

# REPORT OF THE DIRECTORS

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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.



## Report of the Directors

### 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.



# Report of the Directors

## 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") <sup>(1)</sup>	Corporate interest	Registered and beneficial owner/Interest of controlled corporations <sup>(2)</sup>	98,760,631 (L) <sup>(2)</sup>	12.35% (L) <sup>(3)</sup>
3i Holdings plc <sup>(1)</sup>	Corporate interest	Interest of controlled corporations	98,760,631 (L) <sup>(2)</sup>	12.35% (L) <sup>(3)</sup>
3i plc <sup>(1)</sup>	Corporate interest	Interest of controlled corporations	98,760,631 (L) <sup>(2)</sup>	12.35% (L) <sup>(3)</sup>
3i Investments plc <sup>(1)</sup>	Corporate interest	Investment manager	98,760,631 (L) <sup>(2)</sup>	12.35% (L) <sup>(3)</sup>
3i Group Investments GP Limited <sup>(1)</sup>	Corporate interest	Interest of controlled corporations	43,207,776 (L)	5.40% (L) <sup>(3)</sup>
3i Asia Pacific 2004-06 LP ("3i Asia Pacific") <sup>(1)</sup>	Corporate interest	Beneficial owner	43,207,776 (L)	5.40% (L) <sup>(3)</sup>



(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.

# Report of the Directors

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## 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

