海灣控股有限公司

GST HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

(Stock code: 0416)

INTERIM RESULTS ANNOUNCEMENT

FINANCIAL HIGHLIGHTS

- Turnover recorded growth of 17.0% to approximately RMB279.1 million
- Gross profit margin increased to 50.4%
- Profit attributable to equity holders of the Company increased by 12.9% to approximately RMB71.7 million

The board (the "Board") of directors (the "Directors") of GST Holdings Limited (the "Company") is pleased to present the unaudited results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2006.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT (UNAUDITED)

		Six months ended 30 June	
		2006	2005
	Notes	***RMB'000***	*RMB'000*
Turnover	*3*	**279,071**	238,548
Cost of goods sold		**(138,290)**	(119,082)
Gross profit		**140,781**	119,466
Other income	*4*	**13,210**	13,208
Distribution costs		**(35,506)**	(30,681)
Administrative and general expenses		**(41,289)**	(37,607)
Operating profit	*5*	**77,196**	64,386
Finance costs		**–**	(884)
Share of results of			
Jointly controlled entity		**447**	264
Associates		**(276)**	–
Profit before taxation		**77,367**	63,766
Taxation	*6*	**(5,650)**	(234)
Profit for the period		**71,717**	63,532
Attributable to:			
Equity holders of the Company		**71,717**	63,532
Minority interests		**–**	–
		71,717	63,532
Earnings per share for profit attributable to equity holders of the Company	*7*		
– Basic (RMB cents)		**9.0**	12.6
– Diluted (RMB cents)		**9.0**	10.6

CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)

	Notes	(Unaudited) As at 30 June 2006 RMB'000	(Audited) As at 31 December 2005 RMB'000
Non-current assets			
Property, plant and equipment		**143,914**	129,831
Prepaid operating lease for land		**9,968**	10,081
Intangible assets		**10,882**	8,545
Investment in jointly controlled entity		**(1,061)**	(1,508)
Investment in associates		**2,345**	2,621
		166,048	149,570
Current assets			
Inventories		**78,640**	82,717
Trade receivables	*9*	**129,778**	127,040
Other receivables, deposits and prepayments		**33,335**	26,754
Due from a jointly controlled entity		**15,403**	9,607
Due from a related company		**10,396**	–
Restricted bank deposits		**8,155**	2,149
Cash and bank balances		**481,151**	530,251
		756,858	778,518
Current liabilities			
Trade payables	*10*	**72,732**	87,964
Other payables and accruals		**9,685**	12,032
Advance from customers		**25,440**	33,665
Taxation payable		**27,147**	20,530
		135,004	154,191
Net current assets		**621,854**	624,327
Total assets less current liabilities		**787,902**	773,897
Equity:			
Capital and reserves attributable to equity holders of the Company			
Share capital		**84,800**	84,800
Reserves		**702,403**	688,398
		787,203	773,198
Minority interests		**699**	699
Total equity		**787,902**	773,897

NOTES TO THE CONDENSED CONSOLIDATED ACCOUNTS (UNAUDITED)

1. BASIS OF PREPARATION

This unaudited condensed consolidated financial statements for the period ended 30 June 2006 (the “2006 interim financial statements”) has been prepared in accordance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting” issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (“HK Stock Exchange”). The 2006 interim financial statements should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2005 (the “2005 financial statements”).

2. ACCOUNTING POLICIES

The 2006 interim financial statements include the financial information of the Group and have been prepared in accordance with the same accounting policies adopted in the Group’s 2005 financial statements.

The accounting policies adopted are consistent with those as described in the Group’s 2005 financial statements. In 2006, the Group adopted the following new and amendments to IAS and International Financial Reporting Interpretations (“IFRIC”):

– Amendment to IAS 21, Amendment to “Net investment in a foreign operation”, effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the Group;

– Amendment to IAS 39, Amendment to “The fair value option”, effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the Group; and

– IFRIC-Int 4, “Determining whether an arrangement contains a lease”, effective for annual periods beginning on or after 1 January 2006. The Group has reviewed its contracts. Some of them are required to be accounted for as leases in accordance with IAS 17, “Leases”, However, these leases are operating leases, and their reclassification has had no impact on the expense recognised in respect of them.

3. TURNOVER AND SEGMENT INFORMATION

	Six months ended 30 June	
	2006	2005
	RMB’000	*RMB’000*
Sale of goods		
Fire alarm systems	**201,488**	192,200
Fire alarm network systems	**4,327**	3,554
Video entry systems and building automation systems	**18,114**	11,899
Electronic power meters	**10,408**	11,454
Provision of services		
Installation services	**44,734**	19,441
	279,071	238,548

Segment information is presented in respect of the Group’s business segments. No geographical segment is presented as the operations of the Group are substantially located in the People’s Republic of China (“PRC”).

Business segment

Six months ended 30 June 2006	Sale of goods: Fire alarm systems RMB'000	Sale of goods: Fire alarm network systems RMB'000	Sale of goods: Video entry systems and building automation systems RMB'000	Sale of goods: Electronic power meters RMB'000	Provision of services: Installation services RMB'000	Corporate RMB'000	Group RMB'000
Turnover	**201,488**	**4,327**	**18,114**	**10,408**	**44,734**	**–**	**279,071**
Segment results	**70,309**	**1,806**	**2,715**	**944**	**3,282**	**(7,712)**	**71,344**
Interest income							**5,852**
Operating profit							**77,196**
Finance costs							**–**
Share of results of							
Jointly controlled entity	**447**	**–**					**447**
Associates	**–**	**(276)**					**(276)**
Profit before taxation							**77,367**
Taxation							**(5,650)**
							71,717
Minority interests							**–**
Profit for the period							**71,717**
Six months ended 30 June 2005							
Turnover	192,200	3,554	11,899	11,454	19,441	–	238,548
Segment results	59,546	949	2,505	943	1,520	(1,688)	63,775
Interest income							611
Operating profit							64,386
Finance costs							(884)
Share of results of							
Jointly controlled entity	264						264
Associates	–						–
Profit before taxation							63,766
Taxation							(234)
							63,532
Minority interests							–
Profit for the period							63,532

4. OTHER INCOME

	Six months ended 30 June	
	2006	2005
	RMB'000	*RMB'000*
Government grant	**–**	300
Value-added tax refund	**7,269**	12,083
Interest income	**5,852**	611
Sales of raw material, net of costs	**89**	214
	13,210	13,208

5. OPERATING PROFIT

Operating profit is stated after charging/(crediting) the following:

	Six months ended 30 June	
	2006	2005
	RMB'000	*RMB'000*
Charging:		
Staff costs (excluding directors' emoluments)	**30,561**	25,980
Research costs	**15,076**	16,485
Provision for doubtful debts	**1,370**	3,753
Depreciation	**5,712**	5,162
Write off of obsolete inventories	**–**	519
Amortisation of prepaid operating lease for land	**113**	78
Loss on disposals of trading investments	**–**	23
Net exchange loss	**2,427**	16
Operating lease rental	**2,220**	1,155
Auditors' remuneration	**440**	250
Crediting:		
Net gain on disposals of fixed assets	**(115)**	(995)
Interest income	**(5,852)**	(611)
Write back of provision for litigation loss	**–**	(3,500)

6. TAXATION

	Six months ended 30 June	
	2006	2005
	RMB'000	*RMB'000*
PRC enterprise income tax		
Current	**5,650**	234
Deferred	**–**	–
	5,650	234

No provision for Hong Kong profits tax has been provided as the Group has no assessable profit in Hong Kong. The provision for PRC income tax is calculated based on the statutory income tax rate according to the relevant laws and regulations in the PRC.

With effect from April 2004, the principal operating subsidiary, Gulf Securities Technology Company Limited ("GST") and certain subsidiaries of the Company, namely Beijing Gulf Electric Meters Company Limited ("Gulf Meters") and Qinhuangdao Gulf Fire Prevention Network Company Limited ("Gulf Network") were converted into or established as wholly foreign owned enterprises. In accordance with the relevant tax laws and regulations in the PRC, effective from the date of approval, GST, Gulf Meters and Gulf Network are exempted from taxation for the first two profitable years and a 50% relief from the applicable national PRC income tax rate for the next three years. The applicable PRC income tax rate for Gulf Meters is 24%. In addition, being registered in a designated development zone, the applicable PRC income tax rate for GST and Gulf Network is 15% since April 2004.

7. EARNINGS PER SHARE

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

	Six months ended 30 June	
	2006	2005
Profit attributable to equity holders of the Company (RMB'000)	**71,717**	63,532
Weighted average number of ordinary shares in issue (thousands)	**800,000**	502,890
Basic earnings per share (RMB cents per share)	**9.0**	12.6

Diluted

Diluted earning per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all Series A Preferred shares.

	Six months ended 30 June	
	2006	2005
Profit attributable to equity holders of the Company (RMB'000)	**71,717**	63,532
Weighted average number of ordinary shares in issue (thousands)	**800,000**	502,890
Assumed conversion of Series A Preferred shares (thousands)	**–**	98,215
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**800,000**	601,105
Diluted earnings per share (RMB cents per share)	**9.0**	10.6

8. DIVIDEND

The Board does not recommend the payment of a dividend for the six months ended 30 June 2006 (six months ended 30 June 2005: Nil).

A final dividend of HK$0.070 per share (approximately RMB0.072) for the year ended 31 December 2005, amount to a total dividend of HK$56,000,000 (approximately RMB57,680,000) was approved at the annual general meeting of the Company on 18 May 2006 and it was paid on 23 May 2006.

9. TRADE RECEIVABLES

The Group's sales to corporate customers are entered into on credit terms ranging from 30 to 180 days. The Group also grants credit terms to certain customers depending on those customers' progress of installation of the Group's products. The ageing analysis of trade receivables at the respective balance sheet dates is as follows:

	(Unaudited) As at 30 June 2006 *RMB'000*	(Audited) As at 31 December 2005 *RMB'000*
0 to 90 days	**56,177**	64,580
91 to 180 days	**26,131**	25,377
181 to 365 days	**31,803**	26,157
Over 365 days	**31,714**	28,828
	145,825	144,942
Less: Provisions for doubtful debts	**(16,047)**	(17,902)
	129,778	127,040

10. TRADE PAYABLES

	(Unaudited) As at 30 June 2006 *RMB'000*	(Audited) As at 31 December 2005 *RMB'000*
0 to 90 days	**64,149**	75,060
91 to 180 days	**4,924**	9,559
181 to 365 days	**2,122**	2,043
Over 365 days	**1,537**	1,302
	72,732	87,964

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULTS

The Group achieved satisfactory results in the first half of 2006. Fuelled by rising awareness for fire prevention and safety which led to increased demand for high quality fire alarm products and systems, the Group's consolidated turnover for the six months ended 30 June 2006 rose by 17.0% year-on-year to RMB279.1 million (first half of 2005 ("1H 2005"): RMB238.5 million).

As the market leader, the Group is capable of offering integrated one-stop installation and after-sales services, and therefore enjoys a niche to command a relatively stable price over its peers that mostly focus on product sales. During the period under review, the Group continuously enhanced its product portfolio, improved product quality and lowered production cost which enabled the Group to increase its gross margins to 50.4% (1H2005: 50.1%). During the period, the Group continued to implement stringent cost control. Percentages of distribution cost, administrative and general expenses over total turnover decreased. As such, net profit attributable to equity holders surged by 12.9% to RMB71.7 million (1H2005: RMB63.5 million).

MARKET REVIEW

The austerity measures imposed by the PRC Government to suppress the overheated economy exerted an impact on the overall economic development and investment pace and in particular, resulted in a reduced number of commercial and residential projects. On the other hand, the PRC Government stressed the importance of industrial safety in the 11th Five Year Plan which indicated tighten measures were also implemented to ensure that fire safety is being accorded high priorities at work. This resulted in rising demand for fire alarm system products, installation and maintenance services in the industrial sector.

Although there is rising demand for fire alarm systems in the PRC market, fierce price competition exists within the industry, which leads to the downward trend of selling prices. However, the Group gained customers' confidence by providing good quality products and services and not purely depended on price-cutting strategy. Besides, the Group effectively reduced production cost through enhancement of product's structure by its own research and development team, increasing sales volume through competitive advantages and better economies of scales, the effect of selling price decline was mitigated.

Apart from the China market, the overseas export market also offered ample opportunities to competent industry players who were capable of offering high quality, price competitive products. All these set a favourable operating environment for the Group to propel its growth.

BUSINESS REVIEW

The Group is a provider of fire alarm systems, 119 fire network systems and other system products, providing products and systems with research and development, production, sales and installation, as well as providing installation, repair and maintenance services. The Group is well poised to emerge as a dominant player in the PRC fire industry with an increased market share of about 23% in the field of fire alarm systems.

The following table illustrates the growth of various business segments of the Group:

	Six months ended 30 June		
	2006	2005	*Growth*
	RMB' million	*RMB' million*	*%*
Fire alarm systems	**201.5**	192.2	*4.8*
Installation services	**44.7**	19.4	*130.1*
119 fire network systems	**4.3**	3.5	*21.8*
Other products	**28.6**	23.4	*22.1*
Total	**279.1**	238.5	*17.0*

Fire Alarm Systems

For the six months ended 30 June 2006, sales from fire alarm systems increased by 4.8% to approximately RMB201.5 million when compared to the corresponding period last year (1H2005: RMB192.2 million). The Group has a comprehensive systems product portfolio for commercial, residential, as well as professional clientele such as metal refinery, power station, petroleum and gas chemical manufacturing and other industrial customers; banks, governmental organizations, airports, railways and other public facilities also contribute the sales growth. In recent years, the Group also expanded its business in export market. In response to price-driven competition, the Group adopted a prudent sales approach and competed on product and service quality rather than sheer pricing to maintain profitability.

Average selling prices declined due to market competition, but with a decelerating trend. For example, average selling price of our major product intelligent optical smoke detector (光電感烟探測器) ("G3") decreased by 16.1% (1H2005: decreased by 18.3%). Meanwhile, average production cost of G3 was substantially reduced by 29.2% (1H2005: reduced by 16.6%) due to improvement of economies of scales, caused by optimising production process and product design, through the Group's research and development with technology upgrade. As such, gross margin of fire alarm systems raised by 1.5 percentage point to 54.7% (1H2005: 53.2%).

Strong Growth from Industrial and Public Facilities Sector

With respect to sales composition by business sector, sales to the industrial and public utilities sector posted the most impressive growth, primarily due to the Group's ability to satisfy the needs of this group of customers which usually require higher technology standards and industry expertise. Sales from this sector surged 31.0% to approximately RMB48.1 million, representing an increase from 19.0% to 23.8% of fire alarm systems income.

The Group completed many major industrial and public facilities during the period under review, including China Mobile Inner Mongolia Communications Corporation (中國移動內蒙古通信公司), Da Tang Baoding Heat Power Station (大唐保定熱電廠), Nanning Hangyang International Town (南寧航洋國際城), Yantai Sports Center (烟台體育中心), Tianjin Broadcasting TV Station International Center (天津廣播電視台國際中心), Huo Lin He Pithead Power Station (霍林河坑口電廠), Shanghai Gaoqiao Petrifaction ABS Project (上海高橋石化ABS項目), The Plank Board Factory of Anshan Iron and Steel Group Corporation (鞍鋼集團厚板廠) and Zhuhai International Airport (珠海國際機場).

In addition, the Group completed several large scale projects, including People's Bank of China Xi'an Branch Office Building (西安人民銀行辦公樓), Luoyang Teacher-training College (洛陽師範學院), Hunan Yunda Plaza (Sheraton Hotel) (湖南運達廣場 (喜來登大酒店)) and Shen Hua Coal-making-Oil Chemical Plant (神華煤制油化工廠) Leveraging on its professional services and high quality product systems, the Group is confident of signing up more new clients and contracts for fire alarm systems and its related services in the second half of this year, and therefore expects to see increased contribution from in this business.

Export Markets Formed the Growth Engine

One of the Group's competitive edges rests in its ability to manufacture high quality products at low costs. These products are highly competitive in overseas markets. The export market was another area of growth.

The Group is one of the pioneers in the PRC amongst its peers to explore the potential of the export market. Internationally accredited, the Group's trademark were registered in 81 countries and regions across continents, whereas sales have reached more than 40 regions including Europe, Middle East, Southeast Asia and other regions. Its strong research and development team and high economies of scale put it in an advantageous position to develop and manufacture products of superb quality at competitive prices.

For the period ended 30 June 2006, export sales surged by 28.7% to approximately RMB17.5 million, representing an increase from 7.1% to 8.7% of fire alarm systems income. The Group completed a number of projects in international cities, including Singapore Changi Airport and Saudi Arabia Ministry of Higher Education Building.

Installation Services

For the six months ended 30 June 2006, turnover from installation services recorded a satisfactory growth. It surged 130.1% to approximately RMB44.7 million (1H2005: RMB19.4 million). In addition to selling fire alarm systems, the Group offers installation services for fire systems and other low-voltage integrated systems, including installation of fire alarm systems, fire extinguish systems, building automation system, CCTV security monitoring system, carpark self-management system and integrated line distribution system (綜合佈綫系統). Its industry expertise and wealth of experience in the fire industry were widely recognized by customers as a partner of choice for installation and one-stop solutions.

During the period under review, we have accomplished a number of projects, such as Beijing Wangjing Technology Development Mansion (北京望京科技發展大廈), Hebei Heng Feng Power Station (河北衡豐發電廠), Inner Mongolia Hulunbeier Library (內蒙古呼倫貝爾圖書館)、and Guangxi Qinzhou Power Station (廣西欽洲電廠).

119 Fire Network Systems

For the six months ended 30 June 2006, sales of 119 fire network systems surged 21.8% to approximately RMB4.3 million (1H2005: RMB3.5 million). The penetration of 119 fire network systems has been increasing modestly in the past year. In the first half of 2006, the Group provided system equipment for eight 119 network control centres, including Taiyuan, Liuzhou, Changsha and Langfang. Given the Government's continued effort in advocating the importance of fire safety, the Group anticipates that an increasing number of cities will set up 119 fire network control centres in the coming years, offering promising growth opportunities for 119 fire network systems business.

Other products

For the six months ended 30 June 2006, sales of other products grew by 22.1% to approximately RMB28.6 million (1H2005: RMB23.4 million). The Group leveraged on its strong brand reputation and nationwide network to distribute other products with high growth potential, including video entry systems, electronic power metres and building automation systems.

Sales Network Expansion

As a market leader in fire alarm systems and 119 network systems, the Group operates the most extensive sales network amongst its peers in the industry. During the first half of the year, the Group established 14 new representative offices. As at 30 June 2006, our sales network covers 102 cities nationwide, offering comprehensive services to and maintaining close liaison with customers in different regions. It is also this extensive network coverage that attracted Apollo Fire Detectors Ltd ("Apollo"), Europe's largest fire alarm system provider, to foster cooperation with us in June 2006 for the distribution of Apollo's high-end products in China.

Operating Cost, Other income and Taxation

For the six months ended 30 June 2006, the Group continued to implement stringent control of operating cost. Distribution cost for the period increased by 15.7% to approximately RMB35.5 million (1H2005: RMB30.7 million), which accounted for 12.7% of turnover, representing a decrease of 0.2 percentage point as compared to the same period last year (1H2005: 12.9%).

Administrative and general expenses increased by 9.8% over the same period last year to approximately RMB41.3 million. (1H2005: RMB37.6 million), which accounted for 14.8% of turnover, representing a decrease of 1.0 percentage point over the corresponding period last year (1H2005: 15.8%).

Other income mainly include value-added tax refund and interest income received by the Group. Due to the change of policy to the value-added tax refund of certain products, the value-added tax refund was reduced by approximately RMB4.8 million for the period ended 30 June 2006 compared to the same period last year. On the other hand, due to the cash inflow of IPO proceeds in the second half of 2005, the average bank balances during the reporting period in 2006 was higher than that in 2005, interest income increased by approximately RMB5.2 million.

On the other hand, tax provisions were comparatively lower in last period because the major subsidiary of the Group was still in the exemption period of income tax. This is the first year of 50% tax reduction for 3 consecutive profit-making years after the exemption period. Tax provisions for the period was approximately RMB5.7 million (1H2005: RMB0.2 million).

Orders on hand
As at 30 June 2006, the Group's orders on hand amounted to a total value of approximately RMB304.0 million, representing an increase of 7.0% as compared to the same period last year (1H2005: RMB284.0 million).

Seasonality of Business
The business performance of the Group is in line with the general business investment activities and economic situations. Due to the cool weather in the first quarter of a year and there are more holidays in the PRC in the first half of a year, these affect investment and project construction progress. Therefore, the turnover and business situation over the first half of the year are generally lower than that of the second half of the year.

FUTURE OUTLOOK
Mainland's overall economy development and investment pace will be affected by the implementation of austerity measures by the PRC Government which will indirectly affect the demand in fire alarm system market. While the PRC's fire alarm systems market offers growth potential, it is also characterized by intensifying competition. Currently there are almost 100 players in the PRC fire alarm systems market whereby small players mainly compete in terms of pricing. It is believed that this trend will put selling price under pressure, but thinning margins are expected to drive incompetent players out of the market, and consolidation is anticipated to benefit market leaders such as the Group.

Having developed a broad customer base and a diversified product portfolio, our future growth will be fuelled by the following factors:

Rising Demand in Industrial and Public Facilities Sectors
With respect to frequent occurrence of industrial accidents leading to human and property losses, the PRC Government reinforced its concern over public safety and urged for stringent fire safety standard. New business opportunities and the demand for reliable fire alarm systems will be on the rise. As the technical requirements for the industrial and public facilities sectors is relatively higher as compared to the residential and commercial sectors, the Group will offer integrated services to capitalize on market opportunities.

Lucrative Export Market
At present, the Group's high quality fire alarm systems products have been accredited by many international certificate organizations, including Underwriters Laboratories Inc. (UL), Loss Prevention Certification Board (LPCB) and Conformite Europeennne (CE). The GST trademark has been awarded Madrid International Trademark Registration Certificate by World Intellectual Property Organization. Besides, the Group has acquired international trademark registration certificates in other countries and regions such as Hong Kong, Lebanon and Mexico. Therefore, the "GST" trademark has been protected in more than 81 countries and regions.

With highly competitive products, the Group will further expand its sales network in the Middle East, European and South East Asian markets. To expedite the development of the export market, the Group is actively seeking opportunities to join hands with international players.

Fast Growing Installation Services and 119 Fire Alarm Network Systems

As expertise in the fire industry with high quality systems products, we have proven the success in gaining customers' faith to provide quality installation services. As a comprehensive products and services provider, we have secured major contracts which are scheduled to complete such as: Hebei Xuan Hua Business Office Building (河北宣化招商寫字樓), Ba Zhou Power Supply Bureau (霸州供電局), Inner Mongolia Hulunbeier College (內蒙古呼倫貝爾學院) and National Wireless Monitoring Center Beidiahe Inspection Building (國家無線電監測中心北戴河檢測樓). Hence, we expect our installation services will continue to be one of the growth drivers to the Group's performance.

The Group has already established a strong foothold in the 119 fire alarm network systems sector. In the PRC, there are 77 control centres with 119 fire alarm network system, in which 61 of them are equipped with the network system provided by the Group, i.e. with a 79% market share. The strong market presence places us in a perfect position to explore further opportunities in this sector. The Group plans to extend its services to the operation of control centers that were equipped with the Group's systems.

Distribution Network Expansions

In order to maintain favourable economies of scale and to secure its market leading position, the Group will further increase the coverage of its sales and distribution network. We are committed to achieving growth in penetration rate and cost saving by extending our business borders. We expect to increase the number of our branches to 112 by the end of 2006.

Production Capacity Upgrade

The Group's capacity upgrade plan in Qinhuangdao has been completed in August 2006. New production facilities have been in operations, stepping up the Group's overall capacity. Fire detectors production capacity increased 80% to 5.1 million pieces (1H2005: 2.8 million pieces). Module production capacity increased 60% to 3.9 million pieces (1H2005: 2.4 million pieces). The Group will continue to increase the production capacity so as to cope with the market demand and achieve a better economy of scale.

CONCLUSION

The Group aspires to be an integrated one-stop fire alarm product and system manufacturer and solution provider. In July 2006, United Technology Corporation ("UTC"), a Fortune 500 company, became the Group's second largest shareholder. This marked a major milestone for the Group and broadened its shareholder base. The Group believes that it will benefit from the opportunities to cooperate with more international partners to capture opportunities in the top end fire and security products market in the PRC.

Going forward it is expected market competition will continue which will exert pressure on selling prices. The Group will persist effective cost control and further enhance economies of scale. On the other hand, the Group will continue to seek new development opportunities, which will further consolidate its market leading position, enrich services to customers and create value for customers and shareholders.

The Group is committed to further strengthening its foothold in the fire alarm system industry and expanding its presence to export markets with internationally competitive products and services. The board of Directors and the management team are working towards this long-term goal to reward shareholders with strong financial results and promising outlook.

LIQUIDITY, FINANCIAL RESOURCES AND BANK LOANS

For the six months ended 30 June 2006, we recorded operating cash inflow of approximately RMB31,000,000, compared to the last corresponding figure of outflow of approximately RMB12,865,000. Cash used in investing activities was approximately RMB22,420,000 (1H 2005: RMB10,120,000), which was mainly for the expansion of our factory. Cash used in financing activities was approximately RMB57,680,000 (1H 2005: cash from RMB288,370,000), which was mainly for the payment of 2005 final dividend; whereas the cash from the same period last year was mainly due to the proceeds from the Company's initial public offering on 30 June 2005.

The Group does not have any short-term or long-term bank loan as at 30 June 2006 (31 December 2005: Nil). As such, the Group's gearing ratio (being total debts divided by total shareholders' equity) was zero as at 30 June 2006 (31 December 2005: zero).

USE OF PROCEEDS FROM LISTING

The net proceeds from the Company's initial public offering on 30 June 2005 amounted to about RMB334 million were stated in the prospectus of the Company to be applied for the following purposes:

– approximately a total of RMB285 million for constructing, expanding and upgrading the Group's manufacturing and ancillary facilities; and

– approximately RMB49 million for expanding and improving the Group's sales network.

As at 30 June 2006, approximately RMB47 million from the listing proceeds was used in the following manners:

– approximately RMB42 million for constructing, expanding and upgrading the Group's manufacturing and ancillary facilities; and

– approximately RMB5 million for expanding and improving the Group's sales network.

To the extent that any proceeds was not immediately required for the above purposes, such proceeds will be placed on short-term deposits with licensed banks in Hong Kong.

The Group plans to invest approximately RMB120 million and RMB167 million in the coming periods in 2006 and 2007 to complete those plans as set out in the prospectus of the Company.

FOREIGN CURRENCY EXPOSURES AND TREASURY POLICY

We are exposed to the exchange rate risk between United States dollar and Renminbi. In principle, more than 95% of our sales and our raw material purchases are denominated in Renminbi. However, the purchases of raw materials by our suppliers are usually denominated in United States dollar. Given the appreciation of Renminbi against the United States dollar announced in July 2005, favorable impacts are expected to be brought to the Group's future financial performance in terms of reducing raw material costs. The Group's bank deposits are predominantly denominated in Hong Kong dollar and Renminbi. The Directors are of the opinion that appreciation of Renminbi may not cause any significant adverse effect on the financial position of the Group. However, a foreign exchange loss of approximately RMB2,427,000 was reflected in our 2006 interim financial statements given that the proceeds from listing were dominated in Hong Kong dollar while the Group's accounts were denominated in Renminbi.

It is the Group's treasury policy to manage its foreign currency exposure whenever its financial impact is material to the Group. The Group will continue to monitor its foreign exchange position and, if necessary, will appropriately hedge its foreign currency exposure. For the six months ended 30 June 2006, the Company did not use any financial instruments or enter into any contracts in order to hedge against its foreign currency exchange risk.

HUMAN RESOURCES

As at 30 June 2006, the total number of employees of the Group were 1,861, representing a 25% growth over the number of employees of 1,487 as at 30 June 2005. The Group values its human resources and targets to attract and retain competent personnel. Remuneration packages are structured by reference to individual staff's qualifications and the prevailing market conditions. The Company currently provides sufficient trainings and continuing professional development opportunities to its staff.

PURCHASES, SALE AND REDEMPTION OF THE SHARES

The Company's Shares were listed on the Main Board of the HK Stock Exchange on 30 June 2005. Save for the above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's Shares for the six months ended 30 June 2006. At 30 June 2006, 800,000,000 shares were in issue.

COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE PRACTICES AND THE MODEL CODE

None of the Directors is aware of any information which would reasonably indicate that the Company is not, or was not, in compliance with the Code of Corporate Governance Practices as set out in Appendix 14 to the Listing Rules for the six months ended 30 June 2006 except that both the roles of chairman and chief executive officer of the Company are performed by Mr Song Jiacheng ("Mr Song"), which constitutes a deviation from the Code Provision A.2.1 which stipulates that the chairman and chief executive officer should be separate and should not be performed by the same individual. However, due to the fact that Mr Song is a founder of the business of the Group and possesses substantial experience that is valuable to the Group's operations, the board of Directors considered that it is in the best interests of the Company and its shareholders currently to have Mr Song to serve these roles. The Company therefore does not currently intend to separate Mr Song's roles as the chairman and the chief executive officer.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules for securities transactions by Directors. Having made specific enquiry of all Directors, all Directors have complied with the required standard set out in the Model Code regarding securities transactions by Directors for the six months ended 30 June 2006.

AUDIT COMMITTEE

The Company has established an audit committee which comprises three independent non-executive Directors, including Mr Chang Tso Tung, Stephen, Mr Chan Chi On, Derek and Mr Sun Lun. Mr Chang Tso Tung, Stephen is the chairman of the audit committee. The rights and duties of the audit committee comply with the Model Code provisions. The audit committee is responsible for reviewing and supervising the Group's financial reporting process and internal control system and providing advice and recommendations to the Board.

The 2006 interim financial statements has been reviewed by the audit committee and the Company's auditors.

REMUNERATION COMMITTEE

The Company has established a remuneration committee which comprises two independent non-executive Directors and one non-executive Director, including Mr Chan Chi On, Derek, Mr Chang Tso Tung, Stephen and Mr Lee Kwan Hung, Eddie. Mr Chan Chi On, Derek is the chairman of the remuneration committee. The remuneration committee has rights and duties consistent with those set out in the provisions of the Model Code. The remuneration committee is principally responsible for formulating the Group's policy and structure for all remunerations of the Directors and senior management and providing advice and recommendations to the Board.

DISCLOSURE OF INFORMATION ON THE WEBSITE OF HK STOCK EXCHANGE

The electronic version of this announcement will be published on the website of the HK Stock Exchange (http://www.hkex.com.hk). The 2006 interim financial statements containing all the information required by Appendix 16 to the Listing Rules will be despatched to shareholders of the Company and published on the website of the HK Stock Exchange in due course.

By order of the Board
Song Jiacheng
Chairman

Hong Kong, 31 August 2006

As at the date of this announcement, the executive Directors are Mr Song Jiacheng, Mr Cao Yu, Mr Peng Kaichen and Mr Xu Shaowen, the non-executive Directors are Mr Zeng Jun and Mr Lee Kwan Hung, Eddie and the independent non-executive Directors are Mr Chang Tso Tung, Stephen, Mr Chan Chi On , Derek and Mr Sun Lun.

Please also refer to the published version of this announcement in South China Morning Post.