

NOTES TO CONDENSED CONSOLIDATED ACCOUNTS (UNAUDITED)

1. BASIS OF PREPARATION

This unaudited condensed consolidated financial statements for the period ended 30 June 2006 (the "2006 interim financial statements") has been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting" issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited ("HK Stock Exchange"). The 2006 interim financial statements should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2005 (the "2005 financial statements").

2. ACCOUNTING POLICIES

The 2006 interim financial statements include the financial information of the Group and have been prepared in accordance with the same accounting policies adopted in the Group's 2005 financial statements.

The accounting policies adopted are consistent with those as described in the Group's 2005 financial statements. In 2006, the Group adopted the following new and amendments to IAS and International Financial Reporting Interpretations ("IFRIC"):

- Amendment to IAS 21, Amendment to "Net investment in a foreign operation", effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the Group;
- Amendment to IAS 39, Amendment to "The fair value option", effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the Group; and
- IFRIC-Int 4, "Determining whether an arrangement contains a lease", effective for annual periods beginning on or after 1 January 2006. The Group has reviewed its contracts. Some of them are required to be accounted for as leases in accordance with IAS 17, "Leases", However, these leases are operating leases, and their reclassification has had no impact on the expense recognised in respect of them.

3. TURNOVER AND SEGMENT INFORMATION

	Six months ended 30 June	
	2006 RMB'000	2005 RMB'000
Sale of goods		
Fire alarm systems	201,488	192,200
Fire alarm network systems	4,327	3,554
Video entry systems and building automation systems	18,114	11,899
Electronic power meters	10,408	11,454
Provision of services		
Installation services	44,734	19,441
	279,071	238,548

Notes to the Condensed Consolidated Account (Unaudited)

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 People's Republic of China ("PRC").

Business segment

	Sale of goods				Provision of services		Total RMB'000
	Fire alarm systems RMB'000	Fire alarm network systems RMB'000	Video entry systems and building automation systems RMB'000	Electronic power meters RMB'000	Installation services RMB'000	Corporate RMB'000	
Six months ended 30 June 2006							
Turnover	201,488	4,327	18,114	10,408	44,734	-	279,071
Segment results	70,309	1,806	2,715	944	3,282	(7,712)	71,344
Interest income							5,852
Operating profit							77,196
Finance costs							-
Share of results of							
Jointly controlled entity	447	-					447
Associates	-	(276)					(276)
Profit before taxation							77,367
Taxation							(5,650)
							71,717
Minority interests							-
Profit for the period							71,717
Six months ended 30 June 2005							
Turnover	192,200	3,554	11,899	11,454	19,441	-	238,548
Segment results	59,546	949	2,505	943	1,520	(1,688)	63,775
Interest income							611
Operating profit							64,386
Finance costs							(884)
Share of results of							
Jointly controlled entity	264						264
Associates	-						-
Profit before taxation							63,766
Taxation							(234)
							63,532
Minority interests							-
Profit for the period							63,532

Notes to the Condensed Consolidated Account (Unaudited)

4. OTHER INCOME

	Six months ended 30 June	
	2006 RMB'000	2005 RMB'000
Government grant	–	300
Value-added tax refund	7,269	12,083
Interest income	5,852	611
Sales of raw material, net of costs	89	214
	13,210	13,208

5. OPERATING PROFIT

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

	Six months ended 30 June	
	2006 RMB'000	2005 RMB'000
Charging:		
Staff costs (excluding directors' emoluments)	30,561	25,980
Research costs	15,076	16,485
Provision for doubtful debts	1,370	3,753
Depreciation	5,712	5,162
Write off of obsolete inventories	–	519
Amortisation of prepaid operating lease for land	113	78
Loss on disposals of trading investments	–	23
Net exchange loss	2,427	16
Operating lease rental	2,220	1,155
Auditors' remuneration	440	250
Crediting:		
Net gain on disposals of fixed assets	(115)	(995)
Interest income	(5,852)	(611)
Write back of provision for litigation loss	–	(3,500)

Notes to the Condensed Consolidated Account (Unaudited)

6. TAXATION

	Six months ended 30 June	
	2006 RMB'000	2005 RMB'000
PRC enterprise income tax		
Current	5,650	234
Deferred	–	–
	5,650	234

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.

With effect from April 2004, the principal operating subsidiary, Gulf Securities Technology Company Limited (“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.

7. EARNINGS PER SHARE

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

	Six months ended 30 June	
	2006	2005
Profit attributable to equity holders of the Company (RMB'000)	71,717	63,532
Weighted average number of ordinary shares in issue (thousands)	800,000	502,890
Basic earnings per share (RMB cents per share)	9.0	12.6

Notes to the Condensed Consolidated Account (Unaudited)

Diluted

Diluted earning per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all Series A Preferred shares.

	Six months ended 30 June	
	2006	2005
Profit attributable to equity holders of the Company (RMB'000)	71,717	63,532
Weighted average number of ordinary shares in issue (thousands)	800,000	502,890
Assumed conversion of Series A Preferred shares (thousands)	–	98,215
Weighted average number of ordinary shares for diluted earnings per share (thousands)	800,000	601,105
Diluted earnings per share (RMB cents per share)	9.0	10.6

8. DIVIDEND

The board of directors of the Company does not recommend the payment of a dividend for the six months ended 30 June 2006 (six months ended 30 June 2005: Nil).

A final dividend of HK\$0.070 per share (approximately RMB0.072) for the year ended 31 December 2005, amount to a total dividend of HK\$56,000,000 (approximately RMB57,680,000) was approved at the annual general meeting of the Company on 18 May 2006 and it was paid on 23 May 2006.

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2006, additions to property, plant and equipment amounted to RMB20,498,000 (year ended 31 December 2005: RMB41,533,000) and disposals amounted to RMB729,000 (year ended 31 December 2005: RMB5,170,000).

Notes to the Condensed Consolidated Account (Unaudited)

10. INVENTORIES

	(Unaudited) As at 30 June 2006 RMB'000	(Audited) As at 31 December 2005 RMB'000
Raw materials	26,676	21,829
Work-in-progress	12,867	9,824
Finished goods	29,360	29,375
	68,903	61,028
Components delivered to customers in respect of contracts not yet completed at period/year end	9,737	21,689
At cost	78,640	82,717

11. 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:

	(Unaudited) As at 30 June 2006 RMB'000	(Audited) As at 31 December 2005 RMB'000
0 to 90 days	56,177	64,580
91 to 180 days	26,131	25,377
181 to 365 days	31,803	26,157
Over 365 days	31,714	28,828
	145,825	144,942
Less: Provisions for doubtful debts	(16,047)	(17,902)
	129,778	127,040

Notes to the Condensed Consolidated Account (Unaudited)

12. DUE FROM A JOINTLY CONTROLLED ENTITY

	(Unaudited) As at 30 June 2006 RMB'000	(Audited) As at 31 December 2005 RMB'000
Trade:		
Global System Technology PLC		
0 to 90 days	8,888	1,550
91 to 180 days	5,415	3,908
181 to 365 days	1,100	4,149
	15,403	9,607

Amounts are unsecured, interest free and repayable in accordance with the trading terms.

13. DUE FROM A RELATED COMPANY

	(Unaudited) As at 30 June 2006 RMB'000	(Audited) As at 31 December 2005 RMB'000
Trade:		
Beijing Gulf Jingcheng Property Development Company Limited ("BGJP")	10,396	–

BGJP is a subsidiary company of Gulf Technology Group Company Limited ("Gulf Tech"). Gulf Tech is currently owned by 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 Tech together with its subsidiaries as connected persons of the Company. Amounts are unsecured, interest free and repayable in accordance with the trading terms.

The ageing of balance is within 90 days.

14. TRADE PAYABLES

	(Unaudited) As at 30 June 2006 RMB'000	(Audited) As at 31 December 2005 RMB'000
0 to 90 days	64,149	75,060
91 to 180 days	4,924	9,559
181 to 365 days	2,122	2,043
Over 365 days	1,537	1,302
	72,732	87,964

Notes to the Condensed Consolidated Account (Unaudited)

15. SHARE CAPITAL

	Authorised				
	Common shares of HK\$0.1 each		Series A Preferred shares of HK\$0.1 each		Total
	<i>No. of shares</i>	<i>RMB'000</i>	<i>No. of shares</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2005	3,613,760	383	186,240	20	403
Increase in authorised share capital (<i>note (a)</i>)	1,996,200,000	211,597	–	–	211,597
Conversion of Series A Preferred shares (<i>note (b)</i>)	186,240	20	(186,240)	(20)	–
At 31 December 2005	2,000,000,000	212,000	–	–	212,000
At 1 January 2006 and at 30 June 2006	2,000,000,000	212,000	–	–	212,000
	Issued				
	Common shares of HK\$0.1 each		Series A Preferred shares of HK\$0.1 each		Total
	<i>No. of shares</i>	<i>RMB'000</i>	<i>No. of shares</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2005	945,223	100	186,240	20	120
Conversion of Series A Preferred shares (<i>note (b)</i>)	186,240	20	(186,240)	(20)	–
Capitalization issue (<i>note (c)</i>)	598,868,537	63,480	–	–	63,480
Issues of shares (<i>note (d)</i>)	200,000,000	21,200	–	–	21,200
At 31 December 2005	800,000,000	84,800	–	–	84,800
At 1 January 2006 and at 30 June 2006	800,000,000	84,800	–	–	84,800

Note:

- (a) 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.
- (b) 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 HK Stock Exchange.
- (c) 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.
- (d) 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.

Notes to the Condensed Consolidated Account (Unaudited)

16. RESERVES

Six months ended 30 June 2006

	Share premium <i>RMB'000</i>	Merger reserves <i>RMB'000</i>	General reserves <i>RMB'000</i>	Currency translation adjustments <i>RMB'000</i>	Retained earnings <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2006	366,351	102,902	78,502	48	140,595	688,398
Profit for the period	-	-	-	-	71,717	71,717
Dividend paid	-	-	-	-	(57,680)	(57,680)
Translation of financial statements of a jointly controlled entity	-	-	-	(32)	-	(32)
At 30 June 2006	366,351	102,902	78,502	16	154,632	702,403

Six months ended 30 June 2005

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

Notes to the Condensed Consolidated Account (Unaudited)

17. COMMITMENTS

(a) Capital commitments

	(Unaudited) As at 30 June 2006 <i>RMB'000</i>	(Audited) As at 31 December 2005 <i>RMB'000</i>
Property, plant and equipment	13,334	8,698

(b) Operating lease commitments for buildings

	(Unaudited) As at 30 June 2006 <i>RMB'000</i>	(Audited) As at 31 December 2005 <i>RMB'000</i>
First year	3,180	5,151
Second to fifth year	2,210	1,881
After the fifth year	1,000	1,000
	6,390	8,032

Notes to the Condensed Consolidated Account (Unaudited)

18. RELATED PARTY TRANSACTIONS

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

	Notes	Six months ended 30 June	
		2006 RMB'000	2005 RMB'000
Sales to a jointly controlled entity	(i)	14,303	12,703
Repair cost paid to a related company	(ii)	79	132
Sales to a related company	(iii)	13,206	200
Rental paid to a related company	(iv)	120	80
Service fee paid to a related company	(v)	523	455
Sales of fixed assets to a related company	(vi)	–	2,803

Notes:

- (i) Sales of finished goods to jointly controlled entity were conducted in the normal course of business at prices and terms mutually agreed by the parties involved.
- (ii) Repair costs paid to Qinhuangdao Development Zone Junhui Car Repair and Decoration Company Limited, a subsidiary of Gulf Tech 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 Tech, represented installation services provided by the Group at terms mutually agreed by the parties involved.
- (iv) Rental paid to Gulf Tech was determined based on market rent.
- (v) Service fee paid to Gulf Tech covered the provision of catering, transportation, environmental maintenance, security guards, property management services and other related or similar services to the Group on prices and terms mutually agreed by the parties involved.
- (vi) The consideration for the sale of fixed assets to Gulf Tech was based on valuation performed by an independent accounting firm as at the date of sale.