1. CORPORATE INFORMATION

GST Holdings Limited (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability on 27 April 2004.

The principal activity of the Company is investment holding. The Company and its subsidiaries (together, the "Group") are engaged in the development, manufacturing, sales and installation of intelligent fire detection and control systems, automatic and intelligent securities systems for residential, commercial and industrial uses. The principal activities of the Company's subsidiaries are set out in note 33 to the financial statements.

The registered office of the Company is located at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681GT, George Town, Grand Cayman, Cayman Islands, British West Indies. The head office and principal place of business of the Company in Hong Kong is located at Suite 6308, 63rd Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong and the principal place of business of the Company in Beijing is located in 17th – 19th Floor, Tower B, The Gate, 19 Zhongguancun Avenue, Beijing 100080, The People's Republic of China (the "PRC").

The Company has its primary listing on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

These consolidated financial statements are presented in thousands of units of Renminbi, unless otherwise stated. These consolidated financial statements have been approved for issue by the Board on 4 April 2007.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

2.1 Basis of Preparation

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 consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of available-for-sale financial assets.

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. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 35 to the financial statements.

2.2 Principal Accounting Policies

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 standards and amendments to International Accounting Standards ("IAS") and IFRS, as well as interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC-Int"):

a) Standards, amendments and interpretations effective for annual periods beginning on or after 1 January 2006 and are not relevant to the Group:

- IAS 19 Amendment – Employee benefits;
- IAS 39 Amendment – The fair value option;
- IAS 39 Amendment – Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
- IAS 39 and IFRS 4 Amendment – Financial Guarantee Contracts;
- IFRS 6 – Exploration for and Evaluation of Mineral Resources;
- IFRS 1 Amendment – First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment) – Exploration for and Evaluation of Mineral Resources;
- IFRIC-Int 5 – Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and
- IFRIC-Int 6 – Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment.

b) Standards, amendments and interpretations effective for annual periods beginning on or after 1 January 2006 and has no material impact on the Group:

- IAS 21 Amendment – Net Investment in a foreign operation; and
- IFRIC-Int 4 – Determining whether an arrangement contains a lease.

c) Standards, amendments and interpretations that are not yet effective:

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 May 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.

– IAS 1 Amendment – Presentation of Financial Statements: Capital Disclosures;

– IFRS 7 – Financial Instruments: Disclosures;

– IFRS 8 – Operating Segments;

– IFRIC-Int 7 – Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies;

– IFRIC-Int 8 – Scope of IFRS 2;

– IFRIC-Int 9 – Reassessment of Embedded Derivatives;

– IFRIC-Int 10 – Interim Financial Reporting and Impairment;

– IFRIC-Int 11 – IFRS 2 – Group and Treasury Share Transactions; and

– IFRIC-Int 12 – Service Concession Arrangements.

(i) Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December.

(a) Subsidiaries

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

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of 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 income statement.

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. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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) Transactions and minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the consolidated income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

(c) 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 income statement 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.

(d) Associates

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 investment in associates includes goodwill (net of any accumulated impairment loss) on acquisition.

The Group's share of the post-acquisition profits or losses of associates is recognised in the consolidated income statement 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. 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.

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. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(ii) **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 and is tested annually for impairment as part of the overall balance. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. 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. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The Group allocates goodwill to each business segment.

(iii) **Property, plant and equipment**

Property, plant and equipment are stated at cost less depreciation and are depreciated at rates sufficient to write off their cost 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 – 35 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 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 income statement 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. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are recognised in the consolidated income statement.

(iv) **Construction-in-progress**

Construction-in-progress represents plants and properties under construction and is stated at cost. This includes the costs of construction, plant and machinery, prepayments for the equipment and other direct costs. Construction-in-progress is not depreciated until such time as the relevant assets are completed and ready for its intended use when they are transferred to the relevant asset category.

(v) **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.

(vi) **Impairment of investments in subsidiaries, associates and non-financial assets**

Assets that have an indefinite useful life or have not yet available for use 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). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(vii) **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.

(viii) **Trade and other receivables**

Trade and other 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 and other 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. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy of financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. 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 income statement. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited in the income statement.

(ix) **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.

(x) **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. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a market interest rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(xi) **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.

(xii) 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.

(xiii) 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 income statement over the period of the borrowings using the effective interest method.

(xiv) Deferred income tax

Deferred income tax 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 consolidated financial statements. 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. Income tax rates enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled are used to determine deferred income tax.

Deferred income 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.

(xv) 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 income statement on a straight-line basis over the period of the lease.

(xvi) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added taxes, rebates and discounts and after eliminated sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) 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.

(b) 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.

(c) Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

(xvii) 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.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

(xviii) **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 the following criteria are fulfilled:

(a) it is technically feasible to complete the intangible asset so that it will be available for use or sale;

(b) management intends to complete the intangible asset and use or sell it;

(c) there is an ability to use or sell the intangible asset;

(d) it can be demonstrated how the intangible asset will generate probable future economic benefits;

(e) adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and

(f) the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding five years.

Development assets are tested for impairment annually, in accordance with IAS 36.

(xix) **Foreign currency translation**

(a) Functional and presentation currency

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

(b) 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 income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

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

(c) 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:

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

(2) income and expenses for each income statement 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

(3) 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 partially disposed or sold, exchange differences that were recorded in equity are recognised in the income statement 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.

(xx) Employee benefits

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. 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.

(xxi) Dividends

Dividends are recorded in the consolidated financial statements in the period in which they are approved by the shareholders or directors where appropriate. Dividends proposed or declared after the balance sheet date are disclosed as an event after post balance sheet date (note 36 to financial statements) and are not recognised as a liability at the balance sheet date.

(xxii) Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(xxiii) Financial assets

The Group classifies its financial assets in the following categories: available-for-sale and loans and receivable. The classification depends on the purposes for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. Available-for-sale financial assets are subsequently carried at fair value. Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in equity. When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities. Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement as part of other income.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the balance sheet (Note 2.2(viii)). Loans and receivables are carried at amortised cost using the effective interest method.

Regular purchases and sales of above financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss-measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement.

(xxiv) **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	
	2006	2005
	RMB'000	RMB'000
Sale of goods		
Fire alarm systems	476,138	429,003
Fire alarm network systems	12,197	12,360
Video entry systems	33,059	28,122
Building automation systems	5,200	5,689
Electric power meters	23,333	22,134
Provision of services		
Installation services	95,844	64,408
	645,771	561,716

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 2006	Sale of goods				Provision of services		
	Fire alarm systems RMB'000	Fire alarm network systems RMB'000	Video entry systems and building automation systems RMB'000	Electric power meters RMB'000	Installation services RMB'000	Corporate RMB'000	Group RMB'000
Turnover	476,138	12,197	38,259	23,333	95,844	–	645,771
Segment results	152,338	3,356	8,137	2,137	14,458	(19,103)	161,323
Interest income							10,787
Operating profit							172,110
Finance costs							–
Share of results of							
Jointly controlled entity	1,304	–	–	–	–	–	1,304
Associates	–	(286)	–	–	–	–	(286)
Profit before income tax							173,128
Income tax expenses							(8,001)
Profit for the year							165,127
Segment assets	666,736	54,256	35,376	55,496	135,351	112,255	1,059,470
Investment in a jointly controlled entity	(204)	–	–	–	–	–	(204)
Investment in associates	–	2,335	–	–	–	–	2,335
Total assets							1,061,601
Segment liabilities	124,299	2,009	6,595	2,389	20,485	5,515	161,292
Tax payable							18,998
Total liabilities							180,290
Capital expenditure	61,674	1,165	3,272	334	4,180	–	70,625
Depreciation	9,096	167	483	367	1,143	247	11,503
Amortisation of prepaid operating lease for land	225	–	–	–	–	–	225
Development costs amortisation	601	–	–	–	–	–	601
Provision for doubtful debts	(487)	102	–	765	1,910	–	2,290

Year ended 31 December 2005	Sale of goods: Fire alarm systems RMB'000	Sale of goods: Fire alarm network systems RMB'000	Sale of goods: Video entry systems and building automation systems RMB'000	Sale of goods: Electric power meters RMB'000	Provision of services: Installation services RMB'000	Corporate RMB'000	Group 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 income tax							163,113
Income tax expenses							(694)
Profit for the year							162,419
Segment assets	524,136	15,948	20,540	10,867	73,854	281,630	926,975
Investment in a jointly controlled entity	(1,508)	–	–	–	–	–	(1,508)
Investment in associates	–	2,621	–	–	–	–	2,621
Total assets							928,088
Segment liabilities	111,716	888	4,428	1,933	12,829	1,867	133,661
Tax 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

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

Segment liabilities comprise operating liabilities. They exclude items such as income tax.

Capital expenditure comprises mainly additions to property, plant and equipment.

5. OTHER INCOME

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Government grant	162	311
Value-added tax refund	16,859	29,810
Interest income	10,787	6,560
Sales of raw material, net of cost	30	263
	27,838	36,944

6. OPERATING PROFIT

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

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Charging:		
Staff costs (excluding directors' emoluments) *(Note 11)*	61,258	55,477
Research costs	8,345	14,747
Rental expenses	5,336	4,380
Development costs amortisation	601	478
Depreciation	11,503	10,079
Provision for doubtful debts	2,290	2,847
Provision for obsolete inventories	803	59
Net loss on disposal of property, plant and equipment	437	–
Amortisation of prepaid operating lease for land	225	192
Loss on disposal of trading investments	–	23
Net exchange loss	5,688	7,554
Auditors' remuneration	2,109	1,474
Crediting:		
Net gain on disposal of property, plant and equipment	410	636
Write back of provision for litigation loss	–	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	
	2006	2005
	RMB'000	RMB'000
Interest on bank loans wholly repayable within one year	–	1,167

8. INCOME TAX EXPENSES

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Current	8,755	694
Deferred	(754)	–
	8,001	694

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, Gulf Security Technology Company Limited ("GST"), Beijing Gulf Electric Meters Company Limited ("Gulf Meters") and Qinhuangdao Gulf Fire Prevention Network Company Limited ("Gulf Network") were converted into or being established as wholly owned foreign 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. In 2006, the applicable PRC income tax rate for Gulf Meters is 24% (2005:24%). GST and Gulf Network being registered in a designated development zone, the applicable PRC income tax rate for 2006 is 15% (2005: 15%).

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

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Profit before income tax	173,128	163,113
PRC income tax calculated at statutory rate of 33%	57,132	53,827
Tax loss not recognised	4,321	2,918
Non-deductible expenses	6,915	7,479
Effect of different income tax assessment rate and tax exemption	(50,262)	(49,368)
Additional allowances	(4,598)	(4,380)
Income not subject to tax	(5,609)	(9,838)
Others	102	56
Income tax expense	8,001	694

9. 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 year.

	Year ended 31 December	
	2006	2005
Profit attributable to equity holders of the Company *(RMB'000)*	164,993	162,427
Weighted average number of ordinary shares in issue *(thousands)*	800,000	652,666
Basic earnings per share *(RMB cents per share)*	20.6	24.9

Diluted

There was no dilutive potential ordinary share outstanding for the year ended 31 December 2006. For the year ended 31 December 2005, the diluted earnings per share was calculated adjusting the weighted number of ordinary shares outstanding to assume conversion of all Series A Preferred shares.

	Year ended 31 December 2006	2005
Profit attributable to equity holders of the Company *(RMB'000)*	164,993	162,427
Weighted average number of ordinary shares in issue *(thousands)*	800,000	652,666
Assumed conversion of Series A Preferred shares *(thousands)*	–	48,704
Weighted average number of ordinary shares for diluted earnings per share *(thousands)*	800,000	701,370
Diluted earnings per share *(RMB cents per share)*	20.6	23.2

10. DIVIDENDS

A final dividend of HK7.33 cents per share (approximately RMB7.33 cents) for the year ended 31 December 2006, amounting to a total dividend of HKD58,640,000 (approximately RMB58,640,000) representing a payout ratio of 35.5% (2005: 35.5%) to those shareholders whose names appear on the register of members of the Company on 18 May 2007, has been approved by the Board of Directors on 30 March 2007 and is to be proposed at the forthcoming annual general meeting of the Company (the "Meeting") on or about 18 May 2007. These financial statements do not reflect this proposed dividend.

A final dividend of HK7.00 cents per share (approximately RMB7.21 cents) for the year ended 31 December 2005, amount to total dividend of HKD56,000,000 (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.

11. STAFF COSTS – EXCLUDING DIRECTORS' EMOLUMENTS

	Year ended 31 December 2006 RMB'000	2005 RMB'000
Wages and salaries	49,082	44,628
Retirement benefit contributions	3,053	2,465
Staff welfare and allowances	9,123	8,384
	61,258	55,477

The number of employees (excluding directors) as at 31 December 2006 was 2,418 (2005: 1,718).

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 are as follows:

	Year ended 31 December 2006			Year ended 31 December 2005		
	Salaries, bonus, allowances and benefits in kind RMB'000	Retirement benefit contributions RMB'000	Total RMB'000	Salaries, bonus, allowances and benefits in kind RMB'000	Retirement benefit contributions RMB'000	Total RMB'000
Song Jiacheng	1,181	11	1,192	739	7	746
Cao Yu	982	11	993	523	7	530
Peng Kaichen	880	7	887	523	7	530
Xu Shaowen	401	11	412	450	7	457
Zeng Jun	120	–	120	170	–	170
Lee Kwan Hung, Eddie	180	–	180	172	–	172
Chang Tso Tung, Stephen	180	–	180	172	–	172
Chan Chi On, Derek	150	–	150	144	–	144
Sun Lun	120	–	120	115	–	115
	4,194	40	4,234	3,008	28	3,036

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

(b) **Five highest paid individuals**

The five highest paid individuals of the Group included 3 directors (2005: 3 directors) whose emoluments are included in the above disclosures. The emoluments of the remaining individuals are as follows:

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Salaries, bonus, allowance and benefits in kind	1,376	1,308
Retirement benefit contribution	98	46
	1,474	1,354

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

	Number of individual	
	Year ended 31 December	
	2006	2005
Emolument band		
Nil to HK$1,000,000 (equivalent to RMB1,000,000)	1	2
HK$1,000,000 to HK$1,500,000 (equivalent to RMB1,000,000 to RMB1,500,000)	1	–

(c) During 2005 and 2006, no emoluments were paid to the directors of the Company or the five highest paid individuals of the Group as an inducement to join or upon joining the Group or as compensation for loss of office.

13. RETIREMENT BENEFITS

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Obligations on defined contribution plans charged for the year	3,093	2,493

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 RMB'000	Plant and machinery RMB'000	Vehicles RMB'000	Equipment, furniture and fixture RMB'000	Construction In-progress RMB'000	Total RMB'000
Cost						
At 1 January 2005	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
Additions	2,256	17,072	5,937	5,667	39,693	70,625
Transfers	38,944	14,301	-	-	(53,245)	-
Disposals	(1,352)	(4,899)	(1,709)	(1,389)	–	(9,349)
At 31 December 2006	113,339	69,131	22,578	28,701	4,630	238,379
Accumulated depreciation						
At 1 January 2005	8,106	9,888	9,229	10,741	–	37,964
Depreciation – charge for the year	1,304	3,053	2,992	2,730	–	10,079
Depreciation – acquisition of a subsidiary	–	–	26	32	–	58
Depreciation written off – disposal	(341)	(182)	(152)	(154)	–	(829)
At 31 December 2005	9,069	12,759	12,095	13,349	–	47,272
Depreciation – charge for the year	2,805	4,363	1,071	3,264	-	11,503
Depreciation written off – disposal	(105)	(634)	(963)	(1,189)	-	(2,891)
At 31 December 2006	11,769	16,488	12,203	15,424	-	55,884
Net book value						
At 31 December 2005	64,422	29,898	6,255	11,074	18,182	129,831
At 31 December 2006	101,570	52,643	10,375	13,277	4,630	182,495

Company – Equipment, furniture and fixture

	2006 RMB’000	2005 RMB’000
Cost		
Beginning of the year	640	–
Additions	14	640
End of the year	654	640
Accumulated depreciation		
Beginning of the year	90	–
Charge for the year	267	90
End of the year	357	90
Net book value		
Beginning of the year	550	–
End of the year	297	550

15. PREPAID OPERATING LEASE FOR LAND

	Group	
	2006	2005
	RMB'000	RMB'000
Cost		
Beginning of the year	11,345	6,352
Additions	-	4,993
End of the year	11,345	11,345
Accumulated amortization		
Beginning of the year	1,264	1,072
Charge for the year	225	192
End of the year	1,489	1,264
Net book value		
Beginning of the year	10,081	5,280
End of the year	9,856	10,081

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

16. INTANGIBLE ASSETS

	Group					
	2006			2005		
	Goodwill RMB'000	Development costs RMB'000	Total RMB'000	Goodwill RMB'000	Development costs RMB'000	Total RMB'000
Cost						
Beginning of the year	6,541	2,482	9,023	5,972	–	5,972
Additions	–	6,596	6,596	–	2,482	2,482
Acquisition of subsidiary	–	–	–	569	–	569
End of the year	6,541	9,078	15,619	6,541	2,482	9,023
Accumulated amortization						
Beginning of the year	–	478	478	–	–	–
Charge for the year	–	601	601	–	478	478
End of the year	–	1,079	1,079	–	478	478
Net book value						
Beginning of the year	6,541	2,004	8,545	5,972	–	5,972
End of the year	6,541	7,999	14,540	6,541	2,004	8,545

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 2006			As at 31 December 2005		
	Fire alarm systems RMB'000	Fire alarm network systems RMB'000	Total RMB'000	Fire alarm systems RMB'000	Fire alarm network systems RMB'000	Total RMB'000
Goodwill	5,972	569	6,541	5,972	569	6,541

17. JOINTLY CONTROLLED ENTITY

	Group As at 31 December 2006 RMB'000	Group As at 31 December 2005 RMB'000
Investment in a jointly controlled entity:		
Share of net liabilities	(204)	(1,508)
Due from a jointly controlled entity *(note)*:		
0 to 90 days	4,886	1,550
91 to 180 days	8,727	3,908
181 to 365 days	8	4,149
Over 365 days	1,223	–
	14,844	9,607

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 33 to the financial statements.

18. INVESTMENT IN ASSOCIATES

	Group 2006 RMB'000	Group 2005 RMB'000
Beginning of the year	2,621	950
Additions	–	1,995
Share of loss	(286)	(324)
End of the year	2,335	2,621
Representing:		
Share of net assets, unlisted	2,335	2,621

Details of the associates are set out in note 33 to the financial statements.

19. DEFERRED INCOME TAX

a) Deferred tax assets

	Group As at 31 December 2006 RMB'000	Group As at 31 December 2005 RMB'000
– Deferred tax asset to be recovered after more than 12 months	923	–
– Deferred tax asset to be recovered within 12 months	551	–
	1,474	–

The movement in deferred tax assets during the year is as follows:

	Provision for doubtful debts RMB'000	Provision for inventory obsolescence RMB'000	Temporary differences for property, plant and equipments RMB'000	Temporary differences for unrealised profit RMB'000	Total RMB'000
At 1 January 2005 and 31 December 2005	–	–	–	–	–
Credited to income statement	(1,174)	(112)	(36)	(152)	(1,474)
At 31 December 2006	(1,174)	(112)	(36)	(152)	(1,474)

b) Deferred tax liabilities

	Group As at 31 December 2006 RMB'000	Group As at 31 December 2005 RMB'000
– Deferred tax liabilities to be settled after more than 12 months	600	–
– Deferred tax liabilities to be settled within 12 months	120	–
	720	–

The movement in deferred tax liabilities during the year is as follows:

	Development costs capitalisation RMB'000
At 1 January 2005 and 31 December 2005	–
Charged to income statement	720
At 31 December 2006	720

c) Deferred income tax charge/(credit) to the income statement

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

The deferred income tax charge/(credit) to the income statement is as follows:

	Group	
	Year ended 31 December	
	2006	2005
	RMB’000	RMB’000
Deferred tax assets credited	(1,474)	–
Deferred tax liabilities charged	720	–
Deferred income tax credited to the income statement	(754)	–

There was no material unprovided deferred income tax.

20. SUBSIDIARIES

	Company	
	As at 31 December	
	2006	2005
	RMB’000	RMB’000
Investment in subsidiaries		
– Unlisted shares, at cost	159,678	159,678
Due from a subsidiary *(note)*	277,066	228,344
	436,744	388,022

Note: The balance is unsecured and interest-free. It is in equity nature and has no settlement plan in the near future. Details of the subsidiaries are set out in note 33 to the financial statements.

21. INVENTORIES

	Group As at 31 December 2006 RMB'000	Group As at 31 December 2005 RMB'000
Raw materials	33,715	21,829
Work-in-progress	18,014	9,824
Finished goods	41,482	29,375
	93,211	61,028
Components delivered to customers in respect of contracts not yet completed at year end	25,267	21,689
At cost, less provision for obsolete inventories	118,478	82,717

22. 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:

	Group As at 31 December 2006 RMB'000	Group As at 31 December 2005 RMB'000
0 to 90 days	74,614	64,580
91 to 180 days	22,717	25,377
181 to 365 days	24,749	26,157
Over 365 days	39,300	28,828
	161,380	144,942
Less: Provision for doubtful debts	(16,967)	(17,902)
	144,413	127,040

The carrying amounts of the Group's trade receivables approximated its fair value as at 31 December 2006 because of the short maturities of these receivables.

23. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group	
	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Cash value-added funds, unlisted	30,000	–

The fair value of unlisted funds are based on cash flows discounted using a rate based on the market interest rate.

Available-for-sale financial assets are all denominated in Renminbi. None of the financial assets are either part due or impaired.

24. CASH AND CASH EQUIVALENTS

	Group	
	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Cash at bank and in hand	257,614	190,120
Short-term bank deposits	234,719	340,131
	492,333	530,251

The effective interest rate on short-term bank deposits of the Group was 2.31% per annum (2005: 3.39% per annum). Short-term bank deposits have a weighted average remaining maturity of 29 days (2005: 29 days).

	Company	
	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Cash at bank and in hand	1,132	893
Short-term bank deposits	85,109	209,131
	86,241	210,024

The effective interest rate on short-term bank deposits of the Company was 3.54% per annum (2005: 3.93% per annum). Short-term bank deposits have a weighted average remaining maturity of 18 days (2005: 29 days).

	Group		Company	
	As at 31 December		As at 31 December	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Cash at bank and in hand				
RMB	234,385	171,248	–	–
HKD denominated	6,786	1,583	1,112	893
USD denominated	16,423	17,289	–	–
Others	20	–	20	–
	257,614	190,120	1,132	893
Short-term bank deposits				
RMB	126,520	79,000	–	–
HKD denominated	96,871	261,131	85,109	209,131
USD denominated	11,328	–	–	–
	234,719	340,131	85,109	209,131
Total cash and cash equivalents	492,333	530,251	86,241	210,024

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.

	Group	
	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Restricted bank deposits	17,552	2,149

As at 31 December 2006, the Group had restricted bank deposits of RMB17,552,000 (2005: RMB2,149,000) in relation to its banking facilities amounting to RMB17,552,000 (2005: RMB3,766,000).

25. SHARE CAPITAL

	Group and Company				
	Authorised				
	Common shares of HK$0.1 each		Series A Preferred shares of HK$0.1 each		Total
	No. of shares	RMB'000	No. of shares	RMB'000	RMB'000
At 1 January 2005	3,613,760	383	186,240	20	403
Increase in authorized share capital *(note (a))*	1,996,200,000	211,597	–	–	211,597
Conversion of Series A Preferred shares *(note (b))*	186,240	20	(186,240)	(20)	–
At 31 December 2005	2,000,000,000	212,000	–	–	212,000
At 1 January 2006 and at 31 December 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
	No. of shares	RMB'000	No. of shares	RMB'000	RMB'000
At 1 January 2005	945,223	100	186,240	20	120
Conversion of Series A Preferred shares *(note (b))*	186,240	20	(186,240)	(20)	–
Capitalisation issue *(note (c))*	598,868,537	63,480	–	–	63,480
Issue of shares *(note (d))*	200,000,000	21,200	–	–	21,200
At 31 December 2005	800,000,000	84,800	–	–	84,800
At 1 January 2006 and at 31 December 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 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.

26. RESERVES

	Group					
	Share premium RMB'000	Merger reserves RMB'000	General reserves RMB'000	Exchange translation RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2005	117,083	102,902	52,748	–	3,922	276,655
Capitalisation issue	(63,480)	–	–	–	–	(63,480)
Issue of shares for cash	343,440	–	–	–	–	343,440
Profit for the year	–	–	–	–	162,427	162,427
Share issuance costs	(30,692)	–	–	–	–	(30,692)
Currency translation differences						
– 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
Dividend paid	(57,680)	–	–	–	–	(57,680)
Profit for the year	–	–	–	–	164,993	164,993
Currency translation differences						
– jointly controlled entity	–	–	–	(33)	–	(33)
Transfer	–	–	13,308	–	(13,308)	–
At 31 December 2006	308,671	102,902	91,810	15	292,280	795,678

	Company		
	Share premium RMB’000	Accumulated deficits RMB’000	Total RMB’000
At 1 January 2005	276,655	–	276,655
Capitalisation issue	(63,480)	–	(63,480)
Issue of shares for cash	343,440	–	343,440
Loss for the year	–	(10,597)	(10,597)
Share issuance costs	(30,692)	–	(30,692)
At 31 December 2005	525,923	(10,597)	515,326
Dividend paid	(57,680)	–	(57,680)
Loss for the year	–	(23,387)	(23,387)
At 31 December 2006	468,243	(33,984)	434,259

(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 group reorganisation completed in December 2004.

(b) General reserves represent statutory reserve which is composed of appropriation at 10% of the net profit of certain subsidiaries of the Group according to their respective Articles of Association, and the statutory public welfare reserve transferred in. During the year, in accordance with the Company Law of PRC, which is revised on 27 October 2005 and effective since 1 January 2006, the statutory public welfare reserve will not be appropriated in 2006. According to the Circular on accounting treatment following the implementation of Company Law issued by the Ministry of Finance on 15 March 2006, the balance of the statutory public welfare reserve at 31 December 2005 will be converted all into the statutory reserve.

(c) 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.

(d) The reserves available for distribution to the shareholders of the Company amount to approximately RMB434 million as at 31 December 2006 (2005: RMB515 million).

27. TRADE PAYABLES

	Group	
	As at 31 December	
	2006	2005
	RMB'000	RMB'000
0 to 90 days	98,050	75,060
91 to 180 days	8,188	9,559
181 to 365 days	1,782	2,043
Over 365 days	1,660	1,302
	109,680	87,964

28. ADVANCE FROM CUSTOMERS

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

29. ADVANCE FROM A RELATED COMPANY

	Group	
	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Beijing Gulf Jingcheng Property Development Company Limited ("Beijing Gulf Property")	1,998	–

Beijing Gulf Property is a subsidiary company of Gulf Technology Group Company Limited ("Gulf Group"). Gulf Group is currently owned by the same beneficial shareholders of GST International Management Limited, the controlling shareholder of the Company.

The advance from Beijing Gulf Property represents cash received in respect of contracts not yet completed at year end.

30. NOTE TO CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of operating profit to cash generated from operations

	Group	
	Year ended 31 December	
	2006	2005
	RMB’000	RMB’000
Operating profit	172,110	164,628
Depreciation	11,503	10,079
Amortisation of prepaid operating lease for land	225	192
Development costs amortisation	601	478
Provision for doubtful debts	2,290	2,847
Provision for obsolete inventories	803	59
Net loss/(gain) on disposals of fixed assets	27	(636)
Interest income	(10,787)	(6,560)
Loss on disposals of trading investments	–	23
Operating profit before working capital changes	176,772	171,110
(Increase)/decrease in inventories	(36,564)	30,862
Increase in trade receivables	(19,663)	(45,707)
(Increase)/decrease in other receivables, deposits and prepayments	(6,731)	1,757
Increase in due from a jointly controlled entity	(5,237)	(4,554)
Increase in trade payables	21,716	5,250
Increase/(decrease) in other payables and accruals	4,315	(7,821)
Increase in advance from a related company	1,998	–
Decrease in advance from customers	(1,118)	(4,669)
(Decrease)/increase in other taxes payable	(3,098)	156
Cash generated from operations	132,390	146,384

31. COMMITMENTS

(a) Capital commitments

	Group	
	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Property, plant and equipment *(note)*	98,662	8,698

Note: The amount for the year ended 31 December 2006 includes the commitment for the acquisition of office premises in Zhongguancun after the balance sheet date and details are set out in note 36 to financial statements.

(b) Operating lease commitments for buildings

	Group	
	As at 31 December	
	2006	2005
	RMB'000	RMB'000
First year	3,143	5,151
Second to fifth year	2,730	1,881
After the fifth year	1,479	1,000
	7,352	8,032

32. 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:

	Notes	Year ended 31 December 2006 RMB’000	2005 RMB’000
Sales to jointly controlled entity	(i)	27,915	16,892
Repair cost paid to a related company	(ii)	105	169
Services rendered to a related company	(iii)	17,984	1,420
Rental paid to a related company	(iv)	240	200
Service fee paid to a related company	(v)	1,046	910
Sales of property, plant and equipment to a related company	(vi)	–	2,803
The compensation and remuneration for key management personnel	(vii)	4,234	3,036

Notes:

(i) Sales of finished goods to a jointly controlled entity, Global System Technology PLC (“GST PLC”) 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) Services rendered to Beijing Gulf Property, 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.

(vii) The key management personnel are the Directors of the Company. Their compensations and remunerations are set in the note 12 to the financial statements.

33. PARTICULARS OF SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITY

As at 31 December 2006, 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	USD22,860,000	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 Company Limited	The PRC 10 May 2004	USD6,500,000	100%	Development and sales of power meter in the PRC
Hebei Gulf Electrical Engineering Company Limited	The PRC 24 September 1996	RMB50,000,000	100%	Provision of system integration and installation services in the PRC
Beijing Gulf Wei'er Electrical Engineering Company Limited	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
Qinhuangdao Gulf Labour Services Company Limited	The PRC 9 March 2005	RMB500,000	100%	Provision of human resources services
Qinhuangdao Gulf Plastic & Metal Products Company Limited	The PRC 5 June 2006	USD2,000,000	100%	Manufacturing and sales of plastic and metal products, metal components and mould in the PRC
Qinhuangdao Gulf Software Technology Company Limited	The PRC 5 June 2006	USD2,000,000	100%	Development and sales of software product, computer system integration and corresponding computing technology
Qinhuangdao City Chengan Fire Prevention Network Company Limited	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
Associates				
Interests held indirectly:				
Nanning Gulf Fire Prevention Network Technology Company Limited	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 Company Limited	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

34. 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 2006. As at 31 December 2006, the Group had cash and bank balances of approximately RMB378,457,000, RMB103,657,000 and RMB27,751,000 denominated in Renminbi, Hong Kong dollars and United States dollars, respectively (2005: RMB252,397,000, RMB262,714,000 and RMB17,289,000). 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 2006 and 31 December 2005. 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 trade 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 trade 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, trade receivables and other receivables, availabe-for-sale financial assets 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.

35. 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, development costs 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 income statement. 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.

(d) Percentage of completion of installation contracts

The Group's management estimates the percentage of completion of installation contracts. These estimates are based on the engineers' knowledge and historical experience, and by reference to the contract costs incurred up to the balance sheet date as a percentage of total estimated costs for each contract. Management assesses the completion progress at each balance sheet date.

36. EVENTS AFTER BALANCE SHEET DATE

a) On 13 November 2006, GST (the "Purchaser"), a wholly-owned subsidiary of the Company, entered into the Framework Agreement with Beijing Gulf Property (the "Vendor"), a wholly-owned subsidiary of Gulf Group, pursuant to which the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to acquire office premises situated at Units 1701-1703, 1705-1711, 1801-1803, 1805-1811, 1901-1903 and 1905, Block B, The Gate, Zhongguancun, Beijing, PRC. (the "Property"). The consideration of the acquisition is approximately RMB81,696,000 (the "Consideration") and shall be satisfied in cash by the internal resources of the Group (the "Acquisition").

The Acquisition constitutes a connected transaction of the Company under Rule 14A.17 of the Listing Rules and is subject to the approval of the independent shareholders at the extraordinary general meeting by poll. Since one of the relevant ratios in respect of the Acquisition exceeds 5% but all the relevant ratios are less than 25%, the Acquisition also constitutes a discloseable transaction for the Company under Rule 14.06(2) of the Listing Rules.

The Acquisition was approved by independent shareholders by way of poll at the extraordinary general meeting held on 29 December 2006. As all the conditions were satisfied, the Consideration was subsequently paid on 13 March 2007.

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

b) A final dividend of HK7.33 cents per share (equivalent to approximately RMB7.33 cents) for the year ended 31 December 2006, amounting to a total dividend of HKD58,640,000 (equivalent to approximately RMB58,640,000) to those shareholders whose names appear on the register of members of the Company on 18 May 2007, has been approved by the Board of Directors on 30 March 2007 and is to be proposed at the forthcoming annual general meeting of the Company on or about 18 May 2007 (note 10 to the financial statements).

c) Pursuant to the PRC enterprise income tax law passed by the Tenth National People's Congress on 16 March 2007, the new enterprise income tax rates for domestic and foreign enterprises are unified at 25% and will be effective from 1 January 2008. The impact of such change of enterprise income tax rate on the Group's consolidated financial statements will depend on detailed pronouncements that are subsequently issued. Since implementation measure on transitional policy of preferential tax rate granted according to current tax law and administrative regulations was not yet announced, the Group cannot reasonably estimate the financial impact of the new tax law to the Group at this stage.

Other than those disclosed elsewhere in this report, no significant events took place subsequent to 31 December 2006.

37. ULTIMATE HOLDING COMPANY

As at 31 December 2006, the directors of the Company regarded GST International Management Limited, a company incorporated in the BVI, as being the ultimate holding company.

38. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current years’ presentation.