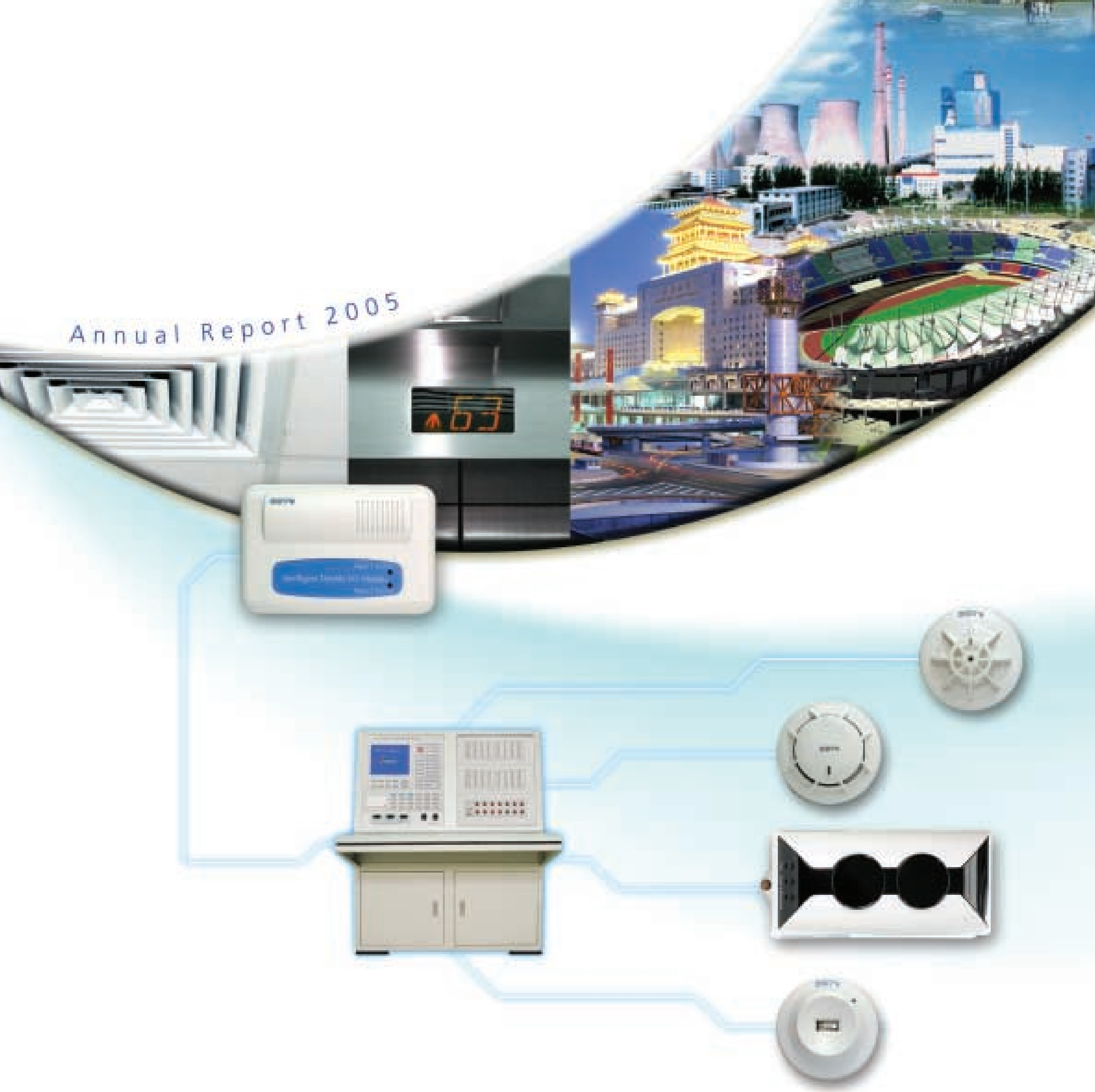
GST HOLDINGS LIMITED

海灣控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Annual Report 2005



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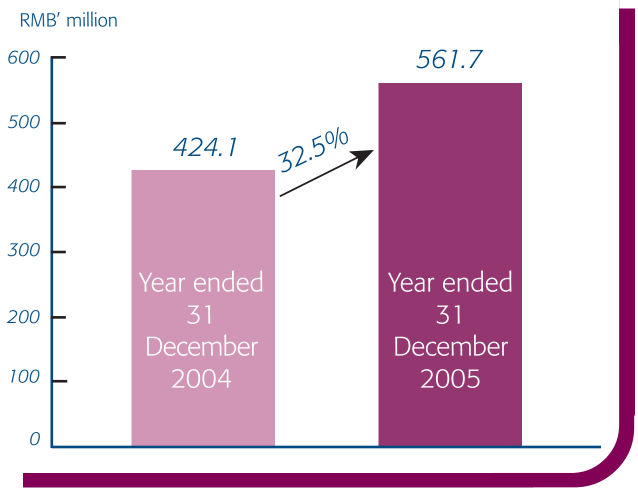
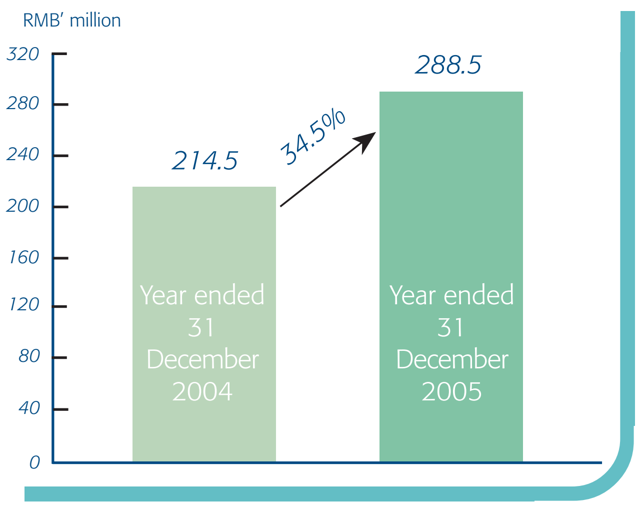
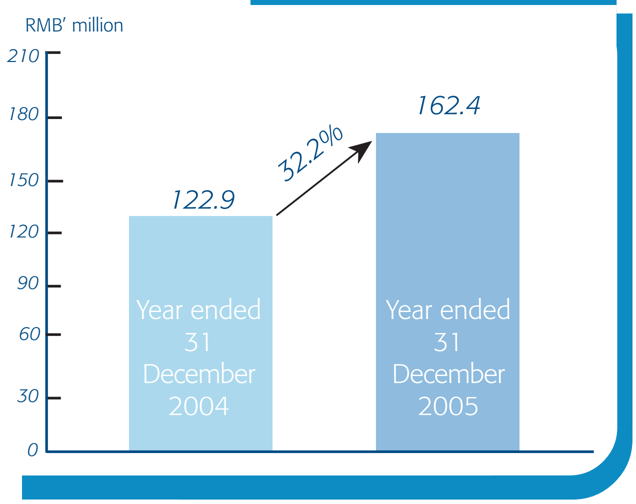
TURNOVER



GROSS PROFIT



PROFIT FOR THE YEAR



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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

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Wanchai
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PRINCIPAL PLACE OF BUSINESS IN BEIJING

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Beijing 100102
The People's Republic of China

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Bermuda (Cayman) Limited
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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

CHAIRMAN'S STATEMENT

DEAR SHAREHOLDERS,

On behalf of GST Holdings Limited ("GST Holdings" or the "Company", together with its subsidiaries, the "Group"), I am pleased to present the Group's annual results for the year ended 31 December 2005.

GST Holdings was successfully listed on The Stock Exchange of Hong Kong Limited on 30 June 2005, marking a major milestone in our corporate history. Not only did the listing exercise strengthen the Company's capital base for future expansion, but also effectively enhanced its overall competitiveness while establishing a solid foundation for propelling sustainable growth.

Fuelled by the growing demand for fire alarm products, and supported by a dedicated management team and a strong staff force, GST Holdings achieved continual rapid growth during the year. In 2005, the Group's turnover amounted to RMB561.7 million, representing a year-on-year growth of 32.5%. Net profit attributable to shareholders reached RMB162.4 million, posting a significant increase of 32.2% when compared with that in 2004 and exceeding the profit forecast stated in the listing prospectus published on 20 June 2005.

Against the backdrop of the flourishing economy and improving living standards in China, the importance of public safety has gained increasing awareness, driving the demand for our fire safety products. As such, the PRC Government, in the "Eleventh Five-year Plan", urged the strengthening of related safety laws and regulations within the community and across different industries. With increasingly stringent fire laws and regulations as well as greater emphasis on public awareness of life and property safety, the demand for quality fire-related products surged drastically, bringing immense growth potential to the fire safety industry in the PRC.

The Group fully leveraged on its resources during the year under review, offering a one-stop-shop business model that covered research and development, and manufacturing and sales, to secure its leading position in the industry. With an approximately 23% market share, the Group surpassed its peers and continued to be the top player in the industry. In 2005, the Group further extended its sales network by adding some 30 new sales offices, bringing the total number to over 90 in the PRC currently. Our strong brand with a history of over 13 years, coupled with an extensive clientele, has enabled us to maintain market leadership over the past years. In addition, this leadership is further complemented by our strong research and development capability backed by a team of more than 130 R&D experts and two R&D centers, which, in turn, enabled us to further increase our market share and strengthen our foothold.

Facing both enormous challenges and immense opportunities ahead, the Group expects to see escalating market demand that will expedite corporate development and intensify market competition. Nevertheless, we believe that competition will be based on product and service quality, rather than simply on pricing. During the year, there was an increasingly apparent industry consolidation trend. Small players dropped out due to their inability to match ever-increasing demand for product quality. In contrast, the Group seized market opportunities that arose by capitalizing on its strong R&D support and reliable product quality to enhance its market share as well as to fortify its market leadership. As a high-tech enterprise with products and services of outstanding quality, we believe the Group will continue to achieve impressive results despite keen market competition.

Chairman's Statement

In 2006, the Group will further improve and expand its sales network. With plans to establish over 30 new offices, the total number of sales offices will exceed 120 by the end of 2006. Backed by the largest and most efficient sales network in the industry, the Group will enhance its leading position. Moreover, the Group expects to complete the expansion of its production facilities in June 2006 to cope with increased business demand. The Group will also plan to build a new production plant at an appropriate location to capture future market potential.

We expect that the Group's business will further expand in 2006. Firstly, the Group will continue to provide one-stop fire services solutions and strive to be an integrated fire products and services provider to broaden the Group's market presence. Secondly, the Group will maintain stable growth in commercial and residential projects while enhancing the provision of fire alarm products and services for industrial and public facilities. Thirdly, the Group will accelerate the application for product registration certificates and seek opportunities to collaborate with foreign enterprises, so as to efficiently tap the international market. At present, the Group has successfully extended its business to the Middle East, Europe and Southeast Asia and is prepared to enter the North American market in 2006.

In view of the satisfactory performance over the past year, management is confident of the Group's future development. We are committed to seizing the opportunities in the fast-growing fire industry to solidify our leadership and to achieving new business heights through continuous innovation, bringing added value to shareholders. Lastly, I would like to express my sincere gratitude to all staff members for their valuable contributions and to our shareholders for their continued support and trust in us.

Song Jiancheng
Chairman

Hong Kong, 30 March 2006

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULTS

For the year ended 31 December 2005, the turnover of the Group grew by 32.4% to RMB561,716,000. Such turnover growth was mainly attributable to an impressive growth in sales deriving from each of the Group's business segment due to a surging market demand for the Group's services and products driven by an increasing awareness of fire prevention and safety amongst the China government and its citizens.

As a token of effective cost controls by the Group, the gross profit for the year under review reported a 34.5% increase, amounting to RMB288,480,000, with a 0.8% increase in the gross profit margin to 51.4%. Net profit attributable to shareholders grew by 32.2% over the last corresponding figure to RMB162,427,000. During the year under review, the Company achieved a marked business growth by exceeding our targeted net profit.

The Board of Directors recommended the payment of a final dividend of HK7 cents per share in order to return shareholders of the Company with promising results and performance.

MARKET REVIEW

In 2005, China's economy boomed stably, with an increasing income per capita. According to statistics revealed by the State Statistics Bureau of the People's Republic of China, GDP in 2005 rose by 9.5% to approximately RMB18.2321 billion. With rising income and living standards, people are increasingly aware of the importance of fire prevention and in pursuits of higher living environment safety. In addition, the rapidly developing property sector in China together with the persistently increasing infrastructure and construction projects added further growing momentum for luring a greater demand for the fire alarm equipment from the industrial and commercial sectors.

In view of tightened safety regulations for both the community and various industries coupled with reinforced enforcement of those regulations under the Eleventh Five Year Plan of the PRC Central Government, the demand for fire prevention related equipment from different industries was fostered.

Given a growing market demand for the installation and maintenance services of fire alarm systems in addition to sales of such products, a flurry of emerging market opportunities were brought to the one-stop bundled solution providers.

As there are more and more cities installed the fire alarm network systems (collectively known as "119 fire network systems" in the PRC), this product type will be embedded with tremendous market potentials while it gains its popularity.

All the above factors provided a good opportunity for the Group's further development.

BUSINESS REVIEW

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

Since our establishment in 1993, our " " brand has now become one of the most widely recognized brands in the fire alarm system industry in China. In 2004, our " " brand was awarded as the only "well-known trademark" in the PRC fire alarm system industry by the State Administration for Industry and Commerce.

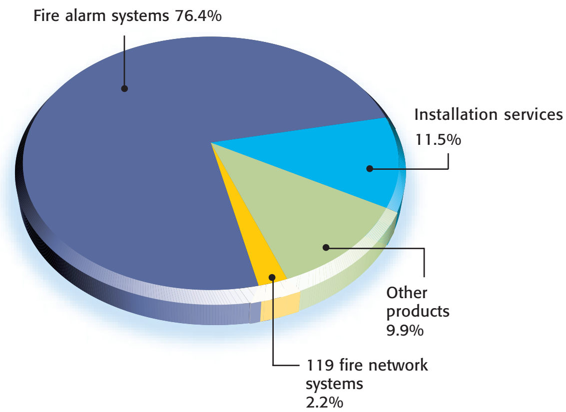
In January 2006, Gulf Security Technology Company Limited, a subsidiary of the Group, was ranked the top 17th most competitive PRC enterprise by "Forbes".

Management Discussion and Analysis

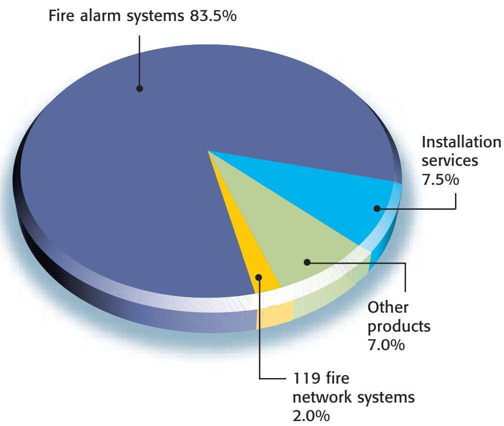
Turnover Analysis by Business Segment

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

	For the year ended 31 December		
	2005	2004	Growth
	RMB'million	*RMB'million*	%
Fire alarm systems	**429.0**	354.1	21%
Installation services	**64.4**	31.7	103%
119 fire network systems	**12.4**	8.7	42%
Other products	**55.9**	29.6	89%
Total	**561.7**	424.1	32%



2005



2004

Fire Alarm Systems

During the year under review, the Group continued to be the market leader in the PRC fire alarm system industry, as income of fire alarm systems increased by approximately 21.2% to approximately RMB429,003,000, which was the Group's core business accounting for 76.4% of the total turnover. The above income included income from sales of fire alarm systems and maintenance services of RMB421,781,000 and RMB7,222,000, respectively, which represented a growth of 20.7% and 52.3%. In terms of sales revenue, the Group enjoyed a market share of about 23%, nearly doubling the market shares of the second and third largest players.

There are over 100 competitors in the PRC fire alarm system industry. Currently, imminent market consolidation is expected in view that the top 20 players accounted for up to 80% of the market shares whereas the top three players shared over 40% of the market according to market estimates. Market consolidation is expected to flourish a more healthy market sentiment whereby creating a great pool of valuable opportunities for the Group as a market leader.

Major direct stimulus driving a significant growth in sales of fire alarm systems were mainly attributable to a growing demand for such products in association with the enhanced requirements in industrial and commercial fire prevention systems by the China government through tightened regulations, and the desires for higher quality and more reliable products due to an increasing safety awareness amongst the citizens in China. The Group will be well positioned to benefit from the prevailing conditions as a key industry player. In addition, a huge demand for fire alarm products will be lured from projects under construction and newly constructed projects under a prosperous property market in China. On top of that, there are more industrial customers adopting fire alarm system for the fire precaution safety measures.

Despite the rising market demand of fire alarm systems, the average selling prices were falling caused by price reduction of those small scaled system manufacturers. However, such price reduction has driven these small scaled system manufacturers out of the market as they suffered from profit erosion on the same token. As a result, the fall in average selling prices diminished from 18% in 2004 to 15% in 2005. In terms of cost control, the production cost was effectively reduced as the production efficiency was raised through the Group's research and development with technology upgrade. On the other hand, the Group enjoyed more preferential material purchase prices from suppliers as we had stronger bargaining power by leveraging on our scale of economies and bulk raw material purchases, thereby attaining our cost control target. The average cost of sales continued to decline with a drop of 15% in 2004 which was increased to 20% in 2005. In addition, there are significant growth in the Group's turnover of industrial and public utilities sector and export sector, where both sectors are in the higher gross profit margin areas. Through a combination of various strategies, the Group's gross profit margin of fire alarm system business grew to 56.8% from 53.8% in 2004 accordingly. In response to the prevailing market trends, by increasing additional sales offices and sales technicians during the year ended review, as well as by exerting greater promotional efforts, the number of sales offices was increased to 88 as at 31 December 2005, while sales and technical staff were increased from 579 to 913 as at 31 December 2005. On top of expanding commercial and residential customer bases, the Group took a great step in actively exploring into the sectors of industrial and public utilities and the export markets by setting up a designated team. These product segments were fuelled with new driving forces through the provision of sales services to large industrial projects and the expanded market coverage of such products.

During the year under review, the Group took part in a number of major projects, namely Beijing World Trade Commercial Centre (北京世貿商業中心), Shanghai Inspection and Testing Centre (上海檢測中心), Hainan Chemical Refinery (海南煉化廠), Daqing Oil Field Production Commanding Centre (大慶油田生產指揮中心), Dalian Jinchuan Garden (大連金川花園) and the Comprehensive Administrative Building in Hefei New Zone (合肥政務新區綜合政務樓).

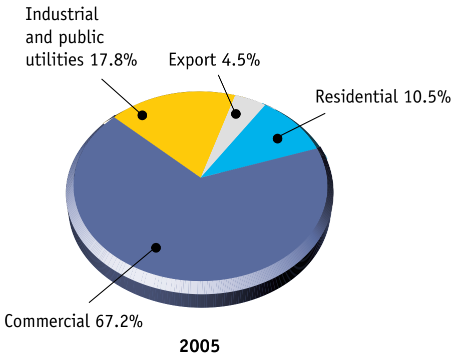
Strong Growth in the Industrial and Public Utilities Sector

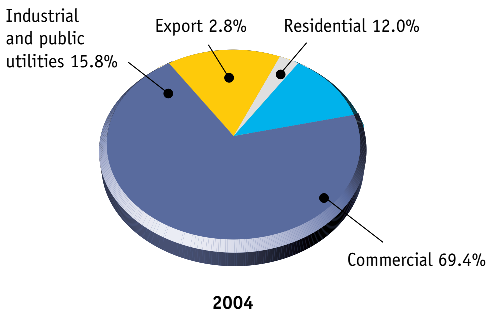
During the year under review, turnover of fire alarm systems generated from the industrial and public utility sector delivered a marked increase of 36.1% to approximately RMB74,987,000, accounting for 17.8% of the total turnover from fire alarm systems. As the research capability of the Group can offer industrial customers diversified professional products, the Group successfully gained customers from different areas, including many famous enterprises such as the PetroChina Southwest Liuzhou Oil Field (中石油西南公司柳州油庫), Datang Huaibei Power Station (大唐淮北發電廠), Maoming Petroleum Company (茂名石化公司), Haier Industrial Park (海爾工業園區), Anshan Steel Group (鞍山鋼鐵公司) and Shanghai General Motors (上海通用汽車公司).

The Group plans to make more endeavoured efforts in developing its business in the industrial and public utility sector in response to the future market trend.

Management Discussion and Analysis

Turnover Analysis by Business Sector of Fire Alarm System





Export Markets

In addition to our active business pursuit in the PRC market, the Group also entered into the international market. Quality fire alarm systems of the Group were accredited with the certification standards by a number of international institutions, including Underwriters Laboratories Inc. (UL), Loss Prevention Certification Board (LPCB) and Conformite Europeenne (CE). The product trademark was registered over 40 countries and regions across Europe, Asia, Africa and Middle East. For the twelve months ended 31 December 2005, export sales of products delivered a remarkable 92.1% increase to RMB19,082,000. This segment accounted for 4.5% of the turnover of fire alarm systems.

As the cost of material and labour are relatively low in the PRC, together with the Group's optimal economies of scale, it can therefore deliver very price competitive products for export sales. Despite the proportion of present export business is low, the export markets are expected to become major growth drivers of the Group in the imminent future through a perfect combination of the Group's advantages in technological research and development, production technologies, competitive costs and prices.

Installation Services

The Group started installation business in 1996. The experience accumulated in the past years enabled the Group to obtain Grade 1 qualification, being the highest qualification for building installation business. Hence, we can participate in nationwide building installation contracts. The Group is dedicated to providing a total solution for various types of building's low-voltage systems installation services, including major fire alarm systems and other relevant systems. We aim to position as a one-stop solution supplier providing diversified products, technology consulting, system designs, equipment selection, equipment installation and testings, as well as maintenance services.

During the year under review, income from installation services increased by 102.9% to approximately RMB64,408,000, which was the second major income generator accounting for 11.5% of the total turnover. The Group involved in several projects, including Jizhong Oil Field (冀中油田), Beijing University of Science and Technology (北京科技大學), Bazhou Electricity Supply Deployment Building (霸州供電局電力調度樓) and Dalian Heping Modern Town (大連和平現代城).

119 Fire Network Systems

Though 119 fire network systems in China were only at a start-up stage, with an increasing number of cities installing such systems, the Group believes the development of such business will be promising.

Apart from engaging in sales of 119 fire network systems, the Group strengthened customer connections by providing value-added ancillary maintenance services to customers. During the year under review, The Group installed 119 fire network systems for 19 cities, including Zhengzhou, Xiamen, Yinchuan, Baotou and Huhehaote. Income from sales of 119 fire network systems posted an encouraging growth of 42.1% to approximately RMB12,360,000.

As at 31 December 2005, 119 fire network systems were installed in about 63 cities in China, of which the systems in 53 cities were purchased from the Group, including Tianjin, Chongqing, Wuhan, Chengdu and Guizhou. On this basis, the Group secured a lion share of 84% of the market.

Average selling prices remained stable under a relatively mild market competition. Gross profit from 119 fire network systems increased to 79.5% from 73.7% in 2004. The increasing weight of such high gross margin business will contribute positively to the gross margin of the Group. The prospect of the business will be promising in the future given our leading position in the market.

Other Products

The Group made great efforts in further broadening our product portfolio, including sales of building automation systems, video entry systems and electronic power meters, by taking advantage of our reputation and widely recognized brand name.

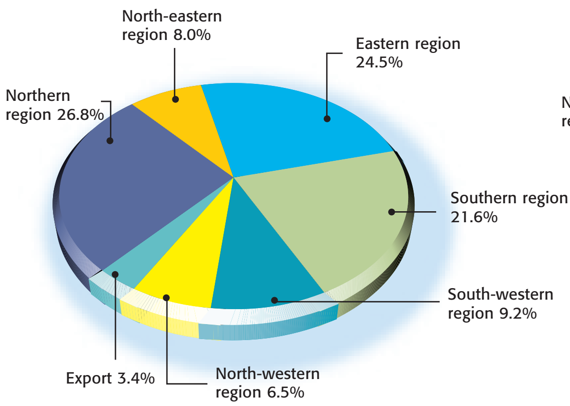
During the year under review, sales of video entry systems, electronic power meters and building automation systems grew by 99.0%, 107.2% and 19.0% respectively. A total revenue of RMB55,945,000, being 10.0% of the total turnover, was generated for the Group, which was a stable income source of the Group.

Nationwide Coverage of Sales Network

One of the Group's competitive edges lies upon its far-reaching and comprehensive sales network. As at 31 December 2005, the Company had approximately 913 employees specializing in sales, marketing and technical support based in 88 offices in major cities across the PRC. As a service provider with the strongest and the most extensive network in the fire alarm industry, the Group is capable of providing comprehensive after-sales services to customers in different regions. With a nationwide network of sales branch offices, the Group is capable of maintaining close connections with our clients across different regions.

Geographical Coverage of Our Representative Offices in the PRC

Turnover Analysis by Geographical Segment



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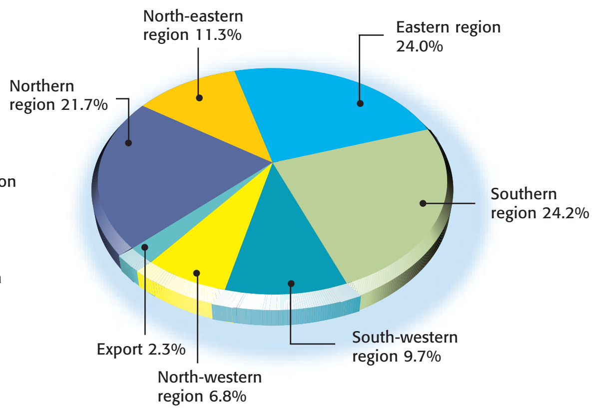
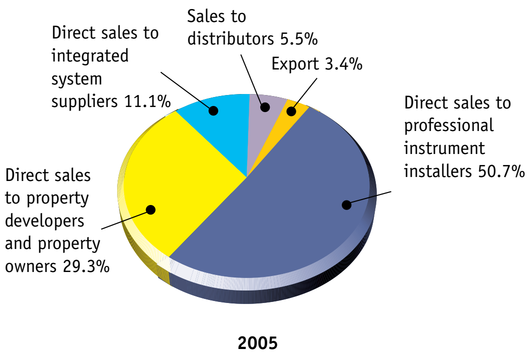
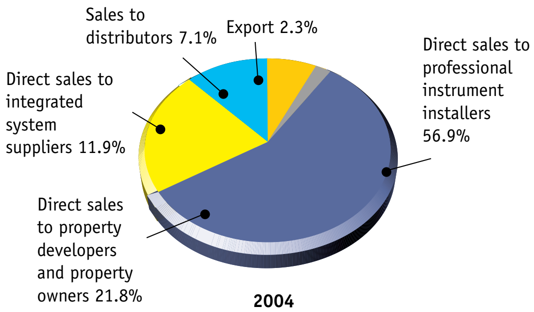


2004

The sales and distribution network of the Group was a crucial factor for maintaining a close relationship with our customers. Constantly expanding sales network resulted in the Group's increasing direct connections with our customers, and consequently reducing reliance on the Group's distributors.

Turnover Analysis by Distribution Channel





Abundant Orders On-hand

The Company accustomed to enter into contracts with our customers prior to good deliveries due to its business nature. As at 31 December 2005, orders on-hand aggregated a total value of approximately RMB260,000,000.

Distribution costs, administrative and general expenses

For the year ended 31 December 2005, distribution costs and administrative and general expenses, increased as the Group expanded its business continually. Distribution costs increased by 46.8% from RMB53.0 million to RMB77.8 million in 2005 as a result of the increase in number of sales offices to 88 as at 31 December 2005 and increase in sales, marketing and technical staff from 579 as at 31 December 2004 to 913 as at 31 December 2005.

Administrative and general expenses increased by 41.9% from RMB58.5 million in 2004 to RMB83.0 million in 2005. This is mainly attributable to increase in research costs and as we strengthened the management team.

Taxation

Taxation decreased by 80.9% from RMB3.6 million in 2004 to RMB0.7 million in 2005 and effective tax rate dropped from 2.9% to 0.4%. This is mainly due to the preferential tax treatment three of our PRC subsidiaries received in April 2004. Pursuant to this preferential tax treatment, those three PRC subsidiaries will be exempted for the first two profitable years, and receive 50% relief for the next three profitable years, from the applicable enterprise income tax. In addition, being registered in designated development zones, these three PRC subsidiaries are subject to PRC income tax at a preferential tax rate of 15% or 24%.

Starting 2006, two of the above three PRC subsidiaries, including the major operating subsidiary GST, enter their third profitable year and are subject to a 50% relief from the preferential tax rate of 15%.

Liquidity, Financial Resources and Bank Loans

Following the Company's initial public offering on 30 June 2005, we raised net proceeds of approximately RMB334 million which will be used to finance the Group's future expansion. For the twelve months ended 31 December 2005, we recorded operating cash inflow of approximately RMB143,564,000, representing a 44.8% increase over the last corresponding figure of RMB99,165,000. During the year under review, cash used in investing activities amounted to approximately RMB37,744,000, which was mainly for the expansion of our factory.

During the year under review, the Group repaid all short-term bank loans with cash from operations. Without any existing bank liabilities, the Group's gearing ratio (being total debts divided by total shareholders' equity) dropped to zero as at 31 December 2005 from 0.25 as at 31 December 2004.

To cope with the growth in 119 fire network systems, the Group increased its shareholding in Qinhuangdao City Chengan Fire Prevention Network Co., Ltd. ("Chengan"), one of the Group's associates, from 35% to 51% in September 2005, whereby Chengan became the Group's subsidiary. The amount involving in such acquisition was RMB800,000 and was fully settled in cash.

USE OF PROCEEDS FROM LISTING

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

– approximately RMB75 million for expanding and upgrading the Group's existing primary manufacturing facilities in Qinhuangdao and construction of ancillary facilities;

– approximately RMB210 million for developing and constructing a new factory; and

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

As at 31 December 2005, approximately RMB24,838,000 from the listing proceeds was used in the following manner:

– approximately RMB23,056,000 for expanding and upgrading the Group's existing primary manufacturing facilities in Qinhuangdao and construction of ancillary facilities; and

– approximately RMB1,782,000 for expanding and improving the Group's sales network.

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

The Group plans to invest approximately RMB142,000,000 and RMB167,000,000 in the coming two years (2006 and 2007) to complete those projects as set out in the prospectus of the Company.

FOREIGN CURRENCY EXPOSURES AND TREASURY POLICY

We are exposed to the exchange rate risk between United States dollar and Renminbi. In principal, more than 95% of our sales and our raw material purchases are denominated in Renminbi. However, the purchases of raw materials by our suppliers are usually denominated in United States dollar. Given the appreciation of Renminbi against the United States dollar announced in July 2005, favorable impacts are expected to be brought to the Group's future financial performance in terms of reducing raw material costs. The Group's bank deposits are predominately denominated in Hong Kong dollar and Renminbi (see Note 37 to the accounts). The Directors are of the opinion that appreciation of Renminbi may not cause any significant adverse effect on the financial position of the Group. However, a foreign exchange loss of approximately RMB7,554,000 was reflected in our financial statements given that the proceeds from listing were dominated in Hong Kong dollar while the Group's accounts were measured in Renminbi.

It is the Group's treasury policy to manage its foreign currency exposure whenever its financial impact is material to the Group. The Group will continue to monitor its foreign exchange position and, if necessary, will appropriately hedge its foreign currency exposure. For the twelve months ended 31 December 2005, the Company did not use any financial instruments or enter into any contracts in order to hedge against its foreign currency exchange risk.

HUMAN RESOURCES

As at 31 December 2005, the total number of employees of the Group were 1,718, representing a 34.6% growth over the number of employees of 1,276 as at 31 December 2004. The Group values its human resources and targets to attract and retain competent personnel. Remuneration packages are structured by reference to individual staff's qualifications and the prevailing market conditions. The Company currently provides sufficient trainings and continuing professional development opportunities to its staff.

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

The Group is committed to become a total solution supplier of fire alarm systems by providing a full range of quality services from fire alarm systems to peripheral systems in China. Given that the penetration rate of the fire alarm systems in the domestic market is currently far lagging behind other economically prosperous countries, the domestic market is set to be embedded with tremendous growing potentials.

In light of ever rising customers' requirements for products and systems under a rapidly growing market, the prevailing market is characterized with faded outs of certain small-scaled players by increasingly competent competitors. Leveraging on a larger pool of merger and acquisition opportunities, and synergies arising from the market consolidation of the fire alarm systems and its peripheral systems, the market is expected to gain promising growth prospects. To the Company's belief, the Company will take advantage of the market consolidation to further strengthen its leading position. Looking forward, by capitalizing on the existing solid basis,

Management Discussion and Analysis

the Group will make concerted efforts in gradually upgrading itself from an revenue model based mainly on product sales to a product and system solution supplier engaging in product sales providing installation and ancillary equipment as well as maintenance services by further exploring into wider scopes of services. The followings are the major growth drivers of the Group in the future:

1. Inspiring growth in the PRC market driven by China's policy

Given that the penetration rate of the fire alarm systems in the domestic market is currently far lagging behind other economically prosperous countries, the domestic market is set to be embedded with tremendous growth potentials. With the importance of industrial safety being highlighted in the Eleventh Five-Year Plan, reinforced enforcement of the fire regulations by the government and increasing awareness of safety amongst the domestic citizens, the applications of the fire alarm systems are expected to be widened to various industries. In particular, the most significant growth potentials for the industrial and public utilities sectors will bring a flurry of rapid growth opportunities for the Group.

To capture each and every market opportunity, the distribution network and research and development capabilities will be further enhanced by the Group. Over 30 offices are expected to be added in 2006, increasing the number of sales offices to over 120 by late 2006. The Group is devoted to deliver highly competitive products and services at all times and approximately 5% of its sales is delegated to research and development activities.

2. Tremendous Potential in the Industrial Sector

In recent years, China's industry sectors grow vigorously, as evidenced from a continuous increase in industrial customers and an enormous demand for industrial fire equipment. In comparison with the specifications of civil and residential fire equipment, industrial fire equipment are more demanding in terms of specifications and professional technologies while they enjoy relatively higher gross margin. The future development trend will be the provision of one-stop bundled services ranging from sales, installation to maintenance to the industrial sector.

3. Exploration into Export Markets

The Group's competent research and development capacities in providing quality products at highly competitive prices represents our favourable condition in expanding into the export markets. The Group's fire alarm system products are currently registered in numerous countries. Coupled with the passing of 4 LPCB product certifications during the year, the Group enjoys apparent advantages in exploring into the European markets. Moreover, in January 2006, the Group was granted the "Madrid International Trademark Registration Certificate" by the "World Intellectual Property Organization". As such, we have obtained recognition and protection in 24 countries under the European Union, Australia, Japan, America and Singapore. Based upon the existing sales network, the Group will enhance its developments in the Middle East, European and South East Asia markets, and in opening up the North American and other European markets.

In view of stepping up our business development, the Group is actively seeking opportunities for a partnership with international players. With the quality offerings of the Group complemented by the experience in global sales network of such international partners, the Group and our partners can jointly explore international market opportunities.

4. 119 Fire Network Systems and Installation Services

As noted from recent development trend and by referring to overseas market paths, the Group believes that substantial room for development will be lured given the increasing applications of the 119 fire network systems.

In addition, the Group plans to establish a foothold in developing one-stop solution services by cooperating with control centres which are equipped and installed with the Company's 119 fire network systems and by involving in the operations of those control centers. More efforts will be made in developing repair and maintenance services by establishing additional repair and maintenance centres in the coming year. Leveraging on the Group's leading position and widespread customer connections in 119 fire network systems, the management is confident in putting competitive edges in the development of such business, and expects to explore additional sources of service income in the future.

The Group's factory expansion currently under construction in Qinhuangdao is expected to be put into operation in July 2006. To enhance production capacity in line with our future development needs, an additional new factory will be actively planned and constructed, which will be financed by the listing proceeds.

As to our future development plans, the Group is devoted to a dual-mission commitment of consolidating our leading position and creating fruitful shareholders' values. To the Board of Director's belief, GST Holdings is prepared to meet the forthcoming market challenges ahead and to grasp each and every growth opportunity.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr Song Jiacheng (宋佳城), aged 45, is the chairman of the Board, an executive Director, the chief executive officer of the Company and one of the founding shareholders of the Group. Mr Song graduated from Southwest University of Science and Technology (formerly known as Sichuan College of Construction Materials Industry (四川建築材料工業學院)) with a bachelor's degree in engineering in 1983. Mr Song gained management expertise by consecutively serving as the chairman of the Board and the chief executive officer of the Group since 1993. He has over 13 years of experience in the PRC fire alarm systems industry. From 1985 to 1993, Mr Song was a lecturer at the Management Cadre School Qinhuangdao Branch under the State Administration of Buildings Materials Industry (國家建材局管理幹部學院秦皇島分院講師). Mr Song was awarded one of the ''Top Ten Excellent Entrepreneurs of Privately-owned Science and Technology Companies in Hebei Province'' (河北省十佳民營科技實業家) in 1997 and 1998 and is a member of the standing committee of the Hebei Provincial Committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議河北省委員會常務委員會常委). He was also given the award of one of the ''Year 2002 Excellent Entrepreneurs of China's Privately-owned Science and Technology Companies'' (中國優秀民營科技企業家) by All-China Federation of Industry and Commerce (中華全國工商業聯合會) in 2002. In April 2002, he became an executive member of the All-China Federation of Industry & Commerce. In April 2004, Mr Song was awarded the title of "Staff Caring Outstanding Entrepreneur" (全國關愛員工優秀民營企業家) by All-China Federation of Industry & Commerce and All-China Federation of Trade Unions (中華全國總工會評為). In December 2004, he was awarded the title of "Outstanding Builder of Socialism with Chinese Characteristics" (優秀中國特色社會主義事業建設者) by United Front Work Department of the CPC Central Committee (中共中央統戰部), National Development and Reform Commission (國家發展和改革委員會), Ministry of Personnel of the People's Republic of China (人事部), State Administration for Industry & Commerce (國家工商總局), and All-China Federation of Industry & Commerce (全國工商聯). He currently serves as a vice president of Hebei Provincial Association of Industry and Commerce (河北省工商業聯合會) and a member of the standing committee of China Fire-Protection Association (中國消防協會).

Mr Cao Yu (曹榆), aged 43, is an executive Director and president of the Company and one of the founding shareholders of the Group. Mr Cao graduated from Tianjin University (天津大學) with a master's degree in communications and electronic systems in 1987 and a bachelor's degree in electronic engineering in 1982. Mr Cao has been a director of GST and has served in various management positions in the Group since 1993. He has over 13 years of experience in the PRC fire alarm systems industry. He is currently a member of the Qinhuangdao Municipal Committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議秦皇島市委員會) and serves as a vice president of the Committee on Fire Security Electronic Products of CFPA (中國消防協會電子行業分會) and is a member of China's National Committee on Fire Security Technology Standardization (全國消防標準化技術委員會). Mr Cao is a director of the Research Committee on Fire Prevention Comprehensive Technology of China Construction Association (中國建築學會建築防火綜合技術分會), a member of the Expert Committee on Intelligent Building Technology of the Ministry of Construction of the PRC (建設部建築智能化技術專家委員會), a member of the Expert Committee of the China's Security Prevention Products Industry Association (中國安全防範產品行業協會專家委員會) and a member of the US National Fire Protection Association. Mr Cao is also a vice director of Hebei Province Quality Management Association (河北省質量協會).

Mr Peng Kaichen (彭開臣), aged 43, is an executive Director and senior vice president of the Company and one of the founding shareholders of the Group. Mr Peng graduated from Southwest University of Science and Technology (formerly known as Sichuan College of Construction Materials Industry (四川建築材料工業學院)) with a bachelor's degree in building materials industrial automation in 1984. Since 1993, Mr Peng has been a director of the GST and has served in various management positions, including the manager for the research and development department, chief engineer, vice general manager in charge of production of GST.

Mr Xu Shaowen (徐紹文), aged 38, is an executive Director, vice president of the Company and one of the founding shareholders of the Group. Mr Xu graduated from Shanghai Jiaotong University (上海交通大學) with a bachelor's degree in radio engineering in 1990. Mr Xu has been a director of GST and has served in various management positions in the Group since 1993.

Non-executive Directors

Mr Zeng Jun (曾軍), aged 38, is a non-executive Director, a vice chairman of the Board and one of the founding shareholders of the Group. Mr Zeng graduated from Fudan University (復旦大學) with a bachelor's degree in genetic engineering in 1989 and from Sino-Europe International Business School (中歐國際工商學院) with an EMBA degree in 2002. Mr Zeng has been the vice chairman of GST since 1993 and was the executive vice general manager of GST from 1993 to 2000.

Mr Lee Kwan Hung, Eddie (李均雄), aged 40, is a non-executive Director. Mr Lee graduated from the University of Hong Kong with a bachelor's degree in law in 1988 and a Postgraduate Certificate in Laws in 1989. He was qualified as a solicitor in Hong Kong in 1991 and in England and Wales in 1997. He was a senior manager of the Stock Exchange and is a partner of Woo, Kwan, Lee & Lo. Mr Lee is also a non-executive director of Mirabell International Holdings Limited and an independent non-executive director of GZI REIT Asset Management Limited and Innomaxx Biotechnology Group Limited, all of which are listed on the main board of the Stock Exchange. Mr Lee joined the Company in December 2004.

Independent Non-executive Directors

Mr Chang Tso Tung, Stephen (張祖同), aged 57, is an independent non-executive Director. He joined the Company in February 2005. Mr Chang was the former deputy chairman and a member of the management committee of Ernst & Young, Hong Kong. Mr Chang graduated from London University with a bachelor's degree in science in 1973. Mr Chang is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England and Wales. Mr Chang previously served as the chairman of the audit department and also as the managing partner for professional services of Ernst & Young, Hong Kong. Mr Chang has over 30 years of experience in auditing and advisory services.

Mr Chan Chi On, Derek (陳志安), aged 42, is an independent non-executive Director. He joined the Company in February 2005. Mr Chan is an executive director of Tai Fook Securities Group Limited, a company listed on the Stock Exchange, and is in charge of its corporate finance division. Mr Chan is also an independent non-executive director of GZI REIT Asset Management Limited. He also holds directorship in certain companies in hotel investment. He graduated from the Hong Kong University of Science & Technology with a master's degree in business administration in 1994 and graduated from the University of Hong Kong with a bachelor's degree of social sciences majoring in economics in 1985. Between 1989 and 1996, he had worked for the Stock Exchange. He is an adjunct professor in the School of Accounting and Finance of the Hong Kong Polytechnic University. Mr Chan has over 16 years of experience in the financial services industry.

Mr Sun Lun (孫倫), aged 65, is an independent non-executive Director. He joined the Company in February 2005. Mr Sun graduated from Zhongbei University (中北大學) (formerly known as Taiyuan College of Mechanics (太原機械學院)) with a bachelor's degree in chemical engineering in 1965. He is the chairman of the China's Fire Security Association. From 1991 to 2001, Mr Sun was a director, vice president and president of the Fire Security Bureau of the Ministry of Public Security of the PRC (中華人民共和國公安部消防局), and from 1993 to 2001, he was the chairman of China's National Committee on Fire Security Technology Standardization (全國消防標準化技術委員會). From 1994 to 2000, he was a vice president of China Fire Products Quality Certification Committee (中國消防產品質量認証委員會). Mr Sun has over 25 years of experience in the fire security industry. In 1997, Mr Sun was awarded the Medal of the International Civil Defence Organization by the International Civil Defence Organization in honor of his contributions to the development of the fire security industry in China. In September 2003, Mr Sun was awarded the Gold Award of the first "Ozonosphere Protection Award" (保護臭氧層貢獻獎) by the State Environmental Protection Administration of China (國家環保局授予國家) in recognition of his contribution in the China fire industry to protect the ozonosphere. In June 2005, he was appointed the vice-president of the Confederation of Fire Protection Association-Asia & Australia (國際消防協會聯盟亞澳分會).

SENIOR MANAGEMENT

Mr Ho Yui Pok, Eleutherius (何睿博), aged 40, is the chief financial officer of the Company. Mr Ho graduated from the University of Kent at Canterbury, England with a bachelor's degree in accounting in 1987 and a master degree in management science in 1989. Mr Ho joined the Company in April 2005. Prior to joining the Company, Mr Ho was a manager of an international accounting firm. In addition, he was the group financial controller of EC-Founder (Holdings) Company Limited, a company listed on the main board of the Stock Exchange. He is an associate member of both the Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants. Mr Ho has over 16 years' experience in finance and accounting.

Ms Liu Weihua (劉衛華), aged 39, is a vice president of the Company. Ms Liu graduated from Shenyang Automation Institute of China's Academy of Sciences (中國科學院沈陽自動化研究所) with a master's degree in pattern recognition and intelligent control in 1995 and from Beijing University of Aeronautics and Astronautics (北京航空學院) with a bachelor's degree in electric technology in 1987. Ms Liu joined GST in 1995 and has since served as manager of the research and development department, vice chief engineer, chief engineer, and vice president in charge of technology.

Mr Zhu Panming (朱泮明), aged 42, is a vice president of the Company in charge of the Company's sales and marketing department. Mr Zhu graduated from Changsha Railway College (長沙鐵道學院) with a bachelor's degree in mechanic manufacturing in 1984. After graduation, Mr Zhu joined Shanhaiguan Bridge Work (山海關橋樑工廠), which was subsequently restructured and became China Railway Shanhaiguan Bridge Group Co., Ltd (中鐵山橋集團有限公司). In 1998 he was the supervisor of smithy workshop and senior engineer of China Railway Shanhaiguan Bridge Group Co., Ltd. Mr Zhu joined GST in 2001 and has since served as manager of the enterprise management department, assistant to general manager and vice president of the marketing department of GST.

Mr Li Haibo (李海波), aged 41, is the financial controller of the Company. Mr Li graduated from Hunan University of Finance and Economics (湖南財經學院) with a bachelor's degree in accounting in 1986. Mr Li was a manager, vice director and director of financial department of Tianjin Xingang Vessel Company (天津新港船廠) from 1986 to 1999. He joined GST in 1999 and has since served as the financial controller of the Group.

Mr Kong Wai Kit (江偉傑), aged 33, is the qualified accountant and company secretary of the Company employed on a full-time basis. Mr Kong graduated from the Hong Kong University of Science and Technology with a bachelor's degree in business administration in 1995. He joined the Company in February 2005. Prior to joining the Company, Mr Kong was a manager of an international accounting firm. In addition, he was the qualified accountant and company secretary of Far Eastern Polychem Industries Limited from August 2003 to February 2005, a company listed on the GEM of the Stock Exchange. He is a fellow of the Chartered Association of Certified Accountants in the United Kingdom and an associate of the Hong Kong Institute of Certified Public Accountants. He is also a Chartered Financial Analyst charterholder. Mr Kong has over ten years of experience in finance and accounting. He is the qualified accountant of the Company pursuant to Rule 3.24 of the Listing Rules.

REPORT OF THE DIRECTORS

The Directors are pleased to present their report for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The Group is engaged in the development, manufacturing, sales and installation of intelligent fire detection and control systems and automatic and intelligent security systems for residential, commercial and industrial uses.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2005 are set out in the consolidated profit and loss account on page 32.

The Directors recommend the payment of a final dividend of HK$0.07 per share (RMB0.07) to shareholders whose names appear on the register of members on 10 May 2006.

RESERVES

The distributable reserves of the Company as at 31 December 2005 amounted to approximately RMB515 million.

Movements in reserves of the Group and the Company during the year are set out in note 30 to the accounts.

FIXED ASSETS

Movements in fixed assets of the Group and the Company during the year are set out in note 14 to the accounts.

SHARE CAPITAL

Details of the movements in the share capital during the year are set out in note 29 to the accounts.

SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2005 are set out in note 36 to the accounts.

DIRECTORS

The Directors of the Company during the year and up to the date of this annual report were:

Executive Directors

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

Non-executive Directors

Zeng Jun	
Lee Kwan Hung, Eddie	
Jamie Paton	(resigned on 23 March 2005)

Independent Non-executive Directors

Chang Tso Tung, Stephen	(appointed on 21 February 2005)
Chan Chi On, Derek	(appointed on 21 February 2005)
Sun Lun	(appointed on 21 February 2005)

Report of the Directors

According to the Articles of Association of the Company, at each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. A retiring Director is eligible for re-appointment. There are no provisions relating to retirement of Directors upon reaching any age limit.

As agreed among the five Directors who have been longest in office and were appointed on the same date, Mr Cao Yu, Mr Peng Kaichen and Mr Zeng Jun shall retire at the conclusion of the 2005 annual general meeting, and, being eligible, offer themselves for re-election.

The Company has received from each of its Independent Non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and considers the Independent Non-executive Directors to be independent.

DIRECTORS' SERVICE CONTRACTS

No Director has any existing or proposed service contract with any member of the Group that is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2005, aggregate sales to the five largest customers and aggregate purchases from the five largest suppliers accounted for less than 30% of our total sales and purchases, respectively.

CONNECTED TRANSACTIONS

Prior to a corporate reorganization in preparation of the listing of the Shares of the Company, Gulf Security Technology Company Limited, a major wholly owned subsidiary of the Company, was owned directly or indirectly by Gulf Technology Group Company Limited ("Gulf Group") as to approximately 99.93%. Gulf Group is currently owned by 22 shareholders who are the same beneficial shareholders of GST International Management Limited, the controlling shareholder of the Company. For the sole purpose of interpretation of connected transactions under the Listing Rules, the Company considers that Gulf Group together with its subsidiaries as connected persons of the Company.

For the year ended 31 December 2005, the Group had the following connected transactions:

1. **Construction agreement**

   On 10 June 2005, Beijing Gulf Engineering Company Limited ("Beijing Gulf Engineering") a wholly owned subsidiary of the Group, entered into an agreement with Beijing Gulf Jingchang Property Development Company Limited ("Beijing Gulf Property"), a limited liability company established in the PRC and is a subsidiary of the Gulf Group, and Beijing Chengjiansi Construction and Engineering Company Limited ("Beijing Chengjiansi") relating to the construction and development of the Property Development (as hereinafter defined) (the "Construction Agreement"). Beijing Gulf Property is principally engaged in sale and development of real properties and Beijing Chengjiansi is principally engaged in sub-contracting of construction projects.

A property development of Beijing Gulf Property is currently under construction in Beijing, the PRC (the "Property Development"). Beijing Gulf Property has appointed Beijing Chengjiansi to be the main contractor of the Property Development. Pursuant to the terms of the Construction Agreement, Beijing Chengjiansi has appointed Beijing Gulf Engineering to be a sub-contractor in providing building installation and maintenance services, which shall include the supply and installation of water supply system for fire extinguishing purpose and fire alarm system and the design, supply and installation of low voltage building system of the Property Development.

The fees payable by Beijing Gulf Property are on terms no less favourable than that available to other customers of the Group. The contracted construction fees under the Construction Agreement is RMB20 million and shall be payable in stages by Beijing Gulf Property to Beijing Gulf Engineering within 25 days upon application to be made by Beijing Gulf Engineering after completing the prescribed work schedule. The work under the Construction Agreement is expected to complete in 2006.

The amount of sales under the Construction Agreement recorded by the Group for the year ended 31 December 2005 is set out in note 35(iii) to the accounts.

2. **First right of refusal to acquire interests in associated companies of Gulf Group**

Pursuant to a confirmation dated 21 February 2005 entered into between Qinhuangdao Gulf Fire Prevention Network Company Limited ("Gulf Network") and Qinhuangdao Development Zone Gulf Security Network Company Limited, a subsidiary of the Gulf Group, subject to pre-emptive right, Gulf Network has a first right of refusal to acquire interests in four associated companies of the Gulf Group established in the PRC, individually or collectively.

3. **Exempted Connected Transactions**

Certain exempted continuing connected transactions of the Group for the year ended 31 December 2005 are set out in note 35(ii), (iv) and (v) to the accounts.

The Directors are of the opinion that the Company has complied with the applicable disclosure requirements in accordance with Chapter 14A of the Listing Rules.

CONTRACT OF SIGNIFICANCE

Except for the Construction Agreement as disclosed under the section headed Connected Transactions above, there is no contract of significance in relation to the Group's business to which the Company, its fellow subsidiaries or its holding company was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or any time during the year.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

As at 31 December 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 31 December 2005.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 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]

(L) Indicates a long 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.

Report of the Directors

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.

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 31 December 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 31 December 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 purchased, sold or redeemed any of the Company's Shares for the year ended 31 December 2005. As at 31 December 2005, 800,000,000 Shares were in issue.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the latest practicable date prior to the issue of this annual report, the Company has maintained sufficient public float.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association, or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

AUDIT COMMITTEE

The Company has set up an audit committee (the "Committee"), in accordance with the requirements of the Code of Corporate Governance Practices. The consolidated financial statements of the Group for the year ended 31 December 2005 have been reviewed by the Committee.

AUDITORS

The accounts have been audited by PricewaterhouseCoopers who will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

By order of the Board
Song Jiacheng
Chairman

Hong Kong, 30 March 2006

CORPORATE GOVERNANCE REPORT

The Company has made continuous effort to ensuring high standards of corporate governance. The principles of corporate governance adopted by the Company emphasises a quality board, sound internal controls and accountability to shareholders and these are based upon an established ethical corporate culture.

THE BOARD OF DIRECTORS

The overall management of the Group's business is vested in the Board. Key responsibilities include formulation of the Group's overall strategies and policies, setting of performance targets, evaluation of business performance and oversight of management.

As at 31 December 2005, the Board comprised nine Directors, including four Executive Directors, two Non-executive Directors and three Independent Non-executive Directors. All the Independent Non-executive Directors were appointed on 21 February 2005. Non-executive Directors and Independent Non-executive Directors are appointed for a term of three years from their respective dates of appointment. For a Director to be considered independent, the Board must determine the Director does not have any direct or indirect material relationship which the Group. In determining the independence of the Directors, the Board follows the requirements set out in the Listing Rules. Biographical details of the Directors are set out on pages 16 to 18.

The Board meets regularly, and at least four times a year. Between scheduled meetings, senior management of the Group provides to the Directors information on a timely basis on the activities and development in the businesses of the Group and when required, additional Board meetings are held. In addition, Directors have full access to information on the Group and independent professional advice whenever deemed necessary by the Directors.

The Chairman is responsible for providing leadership to, and overseeing, the functioning of the Board to ensure that the Board acts in the best interests of the Group and Board meetings are planned and conducted effectively. The Chairman is primarily responsible for approving the agenda for each Board meeting, taking into account, where appropriate, matters proposed by other Directors for inclusion in the agenda. With the support of the Company Secretary and other senior management, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and receive adequate and reliable information in a timely manner. The Chairman also actively encourages Directors to fully engage in the Board's affairs and make contribution to the Board's functions.

The Board held nine meetings in 2005 and one meeting to date in 2006. The attendance record of each member of the Board in 2005 is set out below:

Directors	Attendance of Board meetings in 2005
Executive Directors	
Song Jiacheng *(Chairman)*	9/9
Cao Yu	9/9
Peng Kaichen	9/9
Xu Shaowen	9/9
Non-executive Directors	
Zeng Jun	9/9
Lee Kwan Hung, Eddie	9/9
Jamie Paton *(resigned on 23 March 2005)*	3/4
Independent Non-executive Directors	
Chang Tso Tung, Stephen *(appointed on 21 February 2005)*	7/7
Chan Chi On, Derek *(appointed on 21 February 2005)*	7/7
Sun Lun *(appointed on 21 February 2005)*	6/7

BOARD COMMITTEES

As an integral part of good corporate governance practices, the Board established the following Board committees in 2005 to oversee particular aspects of the Group's affairs. Each of these committees comprise entirely Non-executive Directors who have been invited to serve as members. These committees are governed by the respective terms of reference approved by the Board.

Audit Committee

The Audit Committee consists of three Independent Non-executive Directors with Mr Chang Tso Tung, Stephen as the chairman. Other members are Mr Chan Chi On, Derek and Mr Sun Lun. At the discretion of the Audit Committee, Executive Directors and/or senior management personnel overseeing the Group's finance or internal audit functions may be invited to attend meetings. The Audit Committee normally meets four times a year.

The duties of the Audit Committee include, among other things, reviewing and monitoring the financial and internal control aspects of the Group. The Audit Committee reviews the truth and fairness of the Group's interim and annual financial statements, discusses with the external auditors the nature and scope of audit before the audit commences as well as the findings and recommendations raised by the auditors during and after completion of the audit. The Audit Committee conducts an assessment, at least annually, of the effectiveness of the Group's internal controls. This allows the Board to monitor the Group's overall financial position and to protect its assets. In addition, the Audit Committee supervises the internal audit function. The chairman of the Audit Committee summaries activities of the Audit Committee, highlights issues arising therefrom, and provides recommendations for reporting to the Board after each meeting.

Corporate Governance Report

The Audit Committee held three meetings since its establishment in 2005 and one meeting to date in 2006. The attendance record of each member of the Audit Committee in 2005 is set out below:

Directors	Attendance of Audit Committee meetings in 2005
Chang Tso Tung, Stephen *(Chairman)*	3/3
Chan Chi On, Derek	3/3
Sun Lun	2/3

Remuneration Committee

The Remuneration Committee consists of one Non-executive Director and two Independent Non-executive Directors with Mr Chan Chi On, Derek, an Independent Non-executive Director, as the chairman. Other members are Mr Chang Tso Tung, Stephen and Mr Lee Kwan Hung, Eddie. At the discretion of the Remuneration Committee, Executive Directors and/or senior management personnel overseeing the Group's human resource function may be invited to attend meetings.

The duties of the Remuneration Committee include, among other things, review the remuneration packages of Directors and senior management of the Group to assist the Board in attracting, retaining and motivating the right people to manage the business of the Group. In addition, the Remuneration Committee assesses the performance of the Executive Directors and senior management. The chairman of the Remuneration Committee summarises activities of the Remuneration Committee and provides recommendations for reporting to the Board after each meeting.

The Remuneration Committee held one meeting since its establishment in 2005 and one meeting to date in 2006. The attendance record of each member of the Remuneration Committee in 2005 is set out below:

Directors	Attendance of Remuneration Committee meeting in 2005
Chan Chi On, Derek *(Chairman)*	1/1
Chang Tso Tung, Stephen	1/1
Lee Kwan Hung, Eddie	1/1

NOMINATION OF DIRECTORS

Having considered the scale and composition of the Board, the Company does not set up a nomination committee. The function of appointment and removal of Directors is undertaken by the Board. When considering candidates for directorship, the Board assesses, among others, experience level, qualifications and independence of candidates, if appropriate. In 2005, the Company held two Board meetings to deal with the appointment of three Independent Non-executive Directors and the resignation of a Non-executive Director. The attendance record of each member of the Board in respect of these two Board meetings is set out below:

Directors	Attendance of Board meetings to deal with nomination/resignation of Directors in 2005
Executive Directors	
Song Jiacheng *(Chairman)*	2/2
Cao Yu	2/2
Peng Kaichen	2/2
Xu Shaowen	2/2
Non-executive Directors	
Zeng Jun	2/2
Lee Kwan Hung, Eddie	2/2
Jamie Paton *(resigned on 23 March 2005)*	1/1
Independent Non-executive Directors	
Cheng Tso Tung, Stephen *(appointed on 21 February 2005)*	1/1
Chan Chi On, Derek *(appointed on 21 February 2005)*	1/1
Sun Lun *(appointed on 21 February 2005)*	1/1

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.

Corporate Governance Report

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.

DIRECTORS' RESPONSIBILITY FOR FINANCIAL STATEMENTS

The following statement, which sets out the responsibilities of the Directors in relation to the financial statements, should be read in conjunction with, but distinguished from, the Auditors' Report on page 31 which acknowledges the reporting responsibilities of the Group's auditors.

Accounts

The Directors acknowledge their responsibility to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group.

Going Concern

The Directors, having made appropriate enquiries, are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern.

AUDITORS

The Audit Committee has received a letter from PricewaterhouseCoopers confirming their independence and objectivity. Details of fees paid or payable to PricewaterhouseCoopers for the year ended 31 December 2005 are as follows:

	RMB'000
Services as reporting accountants in connection with the Company's initial public offering	3,919
2005 annual audit	1,474
	5,393

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor Prince's Building
Central Hong Kong

AUDITORS' REPORT TO THE SHAREHOLDERS OF GST HOLDINGS LIMITED

(Incorporated in Cayman Islands with limited liabilities)

We have audited the financial statements on 32 to 73 which have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

Respective responsibilities of directors and auditors

The directors are required to prepare financial statements which give a true and fair view. In preparing the financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audits, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as of 31 December 2005 and of the Group's profit and cash flows for the year then ended and have been prepared in accordance with the disclosure requirements of Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 30 March 2006

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	Year ended 31 December 2005 RMB'000	2004 RMB'000
Turnover	3	**561,716**	424,109
Cost of goods sold		**(273,236)**	(209,642)
Gross profit		**288,480**	214,467
Other income	5	**36,944**	26,649
Distribution costs		**(77,785)**	(52,993)
Administrative and general expenses		**(83,011)**	(58,492)
Operating profit	6	**164,628**	129,631
Finance costs	7	**(1,167)**	(3,237)
Share of results of			
Jointly controlled entity		**(24)**	92
Associates		**(324)**	–
Profit before taxation		**163,113**	126,486
Taxation	8	**(694)**	(3,627)
Profit for the year		**162,419**	122,859
Attributable to:			
Equity holders of the Company		**162,427**	122,849
Minority interests		**(8)**	10
		162,419	122,859
Dividends	10	**58,240**	126,300
Earnings per share for profit attributable to equity holders of the Company	9		
– Basic (RMB cents)		**25 cents**	23 cents
– Diluted (RMB cents)		**23 cents**	23 cents

CONSOLIDATED BALANCE SHEET

		As at 31 December	
		2005	2004
	Notes	RMB'000	RMB'000
Non-current assets			
Property, plant and equipment	14	129,831	102,776
Prepaid operating lease for land	15	10,081	5,280
Intangible assets	16	8,545	5,972
Jointly controlled entity	17	(1,508)	(1,532)
Associates	18	2,621	950
		149,570	113,446
Current assets			
Inventories	20	82,717	113,638
Trade receivables	21	127,040	84,082
Other receivables, deposits and prepayments		26,754	28,510
Trading investments	22	–	456
Due from a jointly controlled entity	17	9,607	5,053
Due from related companies	23	–	1,153
Restricted bank deposits	24	2,149	–
Cash and bank balances	24	530,251	162,632
		778,518	395,524
Current liabilities			
Trade payables	25	87,964	82,714
Other payables and accruals		12,032	19,816
Advance from customers	26	33,665	38,334
Short-term bank loans	27	–	70,000
Taxation payable		20,530	21,331
		154,191	232,195
Net current assets		624,327	163,329
Net assets		773,897	276,775
Equity:			
Capital and reserves attributable to equity holders of the Company			
Share capital	29	84,800	120
Reserves	30	688,398	276,655
		773,198	276,775
Minority interests		699	–
Total equity		773,897	276,775

Approved and authorised for issue by the Board of Directors on 30 March 2006 and signed on its behalf by

Song Jiacheng
Director

Cao Yu
Director

BALANCE SHEET

		As at 31 December	
		2005	2004
	Notes	***RMB'000***	*RMB'000*
Non-current assets			
Property, plant and equipment	*14*	**550**	–
Subsidiaries	*19*	**388,022**	283,673
		388,572	283,673
Current assets			
Other receivables, deposits and prepayments		**3,398**	–
Cash and bank balances	*24*	**210,024**	–
		213,422	–
Current liabilities			
Other payables and accruals		**1,868**	6,898
Net current assets/(liabilities)		**211,554**	(6,898)
Net assets		**600,126**	276,775
Equity:			
Share capital	*29*	**84,800**	120
Reserves	*30*	**515,326**	276,655
Total equity		**600,126**	276,775

Approved and authorised for issue by the Board of Directors on 30 March 2006 and signed on its behalf by

Song Jiacheng
Director

Cao Yu
Director

CONSOLIDATED CASH FLOW STATEMENT

		Year ended 31 December	
		2005	2004
	Notes	RMB'000	RMB'000
Operating activities			
Cash generated from operations	32	146,384	109,627
Interest paid		(1,167)	(3,237)
PRC income tax paid		(1,653)	(7,225)
Net cash from operating activities		143,564	99,165
Investing activities			
Purchase of fixed assets		(40,295)	(11,958)
Sale of fixed assets		4,977	4,936
Prepaid operating lease for land		(4,993)	–
Increase in intangible assets		(2,482)	–
Interest received		6,560	843
Repayment from related companies		1,153	24,868
Disposal of associates		–	4,732
Disposal of trading investments		433	–
Purchase of an associate		(2,500)	–
Purchase of additional interest in subsidiaries	31	(597)	(198)
Net cash (used in)/from investing activities		(37,744)	23,223
Financing activities			
Issue of shares		333,948	123,995
Dividends paid		–	(126,300)
Repayments of bank loans		(85,000)	(60,000)
New bank loans raised		15,000	60,000
Increase in restricted bank deposits		(2,149)	–
Net cash from/(used in) financing activities		261,799	(2,305)
Increase in cash and bank balances		367,619	120,083
Cash and bank balances at beginning of the year		162,632	42,549
Cash and bank balances at end of the year		530,251	162,632

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2005

	Attributable to equity holders of the Company			
	Share capital *RMB'000*	Reserves *RMB'000*	Minority interests *RMB'000*	Total equity *RMB'000*
At 1 January 2005	120	276,655	–	276,775
Translation of financial statements of a jointly controlled entity directly recognised in reserve	–	48	–	48
Profit for the year	–	162,427	(8)	162,419
Total income recognised for the year	–	162,475	(8)	162,467
Capitalization issue *(Note 29(g))*	63,480	(63,480)	–	–
Issue of shares for cash *(Note 29(h))*	21,200	343,440	–	364,640
Share issuance costs	–	(30,692)	–	(30,692)
Acquisition of a subsidiary	–	–	707	707
At 31 December 2005	84,800	688,398	699	773,897

Year ended 31 December 2004

	Attributable to equity holders of the Company			
	Share capital *RMB'000*	Reserves *RMB'000*	Minority interests *RMB'000*	Total equity *RMB'000*
At 1 January 2004	106	162,887	324	163,317
Profit for the year	–	122,849	10	122,859
Dividends paid to the then shareholders of GST	–	(126,300)	–	(126,300)
Issue of shares for cash *(Note 29(d))*	14	123,981	–	123,995
Share issuance costs	–	(6,898)	–	(6,898)
Contribution from Gulf Group for additional interest in a subsidiary	–	136	–	136
Acquisition of interests from minority interests	–	–	(334)	(334)
At 31 December 2004	120	276,655	–	276,775

NOTES TO THE CONSOLIDATED ACCOUNTS

1. BASIS OF PREPARATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 27 April 2004 with GST International Management Limited (''GST Management'') being the then sole shareholder. GST Management was owned by 22 individuals (''22 Shareholders''). GST Group International Limited (''GGIL'') was incorporated as an investment holding company in the British Virgin Islands on 17 March 2004 with GST Management as the then sole shareholder.

Gulf Technology Group Company Limited (''Gulf Group'') was established in the People's Republic of China (the ''PRC'') in 1993 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, environmental consulting and services. Immediately prior to the reorganisation of the Company, Gulf Group was owned by the 22 Shareholders. As part of the reorganisation completed on 20 December 2004, Gulf Group and its subsidiaries transferred to GGIL or GGIL's subsidiaries the following for cash:

(a) Gulf Group's equity interests in certain subsidiaries, namely Gulf Security Technology Company Limited (''GST''), Guangzhou Gulf Wei'er Automation Technology Co., Ltd., Shanghai Gulf Automation Technology Co., Ltd, Beijing Gulf Security Technology Co., Ltd., Hebei Gulf Electrical Co., Ltd.; associates, namely Qinhuangdao City Chengan Fire Prevention Network Co., Ltd., Nanning Gulf Fire Prevention Network Technology Co., Ltd.; and a jointly controlled entity, Global System Technology PLC, which are 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, environmental consulting and services.

(b) Assets and liabilities of Gulf Group's subsidiary, namely Qinhuangdao GST Company Limited (transferred to Qinhuangdao Gulf Fire Prevention Network Company Limited), and Gulf Group's Electric Power Meter Department (transferred to Beijing Gulf Electric Meters Co., Ltd) and System Integration Department (transferred to Beijing Gulf Wei'er Electrical Engineering Co., Ltd.), which are engaged in the business of development and sales of electric power meter and system integration respectively.

Certain subsidiaries under the Gulf Group which are dormant or not engaged in the fire detection and intelligent security systems, etc business were not transferred to GGIL or GGIL's subsidiaries. Pursuant to the terms of a share exchange deed entered into between GST Management and the Company on 20 December 2004 (the ''Reorganisation''), the Company allotted, issued and credited as fully paid 1,000,000 common shares of HK$0.1 each to acquire the entire issued share capital of GGIL from GST Management, the then sole shareholder of GGIL.

These financial statements have been prepared as if the Company had been in existence and the current structure had been in place as of 1 January 2004, or since the effective dates of the establishment of the group companies by the Group or acquisition from third parties, whichever is the shorter period, or up to the effective dates of disposal.

2. PRINCIPAL ACCOUNTING POLICIES

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board ("IASB"). The financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and the disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of financial assets and financial liabilities at fair value through profit and loss.

In preparing these consolidated financial statements, the directors of the Company (the "Directors") have adopted accounting policies consistent with those adopted in the prior year, except for those changes in accounting policies as a result of the adoption of new or revised IFRSs effective for the financial period beginning 1 January 2005. A full set of the principal accounting policies of the Group for the preparation of these consolidated financial statements are set out below.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies (Note 38).

Changes in accounting policies

In 2005, the Group adopted certain new or revised IFRSs which are relevant to its operations. However, the adoption of these new or revised IFRSs did not have significant impact on the results of operations and financial position of the Group except for the adoption of IFRS3 – Business Combinations as set out below.

In prior years, goodwill arising from acquisitions on or after 1 January 2001 was amortised to the consolidated profit and loss account on a straight-line basis over 20 years. Goodwill was stated in the consolidated balance sheet at cost less accumulated amortisation and any impairment losses.

With effect from 1 January 2005, the Group adopted a new accounting policy in order to comply with IFRS 3. The Group no longer amortises goodwill. Such goodwill is tested annually for impairment, including in the year of its initial recognition, as well as when there are indications of impairment. Impairment losses are recognised when the carrying amount of the cash generating unit to which the goodwill has been allocated exceeds its recoverable amount.

The adoption of IFRS 3 resulted in:

	Year ended 31 December 2005 *RMB'000*
Decrease in amortisation expense	717

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2006 or later periods but which the Group has not early adopted. In the opinion of the Directors, these new standards, amendments and interpretations will not have significant financial impact to its result of operations and financial position.

(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.

Except as described in Note 1, 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 those subsidiaries from third parties. 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.

In the Company's balance sheet the investment in subsidiaries is stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(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 account and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount 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 is attributable to the other venturers. The Group does not recognise its share of profits or losses from the jointly controlled entity that results 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 associates is accounted for by the equity method of accounting and is initially recognised at cost. The Group's share of the post-acquisition profits or losses of associates is recognised in the consolidated profit and loss account and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount 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 investment 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	20 – 45 years
Plant and machinery	10 years
Vehicles	6 years
Equipment, furniture and fixtures	2 – 8 years

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when they enhance the future economic benefits beyond what who estimated when the assets was required and 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 consolidated 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 consolidated profit and loss account.

(f) Construction-in-progress

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

(g) Prepaid operating lease for land

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

(h) Impairment of non-financial 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 consolidated profit and loss account.

(k) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and bank deposits with original maturities of three months or less.

(l) 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.

Notes to the Consolidated Accounts

(m) **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.

(n) **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 are shown in equity as a deduction, net of tax, from the proceeds.

(o) **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 consolidated profit and loss account over the period of the borrowings using the effective interest method.

(p) **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.

(q) **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 consolidated profit and loss account on a straight-line basis over the period of the lease.

(r) **Revenue recognition**

Revenue comprises the fair value for sale of goods and services, net of value-added taxes, rebates and discounts and after eliminated sales within the Group. Revenue is recognised as follow:

(i) Revenue for sale of goods 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.

(ii) Revenue for installation service is recognised in the accounting period in which the services 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 as measured by the contract sum.

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

(s) **Government grants**

Government grants are assistance by local municipal government to encourage business development in the local municipality. 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.

(t) **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.

(u) **Foreign currency translation**

(i) Functional and presentation currency

Items included in the accounts 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 accounts 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 consolidated profit and loss account, 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 and 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.

(iii) *Group companies*

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(b) income and expenses for each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transactions date, in which case income and expenses are translated at the date of the transactions); and

(c) all resulting exchange differences are recognised as a separate component of equity. On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the profit and loss account as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(v) 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*

(1) 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.

(2) The Group also operates a mandatory provident fund scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5 per cent. of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000.

(w) 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.

(x) 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

	Year ended 31 December	
	2005	2004
	RMB'000	*RMB'000*
Sale of goods		
Fire alarm systems	**429,003**	354,072
Fire alarm network systems	**12,360**	8,701
Video entry systems	**28,122**	14,131
Building automation systems	**5,689**	4,779
Electric power meters	**22,134**	10,681
Provision of services		
Installation services	**64,408**	31,745
	561,716	424,109

4. SEGMENT INFORMATION

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

	Sale of goods				Provision of services		
Year ended 31 December 2005	Fire alarm systems	Fire alarm network systems	Video entry systems and building automation systems	Electric power meters	Installation services	Corporate	Group
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	429,003	12,360	33,811	22,134	64,408	–	561,716
Segment results	153,782	6,294	6,096	1,166	5,501	(14,771)	158,068
Interest income							6,560
Operating profit							164,628
Finance costs							(1,167)
Share of results of							
Jointly controlled entity	(24)	–	–	–	–	–	(24)
Associates	–	(324)	–	–	–	–	(324)
Profit before taxation							163,113
Taxation							(694)
Profit for the year							162,419
Segment assets	524,136	15,948	20,540	10,867	73,854	281,630	926,975
Jointly controlled entity	(1,508)	–	–	–	–	–	(1,508)
Associates	–	2,621	–	–	–	–	2,621
Total assets							928,088
Segment liabilities	111,716	888	4,428	1,933	12,829	1,867	133,661
Taxation payable							20,530
Total liabilities							154,191
Capital expenditure	35 ,169	259	1,098	1,570	9,034	640	47,770
Depreciation	8,840	165	350	217	415	92	10,079
Amortisation of prepaid operating lease for land	192	–	–	–	–	–	192
Development costs amortisation	478	–	–	–	–	–	478
Provision for doubtful debts	2,584	(23)	–	228	58	–	2,847

Year ended 31 December 2004	Sale of goods: Fire alarm systems	Sale of goods: Fire alarm network systems	Sale of goods: Video entry systems and building automation systems	Sale of goods: Electric power meters	Provision of services: Installation services	Corporate	Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	354,072	8,701	18,910	10,681	31,745	–	424,109
Segment results	121,192	4,402	475	(79)	2,798	–	128,788
Interest income							843
Operating profit							129,631
Finance costs							(3,237)
Share of results of Jointly controlled entity	92	–	–	–	–	–	92
Profit before taxation							126,486
Taxation							(3,627)
Profit for the year							122,859
Segment assets	319,500	24,685	37,270	21,557	61,394	45,146	509,552
Jointly controlled entity	(1,532)	–	–	–	–	–	(1,532)
Associates	–	950	–	–	–	–	950
Total assets							508,970
Segment liabilities	148,735	1,581	36,795	3,601	13,254	6,898	210,864
Taxation payable							21,331
Total liabilities							232,195
Capital expenditure	10,550	385	–	–	1,023	–	11,958
Depreciation	9,282	34	–	–	419	–	9,735
Amortisation of prepaid operating lease for land	125	–	–	–	–	–	125
Goodwill amortisation	717	–	–	–	–	–	717
Provision for doubtful debts	7,662	23	–	–	142	–	7,827

Segment assets consist primarily of property, plant and equipment, intangible assets, inventories, trade receivables and cash and bank balances.

Segment liabilities comprise operating liabilities. They exclude items such as taxation.

Capital expenditure comprises additions to property, plant and equipment, prepaid operating lease for land and intangible assets.

Notes to the Consolidated Accounts

5. OTHER INCOME

	Year ended 31 December	
	2005	2004
	RMB'000	*RMB'000*
Government grant	**311**	2,832
Value-added tax refund	**29,810**	21,189
Interest income	**6,560**	843
Sales of raw materials, net of cost	**263**	705
Gain on disposals of associates	**–**	1,080
	36,944	26,649

6. OPERATING PROFIT

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

	Year ended 31 December	
	2005	2004
	RMB'000	*RMB'000*
Charging:		
Staff costs (excluding directors' emoluments) *(Note 11)*	**55,477**	31,728
Research costs	**29,579**	21,240
Development costs amortisation	**478**	–
Depreciation	**10,079**	9,735
Provision for doubtful debts	**2,847**	7,827
Write off of obsolete inventories	**59**	–
Net loss on disposals of fixed assets	**–**	101
Amortisation of prepaid operating lease for land	**192**	125
Goodwill amortisation	**–**	717
Loss on disposals of trading investments	**23**	177
Provision for litigation loss *(Note 33)*	**–**	4,300
Net exchange loss	**7,554**	20
Auditors' remuneration	**1,474**	41
Crediting:		
Write back of provision for inventories	**–**	(80)
Net gain on disposals of fixed assets	**(636)**	–
Write back of provision for litigation loss *(Note 33)*	**(3,500)**	–

The above items are included in cost of goods sold, distribution costs and administrative and general expenses.

7. FINANCE COSTS

	Year ended 31 December	
	2005 RMB'000	2004 RMB'000
Interest on bank loans wholly repayable within one year	**1,167**	3,237

8. TAXATION

	Year ended 31 December	
	2005 RMB'000	2004 RMB'000
PRC enterprise income tax		
Current	**694**	1,469
Deferred	**–**	2,158
	694	3,627

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 set out below. The principal operating subsidiary, GST, 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.

The Group's effective tax rate differs from the statutory rate principally due to the following factors:

	Year ended 31 December	
	2005 RMB'000	2004 RMB'000
Profit before taxation	**163,113**	126,486
PRC income calculated at statutory rate of 33%	**53,827**	41,740
Tax loss not recognised	**2,918**	1,330
Non-deductible expenses	**7,479**	1,231
Effect of different income tax assessment rate and tax exemption	**(49,368)**	(35,445)
Additional allowances	**(4,380)**	(129)
Income not subject to tax	**(9,838)**	(7,927)
Effect on deferred taxation brought forward due to the reduction of enacted tax rate	**–**	2,158
Others	**56**	669
Taxation charge	**694**	3,627

9. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share for the year ended 31 December 2005 was based on the consolidated profit attributable to equity holders of the Company of approximately RMB162,427,000 (2004: RMB122,849,000). The calculation of basic earnings per share for the year ended 31 December 2005 was based on the weighted average number of 652,665,990 shares (2004: 529,491,071 shares) deemed to be in issue during the period. The calculation of diluted earnings per share for the year ended 31 December 2005 was based on the weighted average number of 701,369,863 shares (2004: 532,196,842 shares). A reconciliation of the weighted average number of shares for calculation of basic and diluted earnings per share is as follows:

	Year ended 31 December	
	2005	2004
Weighted average number of shares (Basic)	**652,665,990**	529,491,071
Assumed conversion of preferred A shares	**48,703,873**	2,705,771
Weighted average number of shares (Diluted)	**701,369,863**	532,196,842

10. DIVIDENDS

A final dividend of HK$0.07 per share (RMB0.07) for the year ended 31 December 2005, amounting to a total dividend of HK$56,000,000 (RMB58,240,000) to those shareholders whose names appear on the register of members of the Company on 18 May 2006, has been approved by the Board of Directors on 30 March 2006 and is to be proposed at the forthcoming annual general meeting of the Company on or about 18 May 2006. These financial statements do not reflect this proposed dividend.

The dividends paid in 2004 were RMB126,300,000 representing dividends paid by GST to its then shareholders prior to the Reorganisation. The rates of dividend and the number of shares ranking for these dividends are not presented as such information is not meaningful.

11. STAFF COSTS – EXCLUDING DIRECTORS' EMOLUMENTS

	Year ended 31 December	
	2005	2004
	RMB'000	*RMB'000*
Wages and salaries	**44,628**	23,285
Retirement benefit contributions	**2,465**	1,470
Staff welfare and allowances	**8,384**	6,973
	55,477	31,728

The number of employees (excluding directors) as at 31 December 2005 was 1,718 (2004: 1,276).

12. EMOLUMENTS FOR DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' emoluments

The aggregate amounts of emoluments paid and payable to the directors of the Company and subsidiaries comprising the Group are as follows:

	2005			2004		
	Salaries, allowances and benefits in kind	**Retirement benefit contributions**	**Total**	Salaries, allowance and benefits in kind	Retirement benefit contributions	Total
	RMB'000	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*	*RMB'000*
Song Jiacheng	**739**	**7**	**746**	418	7	425
Cao Yu	**523**	**7**	**530**	255	7	262
Peng Kaichen	**523**	**7**	**530**	255	7	262
Xu Shaowen	**450**	**7**	**457**	236	7	243
Zeng Jun	**170**	**–**	**170**	87	–	87
Lee Kwan Hung, Eddie	**172**	**–**	**172**	11	–	11
Chang Tso Tung, Stephen	**172**	**–**	**172**	–	–	–
Chan Chi On, Derek	**144**	**–**	**144**	–	–	–
Sun Lun	**115**	**–**	**115**	–	–	–
	3,008	**28**	**3,036**	1,262	28	1,290

None of the directors of the Company waived any emoluments paid by the companies comprising the Group.

(b) **Five highest paid individuals**

The five highest paid individuals included 3 directors (2004: 4 directors) whose emoluments are included in the above disclosures. The emoluments of the remaining individuals are as follows:

	Year ended 31 December	
	2005	2004
	RMB'000	*RMB'000*
Salaries, allowances and benefits in kind	**1,308**	214
Retirement benefit contributions	**46**	7
	1,354	221

The emoluments of the above individuals fell within the following band:

	Number of individual Year ended 31 December	
	2005	2004
Emolument band		
Nil to HK$1,000,000 (equivalent to RMB1,040,000)	**2**	1

(c) During 2004 and 2005, no emoluments were paid to the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

13. RETIREMENT BENEFITS

	Year ended 31 December	
	2005	2004
	RMB'000	*RMB'000*
Obligations on defined contribution plans charged for the year	**2,493**	1,497

Employees in the Group are required to participate in defined contribution retirement plans operated by the local municipal government in the PRC or third parties in Hong Kong. Contributions by the Group are calculated based on a percentage of the employees' basic salary or a fixed sum as stipulated under the relevant requirements. Under the current plans, no forfeited contribution can be used by the Group to reduce the existing level of contributions or future contributions.

14. PROPERTY, PLANT AND EQUIPMENT

	Group					
	Buildings	Plant and machinery	Vehicles	Equipment, furniture and fixtures	Construction in-progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost						
At 1 January 2004	64,469	35,586	18,684	15,680	1,274	135,693
Additions	5,346	2,064	910	2,540	1,098	11,958
Transfer	153	320	–	–	(473)	–
Disposals	(906)	(114)	(3,256)	(1,514)	(1,121)	(6,911)
At 31 December 2004	69,062	37,856	16,338	16,706	778	140,740
Additions	2,436	5,727	2,419	6,564	23,149	40,295
Acquisition of a subsidiary	–	–	105	1,133	–	1,238
Transfers	4,986	–	–	759	(5,745)	–
Disposals	(2,993)	(926)	(512)	(739)	–	(5,170)
At 31 December 2005	73,491	42,657	18,350	24,423	18,182	177,103
Accumulated depreciation						
At 1 January 2004	6,249	6,748	7,440	9,666	–	30,103
Charge for the year	1,910	3,187	2,154	2,484	–	9,735
Disposals	(53)	(47)	(365)	(1,409)	–	(1,874)
At 31 December 2004	8,106	9,888	9,229	10,741	–	37,964
Charge for the year	1,304	3,053	2,992	2,730	–	10,079
Acquisition of a subsidiary	–	–	26	32	–	58
Disposals	(341)	(182)	(152)	(154)	–	(829)
At 31 December 2005	9,069	12,759	12,095	13,349	–	47,272
Net book value						
At 31 December 2004	60,956	33,933	7,109	–	778	102,776
At 31 December 2005	64,422	29,898	6,255	11,074	18,182	129,831

	Company Equipment, furniture and fixtures RMB'000
Cost	
At 1 January 2005	–
Additions	640
At 31 December 2005	640
Accumulated depreciation	
Beginning of the year	–
Charge for the year	90
At 31 December 2005	90
Net book value	
At 31 December 2004	–
At 31 December 2005	550

15. PREPAID OPERATING LEASE FOR LAND

	2005 *RMB'000*	2004 *RMB'000*
Cost		
Beginning of the year	**6,352**	6,352
Additions	**4,993**	–
End of the year	**11,345**	6,352
Accumulated amortisation		
Beginning of the year	**1,072**	947
Charge for the year	**192**	125
End of the year	**1,264**	1,072
Net book value		
Beginning of the year	**5,280**	5,405
End of the year	**10,081**	5,280

The land is held under medium term leases in the PRC.

16. INTANGIBLE ASSETS

	2005			2004
	Goodwill	Development costs	Total	Goodwill
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cost				
Beginning of the year	7,166	–	7,166	7,166
Additions	–	2,482	2,482	–
Acquisition of a subsidiary *(Note 31)*	569	–	569	–
End of the year	7,735	2,482	10,217	7,166
Accumulated amortisation				
Beginning of the year	1,194	–	1,194	477
Charge for the year	–	478	478	717
End of the year	1,194	478	1,672	1,194
Net book value				
Beginning of the year	5,972	–	5,972	6,689
End of the year	6,541	2,004	8,545	5,972

Amortisation of intangible assets is included in administrative and general expenses.

Goodwill is allocated to the Group's cash-generating units ("CGU") identified according to business segment. The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a one-year period. Key assumptions used by the management to calculate value-in-use include gross margin of the products to be sold and growth rate of the business.

A segment-level summary of the goodwill allocation is presented below.

	As at 31 December			
	2005			2004
	Fire alarm systems	Fire alarm network systems	Total	Fire alarm systems
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Goodwill	5,972	569	6,541	5,972

17. JOINTLY CONTROLLED ENTITY

	As at 31 December	
	2005	2004
	RMB'000	*RMB'000*
Share of net liabilities	**(1,508)**	(1,532)
Due from a jointly controlled entity *(note)*	**9,607**	5,053

Note:

The balance is unsecured, interest-free and repayable in accordance with the trading terms.

Details of the jointly controlled entity are set out in Note 36.

18. ASSOCIATES

	As at 31 December	
	2005	2004
	RMB'000	*RMB'000*
Share of net assets, unlisted	**2,621**	950

Details of the associates are set out in Note 36.

19. SUBSIDIARIES

	Company	
	As at 31 December	
	2005	2004
	RMB'000	*RMB'000*
Unlisted shares, at cost	**159,678**	159,678
Due from a subsidiary *(note)*	**228,344**	123,995
	388,022	283,673

Note:

The balance is unsecured, interest-free and will not be repayable not planned nor likely to be requested for repayment within one year.

Details of the subsidiaries are set out in Note 36.

20. INVENTORIES

	As at 31 December	
	2005	2004
	RMB'000	*RMB'000*
Raw materials	**21,829**	26,684
Work-in-progress	**9,824**	4,183
Finished goods	**29,375**	38,284
	61,028	69,151
Components delivered to customers in respect of contracts not yet completed at year end	**21,689**	44,487
At cost	**82,717**	113,638

21. TRADE RECEIVABLES

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

	As at 31 December	
	2005	2004
	RMB'000	*RMB'000*
0 to 90 days	**64,580**	37,356
91 to 180 days	**25,377**	16,029
181 to 365 days	**26,157**	16,869
Over 365 days	**28,828**	30,707
	144,942	100,961
Less: Provisions for doubtful debts	**(17,902)**	(16,879)
	127,040	84,082

22. TRADING INVESTMENTS

	As at 31 December	
	2005	2004
	RMB'000	*RMB'000*
Listed securities in the PRC, at market value	**–**	456

Notes to the Consolidated Accounts

23. DUE FROM RELATED COMPANIES

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

Due from related companies were settled during the year. These companies are subject to control or significant influence by the ultimate shareholders of the Company. Amounts were unsecured, interest free and had no fixed repayment terms.

24. CASH AND BANK BALANCES

	Group	
	As at 31 December	
	2005	2004
	RMB'000	*RMB'000*
Cash at bank and on hand	190,120	162,632
Short-term bank deposits	340,131	–
	530,251	162,632

The effective interest rate on cash and bank balance was 3.39% per annum. Short-term bank deposits have a weighted average remaining maturity of 29 days.

Included in cash and bank deposits of the Group as at December 31, 2005 and 2004 are Renminbi denominated balance amounts held in the PRC bank accounts accounting to RMB156,745,000 and RMB117,213,000 respectively. The conversion of Renminbi denominated balance into foreign currencies and the remittance of bank balances and cash out of the PRC are subject to the rules and regulation of foreign exchange control promulgated by the PRC Government. As at 31 December 2005, the Group had restricted bank deposits of RMB2,149,000 (2004: Nil) in relation to its banking facilities amounting to RMB3,766,000.

	Company	
	As at 31 December	
	2005	2004
	RMB'000	*RMB'000*
Cash at bank and on hand	893	–
Short-term bank deposits	209,131	–
	210,024	–

The effective interest rate on cash and bank balance was 3.93% per annum. Short-term bank deposits have a weighted average remaining maturity of 29 days.

25. TRADE PAYABLES

	As at 31 December	
	2005	2004
	RMB'000	*RMB'000*
0 to 90 days	**75,060**	73,883
91 to 180 days	**9,559**	2,230
181 to 365 days	**2,043**	4,399
Over 365 days	**1,302**	2,202
	87,964	82,714

26. ADVANCE FROM CUSTOMERS

Advance from customers represents cash received from customers in respect of contracts not yet completed at year end.

27. SHORT-TERM BANK LOANS

These loans were fully settled during the year.

28. DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using the taxation rate applicable to the Group.

These movement on the deferred tax assets account is as follows:

	2005	2004
	RMB'000	*RMB'000*
Beginning of the year	**–**	2,158
Charged to profit and loss account *(Note 8)*	**–**	(2,158)
End of the year	**–**	–

The movement in deferred tax assets are as follows:

	Provision for doubtful debts	**Provision for inventory obsolescence**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2004	2,134	24	2,158
Charged to profit and loss account	(2,134)	(24)	(2,158)
At 31 December 2004 and 31 December 2005	–	–	–

There was no material unprovided deferred taxation.

29. SHARE CAPITAL

	Authorised				
	Common shares of HK$0.1 each		Preferred A shares of HK$0.1 each		Total
	No. of shares	*RMB'000*	*No. of shares*	*RMB'000*	*RMB'000*
Upon incorporation on 27 April 2004 *(note(a))*	3,800,000	403	–	–	403
Redesignation of shares *(note(d))*	(186,240)	(20)	186,240	20	–
At 31 December 2004	3,613,760	383	186,240	20	403
Conversion of preferred A shares *(note(f))*	186,240	20	(186,240)	(20)	–
Increase in authorised share capital *(note(e))*	1,996,200,000	211,597	–	–	211,597
At 31 December 2005	2,000,000,000	212,000	–	–	212,000

	Issued				
	Common shares of HK$0.1 each		Preferred A shares of HK$0.1 each		Total
	No. of shares	*RMB'000*	*No. of shares*	*RMB'000*	*RMB'000*
Issue of share to the initial subscriber *(note(b))*	1	–	–	–	–
Issue of shares *(note(c))*	999,999	106	–	–	106
Issue of preferred A shares *(note (d))*	–	–	131,463	14	14
Redesignation of shares *(note(d))*	(54,777)	(6)	54,777	6	–
At 31 December 2004	945,223	100	186,240	20	120
Conversion of preferred A shares *(note(f))*	186,240	20	(186,240)	(20)	–
Capitalization issue *(note(g))*	598,868,537	63,480	–	–	63,480
Issue of shares *(note(h))*	200,000,000	21,200	–	–	21,200
At 31 December 2005	800,000,000	84,800	–	–	84,800

(a) The Company was incorporated on 27 April 2004 in the Cayman Islands with an authorised share capital of HK$380,000 divided into 3,800,000 shares of HK$0.1 each.

(b) On 9 September 2004, 1 share was allotted and issued nil paid to the initial subscriber.

(c) Pursuant to the Reorganisation taken place on 20 December 2004, the Company acquired the entire issued share capital of GGIL by (i) the issuance of 999,999 shares to GST Management and (ii) crediting the 1 issued nil paid share as fully paid at par.

(d) On 22 December 2004, following a redesignation of 131,463 authorised common shares of HK$0.1 each to 131,463 authorised Series A Preferred shares of HK$0.1 each, 131,463 Series A Preferred shares were issued to investors for approximately RMB124 million. On the same date, these investors acquired an aggregate of 54,777 common shares from the original sole shareholder of the Company and such common shares acquired were redesignated as Series A Preferred shares of the Company. Each Series A Preferred share is convertible, at the option of the holder, into one fully paid common share or upon attainment of certain conditions.

(e) Pursuant to a shareholder's written resolution passed on 7 June 2005, the authorised share capital of the Company was increased from HK$380,000 to HK$200,000,000 by the creation of 1,996,200,000 common shares, and all the shares in the share capital of the Company would upon conversion of all Series A Preferred Shares form a single class of shares ranking pari passu in all respects with each other.

(f) On 30 June 2005, 186,240 Series A Preferred shares were converted, redesignated and re-classified as 186,240 common shares upon the listing of the Company's shares on The Stock Exchange of Hong Kong Limited.

(g) On 30 June 2005, the issued share capital of the Company was increased by way of a capitalization issue out of share premium of 598,868,537 common shares on a pro-rata basis to the then shareholders of the Company.

(h) On 30 June 2005, 200,000,000 common shares were issued at HK$1.72 per share for cash, resulting in gross proceeds of approximately RMB365 million.

30. RESERVES

	Group					
	Share premium	Merger reserve	General reserves	Currency translation adjustments	Retained earnings	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2004	–	102,766	34,472	–	25,649	162,887
Issue of shares for cash	123,981	–	–	–	–	123,981
Share issuance costs	(6,898)	–	–	–	–	(6,898)
Contribution from Gulf Group for additional interest in a subsidiary	–	136	–	–	–	136
Profit for the year	–	–	–	–	122,849	122,849
Dividends paid to the then shareholders of GST	–	–	–	–	(126,300)	(126,300)
Transfer	–	–	18,276	–	(18,276)	–
At 31 December 2004	117,083	102,902	52,748	–	3,922	276,655
Capitalization issue	(63,480)	–	–	–	–	(63,480)
Issue of shares for cash	343,440	–	–	–	–	343,440
Share issuance costs	(30,692)	–	–	–	–	(30,692)
Profit for the year	–	–	–	–	162,427	162,427
Translation of financial statements of a jointly controlled entity	–	–	–	48	–	48
Transfer	–	–	25,754	–	(25,754)	–
At 31 December 2005	366,351	102,902	78,502	48	140,595	688,398

	Company		
	Share premium	Accumulated deficits	Total
	RMB'000	*RMB'000*	*RMB'000*
Upon incorporation on 27 April 2004	–	–	–
Premium on issue of shares for acquisition of subsidiaries pursuant to the Reorganisation	159,572	–	159,572
Issue of shares	123,981	–	123,981
Share issuance costs	(6,898)	–	(6,898)
At 31 December 2004	276,655	–	276,655
Capitalization issue	(63,480)	–	(63,480)
Issue of shares for cash	343,440	–	343,440
Share issuance costs	(30,692)	–	(30,692)
Loss for the year	–	(10,597)	(10,597)
At 31 December 2005	525,923	(10,597)	515,326

(a) Merger reserve of the Group represents the difference between the value of the paid-up capital of the subsidiaries acquired and the value of the Company's shares issued in exchange therefore pursuant to the Reorganisation.

(b) General reserves, which includes statutory reserve and statutory public welfare reserve, are appropriated at 10%, and 5% to 10%, respectively, of the net profit of certain subsidiaries of the Group according to their respective Articles of Association. Such appropriation is subject to approval of the boards of the subsidiaries on an annual basis.

Pursuant to Section 31 of the Cayman Islands Companies Law (2003 Revision) and the Articles of Association of the Company, share premium of the Company is available for distribution to shareholders subject to a solvency test on the Company and the provisions in the Articles of Association of the Company.

The reserves available for distribution to the shareholders of the Company amount to approximately RMB515 million as at 31 December 2005.

31. BUSINESS COMBINATIONS

On 28 September 2005, the Group increased its equity interest in Qinhuangdao City Chengan Fire Prevention Network Co., Ltd. ("Chengan") from 35% to 51% which turned Chengan into a subsidiary company. Chengan contributed turnover of RMB441,000 and net loss of RMB17,000 for the period from 28 September 2005 to 31 December 2005.

If the acquisition had occurred on 1 January 2005, the Group's turnover would have been increased by RMB732,000 and profit for the year would have been decreased by RMB289,000. These amounts have been calculated using the Group's accounting policies. Details of net assets acquired and goodwill are as follows:

	RMB'000
Cash purchase consideration	800
Investment in an associate	505
Total purchase consideration	1,305
Goodwill	(569)
Fair value of net assets acquired	736

The goodwill is attributable to the synergy expected to arise after the Group's acquisition of Chengan.

The carrying amounts of the assets and liabilities acquired, which approximate their respective fair values, are as follows:

	RMB'000
Property, plant and equipment	1,180
Trade receivables	98
Other receivables, deposits and prepayments	1
Cash and bank balances	203
Other payables and accruals	(37)
Taxation payable	(2)
Net assets	1,443
Minority interests (49%)	707
Net assets acquired	736

	RMB'000
Purchase consideration settled in cash	800
Cash and bank balances in the subsidiary acquired	(203)
Cash outflow on acquisition	597

32. NOTE TO CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of operating profit to cash generated from operations

	Year ended 31 December	
	2005	2004
	RMB'000	*RMB'000*
Operating profit	**164,628**	129,631
Depreciation	**10,079**	9,735
Amortisation of prepaid operating lease for land	**192**	125
Goodwill amortisation	**–**	717
Development costs amortisation	**478**	–
Provision for doubtful debts	**2,847**	7,827
Write off of obsolete inventories	**59**	–
Write back of provision for inventories	**–**	(80)
(Gain)/loss on disposals of fixed assets	**(636)**	101
Interest income	**(6,560)**	(843)
Gain on disposals of associates	**–**	(1,080)
Loss on disposals of trading investments	**23**	177
Operating profit before working capital changes	**171,110**	146,310
Decrease/(increase) in inventories	**30,862**	(35,043)
Increase in trade receivables	**(45,707)**	(19,430)
Decrease in other receivables, deposits and prepayments	**1,757**	10,523
Increase in due from a jointly controlled entity	**(4,554)**	(3,429)
Decrease in due from related companies	**–**	6,963
Increase in trade payables	**5,250**	19,498
(Decrease)/increase in other payables and accruals	**(7,821)**	3,133
Decrease in advance from customers	**(4,669)**	(24,716)
Increase in other taxes payable	**156**	5,818
Cash generated from operations	**146,384**	109,627

33. WRITE BACK OF PROVISION FOR LITIGATION LOSS

In 1997, GST, a subsidiary of the Group, 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 of 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 year ended 31 December 2005 (Note 6).

34. COMMITMENTS

(a) Capital commitments

	As at 31 December	
	2005	2004
	RMB'000	*RMB'000*
Property, plant and equipment	**8,698**	860

(b) Operating lease commitments for buildings

	As at 31 December	
	2005	2004
	RMB'000	*RMB'000*
First year	**5,151**	937
Second to fifth year	**1,881**	1,418
After the fifth year	**1,000**	250
	8,032	2,605

35. 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:

		Year ended 31 December	
		2005	2004
	Notes	***RMB'000***	*RMB'000*
Sales to a jointly controlled entity	*(i)*	**16,892**	9,931
Repair cost paid to a related company	*(ii)*	**169**	101
Sales to a related company	*(iii)*	**1,420**	–
Rental paid to a related company	*(iv)*	**200**	–
Service fee paid to a related company	*(v)*	**910**	–
Sale of fixed assets to a related company	*(vi)*	**2,803**	–

Notes:

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

(ii) Repair cost 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 at terms mutually agreed by the parties involved.

(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 at 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.

36. PARTICULARS OF SUBSIDIARIES, ASSOCIATES AND A JOINTLY CONTROLLED ENTITY

As at 31 December 2005, the Company has direct and indirect interests in the following subsidiaries, associates and a jointly controlled entity which are all limited liability companies or have substantially the same characteristics as a limited liability company:

Company	Place and date of incorporation/ establishment	Issued/ registered and fully paid share capital	Attributable equity interests	Principal activities and place of operation
Subsidiaries				
Interests held directly:				
GST Group International Limited	The British Virgin Islands (the "BVI") 17 March 2004	USD 0.01	100%	Investment holding in the BVI
Interests held indirectly:				
Gulf Security Technology Company Limited	The PRC 25 April 2004	USD7,860,000	100%	Manufacturing and sales of intelligent fire detection and control systems in the PRC
Qinhuangdao Gulf Fire Prevention Network Company Limited	The PRC 16 April 2004	USD1,000,000	100%	Development and sales of fire alarm network products in the PRC
Beijing Gulf Electric Meters Co., Ltd.	The PRC 10 May 2004	USD1,200,000	100%	Development and sales of power meters in the PRC
Hebei Gulf Electrical Engineering Co., Ltd.	The PRC 24 September 1996	RMB13,000,000	100%	Provision of system integration and installation services in the PRC
Beijing Gulf Wei'er Electrical Engineering Co., Ltd.	The PRC 24 March 2004	RMB15,000,000	100%	Provision of system integration and installation services in the PRC

Company	Place and date of incorporation/ establishment	Issued/ registered and fully paid share capital	Attributable equity interests	Principal activities and place of operation
Guangzhou Gulf Wei'er Automation Technology Co., Ltd.	The PRC 1 November 1999	RMB2,000,000	100%	In liquidation
Shanghai Gulf Automation Technology Co., Ltd.	The PRC 20 January 1999	RMB2,000,000	100%	Liquidated subsequent to 31 December 2005
Beijing Gulf Security Technology Co., Ltd.	The PRC 26 July 1996	RMB5,000,000	100%	In liquidation
Qinhuangdao Gulf Labour Services Company Limited	The PRC 9 March 2005	RMB500,000	100%	Provision of human resources services
Qinhuangdao City Chengan Fire Prevention Network Co., Ltd.	The PRC 9 August 2001	RMB2,000,000	51%	Sales of fire alarm network products and provision of related installation, maintenance and technical services in the PRC

Company	Place and date of incorporation/ establishment	Issued/ registered and fully paid share capital	Attributable equity interests	Principal activities and place of operation
Associates				
Interests held indirectly:				
Nanning Gulf Fire Prevention Network Technology Co., Ltd.	The PRC 19 September 2001	RMB1,000,000	25%	Sales of fire alarm network products and provision of related installation, maintenance and technical services in the PRC
Henan Province Hongda Gulf Chengan Firefighting Network Co., Ltd.	The PRC 21 November 2005	RMB10,000,000	25%	Sales of fire alarm network products and provision of related installation, maintenance and technical services in the PRC
Jointly controlled entity				
Interests held indirectly:				
Global System Technology PLC	United Kingdom 23 November 2000	£50,000	51%	Sales of fire alarm systems, power meters and other electronic equipment in Dubai

37. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks, including the effects on changes in foreign currency exchange rates risk, interest rates, credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the Group.

(i) Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions settled in Renminbi and did not have significant exposure to foreign exchange risk except for certain deposits placed with banks in Hong Kong and denominated in Hong Kong dollars arising from issuance of shares in 2005. As at 31 December 2005, the Group had cash and bank balances of approximately RMB252,397,000, RMB262,714,000 and RMB17,289,000 denominated in Renminbi, Hong Kong dollars and United States dollars, respectively (2004: RMB45,433,000, RMB3,000 and RMB117,196,000). In Hong Kong, companies are not allowed to open Renminbi bank accounts and conversion of foreign currencies to Renminbi is therefore restricted. In addition, there is no hedge against appreciation of Renminbi against Hong Kong dollars or United States dollars which is considered cost effective. On the other hand, the conversion of Renminbi into foreign currencies in the PRC is subject to the rules and regulations of foreign exchange control promulgated by the PRC Government.

(ii) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates and the Group has no significant interest-bearing assets except for the bank deposits as disclosed in note 24. The Group had no bank borrowings as at 31 December 2005 and the Group's bank borrowings as at 31 December 2004 were at fixed rates. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

(iii) Credit risk

The Group has no significant concentrations of credit risk. The carrying amount of accounts receivables included in the consolidated balance sheet represent the Group's maximum exposure to credit risk in relation to its financial assets. The Group has policies in place to ensure that sales of products are made to customers with an appropriate credit history and the Group performs credit evaluations of its customers.

The Group's historical experience in collection of trade and other receivables falls within the recorded allowances and the directors are of the opinion that adequate provision for uncollectible accounts receivables has been made in the consolidated financial statements.

(iv) *Liquidity risk*

The Group ensures that it maintains sufficient cash, which is available to meet its liquidity requirements.

(b) Fair value estimate

The carrying amounts of the Group's financial assets including cash and cash equivalents, accounts receivables and other receivables; and financial liabilities including trade payables, short-term borrowings and other payables, approximate their fair values due to their short maturities.

The face values less any estimated credit adjustments for principal assets and liabilities with a maturity of less than one year, if any, are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

38. CRITICAL ACCOUNTING ESTIMATES

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

(a) Impairment of non-current assets

At each balance sheet date, the Group considers both internal and external sources of information to assess whether there is any indication that non-current assets, including property, plant and equipment, and goodwill are impaired. If any such indication exists, the recoverable amount of the assets is estimated and an impairment loss is recognised to reduce the carrying amount of the assets to its recoverable amount. Estimated recoverable amounts are determined based on estimated discounted future cash flows of the cash generating unit at the lowest level to which the assets belongs. The recoverable amount is the higher of value in use or net selling price. Such impairment losses are recognised in the profit and loss account. Accordingly, there will be an impact to the future results if there is a significant change in the recoverable amounts of the non-current assets.

(b) Provision for doubtful debts

The Group maintains an allowance for doubtful debts for estimated losses resulting from the inability of its customers to make the required payments. The Group makes its estimates based on the aging of its trade receivable balances, customers creditworthiness, and historical write-off experience. If the financial condition of its customers deteriorates, actual write-offs might be higher than expected, and the Group will be required to revise the basis of making the allowance and its future results will be affected.

(c) Income tax

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

39. SUBSEQUENT EVENTS

Other than those disclosed elsewhere in this report, no significant events took place subsequent to 31 December 2005.

40. ULTIMATE HOLDING COMPANY

As at 31 December 2005, the directors of the Company regarded GST International Management Limited, a company incorporated in the BVI, as being the ultimate holding company.

FINANCIAL SUMMARY

Published results and assets and liabilities of the Group are as follows:

RESULTS

(RMB' million)	For the year ended 31 December			
	2005	2004	2003	2002
Turnover	**562**	424	316	298
Gross profit	**288**	214	172	176
Operating profit	**165**	130	99	107
Profit attributable to equity holders	**162**	123	79	71

ASSETS AND LIABILITIES

(RMB' million)	As at 31 December			
	2005	2004	2003	2002
Total non-current assets	**150**	113	123	132
Total current assets	**778**	396	268	283
Total current liabilities	**154**	232	228	205
Net current assets	**624**	164	40	78
Net assets	**774**	277	163	210