Notes to the Condensed Consolidated Accounts (Unaudited)

1. BASIS OF PREPARATION

GST Holdings Limited (the "Company") was incorporated in the Cayman Islands on 27 April 2004 as an exempted company with limited liability as a result of a restructuring exercise (the "Reorganisation") of Gulf Technology Group Company Limited ("Gulf Group") for listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited.

Gulf Group was established in the People's Republic of China (the "PRC") 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 and environmental consulting and services. Pursuant to the Reorganisation which was completed on 20 December 2004, Gulf Group transferred to the Company for cash of certain of its subsidiaries, associated companies, jointly controlled entity and the associated assets and liabilities relating to the intelligent fire detection and control systems and automatic and intelligent security systems divisions.

For the purpose of this report, the consolidated profit and loss account, condensed consolidated cash flow statement and consolidated statement of changes in equity of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2004 include the companies now comprising the Group and the assets, liabilities, revenues and expenses transferred in the Group as a result of the Reorganisation, as if the Group's structure had been in existence throughout the period or since their respective dates of incorporation of the companies, whichever is the shorter period.

In preparing this unaudited condensed consolidated financial statements, the directors of the Company (the "Directors") have adopted accounting policies consistent with those adopted in note 2 of section II under the Accountants' Report of the Company in Appendix I to the Company's prospectus dated 20 June 2005, except for those changes in accounting policies as a result of the adoption of new or revised International Financial Reporting Standards effective for the financial period beginning 1 January 2005 which, in the opinion of the Directors, will not have significant financial impact to the Group. A full set of the principal accounting policies of the Group for the preparation of this unaudited condensed consolidated financial statements are set out in note 2 below.

2. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss.

(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 subsidiaries. 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.

(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 accounts and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the cost 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 it is attributable to the other venturers. The Group does not recognise its share of profits or losses from the jointly controlled entity that result 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 associate is accounted for by the equity method of accounting and are initially recognised at cost. The Group's share of the post-acquisition profits or losses of associate is recognised in the consolidated profit and loss accounts and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the cost 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 investments 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	15 – 35 years
Machinery	5 – 10 years
Vehicles and equipment	4 – 6 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 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 profit and loss account.

(f) Construction-in-progress

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

(g) Land use rights

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

(h) Impairment of 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 profit and loss account.

(k) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(l) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of the cash flow statements, cash and cash equivalents comprise cash on hand and deposits held at call with banks.

(m) 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.

(n) 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.

(o) 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 or options are shown in equity as a deduction, net of tax, from the proceeds.

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

(q) 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.

Deferred taxation is provided on temporary differences arising on investments in jointly controlled entity and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

(s) Revenue recognition

Revenue from the sale of goods, net of value added taxes, 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.

Revenue from installation and maintenance services is recognised in the accounting period in which the service 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.

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

(t) Government grants

Government grants are assistance by local municipal government in the form of transfer of resources to an enterprise to encourage business development in the local municipal. 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.

(u) 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.

(v) Foreign currency translation

(i) 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.

(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 income statement, 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 or 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.

(w) 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

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.

(x) 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.

(y) 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 AND SEGMENT INFORMATION

	Six months ended 30 June	
	2005	2004
	RMB'000	*RMB'000*
Sale of goods		
Fire alarm systems	**188,367**	142,099
Fire alarm network systems	**3,554**	2,893
Building automation systems	**3,439**	3,037
Video entry systems	**8,460**	2,099
Electronic power meters	**11,454**	3,830
Provision of services		
Installation services	**19,242**	12,072
Maintenance services	**4,032**	1,468
	238,548	167,498

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

Six months ended 30 June 2005	Fire alarm systems	Fire alarm network systems	Video entry systems and building automation systems	Electronic power meters	Installation services	Maintenance services	Corporate	Group
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	188,367	3,554	11,899	11,454	19,242	4,032	–	238,548
Segment results	58,093	949	2,505	943	1,423	1,550	(1,688)	63,775
Interest income								611
Operating profit								64,386
Finance costs								(884)
Share of results of								
Jointly controlled entity	264							264
Profit before taxation								63,766
Taxation								(234)
Profit for the period								63,532

Six months ended 30 June 2004	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	142,099	2,893	5,136	3,830	12,072	1,468	–	167,498
Segment results	46,951	696	427	(413)	1,190	476	–	49,327
Interest income								134
Operating profit								49,461
Finance costs								(1,210)
Share of results of								
Jointly controlled entity	810							810
Associates	447							447
Profit before taxation								49,508
Taxation								(3,316)
Minority interests								(10)
Profit for the period								46,182

4. OPERATING PROFIT

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

	Six months ended 30 June	
	2005	2004
	RMB'000	*RMB'000*
Charging:		
Research and development costs	**16,485**	6,944
Provision for doubtful debts	**3,753**	2,146
Depreciation	**5,162**	5,466
Written off of inventories	**519**	1,190
Net loss on disposals of fixed assets	**–**	100
Land use right amortisation	**78**	62
Loss on trading investments	**23**	–
Goodwill amortisation	**–**	358
Crediting:		
Net gain on disposals of fixed assets	**(995)**	–
Interest income	**(611)**	(134)
Gain on disposals of trading investment	**–**	(32)
Written back of provision for litigation loss	**(3,500)**	–

5. TAXATION

	Six months ended 30 June	
	2005	2004
	RMB'000	*RMB'000*
PRC enterprise income tax		
Current	**234**	1,158
Deferred	**–**	2,158
	234	3,316

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. The principal operating subsidiary, Gulf Security Technology Company Limited ("GST"), which 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.

6. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share for the six months ended 30 June 2005 was based on the unaudited consolidated net profit of approximately RMB63,532,000 (six months ended 30 June 2004: RMB46,182,000). The calculation of basic earnings per share for the six months ended 30 June 2005 was based on the weighted average number of 502,889,980 shares (six months ended 30 June 2004: 530,286,894 shares) deemed to be in issue during the period. The calculation of diluted earnings per share for the six months ended 30 June 2005 was based on the weighted average number of 601,104,972 shares. A reconciliation of the weighted average number of shares for calculation of basic and diluted earnings per share is as follows:

	Six months ended 30 June	
	2005	2004
Weighted average number of shares (Basic)	**502,889,980**	530,286,894
Assumed conversion of preferred A shares	**98,214,992**	–
Weighted average number of shares (Diluted)	**601,104,972**	530,286,894

7. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2005, additions to property, plant and equipment amounted to RMB5,822,000 (six months ended 30 June 2004: RMB2,851,000) and disposals amounted to RMB3,260,000 (six months ended 30 June 2004: RMB9,315,000).

8. INVENTORIES

	As at 30 June 2005 RMB'000	As at 31 December 2004 RMB'000
Raw materials	**24,146**	26,684
Work-in-progress	**7,162**	4,183
Finished goods	**50,510**	38,284
	81,818	69,151
Components delivered to customers in respect of contracts not get completed at period end	**24,694**	44,487
	106,512	113,638

9. 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 based on invoice date at the respective balance sheet dates is as follows:

	As at 30 June 2005 RMB'000	As at 31 December 2004 RMB'000
0 to 90 days	**55,743**	37,356
91 to 180 days	**20,783**	16,029
181 to 365 days	**35,734**	16,869
Over 365 days	**38,865**	30,707
	151,125	100,961
Less: Provisions for doubtful debts	**(20,632)**	(16,879)
	130,493	84,082

10. DUE FROM RELATED COMPANIES

	As at 30 June 2005 RMB'000	As at 31 December 2004 RMB'000
Non-trade:		
Gulf Group	–	253
GST International Management Limited	–	900
	–	1,153

These are companies which are subject to control or significant influence by the ultimate shareholders of the Company. Amounts are unsecured, interest free and have no fixed repayment terms.

11. TRADE PAYABLES

	As at 30 June 2005 RMB'000	As at 31 December 2004 RMB'000
0 to 90 days	56,197	73,883
91 to 180 days	1,855	2,230
181 to 365 days	934	4,399
Over 365 days	2,264	2,202
	61,250	82,714

12. SHORT-TERM BANK LOANS

The short-term bank loans are unsecured (2004: except for RMB20,000,000 bank loans which loans were guaranteed by Gulf Group), repayable within one year with fixed interest rate of 5.22% per annum (2004: 4.79% to 5.31% per annum).

13. SHARE CAPITAL

	Authorised				
	Common shares of HK$0.1 each *(Note)*		Preferred A 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
Conversion of preferred A shares	186,240	20	(186,240)	(20)	–
Increase in authorised share capital	1,996,200,000	211,597	–	–	211,597
At 30 June 2005	2,000,000,000	212,000	–	–	212,000

	Issued				
	Common shares of HK$0.1 each *(Note)*		Preferred A 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 preferred A shares	186,240	20	(186,240)	(20)	–
Capitalization issue	598,868,537	63,480	–	–	63,480
Issues of shares	200,000,000	21,200	–	–	21,200
At 30 June 2005	800,000,000	84,800	–	–	84,800

Note: The common shares of HK$0.1 each in the share capital of the Company became one single class of ordinary shares following the conversion of the preferred A shares on 30 June 2005.

14. RESERVES

	Share premium	Merger reserve	General reserves	Retained earnings	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
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

15. CONTINGENT LIABILITIES

In 1997, a subsidiary of the Group, Gulf Security Technology Company Limited ("GST") 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 for 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 six months ended 30 June 2005.

16. COMMITMENTS

(a) Capital commitments

	As at 30 June 2005	As at 31 December 2004
	RMB'000	*RMB'000*
Property, plant and equipment	**1,054**	860

(b) Operating lease commitments

	As at 30 June 2005	As at 31 December 2004
	RMB'000	*RMB'000*
First year	**1,594**	937
Second to fifth year	**1,194**	1,418
After the fifth year	**942**	250
	3,730	2,605

17. 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:

		Six months ended 30 June	
		2005	2004
	Notes	***RMB'000***	*RMB'000*
Continuing:			
Sales to a jointly controlled entity	*(i)*	**12,703**	3,028
Repair cost paid to a related company	*(ii)*	**132**	45
Sales to a related company	*(iii)*	**200**	–
Rental paid to a related company	*(iv)*	**80**	–
Service fee paid to a related company	*(v)*	**455**	–
Discontinued:			
Sales of fixed assets to a related company	*(vi)*	**2,803**	–
Service fee paid to a related company	*(vii)*	**–**	1,731
Software design fee paid to a related company	*(viii)*	**–**	200
Interest income from a related company	*(ix)*	**–**	432

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 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 on normal commercial terms.

(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 on 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 sales service fee paid to Gulf Group was based on 2.2% of sales contracts concluded through Gulf Group.

(viii) Software design fee paid to Beijing Aertaike Software System Technology Company Limited, a subsidiary of Gulf Group, was at prices and terms mutually agreed by the parties.

(ix) Interest income was charged at 5.31% per annum on a loan of RMB20,000,000 advanced to Gulf Group which was repaid during 2004.