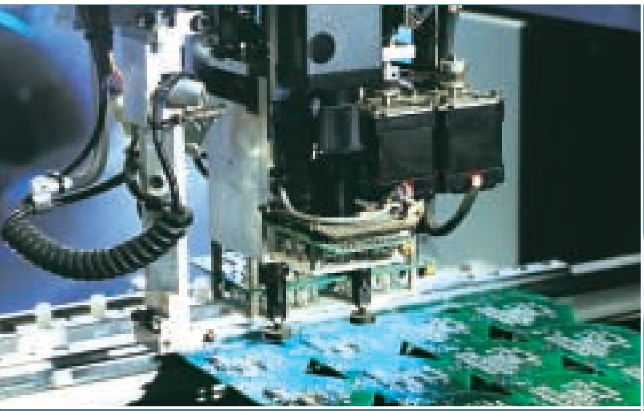
GST HOLDINGS LIMITED

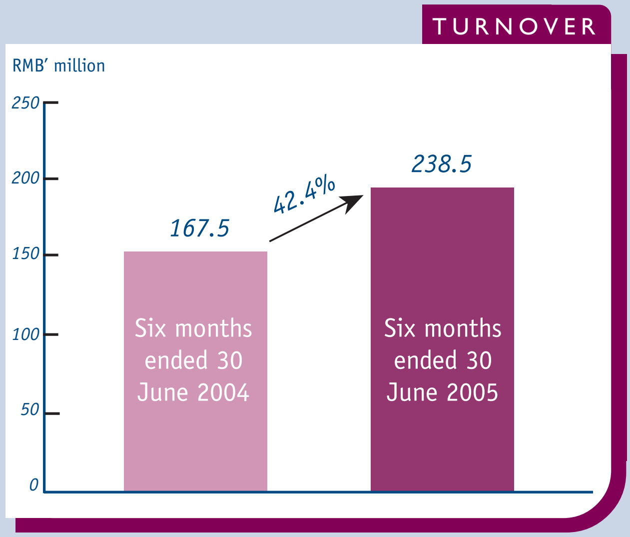
海 灣 控 股 有 限 公 司

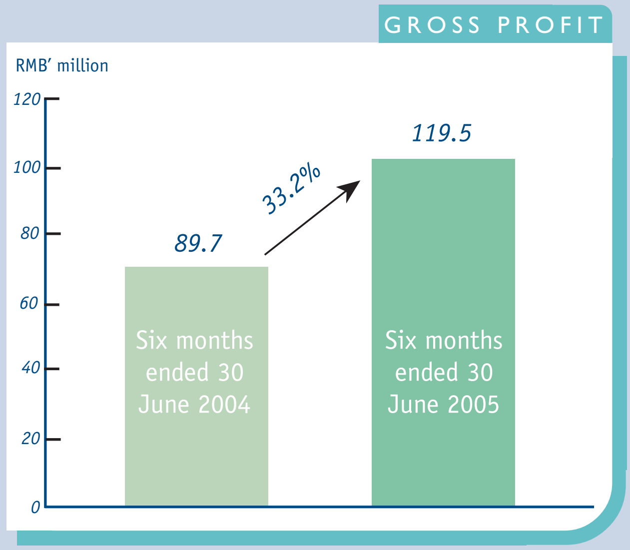
(Incorporated in the Cayman Islands with limited liability)

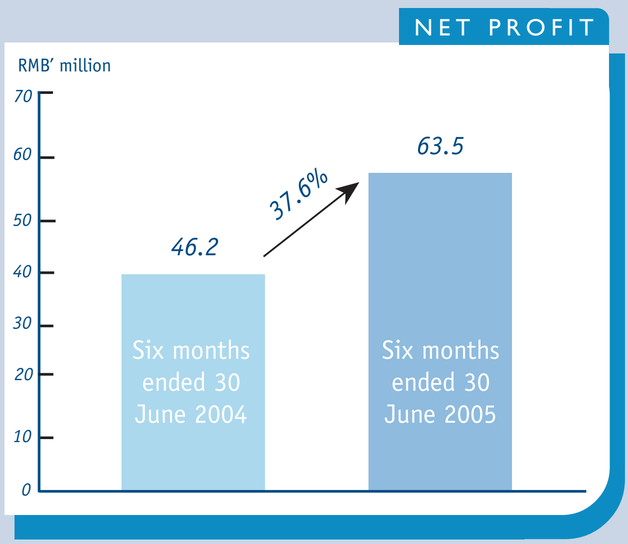


GST

INTERIM REPORT 2005


TURNOVER
RMB' million
250
200
150
100
50
0
167.5
42.4%
238.5
Six months ended 30 June 2004
Six months ended 30 June 2005


GROSS PROFIT
RMB' million
120
100
80
60
40
20
0
89.7
33.2%
119.5
Six months ended 30 June 2004
Six months ended 30 June 2005


NET PROFIT
RMB' million
70
60
50
40
30
20
10
0
46.2
37.6%
63.5
Six months ended 30 June 2004
Six months ended 30 June 2005

Contents

Corporate Information

DIRECTORS

Executive Directors:
Song Jiacheng *(Chairman)*
Cao Yu
Peng Kaichen
Xu Shaowen

Non-executive Directors:
Zeng Jun
Lee Kwan Hung, Eddie

Independent non-executive Directors:
Chang Tso Tung, Stephen
Chan Chi On, Derek
Sun Lun

AUDIT COMMITTEE

Chang Tso Tung, Stephen *(Chairman)*
Chan Chi On, Derek
Sun Lun

REMUNERATION COMMITTEE

Chan Chi On, Derek *(Chairman)*
Lee Kwan Hung, Eddie
Chang Tso Tung, Stephen

SENIOR MANAGEMENT

Ho Yui Pok, Terry
Liu Weihua
Zhu Panming
Li Haibo
Kong Wai Kit *(Company Secretary)*

STOCK CODE

Hong Kong Stock Exchange 416

INVESTOR RELATIONS CONTACT

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18 Harbour Road
Wanchai
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Wanchai
Hong Kong

PRINCIPAL PLACE OF BUSINESS IN BEIJING

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Chaoyang
Beijing 100102
The People's Republic of China

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Bermuda (Cayman) Limited
P.O. Box 513 GT
Strathvale House
North Church Street
George Town
Grand Cayman
Cayman Islands
British West Indies

HONG KONG BRANCH REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Bank of China (Hong Kong) Limited
China Construction Bank
Industrial and Commercial Bank of China

AUDITORS

PricewaterhouseCoopers

LEGAL ADVISERS

As to Hong Kong law
Woo, Kwan, Lee & Lo

As to Cayman Islands law
Conyers Dill & Pearman

As to PRC Law
Commerce & Finance Law Offices

COMPLIANCE ADVISER

Platinum Securities Company Limited

Consolidated Profit and Loss Account (Unaudited)

		Six months ended 30 June	
		2005	2004
	Notes	***RMB'000***	*RMB'000*
Turnover	*3*	**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	*4*	**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	*5*	**(234)**	(3,316)
Profit for the period		**63,532**	46,192
Attributable to:			
Equity holders of the Company		**63,532**	46,182
Minority interests		**–**	10
		63,532	46,192
Earnings per share	*6*		
– Basic (RMB cents)		**13 cents**	9 cents
– Diluted (RMB cents)		**11 cents**	9 cents

Consolidated Balance Sheet (Unaudited)

	Notes	As at 30 June 2005 RMB'000	As at 31 December 2004 RMB'000
Non-current assets			
Property, plant and equipment	*7*	**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	*8*	**106,512**	113,638
Trade receivables	*9*	**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	*10*	**–**	1,153
Restricted bank deposits		**6,531**	–
Cash and bank balances		**428,017**	162,632
		717,827	395,524
Current liabilities			
Trade payables	*11*	**61,250**	82,714
Other payables and accruals		**35,490**	19,816
Advance from customers		**34,018**	38,334
Short-term bank loans	*12*	**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	*13*	**84,800**	120
Reserves	*14*	**587,994**	276,655
		672,794	276,775

Condensed Consolidated Cash Flow Statement (Unaudited)

	Six months ended 30 June	
	2005	2004
	RMB'000	*RMB'000*
Net cash used in operating activities	**(12,865)**	(17,435)
Net cash used in investing activities	**(10,120)**	(8,056)
Net cash from financing activities	**288,370**	27,114
Net increase in cash and bank balances	**265,385**	1,623
Cash and bank balances at beginning of the period	**162,632**	42,549
Cash and bank balances at end of the period	**428,017**	44,172

Consolidated Statement of Changes in Equity (Unaudited)

Six months ended 30 June 2005

	Attributable to equity holders of the Company		
	Share capital	**Reserves**	**Total equity**
	RMB'000	***RMB'000***	***RMB'000***
At 1 January 2005	**120**	**276,655**	**276,775**
Profit for the period	**–**	**63,532**	**63,532**
Capitalization issue	**63,480**	**(63,480)**	**–**
Issue of shares for cash	**21,200**	**343,440**	**364,640**
Share issuance costs	**–**	**(32,153)**	**(32,153)**
At 30 June 2005	**84,800**	**587,994**	**672,794**

Six months ended 30 June 2004

	Attributable to equity holders of the Company			
	Share capital	Reserves	Minority interests	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2004	106	162,887	324	163,317
Profit for the period	–	46,182	10	46,192
Contribution from Gulf Group for additional interest in a subsidiary	–	136	–	136
Dividends	–	(126,300)	–	(126,300)
At 30 June 2004	106	82,905	334	83,345

Notes to the Condensed Consolidated Accounts (Unaudited)

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. A full set of the principal accounting policies of the Group for the preparation of this unaudited condensed consolidated financial statements are set out in note 2 below.

2. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss.

(a) Subsidiaries

Subsidiaries, which are those entities (including special purpose entities) in which the Group has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies are consolidated. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given up, equity instruments issued or liabilities incurred or undertaken at the date of acquisition plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the profit and loss account. Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

(b) Jointly controlled entity

A jointly controlled entity is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity. Investment in a jointly controlled entity is accounted for by the equity method of accounting. Under this method the Group's share of the post-acquisition profits or losses of jointly controlled entity is recognised in the consolidated profit and loss accounts and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the cost of investment.

The Group recognises the portion of gains or losses on the sale of assets by the Group to the jointly controlled entity that it is attributable to the other venturers. The Group does not recognise its share of profits or losses from the jointly controlled entity that result from the purchase of assets by the Group from the jointly controlled entity until it resells the assets to an independent party. However, if a loss on the transaction provides evidence of a reduction in the net realisable value of current assets or an impairment loss, the loss is recognised immediately.

(c) Associate

An associate is an entity over which the Group generally has between 20% and 50% of the voting rights, or over which the Group has significant influence, but which it does not control. Investment in associate is accounted for by the equity method of accounting and are initially recognised at cost. The Group's share of the post-acquisition profits or losses of associate is recognised in the consolidated profit and loss accounts and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the cost of the investment.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The Group's investment in associates includes goodwill (net of accumulated amortisation) on acquisition. When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group has incurred obligations or made payments on behalf of the associates.

(d) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units represents the Group's investment in each country of operation by each primary reporting segment

(e) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses and are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives, after taking into account their estimated residual values, on a straight-line basis. The principal estimated useful lives are as follows:

Buildings	15 – 35 years
Machinery	5 – 10 years
Vehicles and equipment	4 – 6 years

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and loss account during the financial period in which they are incurred.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the profit and loss account.

(f) Construction-in-progress

Construction-in-progress represents capital assets under construction, and is stated at cost. Cost comprises all expenditures and others direct costs, prepayments and deposits attributable to the construction. No depreciation is provided in respect of construction-in-progress.

(g) Land use rights

Land use rights are stated at cost less accumulated amortisation and impairment losses. Cost represented consideration paid for the rights to use the land in the PRC on which various plants and buildings are situated. Amortisation of land use rights is calculated on a straight line basis over the period of the land use rights.

(h) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using 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 but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expense.

(j) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss account.

(k) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(l) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of the cash flow statements, cash and cash equivalents comprise cash on hand and deposits held at call with banks.

(m) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. The Group recognises the estimated liability to repair or replace products under warranty. This provision is calculated based on the Group's past experience of the level of repairs and maintenance.

(n) Contingent liabilities

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 Group. 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 to the accounts, if any. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

(o) Share capital

Ordinary shares are classified as equity. Non-mandatorily redeemable preference shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(p) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

(q) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in jointly controlled entity and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

(r) Leases

Leases in which 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.

(s) Revenue recognition

Revenue from the sale of goods, net of value added taxes, is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods or all critical components of the goods are delivered to customers and title has passed.

Revenue from installation and maintenance services is recognised in the accounting period in which the service are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Interest income is recognised on a time proportion basis using the effective interest method.

(t) Government grants

Government grants are assistance by local municipal government in the form of transfer of resources to an enterprise to encourage business development in the local municipal. Such grants are discretionary in nature. Government grants are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

(u) Research and development costs

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technological feasibility, and costs can be measured reliably. Other development expenditures are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

(v) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Renminbi, which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(w) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

(ii) Pension obligations

The Group participates in a number of defined contribution plans in the PRC. The plans are organised by relevant municipal governments in the PRC.

Contributions to the above schemes by the Group are calculated as a percentage of employees' basic salaries. The Group's contributions to the defined contribution retirement scheme are expensed as incurred. Once the contributions have been paid, the company has no further payment obligations.

(x) Dividends

Dividends are recorded in the accounts in the period in which they are approved by the shareholders. Dividends proposed or declared after the balance sheet date are disclosed as a post balance sheet event and are not recognised as a liability at the balance sheet date.

(y) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment, which are subject to risks and returns that are different from those of segments operating in other economic environments. In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format.

3. 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
	238,548	167,498

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 systems	Fire alarm network systems	Video entry systems and building automation systems	Electronic power meters	Installation services	Maintenance services	Corporate	Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	**188,367**	**3,554**	**11,899**	**11,454**	**19,242**	**4,032**	**–**	**238,548**
Segment results	**58,093**	**949**	**2,505**	**943**	**1,423**	**1,550**	**(1,688)**	**63,775**
Interest income								**611**
Operating profit								**64,386**
Finance costs								**(884)**
Share of results of								
Jointly controlled entity	**264**							**264**
Profit before taxation								**63,766**
Taxation								**(234)**
Profit for the period								**63,532**

Six months ended 30 June 2004	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	142,099	2,893	5,136	3,830	12,072	1,468	–	167,498
Segment results	46,951	696	427	(413)	1,190	476	–	49,327
Interest income								134
Operating profit								49,461
Finance costs								(1,210)
Share of results of								
Jointly controlled entity	810							810
Associates	447							447
Profit before taxation								49,508
Taxation								(3,316)
Minority interests								(10)
Profit for the period								46,182

4. 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)**	–

5. TAXATION

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

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.

6. 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) deemed to be 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**	–
Weighted average number of shares (Diluted)	**601,104,972**	530,286,894

7. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2005, additions to property, plant and equipment amounted to RMB5,822,000 (six months ended 30 June 2004: RMB2,851,000) and disposals amounted to RMB3,260,000 (six months ended 30 June 2004: RMB9,315,000).

8. INVENTORIES

	As at 30 June 2005 *RMB'000*	As at 31 December 2004 *RMB'000*
Raw materials	**24,146**	26,684
Work-in-progress	**7,162**	4,183
Finished goods	**50,510**	38,284
	81,818	69,151
Components delivered to customers in respect of contracts not get completed at period end	**24,694**	44,487
	106,512	113,638

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 based on invoice date at the respective balance sheet dates is as follows:

	As at 30 June 2005 *RMB'000*	As at 31 December 2004 *RMB'000*
0 to 90 days	**55,743**	37,356
91 to 180 days	**20,783**	16,029
181 to 365 days	**35,734**	16,869
Over 365 days	**38,865**	30,707
	151,125	100,961
Less: Provisions for doubtful debts	**(20,632)**	(16,879)
	130,493	84,082

10. DUE FROM RELATED COMPANIES

	As at 30 June 2005 *RMB'000*	As at 31 December 2004 *RMB'000*
Non-trade:		
Gulf Group	**–**	253
GST International Management Limited	**–**	900
	–	1,153

These are companies which are subject to control or significant influence by the ultimate shareholders of the Company. Amounts are unsecured, interest free and have no fixed repayment terms.

11. TRADE PAYABLES

	As at 30 June 2005 *RMB'000*	As at 31 December 2004 *RMB'000*
0 to 90 days	**56,197**	73,883
91 to 180 days	**1,855**	2,230
181 to 365 days	**934**	4,399
Over 365 days	**2,264**	2,202
	61,250	82,714

12. SHORT-TERM BANK LOANS

The short-term bank loans are unsecured (2004: except for RMB20,000,000 bank loans which loans were guaranteed by Gulf Group), repayable within one year with fixed interest rate of 5.22% per annum (2004: 4.79% to 5.31% per annum).

13. SHARE CAPITAL

	Authorised				
	Common shares of HK$0.1 each *(Note)*		Preferred A shares of HK$0.1 each		Total
	No. of shares	*RMB'000*	*No. of shares*	*RMB'000*	*RMB'000*
At 1 January 2005	3,613,760	383	186,240	20	403
Conversion of preferred A shares	186,240	20	(186,240)	(20)	–
Increase in authorised share capital	1,996,200,000	211,597	–	–	211,597
At 30 June 2005	2,000,000,000	212,000	–	–	212,000

	Issued				
	Common shares of HK$0.1 each *(Note)*		Preferred A shares of HK$0.1 each		Total
	No. of shares	*RMB'000*	*No. of shares*	*RMB'000*	*RMB'000*
At 1 January 2005	945,223	100	186,240	20	120
Conversion of preferred A shares	186,240	20	(186,240)	(20)	–
Capitalization issue	598,868,537	63,480	–	–	63,480
Issues of shares	200,000,000	21,200	–	–	21,200
At 30 June 2005	800,000,000	84,800	–	–	84,800

Note: The common shares of HK$0.1 each in the share capital of the Company became one single class of ordinary shares following the conversion of the preferred A shares on 30 June 2005.

14. RESERVES

	Share premium	Merger reserve	General reserves	Retained earnings	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2005	117,083	102,902	52,748	3,922	276,655
Profit for the period	–	–	–	63,532	63,532
Capitalization issue	(63,480)	–	–	–	(63,480)
Issue of shares for cash	343,440	–	–	–	343,440
Share issuance costs	(32,153)	–	–	–	(32,153)
At 30 June 2005	364,890	102,902	52,748	67,454	587,994

15. 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.

16. COMMITMENTS

(a) Capital commitments

	As at 30 June 2005 *RMB'000*	As at 31 December 2004 *RMB'000*
Property, plant and equipment	**1,054**	860

(b) Operating lease commitments

	As at 30 June 2005 *RMB'000*	As at 31 December 2004 *RMB'000*
First year	**1,594**	937
Second to fifth year	**1,194**	1,418
After the fifth year	**942**	250
	3,730	2,605

17. RELATED PARTY TRANSACTIONS

The Group had the following significant transactions with related companies which were, in the opinion of the Directors, carried out in the normal course of the Group's business:

		Six months ended 30 June	
		2005	2004
	Notes	***RMB'000***	*RMB'000*
Continuing:			
Sales to a jointly controlled entity	*(i)*	**12,703**	3,028
Repair cost paid to a related company	*(ii)*	**132**	45
Sales to a related company	*(iii)*	**200**	–
Rental paid to a related company	*(iv)*	**80**	–
Service fee paid to a related company	*(v)*	**455**	–
Discontinued:			
Sales of fixed assets to a related company	*(vi)*	**2,803**	–
Service fee paid to a related company	*(vii)*	**–**	1,731
Software design fee paid to a related company	*(viii)*	**–**	200
Interest income from a related company	*(ix)*	**–**	432

Notes:

(i) Sales of finished goods to jointly controlled entity were conducted in the normal course of business at prices and terms mutually agreed by the parties involved.

(ii) Repair costs paid to Qinhuangdao Development Zone Junhui Car Repair and Decoration Company Limited, a subsidiary of Gulf Group were conducted at prices and terms mutually agreed by the parties involved.

(iii) Sales to Beijing Gulf Jingcheng Property Development Company Limited, a subsidiary of Gulf Group, represented installation services provided by the Group on normal commercial terms.

(iv) Rental paid to Gulf Group was determined based on market rent.

(v) Service fee paid to Gulf Group covered the provision of catering, transportation, environmental maintenance, security guards, property management services and other related or similar services to the Group on prices and terms mutually agreed by the parties involved.

(vi) The consideration for the sale of fixed assets to Gulf Group was based on valuation performed by an independent accounting firm as at the date of sale.

(vii) The sales service fee paid to Gulf Group was based on 2.2% of sales contracts concluded through Gulf Group.

(viii) Software design fee paid to Beijing Aertaike Software System Technology Company Limited, a subsidiary of Gulf Group, was at prices and terms mutually agreed by the parties.

(ix) Interest income was charged at 5.31% per annum on a loan of RMB20,000,000 advanced to Gulf Group which was repaid during 2004.

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.

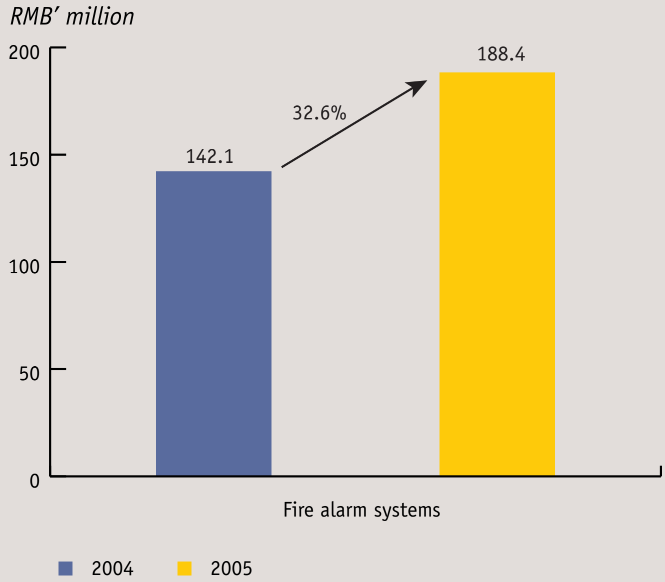
With the successful listing of the Shares, the Group has further enhanced its corporate image and reputation, solidifying its foundation for fast growing developments in the future.

BUSINESS REVIEW

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

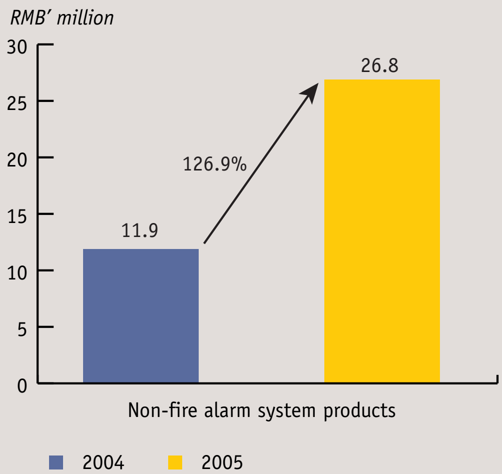
Since our establishment in 1993, the " " brand has become the best known brand within China's fire alarm system industry. In 2004, our " " brand was certified as the only "well-known trademark" in the fire alarm system industry by the State Administration for Industry and Commerce. We are the market 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.

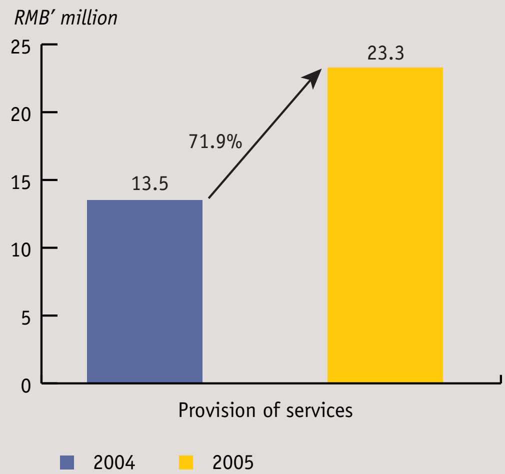
The following chart illustrates the growth in turnover from sales of fire alarm systems:



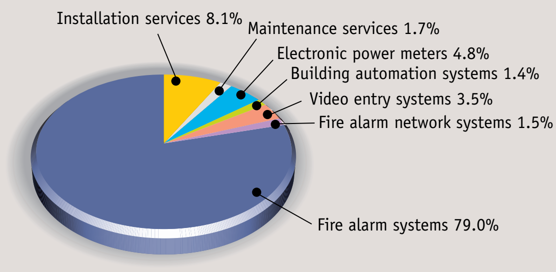
In recent years, we have leveraged our distribution network and brand recognition in the fire alarm system industry in China to expand into related product segments, including fire alarm network systems, building automation systems, video entry systems and electronic power meters (together, "non-fire 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.

The following charts illustrate the growth in turnover from sales of non-fire alarm system products and provision of services:

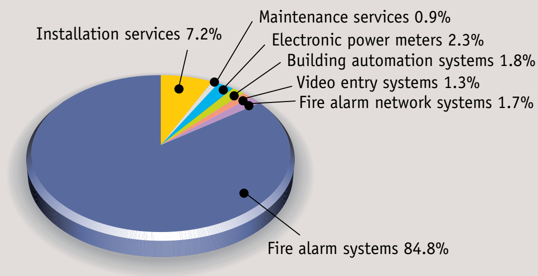




Our core business remains fire alarm systems which contributes 79.0% (2004: 84.8%) of the total turnover for the six months ended 30 June 2005, while the non-fire alarm system products and services business accounted for 11.2% (2004: 7.1%) and 9.8% (2004: 8.1%), respectively. The following charts illustrate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



2005



2004

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

	Six months ended 30 June		
	2005	2004	**Growth**
	RMB'million	*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	**238.5**	167.5	42%

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.

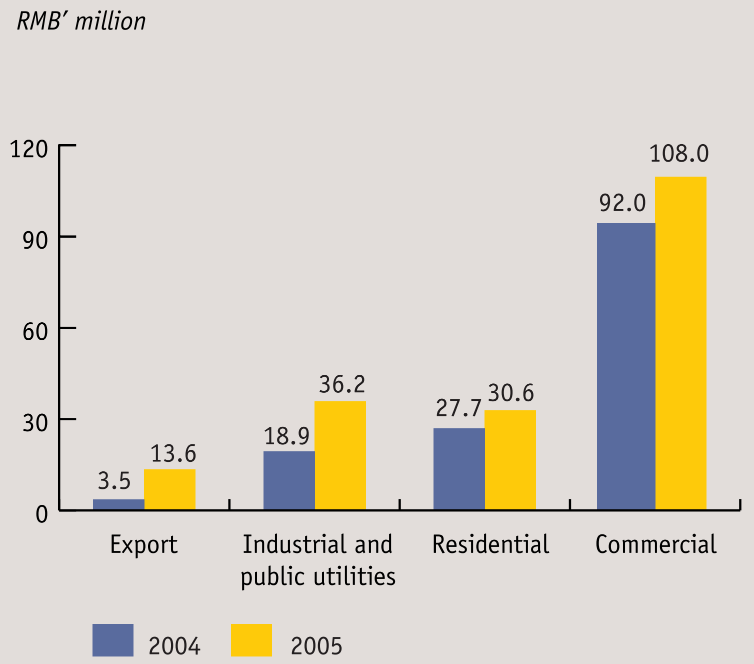
Stable Expansion of the Commercial and Residential Sectors

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.

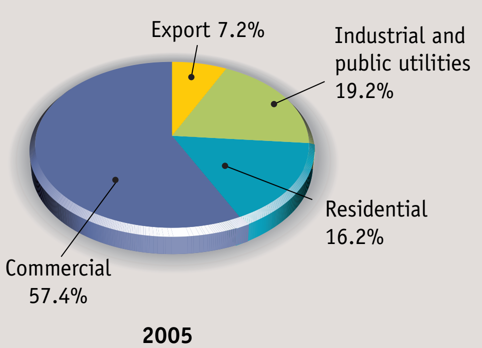
Strong Growth in the Industrial and Public Utilities and Export Sectors

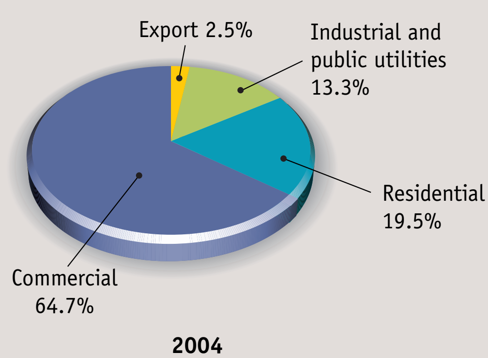
Following our strategy to focus on industrial and public utilities sector, we have gained business in projects such as petroleum, car factory, telecommunications, steel, power station, stadium, hospital and school in the PRC, our sales to this sector increased by 91.2% to RMB36.2 million (2004: RMB18.9 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.

The following chart illustrates the growth in our sales by sector:



The following charts illustrate our sector mix:





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 boardcasting 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

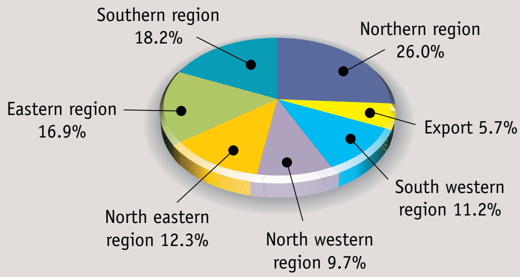
Our Extensive Distribution Network

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.

Set out below is a map showing the geographical coverage of our sale offices nationwide.

Geographical Coverage of Our Representative Offices in the PRC

The following charts illustrate the geographical mix of our turnover:



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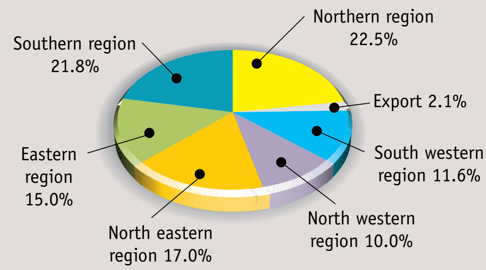
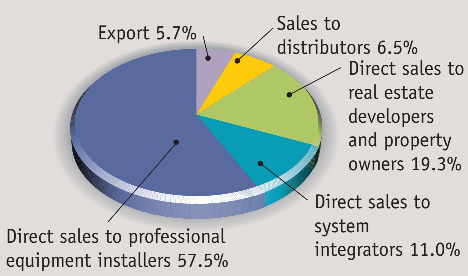


2004

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 an 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.

The following charts illustrate the proportion of our turnover generated through various distribution channel:



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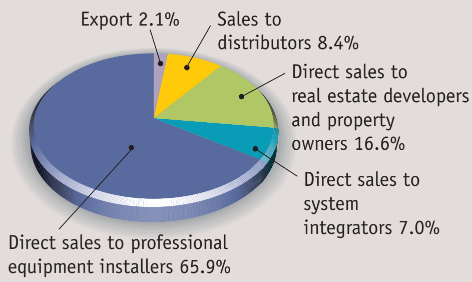

2004

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.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

As at 30 June 2005, the interests and/or short positions of the Directors and the chief executive of the Company in the Shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions of which they were taken or deemed to have taken under such provisions of the SFO), and/or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Beneficial interests in the shares of associated corporations

Name of associated corporation	Name of Director	Number of ordinary shares held in the associated corporation	Approximate shareholding percentage
GST International Management Limited	Song Jiacheng	269,276 ordinary shares	26.93%
GST International Management Limited	Zeng Jun	231,366 ordinary shares	23.14%
GST International Management Limited	Cao Yu	157,781 ordinary shares	15.78%
GST International Management Limited	Peng Kaichen	157,781 ordinary shares	15.78%
GST International Management Limited	Xu Shaowen	52,560 ordinary shares	5.26%

Save as disclosed above, neither the Directors nor the chief executive of the Company, nor any of their associates, had interests or short positions in the Shares, underlying shares or debentures of the Company or its associated corporation as at 30 June 2005.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2005, the following person, not being a Director or chief executive of the Company, had an interest and/or short position in the Shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name of shareholder	Nature of interest	Capacity	Number of Shares	Approximate shareholding percentage
GST International Management Limited	Corporate interest	Registered and beneficial owner	501,239,369 (L)	62.65% (L)
3i Group plc ("3i")[1]	Corporate interest	Registered and beneficial owner/Interest of controlled corporations[2]	98,760,631 (L) [2]	12.35% (L) [3]
3i Holdings plc[1]	Corporate interest	Interest of controlled corporations	98,760,631 (L) [2]	12.35% (L) [3]
3i plc[1]	Corporate interest	Interest of controlled corporations	98,760,631 (L) [2]	12.35% (L) [3]
3i Investments plc[1]	Corporate interest	Investment manager	98,760,631 (L) [2]	12.35% (L) [3]
3i Group Investments GP Limited[1]	Corporate interest	Interest of controlled corporations	43,207,776 (L)	5.40% (L) [3]
3i Asia Pacific 2004-06 LP ("3i Asia Pacific")[1]	Corporate interest	Beneficial owner	43,207,776 (L)	5.40% (L) [3]
Morgan Stanley	Corporate interest	Interest of controlled corporations	95,436,000 (L) 30,000,000 (S)	11.93% (L) [4] 3.75% (S) [4]

(L) Indicates a long position.

(S) Indicates a short position.

Notes:

(1) 3i, which is a shareholder of the Company, is a company incorporated in England and having its shares listed on the London Stock Exchange. 3i legally and beneficially owns 30,862,697 Shares, representing approximately 3.86% of the issued share capital of the Company.

3i Nominees Limited is a shareholder of the Company and acts as nominee of 3i Asia Pacific, an English limited partnership. 3i Asia Pacific beneficially owns 43,207,776 Shares, representing approximately 5.40% of the issued share capital of the Company. The general partner of 3i Asia Pacific is 3i Group Investments GP Limited, a company incorporated in England and a wholly-owned subsidiary of 3i Holdings plc. Accordingly, by virtue of the SFO, 3i Group Investments GP Limited and 3i Holdings plc were deemed to be interested in the 43,207,776 Shares beneficially owned by 3i Asia Pacific.

3i APTech Nominees Limited is a shareholder of the Company and acts as nominee of 3i Asia Pacific Technology LP ("3i APTech"), an English limited partnership. 3i APTech beneficially owns 24,690,158 Shares, representing approximately 3.09% of the issued share capital of the Company.

3i Investments plc, as the manager of these funds, has the discretionary power to control the exercise of the voting rights to the shares beneficially owned by 3i, 3i Asia Pacific and 3i APTech. Accordingly, 3i Investments plc was deemed to be interested in all the Shares held by 3i, 3i APTech Nominees Limited (as nominee of 3i APTech) and 3i Nominees Limited (as nominee of 3i Asia Pacific), being a total of 98,760,631 Shares, representing approximately 12.35% of the issued share capital of the Company. 3i Investments plc is a company incorporated in England.

3i Investment plc is a wholly-owned subsidiary of 3i Plc, which in turn is a wholly-owned subsidiary of 3i Holdings plc. 3i Holdings plc, in turn, is a wholly-owned subsidiary of 3i. Accordingly, by virtue of the SFO, 3i Plc and 3i Holdings plc were deemed to be interested in all the Shares in which 3i Investment plc was deemed to be interested.

(2) In addition to the 30,862,697 Shares legally and beneficially owned by 3i, 3i was deemed to be interested in the Shares beneficially owned by 3i Asia Pacific and 3i APTech and was interested or deemed to be interested in a total of 98,760,631 Shares. 3i Investments plc, as investment manager, 3i Holdings plc and 3i plc were also deemed to be interested in those Shares.

(3) The aggregate interests held by this group of companies are long positions in 98,760,631 Shares and represent the same interest and are duplicated.

(4) Morgan Stanley was deemed to be interested in the Shares through a chain of subsidiaries which include, among others, Morgan Stanley Group (Europe) (a 98.3% owned subsidiary of Morgan Stanley International Limited) and Morgan Stanley International Incorporated (a 90% owned subsidiary of Morgan Stanley Domestic Capital Inc.).

Save as disclosed above, no other interests or short positions in the Shares or underlying shares of the Company were recorded in the register maintained under Section 336 of the SFO as at 30 June 2005.

SHARE OPTION SCHEME

The Company conditionally adopted a share option scheme (the "Share Option Scheme") on 7 June 2005 which became unconditional on 30 June 2005. The purpose of the Share Option Scheme is to provide incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Share Option Scheme include any employees, directors, substantial shareholders or any of their respective associates of the Company and/or any of its subsidiaries or associated companies.

As at 30 June 2005, no option had been granted or agreed to be granted to any person under the Share Option Scheme.

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