



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

CONSOLIDATED PROFIT AND LOSS ACCOUNT (UNAUDITED)

	<i>Notes</i>	Six months ended 30 June	
		2005 RMB'000	2004 RMB'000
Turnover	2	238,548	167,498
Cost of goods sold		(119,082)	(77,831)
Gross profit		119,466	89,667
Other income		13,208	6,989
Distribution costs		(30,681)	(24,541)
Administrative and general expenses		(37,607)	(22,654)
Operating profit	3	64,386	49,461
Finance costs		(884)	(1,210)
Share of results of			
Jointly controlled entity		264	810
Associates		–	447
Profit before taxation		63,766	49,508
Taxation	4	(234)	(3,316)
Profit for the period		<u>63,532</u>	<u>46,192</u>
Attributable to:			
Equity holders of the Company		63,532	46,182
Minority interests		–	10
		<u>63,532</u>	<u>46,192</u>
Earnings per share	5		
– Basic (RMB cents)		<u>13 cents</u>	<u>9 cents</u>
– Diluted (RMB cents)		<u>11 cents</u>	<u>9 cents</u>

CONSOLIDATED BALANCE SHEET (UNAUDITED)

	As at 30 June 2005 <i>RMB'000</i>	As at 31 December 2004 <i>RMB'000</i>
Non-current assets		
Property, plant and equipment	107,833	102,776
Land use rights	10,002	5,280
Goodwill	5,972	5,972
Jointly controlled entity	(1,591)	(1,532)
Associates	950	950
	123,166	113,446
Current assets		
Inventories	106,512	113,638
Trade receivables	130,493	84,082
Other receivables, deposits and prepayments	34,832	28,510
Trading investments	–	456
Due from a jointly controlled entity	11,442	5,053
Due from related companies	–	1,153
Restricted bank deposits	6,531	–
Cash and bank balances	428,017	162,632
	717,827	395,524
Current liabilities		
Trade payables	61,250	82,714
Other payables and accruals	35,490	19,816
Advance from customers	34,018	38,334
Short-term bank loans	25,000	70,000
Taxation payable	12,441	21,331
	168,199	232,195
Net current assets	549,628	163,329
Net assets	672,794	276,775
Financed by:		
Share capital	84,800	120
Reserves	587,994	276,655
	672,794	276,775

1. Basis of preparation

GST Holdings Limited (the “Company”) was incorporated in the Cayman Islands on 27 April 2004 as an exempted company with limited liability as a result of a restructuring exercise (the “Reorganisation”) of Gulf Technology Group Company Limited (“Gulf Group”) for listing of the Company’s shares on the Main Board of The Stock Exchange of Hong Kong Limited.

Gulf Group was established in the People’s Republic of China (the “PRC”) as a limited liability corporation and Gulf Group was engaged in the development, manufacturing, sales and installation of intelligent fire detection and control systems, automatic and intelligent security systems for residential and commercial uses and environmental consulting and services. Pursuant to the Reorganisation which was completed on 20 December 2004, Gulf Group transferred to the Company for cash of certain of its subsidiaries, associated companies, jointly controlled entity and the associated assets and liabilities relating to the intelligent fire detection and control systems and automatic and intelligent security systems divisions.

For the purpose of this report, the consolidated profit and loss account, condensed consolidated cash flow statement and consolidated statement of changes in equity of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2004 include the companies now comprising the Group and the assets, liabilities, revenues and expenses transferred in the Group as a result of the Reorganisation, as if the Group’s structure had been in existence throughout the period or since their respective dates of incorporation of the companies, whichever is the shorter period.

In preparing this unaudited condensed consolidated financial statements, the directors of the Company (the “Directors”) have adopted accounting policies consistent with those adopted in note 2 of section II under the Accountants’ Report of the Company in Appendix I to the Company’s prospectus dated 20 June 2005, except for those changes in accounting policies as a result of the adoption of new or revised International Financial Reporting Standards effective for the financial period beginning 1 January 2005 which, in the opinion of the Directors, will not have significant financial impact to the Group.

2. Turnover and segment information

	Six months ended 30 June	
	2005	2004
	RMB’000	RMB’000
Sale of goods		
Fire alarm systems	188,367	142,099
Fire alarm network systems	3,554	2,893
Building automation systems	3,439	3,037
Video entry systems	8,460	2,099
Electronic power meters	11,454	3,830
Provision of services		
Installation services	19,242	12,072
Maintenance services	4,032	1,468
	<u>238,548</u>	<u>167,498</u>

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 PRC.

Business segment

Six months ended 30 June 2005	Fire alarm	Fire alarm	Video entry	Electronic	Installation	Maintenance	Corporate	Group
	systems	network	building	power	services	services		
	RMB'000	RMB'000	automation	meters			RMB'000	RMB'000
		systems	systems					
Turnover	<u>188,367</u>	<u>3,554</u>	<u>11,899</u>	<u>11,454</u>	<u>19,242</u>	<u>4,032</u>	-	<u>238,548</u>
Segment results	58,093	949	2,505	943	1,423	1,550	(1,688)	63,775
Interest income								<u>611</u>
Operating profit								64,386
Finance costs								(884)
Share of results of								
Jointly controlled entity	264							<u>264</u>
Profit before taxation								63,766
Taxation								<u>(234)</u>
Profit for the period								<u>63,532</u>
Six months ended 30 June 2004	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	<u>142,099</u>	<u>2,893</u>	<u>5,136</u>	<u>3,830</u>	<u>12,072</u>	<u>1,468</u>	-	<u>167,498</u>
Segment results	46,951	696	427	(413)	1,190	476	-	49,327
Interest income								<u>134</u>
Operating profit								49,461
Finance costs								(1,210)
Share of results of								
Jointly controlled entity	810							810
Associates	447							<u>447</u>
Profit before taxation								49,508
Taxation								(3,316)
Minority interests								<u>(10)</u>
Profit for the period								<u>46,182</u>

3. Operating profit

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

	Six months ended 30 June	
	2005	2004
	RMB'000	RMB'000
Charging:		
Research and development costs	16,485	6,944
Provision for doubtful debts	3,753	2,146
Depreciation	5,162	5,466
Written off of inventories	519	1,190
Net loss on disposals of fixed assets	–	100
Land use right amortisation	78	62
Loss on trading investments	23	–
Goodwill amortisation	–	358
Crediting:		
Net gain on disposals of fixed assets	(995)	–
Interest income	(611)	(134)
Gain on disposals of trading investment	–	(32)
Written back of provision for litigation loss	(3,500)	–

4. Taxation

	Six months ended 30 June	
	2005	2004
	RMB'000	RMB'000
PRC enterprise income tax		
Current	234	1,158
Deferred	–	2,158
	<u>234</u>	<u>3,316</u>

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 except for certain subsidiaries. The principal operating subsidiary, Gulf Security Technology Company Limited (“GST”), which had been granted the status of high technology software company and was only required to pay income tax at a rate of 10% for the period from 1 January 2004 to 31 March 2004.

With effect from April 2004, 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.

5. Earnings per share

The calculation of basic and diluted earnings per share for the six months ended 30 June 2005 was based on the unaudited consolidated net profit of approximately RMB63,532,000 (six months ended 30 June 2004: RMB46,182,000). The calculation of basic earnings per share for the six months ended 30 June 2005 was based on the weighted average number of 502,889,980 shares (six months ended 30 June 2004: 530,286,894 shares) in issue during the period. The calculation of diluted earnings per share for the six months ended 30 June 2005 was based on the weighted average number of 601,104,972 shares. A reconciliation of the weighted average number of shares for calculation of basic and diluted earnings per share is as follows:

	Six months ended 30 June	
	2005	2004
Weighted average number of shares (Basic)	502,889,980	530,286,894
Assumed conversion of preferred A shares	98,214,992	—
	<u>601,104,972</u>	<u>530,286,894</u>

6. Contingent liabilities

In 1997, a subsidiary of the Group, Gulf Security Technology Company Limited (“GST”) provided a guarantee for a loan of RMB4,500,000 made by Bank of Communications to Qinhuangdao Textile Factory, an unrelated party. In 2001, the bank brought a legal action at Qinhuangdao City Intermediate People’s Court against GST and alleged that GST was liable for the unpaid principal of RMB3,470,000 and interest of RMB800,000 under the guarantee agreement. In April 2002, the court rendered a judgment in favour for GST and rejected the bank’s claim. The bank appealed to Hebei Provincial People’s High Court. As at 31 December 2004, a provision in the amount of RMB4,300,000 was made.

Pursuant to a mediation agreement dated 5 April 2005 entered into between GST, Qinhuangdao Municipal Light and Textile Industries State-owned Assets Operating Co., Ltd (being the authority in charge of Qinhuangdao Municipal Lianfeng Textile Group Co., Ltd, the successor of Qinhuangdao Textile Factory) (the “Operating Company”) and The Shijiazhuang Office of China Xinda Asset Management Corporation (being the assignor of the loan) (“Xinda”), GST and the Operating Company paid Xinda RMB800,000 and RMB3,500,000 respectively in April 2005. In return, Xinda has agreed to (i) waive and release GST from any future claims in connection with the guarantee provided by GST; and (ii) withdraw its appeal. In the same month, the Hebei Municipal Higher People’s Court granted leave to Xinda to withdraw its appeal and ruled that the judgment is final and binding on Xinda and the Operating Company. Accordingly, the provision for litigation loss in the amount of RMB3,500,000 was reversed during the six months ended 30 June 2005.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results



The Group is pleased to announce its first interim results after listing of its shares (the “Shares”) on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 30 June 2005. The Group has attained a historical high level of turnover and net profit for the first half of a year.

The turnover and net profit for the six months ended 30 June 2005 increased by 42.4% to approximately RMB238.5 million (2004: RMB167.5 million) and the gross profit increased by 33.2% to approximately RMB119.5 million (2004: RMB89.7 million) and the overall gross profit margin was 50.1% (2004: 53.5%). The results improvement was mainly due to an increase in turnover of our core-business fire alarm systems by 32.6% to approximately RMB188.4 million (2004: RMB142.1 million) and our “non-fire alarm system” products business by 126.9% to approximately RMB26.8 million (2004: RMB11.9 million) and provision of services business by 71.9% to approximately RMB23.3 million (2004: RMB13.5 million). The distribution costs increased by 25.0% to approximately RMB30.7 million (2004: RMB24.5 million) was mainly due to an increase in the number of our representative offices and increase in the number of sales and marketing and technical staff. The administrative and general expenses increased by 66.0% to approximately RMB37.6 million (2004: RMB22.7 million) mainly due to increase of staff cost, corporate expenses and research and development costs. As such, the net profit attributable to shareholders for the six months ended 30 June 2005 increased by 37.6% to approximately RMB63.5 million (2004: RMB46.2 million) as compared to the last corresponding period.

With the successful listing of the Shares, the Group has further enhanced its corporate image and reputation, solidifying its foundation for fast growing developments in the future.

Business Review

Leading Market Position in Core Product Segment and Substantial Growth in New Business Segments

Since our establishment in 1993, the “” brand has become the best known brand within China’s fire alarm system industry. In 2004, our “” brand was certified as the only “well-known trademark” in the fire alarm system industry by the State Administration for Industry and Commerce. We are the market leader with approximately 20% market share in terms of revenue generated from sales of fire alarm systems. Given this absolute advantage, we are able to foster continue and stable growth in our core product segment – fire alarm systems.

In recent years, we have leveraged our distribution network and brand recognition in the fire alarm system industry in China to expand into related product segments, including fire alarm network systems, building automation systems, video entry systems and electronic power meters (together, “non-fire alarm system” products). Other than engaging in product sales, we continue to develop our value-adding service segment which includes the provision of maintenance services and installation services (together, “provision of services”). Our diversified product range and comprehensive services enable us to offer a one-stop bundled solution to our customers and these represented our new growth drivers in the future.

Our core business remains fire alarm systems which contributes 79.0% (2004: 84.8%) of the total turnover for the six months ended 30 June 2005, while the non-fire alarm system products and services business accounted for 11.2% (2004: 7.1%) and 9.8% (2004: 8.1%), respectively.

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

	Six months ended 30 June		Growth %
	2005 RMB'million	2004 RMB'million	
Products			
Fire alarm systems	188.4	142.1	33%
Fire alarm network systems	3.6	2.9	23%
Building automation systems	3.4	3.0	13%
Video entry systems	8.4	2.1	303%
Electronic power meters	11.4	3.9	200%
Services			
Installation services	19.3	12.1	59%
Maintenance services	4.0	1.4	175%
Total	<u>238.5</u>	<u>167.5</u>	<u>42%</u>

Analysis by Business Segment

Fire Alarm Systems

For the six months ended 30 June 2005, the turnover of fire alarm systems increased by 32.6% to approximately RMB188.4 million (2004: RMB142.1 million). The growth drivers of our business were mainly due to:

- as China’s GDP increase and standard of living improves, consumers in the PRC have increasingly demanded better safety standard for their environment;
- increasingly stringent local and national regulatory requirements on fire protection and strengthened enforcement of regulations;
- rapid increase in real estate, infrastructure and construction development projects in China; and
- our dedication to expand industrial and public utilities sectors and export sales.

Stable Expansion of the Commercial and Residential Sectors

The commercial and residential sectors are areas that we have been performing well. We have a broad range of customers and we do not have any customer concentration as the largest customer typically accounts for less than 2% of our annual sales. Based on those solid fundamentals such as our brand name, product quality and distribution coverage, we have been expanding sales to the commercial and residential sectors in a healthy and stable pace. For the six months ended 30 June 2005, sales to the commercial and residential sectors increased by 17.5% and 10.3% respectively and the respective sales amounts reached a record high level of RMB108.0 million and RMB30.6 million, respectively. Sales to these two sectors accounts for 73.6% of our sales for the six months ended 30 June 2005, representing a slight drop from 84.2% for the six months ended 30 June 2004 as a result of our rapid expansion of sales to other sectors as explained below.

Strong Growth in the Industrial and Public Utilities and Export Sectors

Following our strategy to focus on industrial and public utilities sector, we have gained business in projects such as petroleum, car factory, telecommunications, steel, power station, stadium, hospital and school in the PRC, our sales to this sector increased by 91.2% to RMB36.2 million (2004: RMB18.9 million) for the six months ended 30 June 2005. In addition, the proportion of sales to industrial customers increased from 13.3% for the six months ended 30 June 2004 compared to 19.2% for the six months ended 30 June 2005. For the export sector, as our high quality fire alarm systems have attained the required international certification standards such as UL, LPCB and CE, the turnover in the export sector has delivered a remarkable 2.9 times growth to approximately RMB13.6 million (2004: RMB3.5 million) for the six months ended 30 June 2005 and accounted for 7.2% (2004: 2.5%) of the total turnover. Our overseas markets now cover Middle East, Europe and South East Asia.

During the six months ended 30 June 2005, we have completed and signed contracts for numerous projects such as: Kunming International Commercial & Trade Centre, Beijing University of Aeronautics and Astronautics, Hebei Provincial Government Office Building, Changzhou Government Building, Beijing West Railway Station, Jizhong Oil Field, Tangshang Iron and Steel Co., Ltd. and Anshan Iron and Steel Co., Ltd.

Fire alarm systems comprise detectors, modules and control panels. Each of these 3 components accounts for 30% to 40% of the contract sum of a fire alarm system. We manufacture numerous models of detectors, modules and control panels – over 5 series and 200 different types of products.

As a result of keen market competition, the average selling price of fire alarm system dropped. However, with the support of our strong technical research and development team (over 130 technical experts), we manage to reduce our cost of sales by cutting the material usage in the production process. Hence, the gross profit margin of fire alarm systems maintained at a satisfactory level of 53.2% (2004: 56.5%).

Fire Alarm Network Systems

We produce two types of fire alarm network systems. The first type is a system that monitors the operation of individual fire alarm systems, while the second type connects individual systems to the relevant local fire bureaus. The second type is known as the 119 network system in China.

We are the dominant market leader in fire alarm network systems with over approximately 82% market share. We believe that in approximately 57 cities in the PRC that have installed fire alarm network control centres, a total of 47 cities are using our products. For the six months ended 30 June 2005, we have sold our systems to 4 cities including Baotou, Mianyang, Hengshui and Yulin. As we are the market leader in this sector, we maintained a very high level of gross profit margin of 76.4% (2004: 75.8%).

Building Automation Systems, Video Entry Systems and Electronic Power Meters

By leveraging our extensive distribution network, the sales of electronic power meters and video entry systems has surged by 2.0 times and 3.3 times, respectively. As the sales volume increased, we achieved better economy of scale which improve the average gross profit margin of these products to 36.9% (2004: 31.9%). During the six months ended 30 June 2005, we served customers including Shenyang Caifu Center, Urumqi People's Square United Building, Guiyang City Jingyi Garden, Dalian Jinzhou Garden, Zhengzhou Power Supply Bureau and North China Power Network-Qinhuangdao Electric Power Corporation.

Installation Services

We provide installation of low-voltage building systems, including fire-alarm systems, building automation, computer network, security, CCTV monitoring, access control and emergency broadcasting systems. We have obtained the class 1 certificates which enable us to engage in the building installation services throughout China. For the six months ended 30 June 2005, we have completed or secured projects such as Hebei Medical University, Yanshan University and Guangxi Jianmao Tower.

Maintenance Services

The income generated from maintenance services surged by 1.7 times to approximately RMB4.0 million (2004: RMB1.5 million). It was driven by our solid customer base that continually demands replacement of components, repair and maintenance of fire alarm systems.

Seasonality of Business

The business volume in the first half of a year is typically lower than that of the second half as property construction and equipment installation are most affected by the cold weather and the most celebrated Chinese New Year in the first quarter. As such, the net profit for the six months ended 30 June 2004 accounts for only approximately 37.6% of the 2004 annual figures. Based upon a forecast consolidated net profit of RMB159 million for 2005, the net profit for the six months ended 30 June 2005 accounts for approximately 40.0% of the annual forecast figure.

Strong Contracts on Hand

Due to the nature of our business, we signed contracts with customers well before goods are delivered. These contracts on hand mainly cover sales up to six months. As at 30 June 2005, the amount of secured contracts was approximately RMB284 million.

Analysis by Geographical Region and Distribution Channel

Our Extensive Distribution Network

As at 30 June 2005, we have approximately 800 persons specialised in sales and marketing and technical support based in 75 offices in major cities across the PRC. We believe we have the strongest and most extensive network in the fire alarm industry which can provide satisfactory after sales services to meet the needs of our customers. As such, our geographical coverage in turnover throughout the country are evenly spread in each region.

On top of providing an effective distribution channel, our sales and distribution network help us to maintain close relationships with our customers, including fire alarm system installation companies, security system installers, building automation system installers, construction contractors, architects, real estate developers and government procurement departments. Other than distributing our core product fire alarm systems through our sales and distribution network, we leverage this network for the distribution of our other products and fruitful results have been obtained as evidenced by the continuous growth in sales of such products. In addition, our ever expanding sales network places us in a unique position to increase direct contact with customers and allows us to gradually reduce reliance on distributing our products through distributors. For instance, the percentage of sales to distributors decreased from 8.4% for the six months ended 30 June 2004 to 6.5% for the same period in 2005 while direct sales to real estate developers and property owners increased from 16.6% to 19.3% for the six months ended 30 June 2005.

Liquidity and Financial Resources

Following the Company's initial public offering on 30 June 2005, we received net proceeds of approximately RMB332 million which are intended to be used to finance the Group's future expansion as set out in the following section headed "Future Investment Plans". For the six months ended 30 June 2004 and 2005, we recorded operating cash outflow of approximately RMB17.4 million and RMB12.9 million, respectively, which are primarily attributable to the seasonality of the Group's business in the first half of a year as mentioned above. Cash used in investing activities was approximately RMB8.1 million and RMB10.1 million for the six months ended 30 June 2004 and 2005, respectively, and was mainly used for the purchase of fixed assets.

Due to the cash from operations and from issuance of preferred A shares to investors in December 2004, we had repaid a large portion of our short-term bank loans during the first half of 2005 which explains the drop in gearing ratio (defined as total debt/total equity) from 0.25 as at 31 December 2004 to 0.04 as at 30 June 2005.

Short-term bank loans as at 30 June 2005 were unsecured fixed interest rate bank debts denominated in Renminbi. These bank loans are expected to be repaid in the second half of 2005 and the repayment will be financed by cash from operations.

Future Investment Plans

The net proceeds from the Company's initial public offering on 30 June 2005 in the amount of approximately RMB332 million are intended to be used as follows:

- approximately RMB75 million for the expanding and upgrading the Group's existing primary manufacturing facilities in Qinhuangdao and construction of ancillary facilities;
- approximately RMB210 million for the development and construction of new facilities in Beijing; and
- approximately RMB47 million for the expanding and improving the Group's sales and distribution network.

To the extent that the net proceeds are not immediately required for the above purposes, such proceeds will be placed on short-term deposits with licensed banks or authorized financial institutions in Hong Kong.

Foreign Currency Exposures and Treasury Policy

We are exposed to exchange rate risk in connection with the relative value of the United States dollar and Renminbi. Typically, 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 dollars. Given the appreciation of Renminbi against the United States dollar announced in July 2005, the Directors expect that it brings favorably impacts on the Group's future financial performance by reducing raw material costs. The Group's bank deposits are predominately denominated in Hong Kong dollars and Renminbi and the short-term bank loans borrowed by the Group are in Renminbi. The Directors are of the opinion the appreciation of Renminbi in July 2005 would not cause any significant adverse effect to the financial position of the Group.

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 2005, we have not entered into any hedging arrangements relating to foreign currency exchange risk.

Human Resources

As at 30 June 2005, the total number of employees of the Group were 1,487, representing a 34.9% growth over the number of employees of 1,102 as at 30 June 2004. The Group values its human resources and recognises the importance of attracting and retaining qualified staff for its continuing success. Remuneration packages are structured by reference to market terms and individual qualifications.

The Company has set up a remuneration committee for the purpose of reviewing the remuneration packages of the executive Directors and senior management. The committee comprises two independent non-executive Directors and a non-executive Director with Mr Chan Chi On, Derek, an independent non-executive Director, as the chairman.

FUTURE PROSPECTS

We are the market leader with 20% market share in terms of revenue generated from sales of fire alarm systems, we will leverage on our market leader position, well recognised brand, extensive distribution network to increase our market share and products and services diversification.

Industrial and Public Utilities

As safety awareness and enforcement of regulations increase in the industrial and public utilities sector and as industrial growth continues in China, we see significant market opportunities and increasing demand for fire alarm systems in this sector. By capitalizing on our leading market position, we will increase our penetration in the industrial and public utilities sector. In order to do so, we have set up an Industrial and Public Utilities Sector Task Force in July 2005 which will concentrate its effort in promoting sales to large industrial projects. In particular, we plan to enlarge target customers base to include shipping, oil, port and smelting industries. On top of promoting product sales, the Task Force will also aim at providing one-stop fire alarm solution, including products, installation and after-sales maintenance services, to target customers.

Export

We will continue to expand our overseas market by exploring different overseas distribution channels. We will continue to invest in our strong technical development. Recently, we obtained another 4 LPCB certificate approvals for our products to open up the European market. Hence, we are confident to further expand the overseas market following the accreditation of various international certification approval for our products.

Fire Alarm Network Systems

From the established operating centres which have installed our fire alarm network system, we are planning to seek opportunities to involve the operation of these control centres. As we are the system expert in this specialised industry, we are in a predominant position to provide such services and therefore enhance our future maintenance services income from this sector.

Expanding Distribution Network

We will continually expand our sales and distribution network by adding dedicated sales and technical support personnel and establish sales offices in those areas that we currently have limited reach. We also plan to continue to leverage our nationwide distribution network to increase our market share of those products and services that we began offering in recent years, such as fire alarm network systems, building automation systems, video entry systems, electronic power meters, installation and maintenance services.

At present, we have 75 offices throughout the PRC and we are targeting to increase to approximately 100 by the end of 2005.

Production Plant Expansion

Nonetheless, our future investment plans to upgrade and expand our manufacturing facilities also form an integral part of our future development which will further solidify our market leader position and bring fruitful return to our shareholders.

DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2005.

PURCHASES, SALE AND REDEMPTION OF THE SHARES

The Company's Shares were listed on the Main Board of the Stock Exchange on 30 June 2005. Save for the above, neither the Company nor any of its subsidiaries purchases, sold or redeemed any of the Company's Shares on 30 June 2005. At 30 June 2005, 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 since the listing of the Shares on the Main Board of the Stock Exchange on 30 June 2005 except that both the roles of chairman and chief executive officer of the Company are performed by Mr Song Jiacheng, 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 since the listing of the Company's Shares on the Main Board of the Stock Exchange on 30 June 2005.

AUDIT COMMITTEE

The Company has set up an audit committee (the “Committee”), in accordance with the requirements of the Code of Corporate Governance Practices, for the purpose of reviewing and providing supervision on the financial reporting process and internal control system of the Group. The Committee comprises the three independent non-executive Directors with Mr Chang Tso Tung, Stephen as the chairman. The interim financial report of the Group for the six months ended 30 June 2005 has been reviewed by the Committee.

By order of the Board
Song Jiacheng
Chairman

Hong Kong, 23 August 2005

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 Sun Lun, Mr Chang Tso Tung, Stephen and Mr Chan Chi On.

Please also refer to the published version of this announcement in SCMP-Classified.