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

Notes to the Consolidated Accounts

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

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

8. TAXATION

	Year ended 31 December	
	2005	2004
	RMB'000	*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	2004
	RMB'000	*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

Notes to the Consolidated Accounts

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	2004
	RMB'000	*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

Notes to the Consolidated Accounts

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 RMB'000	Merger reserve RMB'000	General reserves RMB'000	Currency translation adjustments RMB'000	Retained earnings RMB'000	Total 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 RMB'000	Accumulated deficits RMB'000	Total 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.

Notes to the Consolidated Accounts

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.