65 million comprises a bank loan of approximately RMB4.65 million taken out by the Company in its ordinary course of business and part of the Jiang’s Loans of RMB24 million.

According to the members of the Board (except Mr. Jiang), Mr. Jiang, the chairman of the Board, had under the name of the Company entered into the Loan Agreements with several banks in 2004 and 2005 for a total loan amount of approximately RMB39 million, and Shanghai Huasheng has confirmed that the Transferred Money had ultimately been used for the benefit of Shanghai Huasheng (which was the then controlling Shareholder) and its subsidiaries. All those transactions as contemplated under the Loan Agreements and the transfers and usage of the Transferred Money had never been considered, authorized or approved by the Board at the time when such transactions were respectively made and were not reflected in the accounting books and records or the published financial statements of the Company.

Out of the total amount of the Jiang’s Loans, during the period from 31 December 2005 to 31 March 2009, approximately RMB15 million of the Jiang’s Loans were settled, among which, a loan of approximately RMB5 million was waived by a bank and a loan of approximately RMB10 million was settled by the Company using the proceeds from the repayment of approximately RMB10 million from Shanghai Huasheng. Based on the legal opinion dated 5 June 2009 of the PRC legal adviser to the Company (the “**PRC Legal Opinions for the Company**”), the Company is liable to repay the remaining amount of the Jiang’s Loans of the principal sum of approximately RMB24 million, together with interests accrued, default interest and litigation costs thereon. The Company has the rights to seek compensation from Shanghai Huasheng and/or Mr. Jiang in respect of any amount repaid by the Company.

Since November 2007, the Company made various attempts to contact Mr. Jiang including telephone calls, physical visits or enquiry through Mr. Jiang's son but in vain. Mr. Jiang is still not contactable up to the Indebtedness Date. In the absence of Mr. Jiang and the significant turnover of management of the Company after 31 December 2005, the Directors (except Mr. Jiang) are unable to represent whether there are any other borrowings not already disclosed in this indebtedness statement.

The outstanding interest related to the Jiang's Loans, as calculated based on loan interest rate specified in the loan documents on the outstanding amount of the Jiang's Loans over the loan outstanding period up to 31 March 2009, would amount to approximately RMB5.3 million. However, the amount of interests, particularly the default interest surcharge, payable under the Jiang's Loans can only be determined after the negotiation with the lenders and accordingly, the Directors (except Mr. Jiang) are unable to estimate the total amount of all outstanding interests related to the Jiang's Loans.

### **Contingent liabilities**

According to the members of the Board (except Mr. Jiang), Mr. Jiang, under the name of the Company, had entered into certain Highest Limit Guarantee and Property Pledge Agreements and/or Guarantee Agreement (the "**Security Agreements**") with several banks during the period from December 2004 to May 2006. Pursuant to the Security Agreements, the Company, to the total extent of an aggregate sum of approximately RMB36.08 million, agreed to (i) provide guarantees, as one of the guarantors, (the "**Guarantees**") in favour of several banks for securing the loans granted by these banks to Shanghai High Pressure, a subsidiary of Shanghai Huasheng; and/or (ii) pledge the land and buildings (under three Shanghai Real Estate Ownership Certificates issued by Shanghai Municipal Housing, Land and Resources Administration Bureau (上海市房屋土地資源管理局) – Hu Fang Di (Qing) Zi (2000) Di. Nos. 006606, 006607 and Hu Fang Di (Qing) Zi (2002) Di. No. 008167) owned by the Company and situated in the PRC (the "**Pledged Land and Buildings**"), in favour of several banks for securing the loans granted by these banks to Shanghai High Pressure (the "**Shanghai High Pressure's Loans**"). The total outstanding amount of Shanghai High Pressure's Loans drawn down by Shanghai High Pressure and guaranteed by the Company amounted to approximately RMB29.446 million (before interest) as at the Indebtedness Date, representing (i) approximately RMB5.08 million in favour of Shanghai Rural Commercial Bank Co., Ltd. Huaxin branch (上海農村商業銀行股份有限公司華新支行); (ii) approximately RMB17.366 million in favour of Bank of Shanghai, Shiquan branch (上海銀行石泉支行); and (iii) approximately RMB7 million in favour of Hua Xia Bank Co., Ltd., Shanghai branch (華夏銀行股份有限公司上海分行). All the outstanding amount of the Shanghai High Pressure's Loans including principal and interests have fallen due and Shanghai High Pressure had defaulted repayment of such overdue loans drawn down by it. According to the members of the Board (except Mr. Jiang), all those transactions as contemplated under the Security Agreements had never been considered, authorized or approved by the Board at the time when such transactions were respectively made and were not reflected in the accounting books and records or the published financial statements of the Company.

As Shanghai High Pressure failed to repay the Shanghai High Pressure's Loans in accordance with the terms of the relevant loan agreements, legal proceedings were commenced against, among other parties, the Company (being the guarantor and/or security provider of such certain Shanghai High Pressure's Loans) on certain Shanghai High Pressure's Loans, details of which are disclosed in paragraphs (a) and (d) under the section headed "9. Litigation" in Appendix IV on pages IV-9 to IV-12 of this Composite Document. Based on the PRC Legal Opinions for the Company, the Company is required to fulfil its obligations under the Security Agreements in respect of the Shanghai High Pressure's Loans. The Company has the rights to seek compensation from Shanghai High Pressure and/or any other co-guarantor(s) of the relevant Shanghai High Pressure's Loans for such sum in which the co-guarantor(s) shall be held responsible (i.e. calculated on a pro-rata basis among all the guarantors for each of the Shanghai High Pressure's Loans). Alternatively, the Company has the rights to seek compensation from Mr. Jiang in respect of any actual loss suffered by the Company as a result of any payment made by the Company under each of the respective Security Agreements.

As Mr. Jiang is not contactable up to the Indebtedness Date and there has been significant turnover of management of the Company since 31 December 2005, the Directors (except Mr. Jiang) are unable to estimate the amount of contingent liabilities to be borne by the Company.

#### **Disclaimers**

As Mr. Jiang is not contactable up to the Indebtedness Date and there has been significant turnover of management of the Company since 31 December 2005, the Directors (except Mr. Jiang) are unable to represent that all transactions entered by the Company up to the Indebtedness Date have been properly included in this indebtedness statement.

Save as aforesaid and subject to the above, the Company, which has no subsidiary, did not have outstanding indebtedness as at the close of business on 31 March 2009 or any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or similar indebtedness, liabilities under acceptances, acceptance credits, debentures, mortgages, charges, finance leases or hire purchases commitments, guarantees or other contingent liabilities.

#### **VI MATERIAL CHANGES**

As at the Latest Practicable Date, the Directors (in the absence of Mr. Jiang), confirm that save for as disclosed below, they are not aware of any material change in the financial or trading position or outlook of the Company subsequent to 31 December 2005, being the date to which the last published audited financial statements of the Company were made up:

- (i) According to the members of the Board (except Mr. Jiang), Mr. Jiang, the chairman of the Board, had under the name of the Company entered into the Loan Agreements with several banks in 2004 and 2005 for a total loan amount of approximately

RMB39 million, and Shanghai Huasheng has confirmed that the Transferred Money had ultimately been used for the benefit of Shanghai Huasheng (which was the then controlling Shareholder) and its subsidiaries. All those transactions as contemplated under the Loan Agreements and the transfers and usage of the Transferred Money had never been considered, authorized or approved by the Board at the time when such transactions were respectively made and were not reflected in the accounting books and records or the published financial statements of the Company.

Since November 2007, the Company had made various attempts to contact Mr. Jiang, including telephone calls, physical visits or enquiry through Mr. Jiang's son but in vain. Mr. Jiang is still not contactable up to the Latest Practicable Date. Subject to the approval of the Board, the Company may take requisite legal actions against Mr. Jiang for the damages that he brought up to the Company because of his misconducts as mentioned above.

Out of the total amount of the Jiang's Loans, during the period from 31 December 2005 to 31 March 2009, approximately RMB15 million of the Jiang's Loans were settled, among which, a loan of approximately RMB5 million was waived by a bank and a loan of approximately RMB10 million was settled by the Company using the proceeds from the repayment of approximately RMB10 million from Shanghai Huasheng.

Out of the remaining amount of the Jiang's Loans of RMB24 million, as at the Latest Practicable Date:

- (a) judgements had been handed down on 14 June 2007 and 18 September 2007 respectively against, among other parties, the Company in respect of the defaulted loan repayment, pursuant to the loan agreement dated 11 March 2005, entered into between Mr. Jiang under the name of the Company and Agricultural Bank of China, Shanghai Jingan branch (中國農業銀行上海市靜安支行) (“**Agricultural Bank**”). Pursuant to the aforesaid agreement, Agricultural Bank agreed to grant a loan in the principal sum of approximately RMB20 million to the Company for a period commencing from 11 March 2005 and expiring on 7 March 2006. Under the judgements, the Company was ordered to make repayment on such sum (including the principal amount of the loan, interest accrued and default interest thereon) owed by the Company under the loan agreement; and
- (b) the Company has not repaid a loan in the principal sum of approximately RMB4 million under a loan agreement dated 6 June 2005 entered into between Mr. Jiang under the name of the Company and China Construction Bank Co., Limited, Shanghai fourth branch (中國建設銀行股份有限公司上海第四支行) (“**Construction Bank**”) on the repayment due date (i.e. 3 December 2005), and as a result of such default, Construction Bank is entitled to commence legal action against the Company to demand the repayment of such sum (including

the principal amount of the loan and interest accrued thereon) owed by the Company under the loan agreement dated 6 June 2005. As at the Latest Practicable Date, no legal action has been commenced against the Company by Construction Bank in respect of the aforesaid matter.

Based on the PRC Legal Opinions for the Company, the Company is liable to repay the above remaining amount of the Jiang's Loans of the principal sum of approximately RMB24 million, together with interests accrued, default interest and litigation costs thereon. The Company has the rights to seek compensation from Shanghai Huasheng and/or Mr. Jiang in respect of any amount repaid by the Company.

- (ii) According to the members of the Board (except Mr. Jiang), Mr. Jiang, under the name of the Company, had entered into the Security Agreements with several banks during the period from December 2004 to May 2006. Pursuant to the Security Agreements, the Company, to the total extent of an aggregate sum of approximately RMB36.08 million, agrees to (i) provide the Guarantees, as one of the guarantors, in favour of several banks for securing the loans granted by these banks to Shanghai High Pressure, a subsidiary of Shanghai Huasheng; and/or (ii) pledge the Pledged Land and Buildings (under three Shanghai Real Estate Ownership Certificates issued by Shanghai Municipal Housing, Land and Resources Administration Bureau (上海市房屋土地資源管理局) – Hu Fang Di (Qing) Zi (2000) Di. Nos. 006606, 006607 and Hu Fang Di (Qing) Zi (2002) Di. No. 008167) owned by the Company and situated in the PRC, in favour of several banks for securing the Shanghai High Pressure's Loans. The total outstanding amount of Shanghai High Pressure's Loans drawn down by Shanghai High Pressure and guaranteed by the Company amounted to approximately RMB29.446 million (before interest) as at 31 March 2009 comprises:
- (a) the outstanding sum (before interest) of approximately RMB17.366 million owed by Shanghai High Pressure under the loan agreement dated 29 December 2004, which sum is secured by the guarantee dated 29 December 2004 given by the Company, as one of the guarantors, in favour of Bank of Shanghai, Shiquan branch (上海銀行石泉支行);
- (b) the outstanding sums (before interest) totalling approximately RMB5.08 million owed by Shanghai High Pressure under two loan agreements, both dated 21 September 2005, which sum is secured by the Company's land and buildings located at No. 777 Da Jie, Chonggu Town, Qingpu District, Shanghai City, the PRC (i.e. the subject matter under the Shanghai Real Estate Ownership Certificates issued by Shanghai Municipal Housing, Land and Resources Administration Bureau (上海市房屋土地資源管理局) – Hu Fang Di (Qing) Zi (2000) Di. Nos. 006606 and 006607) under two Highest Limit Guarantee and Property Pledge Agreements executed in favour of Shanghai Rural Commercial Bank Co., Ltd. Huaxin branch (上海農村商業銀行股份有限公司華新支行) on 16 September 2005; and

- (c) the outstanding sum (to the extent of an aggregate sum of approximately RMB7 million) owed by Shanghai High Pressure under the loan agreement dated 26 May 2006 (as supplemented by the loan extension agreement dated 31 May 2007), which sum is secured by the Company's buildings and land (Lot Nos.: Qiu 5-9, Huaxing Town, Qingpu District) located at Huaxin Town, Qingpu District, Shanghai City, the PRC (i.e. the subject matter under the Shanghai Real Estate Ownership Certificates issued by Shanghai Municipal Housing, Land and Resources Administration Bureau (上海市房屋土地资源管理局) – Hu Fang Di (Qing) Zi Di No. 008167) under the two Highest Limit Guarantee and Property Pledge Agreements, both dated 24 May 2006, in favour of Hua Xia Bank Co., Ltd., Shanghai branch (華夏銀行股份有限公司上海分行).

According to the members of the Board (except Mr. Jiang), all those transactions as contemplated under the Security Agreements had never been considered, authorized or approved by the Board at the time when such transactions were respectively made and were not reflected in the accounting books and records or the published financial statements of the Company.

All the outstanding amount of the Shanghai High Pressure's Loans including principal and interests have fallen due and Shanghai High Pressure had defaulted repayment of such overdue loans drawn down by it.

As Shanghai High Pressure had failed to repay the Shanghai High Pressure's Loans in accordance with the terms of the relevant loan agreements, legal proceedings in respect of certain Shanghai High Pressure's Loans as disclosed in (a) and (b) above were commenced against, among other parties, the Company (being the guarantor and/or security provider of such certain Shanghai High Pressure's Loans) and judgement had been handed down on 8 February 2007 and 11 December 2007 respectively.

Based on the PRC Legal Opinions for the Company, the Company is required to fulfil its obligations under the Security Agreements in respect of the Shanghai High Pressure's Loans. However, the Company has the rights to seek compensation from Shanghai High Pressure and/or any other co-guarantor(s) of the relevant Shanghai High Pressure's Loans for such sum in which the co-guarantor(s) shall be held responsible (i.e. calculated on a pro-rata basis among all the guarantors for each of the Shanghai High Pressure's Loans). Alternatively, the Company has the rights to seek compensation from Mr. Jiang in respect of any actual loss suffered by the Company as a result of any payment made by the Company under each of the respective Security Agreements. To the best knowledge of the Directors (except Mr. Jiang), the borrower is negotiating the settlement terms with the lenders for a possible hair-cut both in terms of the principal amount and the interests of the above Shanghai High Pressure's Loans, the final settlement amount has not been reached as at the Latest Practicable Date. Therefore, the Company, being one of the guarantors, is unable to quantify the amount of principal together with interests and costs and the amounts were classified as the contingent liabilities instead of liabilities of the Company.

As Mr. Jiang is not contactable up to the Latest Practicable Date and there has been significant turnover of management of the Company since 31 December 2005, the Directors (except Mr. Jiang) are unable to (i) represent that all transactions entered by the Company in respect of bank borrowings up to the Latest Practicable Date have been properly included in the books and records of the Company; and (ii) estimate the amount of contingent liabilities to be borne by the Company.

- (iii) the total indebtedness and the contingent liabilities of the Company have increased substantially after 31 December 2005 (i.e. the date to which the last published audited financial statements of the Company were made up) (including those borrowings and contingent liabilities mentioned in paragraphs (i) and (ii) above);
- (iv) due to events as mentioned in paragraphs (i) and (ii) above and the lack of working capital of the Company, the Company had encountered difficulties in repaying the sums owed under the loan agreements entered into by the Company in its ordinary course of business of approximately RMB4.65 million and by Mr. Jiang under the name of the Company in the sum of approximately RMB24 million as mentioned in paragraph (i) above, fulfilling its obligations under the Security Agreements in the sum of approximately RMB29.466 million as mentioned in paragraph (ii) above and settling the amounts due to related companies of approximately RMB11.73 million as well as accounts and other payables, and had been involved in a number of litigations as set out in the section headed “9. Litigation” in Appendix IV on pages IV-9 to IV-12 of this Composite Document. In addition, the land and buildings (under Shanghai Real Estate Ownership Certificates issued by Shanghai Municipal Housing, Land and Resources Administration Bureau (上海市房屋土地資源管理局) – Hu Fang Di (Qing) Zi (2000) Di. Nos. 006606, 006607, 006608 and Hu Fang Di (Qing) Zi (2002) Di. No. 008167) (the “**Frozen Properties**”), which are owned by the Company and form part of the Company’s production facilities, were subject to the first freezing measures imposed by Shanghai No. 2 Intermediate People’s Court (上海市第二中級人民法院). Further, amongst the Frozen Properties, the land and buildings (under Shanghai Real Estate Ownership Certificates issued by Shanghai Municipal Housing, Land and Resources Administration Bureau (上海市房屋土地資源管理局) – Hu Fang Di (Qing) Zi (2000) Di. Nos. 006607 and 006608) were subject to the second freezing measures imposed by the People’s Court of Qingpu, Shanghai (上海市青浦區人民法院). As a result, the Company can only use but not transfer or mortgage the Frozen Properties;
- (v) due to the lack of working capital, significant turnover of management, the litigations against the Company, as well as the recent global economic crisis, the operations and trading activities of the Company had been significantly reduced since 31 December 2005;
- (vi) the Company may consider making material impairment or provision or write-off of inventory, accounts receivable and fixed assets;

(vii) subject to final audit by the auditors of the Company, the recognition of the Jiang's Loans after 31 December 2005 may likely result in the recognition of the Jiang's Loans to the extent not recoverable from Shanghai Huasheng or any other parties as expenses in the income statements of the Company, and further expenses may be recognised by the Company if any of the contingent liabilities stated in paragraph (ii) above crystallises; and

(viii) the Company had consequently become in a deficiency in net asset position; additional funding is required for the Company to continue its existing operation.

\* *For identification purpose only*



*The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this circular received from RHL Appraisal Ltd., an independent valuer, in connection with its valuation as at 31 March 2009 of the property interests held by Shanghai Qingpu Fire-Fighting Equipment Co., Ltd.*

**永利竹 評估顧問有限公司 | RHL Appraisal Ltd**

Surveying Practices - Corporate Valuation and Property Consultancy  
License No.: C-015672

Room 1010, Star House  
Tsimshatsui  
Kowloon  
Hong Kong

9 June 2009

The Directors

**Shanghai Qingpu Fire-Fighting Equipment Co., Ltd.**

Room 1005B, 10th Floor, Empire Centre  
68 Mody Road, Tsim Sha Tsui East  
Kowloon

The Directors

**Liancheng Fire Protection Group (Hong Kong) Company Limited**

East 17 Floor, Julong Building  
No. 9 Hangda Road, Hangzhou City  
Zhejiang Province  
The PRC

Dear Sirs,

**INSTRUCTIONS**

We were instructed jointly by Shanghai Qingpu Fire-Fighting Equipment Co., Ltd. (referred to as the “Company”) and Liancheng Fire Protection Group (Hong Kong) Company Limited to value the property interests held by the Company in the People’s Republic of China (referred to as the “PRC”) in connection with the Transfers and the H Share Offer, we confirm that we have carried out property inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the property interests as at 31st March 2009 (referred to as the “Valuation Date”).

This letter which forms part of our valuation report explains the basis and methodologies of valuation, clarifying assumptions, valuation considerations, title investigation and limiting conditions of this valuation.

**BASIS OF VALUATION**

Our valuation of the property interests represents their market value which we would define as intended to mean “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion”.

**PROPERTY INTERESTS CATEGORISATION**

The property interests are categorized as follows:

Group I – Property interests held by the Company for Owner Occupation in the PRC

Group II – Property interests leased by the Company in the PRC

**VALUATION METHODOLOGIES**

In valuing the property nos.1 and 2 which are held by the Company, we have adopted a combination of the open market and depreciated replacement cost approaches in assessing the land portions of the properties interests and the buildings and structures standing on the lands respectively. Hence, the sum of the two results represents the market value of the properties interests as a whole. In the valuation of the land portions, reference has been made to the standard land price as published by the local government authority and the sales comparables in the locality. As the nature of the buildings and structures cannot be valued on the basis of market value, they have therefore been valued on the basis of their depreciated replacement cost. The depreciated replacement cost approach considers the cost to reproduce or replace in new condition the property appraised in accordance with current construction costs for similar buildings and structures in the locality, with allowance for accrued depreciation as evidenced by observed condition or obsolescence present, whether arising from physical, functional or economic causes. The depreciated replacement cost approach generally furnished the most reliable indication of value for the properties interests in the absence of a known market based on comparable sales.

We have attributed no commercial value to the property no.3 which is leased by the Company due to the prohibition against assignment and subletting or otherwise to the lack of substantial profit rents.

**VALUATION CONSIDERATIONS**

In valuing the property interests, we have complied with all the requirements contained in Chapter 8 to the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, and the HKIS Valuation Standards on Properties (First Edition 2005) published by the Hong Kong Institute of Surveyors effective 1st January 2005.

**VALUATION ASSUMPTIONS**

Our valuations have been made on the assumption that the owner sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.

We have assumed that the owner of the property interests has a free and uninterrupted right to use the property interests for the whole of the unexpired term. We have assumed that the owner of the property interests has the right to sell, mortgage, charge or otherwise disposes of the property interests to any person at a consideration without payment of any additional premium or substantial fee to government authorities.

No allowance has been made in our report for any charges, mortgages or amounts owing on any of the property interests valued nor for any expenses or taxation which may be incurred in effecting a sale. There may be potential tax liability which would arise if the properties were to be sold. Should disposal of the property interests under Group I in our report be conducted, as advised by the Company, the potential tax liabilities arising may include business tax (5% on the transaction amount), corporate income tax (25% on profit), stamp duty (0.03% on the transaction amount), land appreciation tax (30% to 60% on the net appreciated amount less deductibles) and city and river development tax (1% each on the business tax amount). Yet, unless and until completion of disposal of the PRC property interest, the amount of the PRC tax liabilities would not be quantifiable or crystallized. The Company has further confirmed that the Company has neither immediate plan nor intention to dispose of the properties. However, as such property interests have been frozen by 上海市中級人民法院 and 上海市青浦區人民法院 (for details, please refer to the section headed “9. Litigation” in Appendix IV of the composite document of the Company dated 9 June 2009), tax liabilities may be crystallized in the event such properties are sold. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

Other special assumptions of the property interests, if any, have been stated out in the footnotes of the valuation certificates attached herewith.

**TITLE INVESTIGATION**

We have been shown copies of various title documents of Certificates of Real Estate Ownership and have made relevant enquiries. However, we have not examined the original documents to verify the existing titles to the property interests in the PRC and any material encumbrances that might be attached to the property interests or any lease amendments. We have relied considerably on the information given by the Company’s PRC legal adviser – 上海市申達律師事務所, concerning the validity of the Company’s titles to the property interests.

All legal documents provided by the Company have been used for reference only. No responsibility regarding legal title to the property interests is assumed in this valuation report.

**LIMITING CONDITIONS**

We have inspected the exterior and, where possible, the interior of the property interests. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report whether the property interests are free of rot, infestation or any other structural defects. No tests were carried out on any of the services.

We have not carried out detailed site measurements to verify the correctness of the site areas in respect of the property interests but have assumed that the site areas shown on the documents handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have relied to a considerable extent on the information provided by the Company and have accepted advice given to us by the Company on such matters as statutory notices, easements, tenure, planning approvals, particulars of occupancy, site and floor areas and in the identification of the property interests.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. We have also sought confirmation from the Company that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

Liability in connection with this valuation report is limited to the client to whom this report is addressed and for the purpose for which it is carried out only. We will accept no liability to any other parties or any other purposes.

This report is to be used only for the purpose stated herein, any use or reliance for any other purpose, by you or third parties, is invalid. No reference to our name or our report in whole or in part, in any document you prepare and/or distribute to third parties may be made without written consent.

## **REMARKS**

All monetary sums stated in this report are in Renminbi (“RMB”).

Our valuations are summarized below and the valuation certificates are attached.

Yours faithfully,  
For and on behalf of  
**RHL Appraisal Ltd.**

**Serena S. W. Lau**  
FHKIS, AAPI, MRICS, RPS(GP), MBA(HKU)  
**Managing Director**

**Ian K. F. Ng**  
MBA BSc(EstMan) BSc MHKIS MRICS RPS(GP)  
**Associate Director**

*Ms. Serena S. W. Lau is a Registered Professional Surveyor with over 18 years' experience in valuation of properties in HKSAR, Macau SAR, mainland China and the Asia Pacific Region. Ms. Lau is an Associate of Australian Property Institute, a Fellow of The Hong Kong Institute of Surveyors as well as a registered real estate appraiser in the PRC.*

*Mr. Ian K. F. Ng is a Registered Professional Surveyor with over 6 years' experience in valuation of properties in HKSAR, Macau SAR and mainland China. Mr. Ng is a Professional Member of The Hong Kong Institute of Surveyors as well as a chartered surveyor of The Royal Institution of Chartered Surveyors.*

**Group I – Property interests held by the Company for Owner Occupation in the PRC**

<b>Property</b>	<b>Market value in existing state as at 31st March 2009</b>
1. Buildings and land located at No. 777 Da Jie, Chonggu Town, Qingpu District, Shanghai City, the PRC	No Commercial Value
2. Building and land (Lot Nos.: Qiu 5-9 Huaxing Town, Qingpu District) (地號：青浦區華新鎮5-9丘) located at Huaxin Town, Qingpu District, Shanghai City, the PRC	No Commercial Value
Sub-total	<u>No Commercial Value</u>

**Group II – Property interests leased by the Company in the PRC**

<b>Property</b>	<b>Market value in existing state as at 31st March 2009</b>
3. Two blocks of building located at No. 1988 Jihe Road, Huaxin Town, Qingpu District, Shanghai City, the PRC	No Commercial Value
Subtotal	<u>No Commercial Value</u>
<b>Total</b>	<u><u>No Commercial Value</u></u>

## VALUATION CERTIFICATE

## Group I – Property interests held by the Company for Owner Occupation in the PRC

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31st March 2009 RMB
1 Buildings and land located at No. 777 Da Jie, Chonggu Town, Qingpu District, Shanghai City, the PRC	The property comprises a parcel of land with a site area of approximately 18,555 square meters on which various buildings and structures (referred to as the “Buildings”) were erected and completed between 1975 and 2001.  According to the information provided by the Company, the total gross floor area of the Buildings is approximately 8,742.73 square meters. The Buildings include production factories, warehouses and composite building.  The land use rights of the property were granted for a term of 50 years for industrial use commencing on 16th October 2000 and expiring on 15th October 2050.	The property was occupied by the Company as at the Valuation Date for production purpose.	No Commercial Value

*Notes:*

- Pursuant to three Shanghai Certificates of Real Estate Ownership issued by Shanghai Municipal Housing and Land Resources and Administration Bureau – Hu Fang Di (Qing) Zi (2000) Di. Nos. 006606, 006607 and 006608, the land use rights of the property with a total site area of approximately 18,555 square meters and the building ownership rights of the property with a total gross floor area of approximately 8,742.73 square meters were granted to Shanghai Qingpu Fire-Fighting Equipment Co., Ltd. for industrial purpose. The land use rights of the property were granted for a term of 50 years commencing on 16th October 2000 and expiring on 15th October 2050. The details are as follows:

Cert. No	Block	No	GFA (Approx) (sq.m.)	Type	Storey	Expiring on
Hu Fang Di (Qing)	1	Whole Block	706.86	Factory	1	15th October 2050
Zi (200)	2	Whole Block	17.10	Factory	1	15th October 2050
Di No. 006606	3	Whole Block	70.77	Factory	1	15th October 2050
Hu Fang	1	Whole Block	11.00	Factory	1	15th October 2050
Di (Qing)	2	Whole Block	370.00	Factory	2	15th October 2050
Zi (200)	3	Whole Block	768.00	Factory	1	15th October 2050
Di No. 006607	4	Whole Block	271.00	Factory	1	15th October 2050
	5	Whole Block	53.00	Factory	1	15th October 2050
	6	Whole Block	25.00	Factory	1	15th October 2050
	7	Whole Block	58.00	Factory	1	15th October 2050
Hu Fang	1	Whole Block	462.00	Factory	1	15th October 2050
Di (Qing)	2	Whole Block	385.00	Factory	1	15th October 2050
Zi (200)	3	Whole Block	662.00	Factory	2	15th October 2050
Di No. 006608	4	Whole Block	1059.00	Factory	3	15th October 2050
	5	Whole Block	502.00	Factory	1	15th October 2050
	6	Whole Block	689.00	Factory	3	15th October 2050
	7	Whole Block	52.00	Factory	1	15th October 2050
	8	Whole Block	231.00	Factory	1	15th October 2050
	9	Whole Block	450.00	Factory	1	15th October 2050
	10	Whole Block	456.00	Factory	2	15th October 2050
	11	Whole Block	458.00	Factory	1	15th October 2050
	12	Whole Block	542.00	Factory	1	15th October 2050
	13	Whole Block	444.00	Factory	1	15th October 2050
Total GFA:			8,742.73			

2. We have attributed no commercial to the property, as based on the legal opinion, Shanghai Qingpu Fire-Fighting Equipment Co., Ltd. is not entitled to freely dispose of the property in the market. For reference purpose, we are of the opinion that the market value of the property, as at the Valuation Date, should be RMB9,900,000 based on the following assumptions:
- Shanghai Qingpu Fire-Fighting Equipment Co., Ltd. is entitled to freely lease, transfer, mortgage and dispose of the property with the residual term of its land use rights at no extra land premium or other onerous payment payable to the government; and
  - The property is not subject to any mortgage and any other encumbrances.
3. The major certificates of the property are summarized as follows:
- |                                       |     |
|---------------------------------------|-----|
| Certificates of Real Estate Ownership | Yes |
|---------------------------------------|-----|
4. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal adviser (上海市申達律師事務所), which contains, *inter alia*, the following:
- Shanghai Qingpu Fire-Fighting Equipment Co., Ltd. is entitled to occupy and use the property but not entitled to freely transfer, lease, mortgage, or dispose of the property;
  - Hu Fang Di (Qing) Zi (200) Di No. 006606, Hu Fang Di (Qing) Zi (200) Di No. 006607 and Hu Fang Di (Qing) Zi (200) Di No. 006608 of the property are subject to court orders issued by 上海第二中級人民法院, whereas Hu Fang Di (Qing) Zi (200) Di No. 006607 and Hu Fang Di (Qing) Zi (200) Di No. 006608 of the property are also subject to court orders issued by 上海市青浦區人民法院; and
  - The property is subject to mortgages in favour of Huaxin Rural Credit Cooperative of Qingpu District, Shanghai City (上海市青浦區華新農村信用合作社) and Chonggu Rural Credit Cooperative of Qingpu District, Shanghai City (上海市青浦區重固農村信用合作社).

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31st March 2009 RMB
2 Building and land (Lot Nos.: Qiu 5-9, Huaxing Town, Qingpu District) (地號：青浦區華新鎮5-9丘) located at Huaxin Town, Qingpu District, Shanghai City, the PRC	<p>The property comprises a parcel of land with site area of 4,005 square meters upon which a block of building with gross floor area of 1,833 square meters were erected and completed in about 2001.</p> <p>The land use rights of the property were granted for a term of 50 years commencing on 29th September 2002 and expiring on 28th September 2052 for industrial use.</p>	The property was occupied by the Company as at the Valuation Date for production purpose.	No Commercial Value

## Notes:

- Pursuant to a Shanghai Certificate of Real Estate Ownership issued by Shanghai Municipal Housing and Land Resources and Administration Bureau – Hu Fang Di (Qing) Zi Di No. 008167, the land use rights of the property with a site area of approximately 4,005 square meters and the building ownership rights of the property with a gross floor area of approximately 1,833 square meters were granted to Shanghai Qingpu Fire-Fighting Equipment Co., Ltd. for industrial purpose. The land use rights of the property were granted for a term of 50 years commencing on 29th September 2002 and expiring on 28th September 2052.
- We have attributed no commercial to the property, as based on the legal opinion, Shanghai Qingpu Fire-Fighting Equipment Co., Ltd. is not entitled to freely dispose of the property in the market. For reference purpose, we are of the opinion that the market value of the property, as at the Valuation Date, should be RMB4,430,000 based on the following assumptions:
  - Shanghai Qingpu Fire-Fighting Equipment Co., Ltd. is entitled to freely lease, transfer, mortgage and dispose of the property with the residual term of its land use rights at no extra land premium or other onerous payment payable to the government; and
  - The property is not subject to any mortgage and any other encumbrances.
- The major certificates of the property are summarized as follows:

Certificate of Real Estate Ownership	Yes
--------------------------------------	-----
- We have been provided with a legal opinion regarding the property interests by the Company's PRC legal adviser (上海市申達律師事務所) which contains, *inter alia*, the following:
  - Shanghai Qingpu Fire-Fighting Equipment Co., Ltd. is entitled to occupy and use the property but not entitled to freely transfer, lease, mortgage, or dispose of the property;
  - The property is subject to court orders issued by 上海市第二中級人民法院; and
  - The property is subject to a mortgage in favour of Hua Xia Bank Co., Ltd (Shanghai Branch) (華夏銀行股份有限公司上海分行).



## Group II – Property interests leased by the Company in the PRC

	<b>Property</b>	<b>Description and Tenure</b>	<b>Particulars of occupancy</b>	<b>Market value in existing state as at 31st March 2009 RMB</b>
3	Two blocks of building located at No. 1988 Jihe Road, Huaxin Town, Qingpu District, Shanghai City, the PRC	The property comprises 2 one to two-storey factory buildings with total gross floor area of approximately 2,729 square meters and completed in about 2000.  Pursuant to a Tenancy Agreement, the property has been held by the Company for a term of 10 years commencing on 30th October 2008 and expiring on 30th October 2018.	The property was occupied by the Company as at the Valuation Date for production purpose.	No Commercial Value

*Notes:*

1. Pursuant to a Tenancy Agreement entered into between the Company and 上海華盛企業(集團)有限公司 the property with a total gross floor area of approximately 2,729 square meters was leased by the Company at a monthly of RMB20,467.5 for industrial use for a term of ten years commencing on 30th October 2008 and expiring on 30th October 2018 exclusive of management fees and other outgoings.
2. As advised by the Company, the Company and 上海華盛企業(集團)有限公司 are independent third parties.
3. We have been provided with the legal opinion regarding the property interests by the Company's PRC legal advisers that the tenancy agreement in Note 1 is legally binding and valid.

## 1. RESPONSIBILITY STATEMENT

This Composite Document includes particulars given in compliance with the Takeovers code for the purpose of providing information to the Independent Shareholders with regards to the Company and the H Share Offer.

The information contained in this Composite Document relating to the H Share Offer, the Offeror and parties acting in concert with it has been supplied by the director of the Offeror. The director of the Offeror and the directors of Liancheng (including Mr. Zhou Jin Hui, Mr. Rao Jun Xi, Mr. Zhou Jin Feng, Mr. Wang Ren You and Mr. Zheng Yi Song) jointly and severally accept full responsibility for the accuracy of the information (other than information relating to the Company and its subsidiaries) contained in this Composite Document and confirm, having made all reasonable inquiries, that to the best of his knowledge, opinions expressed in this Composite Document (other than those expressed by the Directors) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statement (other than those relating to the Company and its subsidiaries) in this Composite Document misleading.

The information contained in this Composite Document (other than information relating to the H Share Offer, the Offeror and parties acting in concert with it) has been supplied by the Directors. The Directors (save for Mr. Jiang who was not contactable to give his comment on this Composite Document prior to its release) jointly and severally accept full responsibility for the accuracy of the information (other than information relating to the Liancheng HK, Liancheng and parties acting in concert with them) contained in this Composite Document and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this Composite Document (other than opinions expressed by the Liancheng HK, Liancheng and parties acting in concert with them) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statement (other than those relating to the Liancheng HK, Liancheng and parties acting in concert with them) contained in this Composite Document misleading.

## 2. SHARE CAPITAL

The authorized and issued share capital of the Company as at the Latest Practicable Date are as follows:

**Issued and fully paid:**

131,870,000 Domestic Shares of RMB0.10 each	RMB13,187,000
55,560,000 H Shares of RMB0.1 each	RMB5,556,000

All of the H Shares currently in issue rank pari passu in all respects with each other, including, in particular, as to dividends, voting rights and return of capital.

No H Shares have been issued since 31 December 2005 (being the date to which the latest published audited financial statement of the Company were made up) up to and including the Latest Practicable Date.

The Company does not have any outstanding options, warrants or derivatives or other securities which are convertible into the H Shares and/or the Domestic Shares as at the Latest Practicable Date.

### 3. DISCLOSURE OF INTERESTS

#### Interests in the Company

- (i) *Directors' and supervisors' interests and short position in the shares, underlying shares and debentures of the Company or its associated corporation*

As at the Latest Practicable Date, none of the Directors, supervisors of the Company (as if the requirements applicable to the Directors under the SFO had applied to such supervisors) or chief executive of the Company, nor their respective associates 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) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or (ii) when required, as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or (iii) as otherwise required, pursuant to Rule 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

None of the Directors have any H Shares, and therefore no Director is eligible to accept or reject the H Share Offer.

(ii) *Substantial Shareholders and other persons' interests or short positions in shares and underlying shares of the Company*

As at the Latest Practicable Date, so far as is known to the Directors and chief executive of the Company, the following persons (other than the Directors, supervisors or chief executive of the Company) had or were deemed or taken have, an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

**Long positions in Shares of the Company**

Name	Number and class of Shares	Capacity	Approximate percentage of the total number of the Domestic Shares/H Shares (as the case may be) (%)	Approximate percentage of total registered share capital of the Company (including both H Shares and Domestic Shares) (%)
Liancheng	131,870,000 Domestic Shares (Note 1)	Beneficial Owner	100	70.36
Zhou Jin Hui	131,870,000 Domestic Shares (Note 2)	Held by controlled corporation	100	70.36
Victory Investment China Group Limited	16,628,000 H Shares	Beneficial Owner	29.93	8.87

*Notes:*

- Pursuant to the First Batch Share Transfer Agreements, the Second Batch Share Transfer Agreements and the Power of Attorney, Liancheng had become the registered owner of 87,534,375 Domestic Shares after the transfers as contemplated under the First Batch Share Transfer Agreements, and will become the registered owner of a further 44,335,625 Domestic Shares after the transfers as contemplated under the Second Batch Share Transfer Agreements, and was authorized under the Power of Attorney to exercise the voting rights of 44,335,625 Domestic Shares. As a result, Liancheng is entitled to exercise the voting rights of an aggregate of 131,870,000 Domestic Shares.
- 131,870,000 Domestic Shares were held by Liancheng, which is owned by Zhejiang Hengtai Real Estate Joint Stock Co., Ltd as to 90%. By virtue of the SFO, Zhejiang Hengtai Real Estate Joint Stock Co., Ltd, which holds more than one third of voting rights of Liancheng, was deemed to be interested in the same 131,870,000 Domestic Shares held by Liancheng. Zhejiang Hengtai Real Estate Joint Stock Co., Ltd is owned as to 58% by Zhou Jin Hui. By virtue of Zhou Jin Hui's indirect interest in the Company, Zhou Jin Hui is deemed to be interested in the same 131,870,000 Domestic Shares held by Liancheng.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company was aware of any other person or corporation

(not being a Director, supervisor or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

*(iii) Other interests in the Company*

As at the Latest Practicable Date,

- (a) no subsidiary of the Company, or pension fund of the Company or of a subsidiary of the Company, owned or controlled any Shares, convertible securities, warrants, options and derivatives of the Company;
- (b) no Shares, convertible securities, warrants, options or derivatives of the Company was managed on a discretionary basis by fund managers (other than exempt fund managers) connected with the Company;
- (c) none of the professional advisers named under the section headed “Experts and consents” in this Appendix or any adviser to the Company as specified in class (2) of the definition of “associate” under the Takeovers Code (excluding exempt principal traders) owned or controlled any Shares, convertible securities, warrants, options and derivatives of the Company;
- (d) no person, who had an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Offeror or with any party acting in concert with the Offeror, owned or controlled any Shares, convertible securities, warrants, options and derivatives of the Company;
- (e) no person who had an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of “associate” under the Takeovers Code owned or controlled any Shares, convertible securities, warrants, options and derivatives of the Company;
- (f) Pursuant to the First Batch Share Transfer Agreements, the Second Batch Share Transfer Agreements and the Power of Attorney, Liancheng had become the registered owner of 87,534,375 Domestic Shares after the transfers as contemplated under the First Batch Share Transfer Agreements, and will become the registered owner of a further 44,335,625 Domestic Shares after the transfers as contemplated under the Second Batch Share Transfer Agreements, and was authorized under the Power of Attorney to exercise the voting rights of 44,335,625 Domestic Shares. As a result, Liancheng is entitled to exercise the voting rights of an aggregate of 131,870,000 Domestic Shares, representing
  - (i) the entire voting rights of all Domestic Shares in issue by the Company; and

(ii) the voting rights of approximately 70.36% of the total issued share capital of the Company as at the Latest Practicable Date. Save for the above, none the Offeror or any of its beneficial owners, the director of the Offeror nor any persons acting in concert with any of them were interested in or owned or controlled any Shares, convertible securities, warrants, options or derivatives of the Company;

- (g) no persons prior to the posting of this Composite Document, had irrevocably committed himself or herself to accept or reject the H Share Offer;
- (h) no shareholding in the Company which the Offeror nor any of the persons acting in concert with it had borrowed or lent, save for any borrowed shares which have been either on-lent or sold; and
- (i) none of the Company, nor the Directors or any parties acting in concert with them has borrowed or lent any Shares in the Company, save for any borrowed shares which have been either on-lent or sold.

*(iv) Interests in the Offeror*

As at the Latest Practicable Date, the shareholding of Liancheng is owned as to 10% by Mr. Rao Jun Xi and 90% by Zhejiang Hengtai Real Estate Joint Stock Co., Ltd, which is then owned by Mr. Zhou Jin Hui, Mr. Zhou Jin Feng, Mr. Zhou Yong Wu, Mr. Rao Jun Xi, Mr. Wang Ren You and Mr. Zheng Yi as to 58%, 20%, 16%, 3%, 2% and 1% respectively. Each of these individual is an independent third party and is not connected with any connected persons of the Company and has no prior relationship or transactions with the Company.

As at the Latest Practicable Date, the Company does not have any shares of the Offeror or convertible securities, warrants, options or derivatives in respect of such shares.

As at the Latest Practicable Date, none of the Directors have any shares of the Offeror or convertible securities, warrants, options or derivatives in respect of such shares.

#### 4. DEALINGS IN SECURITIES

##### Dealing in securities of the Company

During the Relevant Period, except for (i) the acquisition of the Domestic Shares by the Offeror pursuant to the First Batch Share Transfer Agreements and the Second Batch Share Transfer Agreements; and (ii) the disposal of the Domestic Shares by Mr. Li Zheng Li and Ms. Li Min Zhi pursuant to the First Batch Share Transfer Agreements,

- (a) neither the Company nor any of the Directors had dealt for value in any Shares, convertible securities, warrants, options and derivatives of the Company;
- (b) none of the Offeror nor any of its director had dealt in any Shares, convertible securities, warrants, options and derivatives of the Company;
- (c) none of the subsidiaries of the Company, nor any pension fund of the Company or of a subsidiary of the Company, had dealt for value in any Shares, convertible securities, warrants, options and derivatives of the Company;
- (d) none of the professional advisers named under the section headed “Experts and consents” in this Appendix or any adviser to the Company as specified in class (2) of the definition of “associate” under the Takeovers Code (excluding exempt principal traders) had dealt for value in any Shares, convertible securities, warrants, options and derivatives of the Company;
- (e) no person who had an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any of its associates by virtue of classes (1), (2), (3) and (4) of the definition of “associate” under the Takeovers Code had dealt for value in any Shares, convertible securities, warrants, options and derivatives of the Company;
- (f) None of the Offeror, the parties acting in concert with the Offeror, or persons who had an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Offeror had dealt for value in any Shares, convertible securities, warrants, options and derivatives of the Company; and
- (g) no fund managers (other than exempted fund managers) who managed funds on a discretionary basis or connected with the Company had dealt for value in any Shares, convertible securities, warrants, options and derivatives of the Company.

##### Dealing in securities of the Offeror

During the Relevant Period, neither the Company nor any of the Directors had any dealings in the shares, convertible securities, warrants, options and derivatives of the Offeror.

## 5. MARKET PRICES

Trading in the H Shares on the Stock Exchange has been suspended since 21 December 2006. In this regard, no reference is made to the closing prices per H Share as quoted on the Stock Exchange on the last Business Day in each of the calendar months and the highest and lowest prices per Share as quoted on the Stock Exchange during the Relevant Period. The closing price per Share as at 20 December 2006, being the full trading day immediately prior to the suspension of trading in Shares on the Stock Exchange, was HK\$0.19.

## 6. MATERIAL CONTRACTS

During the period within two years immediately preceding the date of the commencement of the Offer Period up to and including the Latest Practicable Date, the Company had not entered into any material contracts (not being contracts entered into in the ordinary course of business) which are or may be material.

## 7. ARRANGEMENT IN CONNECTION WITH THE H SHARE OFFER

As at the Latest Practicable Date,

- (a) no benefit (other than statutory compensation required under appropriate laws) had been given to any Director as compensation for loss of office or otherwise in connection with the H Share Offer;
- (b) no agreement or arrangement was entered into between any Director and any other person which was conditional on or dependent upon the outcome of the H Share Offer or was otherwise connected with the H Share Offer;
- (c) save for the First Batch Share Transfer Agreements and Second Batch Share Transfer Agreements, no material contract was entered into by the Offeror in which any Director had a material personal interest;
- (d) there was no agreement, arrangement or understanding existed whereby any securities to be acquired pursuant to the H Share Offer will be transferred, charged or pledged to any other persons;
- (e) save for the First Batch Share Transfer Agreements and Second Batch Share Transfer Agreements, there is no agreement, arrangement or understanding (including any compensation arrangement) between the Offeror or any person acting in concert with it and any Directors, recent Directors, Shareholders or recent Shareholders having any connection with or was dependent the H Share Offer or otherwise connected therewith;
- (f) there was no agreement or arrangement to which the Offeror was a party which related to the circumstances in which it might or might not invoke or seek to invoke a condition to the H Share Offer;



- (g) no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code existed between the Offeror, the board of directors of the Offeror, their respective associates or any parties acting in concert with them and any other person;
- (h) none of the Directors, person who owned or controlled Shares has irrevocably committed to accepting or rejecting the H Share Offer;
- (i) the Offeror or any parties acting in concert with it has not borrowed or lent any relevant securities in the Company; and
- (j) no arrangement of the kind referred to in the Note 8 to Rule 22 of the Takeovers Code between the Company or any of its associates (by virtue of classes (1), (2), (3) or (4) of the definition of associate under the Takeovers Code) and any other person.

#### **8. DIRECTORS' SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had entered into any service contract with the Company or any of its subsidiaries:

- (i) which (including both continuous and fixed term contracts) have been entered into or amended within 6 months before the commencement of the offer period (i.e. 15 August 2008)
- (ii) which are continuous contracts with a notice period of 12 months or more; or
- (iii) which are fixed term contracts with more than 12 months to run irrespective of the notice period.

## 9. LITIGATION

Save as disclosed below, as at the Latest Practicable Date, the Company is not engaged in any material litigation to which the Company is, or may become a party:

- (a) on 5 December 2006, Bank of Shanghai, Shiquan branch (上海銀行石泉支行) (“**BOS**”), as the plaintiff, commenced an action against, among other, the Company, as the 3rd defendant, in the Shanghai No. 2 Intermediate People’s Court, to demand repayment for such sum owed by Shanghai High Pressure under the loan agreement dated 29 December 2004, which sum is secured by the guarantee dated 29 December 2004 given by the Company in favour of BOS (the “**BOS Guarantee**”). Judgment has been entered into under which (i) Shanghai High Pressure was ordered to repay the principal sum of approximately RMB17.366 million, together with interest accrued, default interest and litigation costs (the “**BOS Judgment Sum**”); and (ii) the Company, as one of the guarantors, was ordered to fulfil its obligation to repay the BOS Judgment Sum under the BOS Guarantee. As at the Latest Practicable Date, Shanghai High Pressure has failed to repay the BOS Judgment Sum.
- (b) on 19 December 2006, the Agricultural Bank of China, Shanghai Jingan branch (中國農業銀行上海市靜安支行) (“**ABOC**”), as the plaintiff, commenced an action against, among other, the Company, as the 1st defendant, in the Shanghai No. 2 Intermediate People’s Court, to demand repayment for such sum owed by the Company under the loan agreement dated 11 March 2005. Judgment has been entered into under which the Company was ordered to make repayment on the principal sum of approximately RMB20 million, together with interest accrued, default interest and litigation costs (the “**ABOC Judgment Sum**”). As at the Latest Practicable Date, the Company has failed to repay the said judgment sum. In addition, the First Frozen Properties, the Second Frozen Properties and the Third Frozen Property (as defined below) are subject to the first freezing measures imposed by the Shanghai No. 2 Intermediate People’s Court.
- (c) on 26 June 2007, Shanghai Rural Commercial Bank Co., Ltd. Chonggu branch (上海農村商業銀行股份有限公司重固支行) (“**Chonggu SRCB**”), as the plaintiff, commenced an action against the Company, as the defendant, in the People’s Court of Qingpu, Shanghai, to demand repayment for such sum owed by the Company under the loan agreement dated 19 August 2005, which sum (to the extent of approximately RMB5.55 million) is secured by the Company’s buildings and land located in the PRC (i.e. the subject matter under the Shanghai Real Estate Ownership Certificate issued by Shanghai Municipal Housing, Land and Resources Administration Bureau (上海市房屋土地資源管理局) – Hu Fang Di (Qing) Zi (2000) Di. No. 006608) (the “**First Frozen Properties**”) pledged under the Highest Limit Guarantee and Property Pledge Agreement executed in favour of Chonggu SRCB on 19 August 2005. Judgment has been entered into under which (i) the Company was ordered to repay the principal sum of approximately RMB4.73 million, together with default interest and litigation costs (the “**Chonggu SRCB Judgment Sum**”); and (ii) if the Company is in default in making the aforesaid payments, Chonggu SRCB is entitled to take priority in settling the Chonggu SRCB Judgment Sum from the proceeds of selling the First Frozen Properties. As at the

Latest Practicable Date, out of the Chonggu SRCB Judgment Sum, the Company has only repaid approximately RMB80,000 and the outstanding amount to be repaid is approximately RMB4.65 million. In addition, the First Frozen Properties are subject to the second freezing measures imposed by the People's Court of Qingpu, Shanghai.

- (d) on 23 August 2007, Shanghai Rural Commercial Bank Co., Ltd. Huaxin branch (上海農村商業銀行股份有限公司華新支行) (“**Huaxin SRCB**”), as the plaintiff, commenced an action against, among other, the Company, as the 2nd defendant, in the People's Court of Qingpu, Shanghai, to demand repayment for two sums owed by Shanghai High Pressure under two loan agreements, both dated 21 September 2005, which sum is secured by the Company's buildings and land located in the PRC (i.e. the subject matter under the Shanghai Real Estate Ownership Certificates issued by Shanghai Municipal Housing, Land and Resources Administration Bureau (上海市房屋土地資源管理局) – Hu Fang Di (Qing) Zi (2000) Di. Nos. 006606 and 006607) (the “**Second Frozen Properties**”) under two Highest Limit Guarantee and Property Pledge Agreements executed in favour of Huaxin SRCB on 16 September 2005. Judgment has been entered into under which (i) Shanghai High Pressure was ordered to repay the principal sum of approximately RMB5.08 million, together with interest accrued, default interest and litigation costs (the “**Huaxin SRCB Judgment Sum**”), and (ii) if Shanghai High Pressure is in default in making the aforesaid payments, Huaxin SRCB is entitled to take priority in settling the Huaxin SRCB Judgment Sum from the proceeds of selling the Second Frozen Properties. As at the Latest Practicable Date, Shanghai High Pressure has failed to repay the Huaxin SRCB Judgment Sum. In addition, the land and buildings under the Shanghai Real Estate Ownership Certificate issued by Shanghai Municipal Housing, Land and Resources Administration Bureau (上海市房屋土地資源管理局) – Hu Fang Di (Qing) Zi (2000) Di. No. 00607 is subject to the second freezing measures imposed by the People's Court of Qingpu, Shanghai.
- (e) on 22 August 2008, Ningbo Yongchang Steel Pipe Company Limited (寧波甬昌鋼管有限公司) (“**Yongchang**”), as the plaintiff, commenced an action against the Company, as the defendant, in the People's Court of Qingpu, Shanghai, for default in the payment of the goods sold to the Company in the sum of RMB301,860.50, together with interest accrued thereof. Judgment had been entered into under which the Company was ordered to pay RMB301,860.50, together with interest accrued thereof and litigation costs (the “**Yongchang Judgment Sum**”). As at the Latest Practicable Date, the Company has failed to pay the Yongchang Judgment Sum.
- (f) on 9 October 2008, Taicang Tiancheng Metal Surface Material Company Limited (太倉天誠金屬表面材料有限公司) (“**Tiancheng**”), as the plaintiff, commenced an action against the Company, as the defendant, in the People's Court of Qingpu, Shanghai, for default in the payment of the goods sold to the Company in the sum of RMB98,658.03, together with interest accrued thereof. Judgment has been entered into under which the Company was ordered to pay RMB98,658.03, together with interest accrued thereof and litigation costs (the “**Tiancheng Judgment Sum**”). As at the Latest Practicable Date, the Company has failed to pay the Tiancheng Judgment Sum.

- (g) on 8 January 2009, Shanghai Pengcheng Packing Materials Factory (上海鵬程箱包製品廠) (“**Shanghai Pengcheng**”), as the plaintiff, commenced an action against the Company, as the defendant, in the People’s Court of Fengxian District, Shanghai (上海市奉賢區人民法院), for default in the payment of processing fee for the paper boxes supplied to the Company in the sum of RMB63,078.94. Judgment had been entered into under which the Company was ordered to pay RMB63,078.94 and litigation costs (the “**Shanghai Pengcheng Judgment Sum**”). As at the Latest Practicable Date, the Company has failed to pay the Shanghai Pengcheng Judgment Sum.
- (h) on 29 April 2009, Shanghai Kuaiqun Hardware Company Limited (上海快群五金機電有限公司) (“**Shanghai Kuaiqun**”), as the plaintiff, commenced an action against the Company, as the defendant, in the People’s Court of Qingpu, Shanghai, for default in the payment of goods sold to the Company in the sum of RMB63,969, together with interest accrued thereof. The hearing of the aforesaid litigation claim is scheduled to be held on 8 June 2009 and as at the Latest Practicable Date, no judgment has been entered into.
- (i) under two Highest Limit Property Pledge Agreements, both dated 24 May 2006 executed in favour of Hua Xia Bank Co., Ltd., Shanghai branch (華夏銀行股份有限公司上海分行) (“**Hua Xia**”), the Company agreed to pledge its building and land located in the PRC (i.e. the subject matter under the Shanghai Real Estate Ownership Certificate issued by Shanghai Municipal Housing, Land and Resources Administration Bureau (上海市房屋土地資源管理局) – Hu Fang Di (Qing) Zi Di No. 008167) (the “**Third Frozen Property**”) for securing the sum (to the extent of an aggregate sum of approximately RMB7 million) owed by Shanghai High Pressure under the loan agreement dated 26 May 2006 (as supplemented by the loan extension agreement dated 31 May 2007) (the “**Hua Xia Loan Agreement**”). In default of the terms of the Hua Xia Loan Agreement, Shanghai High Pressure has failed to repay the loan owed to Hua Xia, and as a result of such default, Hua Xia is entitled to commence legal action against the Company for enforcing the two Highest Limit Property Pledge Agreements, both dated 24 May 2006. The right of enforcing the said two Highest Limit Property Pledge Agreements in respect of such sum (to the extent of an aggregate sum of approximately RMB7 million) owed by Shanghai High Pressure under the loan agreement dated 26 May 2006 was subsequently assigned by Hua Xia to China Great Wall Asset Management Corporation, Shanghai Office (中國長城資產管理公司上海辦事處). As at the Latest Practicable Date, no enforcement action has been commenced against the Company in respect of the aforesaid matter.
- (j) as at the Latest Practicable Date, the Company has failed to repay the loan of approximately RMB4 million owed to China Construction Bank Co., Limited, Shanghai fourth branch (中國建設銀行股份有限公司上海第四支行) (“**Construction Bank**”) under the loan agreement dated 6 June 2005 entered into between the Company and the Construction Bank on the repayment date (i.e. 3 December 2005), and as a result of such default, Construction Bank is entitled to commence legal action against the Company for demanding the repayment of such sum (including the principal amount of the loan and interest accrued thereon) owed by the Company

under the loan agreement dated 6 June 2005 (the “**Construction Bank Outstanding Sum**”). As at the Latest Practicable Date, no legal action has been commenced against the Company by Construction Bank in respect of the aforesaid matter.

Based on the PRC Legal Opinions for the Company, the Company is liable to settle the ABOC Judgment Sum, and is liable to repay the Construction Bank Outstanding Sum. However, the Company has the rights to seek compensation from Shanghai Huasheng and/or Mr. Jiang in respect of any amount repaid by the Company. As at the Latest Practicable Date, no legal action has been taken by the Company to seek compensation in respect of the ABOC Judgment Sum and the Construction Bank Outstanding Sum. However, the present Board expects that the Company may consider taking appropriate legal actions against the relevant parties after the change of the composition of the Board upon completion of the H Share Offer.

Based on the PRC Legal Opinions for the Company, the Company is required to fulfill its obligations under the Security Agreements in respect of the Shanghai High Pressure’s Loans. However, the Company has the rights to seek compensation from Shanghai High Pressure and/or any other co-guarantor(s) of the relevant Shanghai High Pressure’s Loans for such sum in which the co-guarantor(s) shall be held responsible (i.e. calculated on a pro-rata basis among all the guarantors for each of the Shanghai High Pressure’s Loans). Alternatively, the Company has the rights to seek compensation from Mr. Jiang in respect of any actual loss suffered by the Company as a result of any payment made by the Company under each of the respective Security Agreements. As at the Latest Practicable Date, the Company has not yet fulfilled its obligations under the Security Agreements by making any payment to the relevant banks, and thus no legal action has been taken by the Company to seek compensation from the relevant parties for any amount paid by the Company under the Security Agreements. However, if any payment is made by the Company under the Security Agreements, the Board may consider taking appropriate legal actions against the relevant parties after the change of the composition of the Board upon completion of the H Share Offer.

Given the current financial status of the Company and the fact that there has been a significant turnover of management of the Company, the present Board expects that the Company may consider taking appropriate legal actions against Mr. Jiang after the change of the Board upon completion of the H Share Offer.

**10. EXPERT AND CONSENTS**

The following are the qualifications of the experts whose advice or opinion are contained in this Composite Document:

<b>Name</b>	<b>Qualification</b>
BOCOM	a corporation licensed with the SFC to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
CIMB-GK	a corporation licensed with the SFC to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
OSK Capital Hong Kong Limited	a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
RHL Appraisal Limited	an independent property valuer
King and Wood	legal advisers on PRC law
Shenda Partners (上海市申達律師事務所)	legal advisers on PRC law

Each of BOCOM, CIMB-GK, the Independent Financial Adviser, King and Wood, Shenda Partners and RHL Appraisal Limited had given and has not withdrawn its written consents to the issue of this Composite Document with the inclusion herein of its reports and/or letters (as the case may be) or references to its name in the form and context in which they respectively appear.

**11. GENERAL**

- (a) The English text of this Composite Document and the Form of Acceptance shall prevail over the Chinese text in the case of inconsistency.
- (b) The registered office of the Offeror is 1/F, Chung Nam House, 59 Des Voeux Road, Central, Hong Kong.
- (c) The registered office of CIMB-GK is at 25/F, Central Tower, 28 Queens Road Central, Hong Kong.
- (d) The registered office of BOCOM is at 9/F, Man Yee Building, 68 Des Voeux Road Central, Hong Kong.
- (e) The registered office of the Independent Financial Adviser is at 11/F, Hip Shing Hong Centre, 55 Des Voeux Road Central, Hong Kong.

**12. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection at the principal place of business of the Company at Room 1005B, 10th Floor, Empire Centre, 68 Mody Road, Tsim Sha Tsui East, Kowloon during normal business hours from 9:00 a.m. to 6:00 p.m. on any Business Day; and will also be displayed on the websites of the Company (<http://www.shqingpu.com/>) and the SFC (<http://www.sfc.hk>) from 9 June 2009, the date of this Composite Document, until (and including) the close of the H Share Offer:

- (a) the memorandum and articles of association of the Company;
- (b) the memorandum and articles of association of the Offeror;
- (c) the annual reports of the Company for the two years ended 31 December 2005, the interim report of the Company for the six months ended 30 June 2006 and the quarterly report of the Company for the nine months ended 30 September 2006;
- (d) the letter from CIMB-GK and BOCOM, the text of which is set out on pages 7 to 15 of this Composite Document;
- (e) the letter from the Board, the text of which is set out on pages 16 to 31 of this Composite Document;
- (f) the letter from the Independent Board Committee, the text of which is set out on pages 32 to 33 of this Composite Document;
- (g) the letter from the Independent Financial Adviser, the text of which is set out on pages 34 to 52 of this Composite Document;
- (h) the property valuation report issued by RHL Appraisal Limited, the text of which is set out on pages III-1 to III-9 of this Composite Document;
- (i) the written consents from the experts referred to in the section headed “Experts and consents” in this Appendix; and
- (j) the First PRC Legal Opinion, the Second PRC Legal Opinion and the PRC Legal Opinions for the Company.