(Stock Code : 0416)

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GST Holdings Limited

海灣控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Interim Report 2007

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive Directors:
Song Jiacheng *(Chairman)*
Cao Yu
Peng Kaichen

Non-executive Directors:
Zeng Jun
Lee Kwan Hung, Eddie

Independent non-executive Directors:
Chang Tso Tung, Stephen
Chan Chi On, Derek
Sun Lun

AUDIT COMMITTEE

Chang Tso Tung, Stephen *(Chairman)*
Chan Chi On, Derek
Sun Lun

REMUNERATION COMMITTEE

Chan Chi On, Derek *(Chairman)*
Lee Kwan Hung, Eddie
Chang Tso Tung, Stephen

SENIOR MANAGEMENT

Ho Yui Pok, Terry
(Company Secretary and Qualified Accountant)
Liu Weihua

STOCK CODE

Hong Kong Stock Exchange 416

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Cayman Islands
British West Indies

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Services Limited
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PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
China Construction Bank
China Merchants Bank
The Hongkong and Shanghai Banking
Corporation Limited

AUDITORS

PricewaterhouseCoopers

LEGAL ADVISERS

As to Hong Kong law
Woo, Kwan, Lee & Lo

As to Cayman Islands law
Conyers Dill & Pearman

As to PRC Law
Commerce & Finance Law Offices

CONDENSED CONSOLIDATED INCOME STATEMENT

The board of directors (the "Board") of GST Holdings Ltd (the "Company") is pleased to present the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2007.

		Unaudited Six months ended 30 June	
	Notes	**2007 RMB'000**	2006 RMB'000
Turnover	*3*	**318,690**	279,071
Cost of goods sold		**(169,840)**	(138,290)
Gross profit		**148,850**	140,781
Other income	*5*	**22,986**	13,210
Distribution costs		**(39,460)**	(35,506)
Administrative and general expenses		**(49,324)**	(41,289)
Operating profit	*6*	**83,052**	77,196
Share of results of			
Jointly controlled entity		**1,736**	447
Associates		**(25)**	(276)
Profit before income tax		**84,763**	77,367
Income tax expenses	*7*	**(1,849)**	(5,650)
Profit for the period		**82,914**	71,717
Attributable to:			
Equity holders of the Company		**82,899**	71,717
Minority interests		**15**	–
		82,914	71,717
Earnings per share for profit attributable to equity holders of the Company	*8*		
– Basic (RMB cents)		**10.4 cents**	9.0 cents
– Diluted (RMB cents)		**N/A**	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	As at 30 June 2007 Unaudited RMB'000	As at 31 December 2006 Audited RMB'000
ASSETS			
Non–current assets			
Property, plant and equipment	*10*	**272,573**	182,495
Prepaid operating lease for land		**9,744**	9,856
Intangible assets		**17,747**	14,540
Investment in a jointly controlled entity		**1,532**	(204)
Investment in associates		**2,310**	2,335
Deferred income tax assets		**1,015**	1,474
		304,921	210,496
Current assets			
Inventories	*11*	**138,658**	118,478
Trade receivables	*12*	**188,369**	144,413
Other receivables, deposits and prepayments		**70,323**	33,485
Due from a jointly controlled entity	*13*	**28,046**	14,844
Available–for–sale financial assets		**50,000**	30,000
Restricted bank deposits		**13,807**	17,552
Cash and cash equivalents		**259,653**	492,333
		748,856	851,105
Total assets		**1,053,777**	1,061,601
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	*14*	**84,800**	84,800
Reserves	*15*	**820,274**	795,678
		905,074	880,478
Minority interests		**848**	833
Total equity		**905,922**	881,311
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		**–**	720
Current liabilities			
Trade payable	*16*	**77,602**	109,680
Other payables and accruals		**14,328**	16,347
Advance from customers		**34,684**	32,547
Advance from a related company	*17*	**1,165**	1,998
Tax payable		**20,076**	18,998
		147,855	179,570
Total liabilities		**147,855**	180,290
Total equity and liabilities		**1,053,777**	1,061,601
Net current assets		**601,001**	671,535
Total assets less current liabilities		**905,922**	882,031

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six months ended 30 June 2007

	Unaudited			
	Attributable to equity holders of the Company			
	Share capital	**Reserves**	**Minority interests**	**Total equity**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
At 1 January 2007	**84,800**	**795,678**	**833**	**881,311**
Profit for the period	**–**	**82,899**	**15**	**82,914**
Employee share options scheme – value of services provided	**–**	**337**	**–**	**337**
Total income recognised for the period	**–**	**83,236**	**15**	**83,251**
Dividend paid	**–**	**(58,640)**	**–**	**(58,640)**
At 30 June 2007	**84,800**	**820,274**	**848**	**905,922**

Six months ended 30 June 2006

	Unaudited			
	Attributable to equity holders of the Company			
	Share capital	Reserves	Minority interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2006	84,800	688,398	699	773,897
Currency translation differences – jointly controlled entity	–	(32)	–	(32)
Profit for the period	–	71,717	–	71,717
Total income recognised for the period	–	71,685	–	71,685
Dividend paid	–	(57,680)	–	(57,680)
At 30 June 2006	84,800	702,403	699	787,902

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited Six months ended 30 June	
	2007	2006
	RMB'000	RMB'000
Net cash (used in)/generated from operating activities	**(50,201)**	31,000
Net cash used in investing activities	**(127,584)**	(22,420)
Net cash used in financing activities	**(54,895)**	(57,680)
Net decrease in cash and cash equivalents	**(232,680)**	(49,100)
Cash and cash equivalents at beginning of the period	**492,333**	530,251
Cash and cash equivalents at end of the period	**259,653**	481,151

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 27 April 2004. The Company has its primary listing on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The principal activity of the Company is investment holding. The Group is 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 use.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements of the Group for the period ended 30 June 2007 (the "2007 Interim financial statements") have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting" issued by the International Accounting Standards Board ("IASB"). The financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and the disclosure provisions of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange. The 2007 interim financial statements should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2006 (the "2006 financial statements").

The 2007 interim financial statements include the financial information of the Group and the accounting policies adopted are consistent with those as described in the 2006 financial statements. In 2007, the Group adopted the following new standards and amendments to IAS and International Financial Reporting Standards ("IFRS"), as well as interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC-Int"):

– IAS 1 (Amendment) – Presentation of Financial Statements: Capital Disclosures, effective for annual periods beginning on or after 1 January 2007;

– IFRS 7 – Financial Instruments: Disclosures, effective for annual periods beginning on or after 1 January 2007;

– IFRIC-Int 7 – Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies, effective for annual periods beginning on or after 1 March 2006;

– IFRIC-Int 8 – Scope of IFRS 2, effective for annual periods beginning on or after 1 May 2006.

– IFRIC-Int 9 – Reassessment of Embedded Derivatives, effective for annual periods beginning on or after 1 June 2006; and

– IFRIC-Int 10 – Interim Financial Reporting and Impairment, effective for annual periods beginning on or after 1 November 2006.

Management has assessed the relevance of these new standards, interpretations and amendments with respect to the Group's operations and their impact on the Group's accounting policies. The adoption of these new IAS, IFRS and IFRIC-Int had no significant impact on the results or financial position of the Group.

3. TURNOVER

	Unaudited Six months ended 30 June	
	2007	2006
	RMB'000	RMB'000
Sale of goods		
Fire alarm systems	**223,394**	201,488
Fire alarm network systems	**6,698**	4,327
Video entry systems and building automation systems	**36,219**	18,114
Electric power meters	**9,316**	10,408
Provision of services		
Installation services	**43,063**	44,734
	318,690	279,071

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

Business segment

	Sale of goods				Provision of services		
	Fire alarm systems Unaudited RMB'000	Fire alarm network systems Unaudited RMB'000	Video entry systems and building automation systems Unaudited RMB'000	Electric power meters Unaudited RMB'000	Installation services Unaudited RMB'000	Corporate Unaudited RMB'000	Group Unaudited RMB'000
Six months ended 30 June 2007							
Turnover	**223,394**	**6,698**	**36,219**	**9,316**	**43,063**	**–**	**318,690**
Segment results	**71,052**	**3,811**	**8,702**	**(81)**	**2,308**	**(7,337)**	**78,455**
Interest income							**4,597**
Operating profit							**83,052**
Share of results of							
Jointly controlled entity	**1,736**	**–**	**–**	**–**	**–**	**–**	**1,736**
Associates	**–**	**(25)**	**–**	**–**	**–**	**–**	**(25)**
Profit before income tax							**84,763**
Income tax expenses							**(1,849)**
Profit for the period							**82,914**
Six months ended 30 June 2006							
Turnover	201,488	4,327	18,114	10,408	44,734	–	279,071
Segment results	70,309	1,806	2,715	944	3,282	(7,712)	71,344
Interest income							5,852
Operating profit							77,196
Share of results of							
Jointly controlled entity	447	–	–	–	–	–	447
Associates	–	(276)	–	–	–	–	(276)
Profit before income tax							77,367
Income tax expenses							(5,650)
Profit for the period							71,717

5. OTHER INCOME

	Unaudited Six months ended 30 June	
	2007	2006
	RMB'000	RMB'000
Value-added tax refund	**18,238**	7,269
Interest income	**4,597**	5,852
Sales of raw material, net of cost	**151**	89
	22,986	13,210

6. OPERATING PROFIT

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

	Unaudited Six months ended 30 June	
	2007	2006
	RMB'000	RMB'000
Charging:		
Staff costs (excluding directors' emoluments)	**43,530**	30,561
Research costs	**3,442**	5,887
Rental expenses	**1,822**	2,220
Development cost amortisation	**873**	248
Depreciation	**8,784**	5,712
Provision for doubtful debts	**2,765**	1,370
Loss on disposal of property, plant and equipment	**9**	–
Amortisation of prepaid operating lease for land	**112**	113
Net exchange loss	**3,045**	2,427
Auditors' remuneration	**492**	440
Crediting:		
Gain on disposal of property, plant and equipment	**(1)**	(115)
Interest income	**(4,597)**	(5,852)

The above items are included in cost of goods sold, distribution costs as well as administrative and general expenses.

7. INCOME TAX EXPENSES

	Unaudited Six months ended 30 June	
	2007	2006
	RMB'000	RMB'000
Current	**2,110**	5,650
Deferred	**(261)**	–
	1,849	5,650

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.

Effective since 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"), subsidiaries of the Group, have been 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 2007, the applicable PRC income tax rate for Gulf Meters is 24% (2006: 24%). GST and Gulf Network being registered in a designated development zone, the applicable PRC income tax rate for 2007 is 15% (2006: 15%).

In order to increase the productivity, GST constructed the 3rd phase of the factory (the "3rd Phase") which was completed for production since August 2006. According to relevant tax laws and regulations in the PRC, the additional investment of the 3rd Phase is exempt 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.

Beijing Gulf Wei'er Electrical Engineering Company Limited ("Beijing Gulf Engineering"), a subsidiary of the Group, is an advanced technology enterprise. According to relevant tax laws and regulations in the PRC, effective since the incorporation of Beijing Gulf Engineering in March 2004, Beijing Gulf Engineering has been exempted from taxation for the first three 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 of Beijing Gulf Engineering for 2007 is 15% (2006: 15%).

On 16 March 2007, the National People's Congress approved the *Corporate Income Tax Law of the People's Republic of China* (the "new CIT Law"). The new CIT Law increases the income tax rates for foreign invested enterprises from 15% or 24% to 25% with effect from 1 January 2008. The new CIT Law provides that further detailed measures and regulations on the determination of taxable profit, tax incentives and grandfathering provisions will be issued by the State Council in due course. As and when the State Council announces the additional regulations, the Company will assess their impact, if any, and this change in accounting estimate will be accounted for prospectively.

8. EARNINGS PER SHARE

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

	Unaudited Six months ended 30 June	
	2007	2006
Profit attributable to equity holders of the Company (RMB'000)	**82,899**	71,717
Weighted average number of ordinary shares in issue (thousands)	**800,000**	800,000
Basic earnings per share (RMB cents per share)	**10.4**	9.0
Diluted earnings per share (RMB cents per share)	**N/A**	N/A

For the six months ended 30 June 2007, the share options did not have a dilutive effect because the average market price of ordinary shares during the period did not exceed the exercise price of the options.

There was no dilutive potential ordinary share outstanding for the six months ended 30 June 2006.

9. DIVIDENDS

The Board does not recommend the payment of a dividend for the six months ended 30 June 2007 (six months ended 30 June 2006: Nil).

A final dividend of HK7.33 cents per share (approximately RMB7.33 cents) for the year ended 31 December 2006, amounted to a total dividend of HK$58,640,000 (approximately RMB58,640,000). It was approved at the annual general meeting of the Company on 18 May 2007 and was paid on 23 May 2007.

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2007, additions to property, plant and equipment amounted to RMB98,900,000 (year ended 31 December 2006: RMB70,625,000) and disposals amounted to RMB377,000 (year ended 31 December 2006: RMB9,349,000).

11. INVENTORIES

	As at 30 June 2007 Unaudited RMB'000	As at 31 December 2006 Audited RMB'000
Raw materials	**44,417**	33,715
Work–in–progress	**23,628**	18,014
Finished goods	**43,510**	41,482
	111,555	93,211
Components delivered to customers in respect of contracts not yet completed at period/year end	**27,103**	25,267
At cost, less provision for obsolete inventories	**138,658**	118,478

12. 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 is as follows:

	As at 30 June 2007 Unaudited RMB'000	As at 31 December 2006 Audited RMB'000
0 to 90 days	**98,308**	74,614
91 to 180 days	**20,944**	22,717
181 to 365 days	**42,943**	24,749
Over 365 days	**45,770**	39,300
	207,965	161,380
Less: Provision for doubtful debts	**(19,596)**	(16,967)
	188,369	144,413

The carrying amounts of the Group's trade receivables approximated its fair value as at 30 June 2007 because of the short maturities of these receivables.

13. DUE FROM A JOINTLY CONTROLLED ENTITY

	As at 30 June 2007 Unaudited RMB'000	As at 31 December 2006 Audited RMB'000
0 to 90 days	**19,625**	4,886
91 to 180 days	**3,807**	8,727
181 to 365 days	**3,391**	8
Over 365 days	**1,223**	1,223
	28,046	14,844

The balance is unsecured and interest–free.

14. SHARE CAPITAL

	Authorised	
	Common shares of HK$0.1 each	
	No. of shares	RMB'000
At 1 January 2006 and at 30 June 2006	2,000,000,000	212,000
At 1 January 2007 and at 30 June 2007	2,000,000,000	212,000

	Issued	
	Common shares of HK$0.1 each	
	No. of shares	RMB'000
At 1 January 2006 and at 30 June 2006	800,000,000	84,800
At 1 January 2007 and at 30 June 2007	800,000,000	84,800

15. RESERVES

	Unaudited					
	Share premium RMB'000	Merger reserves RMB'000	General reserves RMB'000	Exchange translation RMB'000	Retained earnings RMB'000	Total RMB'000
Six months ended 30 June 2007						
At 1 January 2007	**308,671**	**102,902**	**91,810**	**15**	**292,280**	**795,678**
Profit for the period	**–**	**–**	**–**	**–**	**82,899**	**82,899**
Employee share option scheme						
– value of service provided	**337**	**–**	**–**	**–**	**–**	**337**
Dividend paid	**(58,640)**	**–**	**–**	**–**	**–**	**(58,640)**
At 30 June 2007	**250,368**	**102,902**	**91,810**	**15**	**375,179**	**820,274**
Six months ended 30 June 2006						
At 1 January 2006	366,351	102,902	78,502	48	140,595	688,398
Profit for the period	–	–	–	–	71,717	71,717
Dividend paid	(57,680)	–	–	–	–	(57,680)
Currency translation differences						
– jointly controlled entity	–	–	–	(32)	–	(32)
At 30 June 2006	308,671	102,902	78,502	16	212,312	702,403

16. TRADE PAYABLES

	As at 30 June 2007 Unaudited RMB'000	As at 31 December 2006 Audited RMB'000
0 to 90 days	**65,704**	98,050
91 to 180 days	**6,418**	8,188
181 to 365 days	**3,684**	1,782
Over 365 days	**1,796**	1,660
	77,602	109,680

17. ADVANCE FROM A RELATED COMPANY

	As at 30 June 2007 Unaudited RMB'000	As at 31 December 2006 Audited RMB'000
Beijing Gulf Jingcheng Property Development Company Limited ("Beijing Gulf Property")	**1,165**	1,998

Beijing Gulf Property is a subsidiary of the 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 with regard to contracts not yet completed at the end of the respective period/year.

18. COMMITMENTS

(a) Capital commitments

	As at 30 June 2007 Unaudited RMB'000	As at 31 December 2006 Audited RMB'000
Buildings	**17,041**	81,696
Plant and machinery	**8,935**	16,966
	25,976	98,662

(b) Operating lease commitments for buildings

	As at 30 June 2007 Unaudited RMB'000	As at 31 December 2006 Audited RMB'000
First year	**3,674**	3,143
Second to fifth year	**1,640**	2,730
After the fifth year	**1,479**	1,479
	6,793	7,352

19. RELATED PARTY TRANSACTIONS

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

		Unaudited Six months ended 30 June	
	Notes	**2007 RMB'000**	2006 RMB'000
Sales to a jointly controlled entity	*(i)*	**19,839**	14,303
Repair cost paid to a related company	*(ii)*	**26**	79
Services rendered to a related company	*(iii)*	**1,599**	13,206
Rental paid to a related company	*(iv)*	**120**	120
Service fee paid to a related company	*(v)*	**–**	523
Acquisition of office premises	*(vi)*	**81,696**	–

Notes:

(i) Sales of finished goods to a jointly controlled entity, Global System Technology PLC, were conducted in the normal course of business at prices and terms mutually agreed on the parties involved.

(ii) Repair cost paid to Qinhuangdao Development Zone Junhui Car Repair and Decoration Company Limited, a subsidiary of Gulf Group, at prices and terms mutually agreed on 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 on 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 on the parties involved.

(vi) The consideration for the acquisition of office premises in Zhongguancun was determined according to the framework agreement dated 13 November 2006 signed between GST and Beijing Gulf Property with approval from independent shareholders of the Company by way of poll at the extraordinary general meeting held on 29 December 2006 and was paid to Beijing Gulf Property on 13 March 2007.

FINANCIAL RESULTS

The rising public awareness for fire prevention and safety, together with the implementation of more strict measures to regulate the public and industrial safety by the Chinese government, have stimulated a strong market demand for high quality and reliable fire alarm products and systems. Benefiting from the market demand and the government measures, GST Holdings Limited posed a strong growth in product sales and services revenue. For the six months ended 30 June 2007, the Group's turnover grew by 14.2% to approximately RMB318,690,000, compared with the same period of last year.

Despite the price competition strategy adopted by the fire alarm system industry in China, the Group's gross profit sustained a growth of 5.7% to approximately RMB148,850,000 during the period under review. Meanwhile, the overall gross margin dropped 3.7 percentage points to about 46.7%, which was attributed to the decline of selling price and expansion of other operations. However, gross margin of the Group's high growth operations recorded satisfactory growth. Profit attributable to equity holders of the Company increased by 15.6% to RMB82,899,000 as compared with the same period of last year.

MARKET REVIEW

In response to the intensified competition in China's fire alarm system industry, most manufacturers adopted price reduction as a sales strategy. Such moves led to price competition and decline in the average selling price. Nevertheless, the Group has successfully achieved the largest market share in China's fire alarm system market for a number of years. This was achieved through its provision of a diversified product range and excellent services, backed by a strong brand equity. In addition, the export market also brought development opportunities to the Group, where the latter offered high quality products and services at a competitive price.

Currently, China's security product market recorded an annual growth rate of over 20%, making the second largest security product market after the United States. The turnover of China security product market is expected to reach approximately US$25 billion by 2010. In recent years, the booming construction sector also laid a solid foundation for the steady development of the security product market. In addition, as the acceleration of the domestic security product industry development has been one of the highlights in the Central government's Eleventh Five-Year Plan, the Group foresees enormous potential in the industry. All these factors provided a favourable operating environment and development opportunities for the Group to prosper.

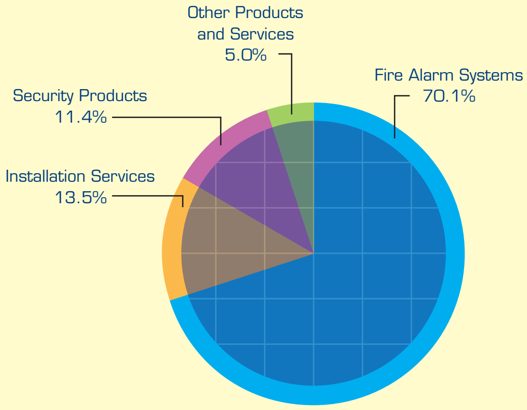
BUSINESS REVIEW

The Group mainly focused on the manufacturing and sales of fire alarm systems, supported by the expanding security product business. Such expansion approach contributed to the flourishing demand for product installation and maintenance services, which further broadened the Group's revenue base from the services business.

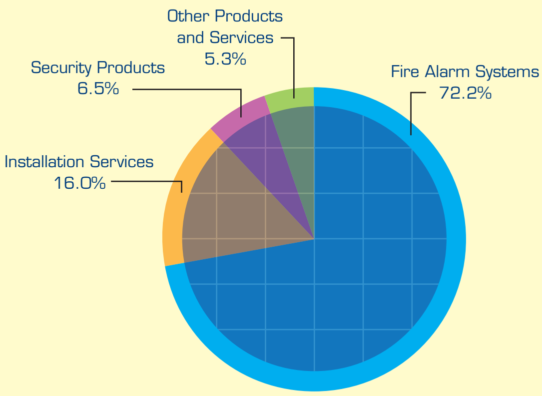
During the period under review, the amount of new contracts signed amounted to RMB507,900,000, representing a surge of 30.3% over the same period of last year. The outstanding contracts on hand reached RMB470,500,000, increased by 54.8% compared with the same period of last year. It is expected that the outstanding contracts on hand will gradually be completed and the income will be reflected in the second half of 2007 and the year 2008.

Turnover Analysis by Business Segments

	Six months ended 30 June		
	2007 RMB' million	2006 RMB' million	Change %
Fire alarm systems	**223.4**	201.5	+10.9
Installation services	**43.1**	44.7	-3.7
Security products	**36.2**	18.2	+100.0
Other products and services	**16.0**	14.7	+8.7
Total	**318.7**	279.1	+14.2



the First half of 2007 ("1H 2007")



the First half of 2006 ("1H 2006")

Fire alarm systems

The Group is well positioned as a dominant player in China's fire safety industry with market share increased to approximately 32% in fire alarm systems, whereas the second and third largest players, took less than half of the Group's market share. Its core business, fire alarm system operation, posed an increase in turnover by 10.9% to RMB223,394,000, which accounted for 70.1% of the total turnover. In the first six months of 2007, the Group increased its number of offices to 120, broadening its nationwide sales network of fire alarm systems. Its brand equity and awareness are further enhanced.

During the first half of 2007, the Group's gross profit margin in the fire alarm systems was 50.9% (IH 2006: 54.7%), which was mainly due to the decline in the average selling price. However, the Group strived to shift its customer mix to higher margin customers such as industrial and public facilities clients (gross margin of 53.0%) and overseas clients (gross margin of 57.0%) from the residential and commercial clients (gross margin of 49.1%). In particular, the sales growth in the industrial and public facilities sector and the export market is approximately 18.8% and 31.7%, respectively. This has significantly enhanced the overall profitability of the fire alarm system business.

To become a comprehensive fire safety system provider, the Group has been developing the fire extinguisher system business. It has also successfully developed the "GST" fire extinguisher system to diversify its product range and explore new sources of income. The successful certification inspection and testing of certain products enabled the Group to introduce such new products to the market in the near future.

Turnover Analysis of Fire Alarm Systems by Customer Types

Customer Types	**First half of 2007 Turnover of Fire Alarm Systems RMB'million (%)**	First half of 2006 Turnover of Fire Alarm Systems RMB'million (%)
Residential and commercial	**143.2 (64.1%)**	135.9 (67.4%)
Industrial and public facilities	**57.1 (25.6%)**	48.1 (23.9%)
Export	**23.1 (10.3%)**	17.5 (8.7%)
Total	**223.4 (100%)**	201.5 (100%)

Industrial and Public Facilities Sector

During the period under review, turnover of the Group's fire alarm system in industrial and public facilities sector continues to achieve a double digit growth of 18.8% over the same period of last year, reaching approximately RMB 57,100,000. This accounted for 25.6% of the turnover of fire alarm system as compared with 23.9% for the same period of 2006. During the period under review, the Group has leveraged on its diversified quality products and professional services, to serve customers from various industries. Such industries cover communications, electricity, iron and steel, petrochemical, hospitals, banks, public institutions, airports and transit railway. Projects completed include Hubei China Mobile Station (湖北移動通信基站), Anhui Power Station (安徽華電), Hubei Wuhan Iron & Steel (Group) Corp (湖北武鋼), Liaoning Dalian Petrochemical (遼寧大連石油廠), Tianjian Hospital (天津醫院), Beijing Hyundai Motor Company (北京現代汽車廠) and the power supply room of Beijing Olympics Centre (北京奧體中心配電室) etc. The industrial and public facilities sector's percentage of sales in the total turnover has been increased, together with its profit margin. The Group believed that the growth of this sector will stimulate the growth of product installation and maintenance service, forming a strong source of growth.

Export Market

Apart from the fast growing China market, the Group also has its eye on the international arena. It has been actively expanding into the overseas market. Backed by its advanced technology and high quality products at a relatively low cost, the Group's products enjoy a remarkable competitive edge in the overseas market. It also gained the trademark registration in 87 countries and regions around the world. The export market thus became the driving force of business growth. During the period under review, the international sales network of the Group covered over 50 regions in Asia, Middle-east and Europe and successfully expanded into emerging markets, such as Chile, Paraguay, Nicaragua, Sri Lanka and Hong Kong.

The Group has endeavoured to gain broader worldwide recognition for its GST® brand. The Group's high quality fire alarm systems were certified and accredited by a number of international institutions. During the period under review, impressive growth was seen in both sales and the gross profit margin generated by exported products. In the first half of 2007, export sales surged by 31.7% to RMB23,100,000, which accounted for 10.3% of fire alarm systems income in comparison with 8.7% in the same period of 2006.

Installation Services

During the period under review, turnover from installation services reached RMB43,100,000, which was slightly dropped by 3.7% (first half of 2006: RMB44,700,000). Despite the slight decline, the Group considered its performance satisfactory as almost one third of last year's turnover, approximately RMB13,200,000, was derived from related party transactions. Excluding the related party transaction income, the income derived from third parties transactions in the first half of 2007 surged by 31.5%. The Group's market share of installation services business significantly improved, with its gross profit margin growing from 26.7% to 28.1%. The strong growth gives the Group much confidence on its future development. During the period under review, the outstanding contracts on hand increased by 1.2 times to RMB167,900,000. It is anticipated that the income contribution gained upon the execution of the outstanding contracts in the year will be reflected in the second half of 2007 and the year 2008.

Supported by its superior product performance and comprehensive after-sales services, together with its strong capability and excellent project management experience, the Group is capable of providing its customers with a one-stop service for fire alarm systems and solutions. The Group completed a number of projects in cities across China, including, Beijing Technology University (北京科技大學), Guangdong Huizhou Oil Refinery Factory (廣東惠州煉油廠), Xinjiang Du Shan Zi Petrochemical Coal Transportation System (新疆獨山子石化輸媒系統), Shanxi Electric Power Factory (山西鋁運城熱電廠) and Jilin Electric Power Factory (吉林二道江發電廠) etc.

Security Products

The "GST" brand has been recognized as the No. 1 brand in China's fire safety industry and supported by its nationwide sales network, the Group has a strong growth potential in distribution of security products. The security product business enjoys greater advantage under the encouraging policies of "Eleventh Five-Year Plan". As the domestic economy grew rapidly, the high-end security products manufactured in China has gradually substituted the imported products. Coupled with initiatives such as Safety City Construction, the upcoming 2008 Beijing Olympics and 2010 Shanghai World Expo, enormous opportunities arose in the security product market. The Group is poised to capture the market opportunities and maximize its market share. For the six months ended 30 June 2007, turnover of security products doubled, reaching RMB36,200,000, while gross margin increased by 3.3 percentage points to 38.5%.

Other Products and Services

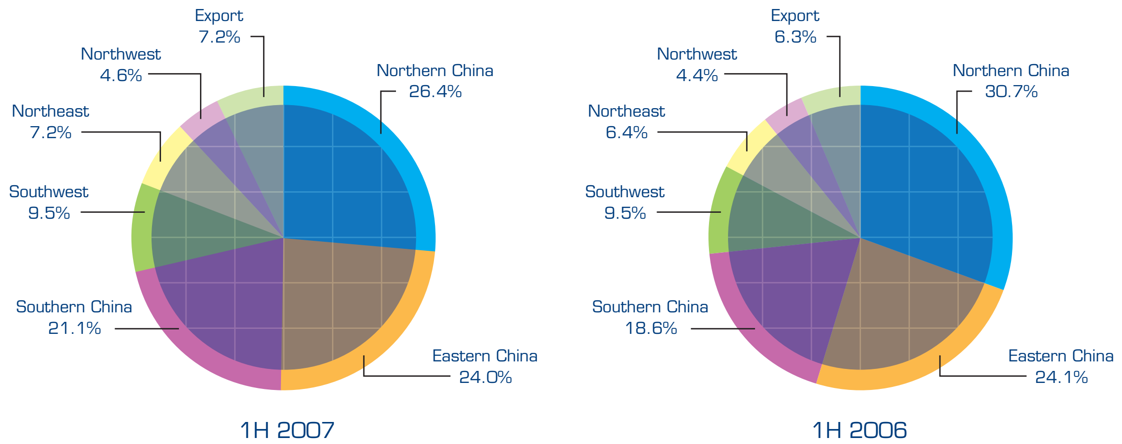
Other products and services mainly include the "119 fire network system" and electric power meter. Sales of "119 fire network system" increased by 54.8% to RMB6,698,000 (1H 2006: RMB4,327,000) which was mainly attributable to the establishment of 10 additional network control centres scattered in Wuhu, Yicheng, Jilin and Zhuhai, etc. Sales of electric power meters amounted to RMB 9,316,000, posting a slight decline of 10.5% as compared with the same period of last year.

Nationwide Sales Network

As the market leader in fire alarm system and related engineering services, one of the Group's strongest competitive advantages lies in its extensive sales network. During the period under review, the Group has a total of 120 offices nationwide, far ahead of its competitors. The Group provides comprehensive services to, and maintains close connection with, customers across different regions. Such an extensive sales and distribution network coverage creates an opportunity for the Group to expand its existing market share, which extends to business with high gross margins as well as established international partnerships. The management believes such an international partnership will not only create fruitful results for its business in China, but will also contribute to its expansion in the export markets.

Geographical Coverage of Representative Offices in China

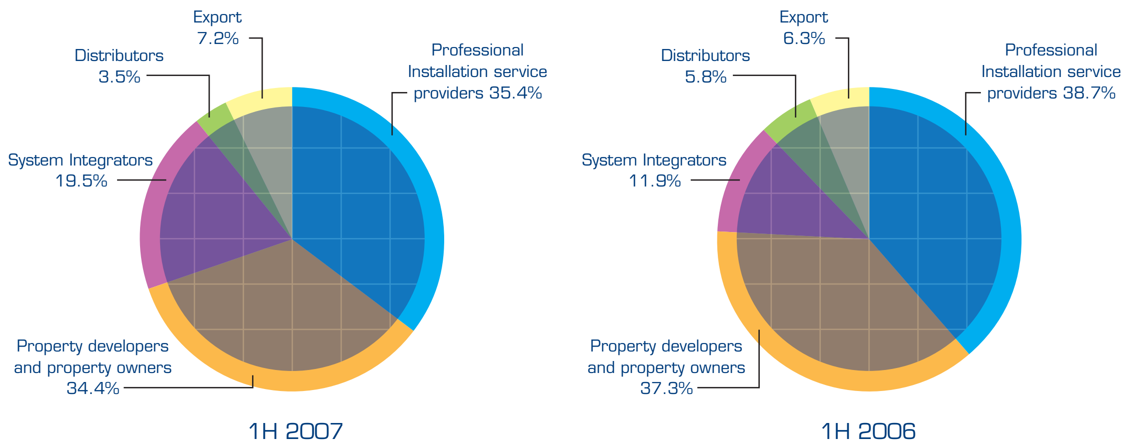
Turnover Analysis by Geographical Presence



Sales Channels

During the period under review, a stable performance was recorded as professional installation service providers remained as the major sales channel for the Group.

Turnover Analysis by Sales Channels



Operating Cost, Other income and Taxation

During the period under review, the percentage of the Group's overall operating costs to the turnover has slightly increased by 0.4 percentage points. The Group continued to implement stringent operating cost control. As at 30 June 2007, distribution costs as well as administrative and general expenses amounted to approximately RMB39,460,000 and RMB49,324,000, which accounted for 12.4% and 15.5% of the turnover respectively.

Other income mainly included value-added tax refund and interest income received by the Group. As some products were granted with refund again after approval by tax bureau, value-added tax refund increased in the period.

Upon the commencement of operation of the 3rd phase of the factory of GST, the products of this additional investment are exempt from taxation for the first two profitable years and a 50% relief for the next three years. As a result, tax provisions for the period was approximately RMB1,849,000 (1H 2006: RMB5,650,000), lower than the same period of last year.

FUTURE PROSPECT

While China's fire alarm systems market offers a strong growth potential, it is also characterized by intensifying competition. It is anticipated that the average selling price of fire alarm systems will continue to decline. Some smaller players are expected to be phased out due to diminishing profit margins caused by price wars, resulting in improved industry standards and a rational competition which will further strengthen the Group's leading position. Looking forward, the Group will focus on the development of fire safety products, installation service and security products. Fire extinguisher systems and security product business will be our new growth drivers.

Major growth of the Group will come from the following areas:

Development of a higher margin customer mix and the launch of fire extinguisher systems

In view of the enormous market growth potential, the Group plans to develop new products and expand customer base, particularly those from industrial and public facilities and export sectors which generate higher profit margins. Currently, the fire alarm system market outside China accounted for 90% of total turnover of the global market. This provides a huge development potential for competent manufacturers. The Group's strong research and development capability and competitively priced high quality products put it in a leading position to expand its export market. It aims at further increasing the sales from industrial and public facilities and export sectors. Meanwhile, the Group will manufacture and distribute its new product, fire extinguisher systems, in order to diversify the product portfolio, further expand its market presence and explore revenue sources. Such development moves will enable the Group to become China's one-stop solution provider of the comprehensive fire systems. Certain fire extinguisher systems have already passed the certification inspection and testing. They are expected to be introduced to the market gradually in the second half of 2007.

Rising Demand for installation and maintenance engineering services

With the Group's absolute advantage in China's market, management strongly believes that its installation and maintenance engineering service business will have a promising future. The Group plans to set up maintenance service centres in about 20 cities across China. This will not only broaden the Group's revenue base from the service industry, but also assist the Group in transforming to an integrated solution provider of fire systems, where both of its products and services are of superb quality. In addition, the Group will also place more resources to expanding its installation service team and enhancing its quality, with an aim to significantly increase the sales contribution to the overall turnover from engineering services.

Expansion into Security Product Arena

Leverage on the Group's extensive sales network in China, the Group is expanding its business scope into security product industry. More efforts will be placed on the production of new security products to serve the high growth demand in this sector.

Distribution Network Expansion

In order to maintain the economies of scale and to secure its market leading position, the Group will further increase the coverage of its sales and distribution network. The Group also targets to add 10 sales offices in the second half of 2007. We are committed to expanding our geographical presence through a strong growth in the penetration rate and cost saving.

Actively Seeking merger and acquisition opportunities

As the Group possesses sufficient funds, it will seek merger and acquisition opportunities for suitable enterprises in the fire and security industry, so as to expand its business and increase its returns.

Conclusion

The Group is determined to become China's one-stop solution provider of fire systems and security systems as well as comprehensive after-sales service. Management believes the Group will realize its powerful expansion plan based on the achievements in the past few years. Strengthening its leading position, the Group will also explore high potential markets to achieve faster business growth. It is expected that the Group will benefit from the opportunities offered by the high-end fire safety and security product market in China, while maximizing returns for its shareholders.

WORKING CAPITAL, FINANCIAL RESOURCES AND BANK LOANS

For the six months ended 30 June 2007, the Group recorded operating cash outflow of approximately RMB50,201,000, (1H 2006: cash inflow RMB31,000,000) which is mainly related to increase of inventory. Cash used in investment activities amounted to approximately RMB127,584,000 (1H 2006: RMB22,420,000), which was mainly for the purchase of office premises and plant and machinery. Cash used in financing activities amounted to approximately RMB54,895,000 (1H 2006: RMB57,680,000) which was mainly for payout of the 2006 final dividend.

The Group did not have any short-term or long-term bank loan at 30 June 2007 (31 December 2006: Nil). As such, the gearing ratio (being total debt divided by total shareholders equity) was zero at 30 June 2007 (31 December 2006: zero).

USE OF PROCEEDS FROM LISTING

The net proceeds from the Company's initial public offering on 30 June 2005 amounted to approximately RMB334,000,000, which will be applied for the following purposes as set forth in the Company's prospectus:

– Approximately RMB285,000,000 for constructing, expanding and upgrading the Group's manufacturing and related auxiliary facilities; and

– Approximately RMB49,000,000 for expanding and improving the Group's sales and distribution networks.

As at 30 June 2007, approximately RMB197,588,000 from the listing proceeds was used in the following manner:

– Approximately RMB173,054,000 for constructing, expanding and upgrading the Group's manufacturing and related auxiliary facilities; and

– Approximately RMB24,534,000 for expanding and improving the Group's sales and distribution network.

FOREIGN CURRENCY EXPOSURES AND TREASURY POLICY

We are exposed to a risk of the exchange rate change between the United States dollar and Renminbi. In principle, more than 95% of our sales and raw material purchasing amounts are denominated in Renminbi. However, the purchases of raw materials by our suppliers are usually transacted in United States dollar. Given the appreciation of the Renminbi against the United States dollar announced in July 2005, favorable impacts are expected to be bought to the Group's future financial performance in terms of reducing raw material costs. The Group's bank deposits are predominately in Renminbi, Hong Kong dollar and United States dollar. The Directors are of the opinion that the appreciation of Renminbi may not cause any significant adverse effects on the financial position of the Group's operation. However, a foreign exchange loss of approximately RMB3,045,000 (1H 2006: RMB2,427,000) was reflected in our financial statements given that the proceeds from the listing were denominated in Hong Kong dollar while the Group's functional currency was Renminbi.

It is the Group's treasury policy to manage its foreign currency exposure whenever its financial impact is material to the Group. The Group will continue to monitor its foreign exchange position and, if necessary, will appropriately hedge its foreign currency exposure. For the six months ended 30 June 2007, the Company did not use any financial instruments or enter into any contract in order to hedge against its foreign currency exchange risk.

HUMAN RESOURCES

As at 30 June 2007, the Group's total number of employees was 2,997, representing a 23.9% growth in the number of employees 2,418 as at 31 December 2006. The Group values its human resources and attempts to attract and retain competent personnel. Remuneration packages are structured with regard to individual employee's qualification and the prevailing market conditions. The Company also currently provides sufficient training and continuing professional development opportunities to its staff. The Company has set up a remuneration committee for the purpose of reviewing the remuneration packages of the executive Directors of the Company and senior management. The committee is composed of two independent non-executive Directors and one non–executive Director with Mr. Chan Chi On, Derek, an independent non-executive Director, as the chairman.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

As at 30 June 2007, the interests and/or short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions of which they were taken or deemed to have taken under such provisions of the SFO), and/or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Beneficial interests in the shares of associated corporations

Name of associated corporation	Name of Director	Number of ordinary shares held in the associated corporation	Approximate shareholding percentage
GST International Management Limited	Song Jiacheng	269,276 ordinary shares	26.93%
GST International Management Limited	Zeng Jun	231,366 ordinary shares	23.14%
GST International Management Limited	Cao Yu	157,781 ordinary shares	15.78%
GST International Management Limited	Peng Kaichen	157,781 ordinary shares	15.78%

Share options granted to Directors

On 23 May 2007, the Company granted share options to all Directors under the share option scheme (the "Share Option Scheme") that was adopted on 7 June 2005 conditionally and became unconditional on 30 June 2005. Details of the share options granted to Directors as at 30 June 2007 are set out in the heading "Share Option Scheme" under Management Discussion and Analysis.

Save as disclosed above, neither the Directors nor the chief executive of the Company, nor any of their associates, had interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporation as at 30 June 2007.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2007, the following shareholder, not being a Director or chief executive of the Company, had an interest and/or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name of shareholder	Nature of interest	Capacity	Number of Shares	Approximate shareholding percentage
GST International Management Limited	Corporate interest	Registered and beneficial owner	427,479,369 (L)	53.43%
United Technologies Corporation ("UTC") *(Note 1)*	Corporate interest	Interest in controlled corporation	150,564,631 (L)	18.82%
Otis Elevator Company ("Otis") *(Note 1)*	Corporate interest	Interest of controlled corporation	148,580,631 (L)	18.57%
Carrier Corporation ("Carrier") *(Note 1)*	Corporate interest	Interest of controlled corporation	148,580,631 (L)	18.57%
United Technologies Far East Limited ("UTFE") *(Note 1)*	Corporate interest	Interest of controlled corporation	148,580,631 (L)	18.57%
JPMorgan Chase & Co. ("JPMorgan Chase") *(Note 2)*	Corporate interest	Interest of controlled corporation	64,149,000 (L)	8.02%

(L) Indicates a long position.

Note:

1. As at 30 June 2007, UTC holds 100% of the equity interests in each of Otis and Carrier. Otis and Carrier hold an aggregate of 100% equity interests in UTFE, which owns 148,580,631 shares. In addition, UTC owns 1,984,000 shares through another wholly-owned subsidiary.

2. JF Asset Management Limited ("JFAM"), a shareholder of the Company, is a company incorporated in Hong Kong and beneficially owns 30,986,000 shares, representing approximately 3.87% of the issued share capital of the Company. JFAM is a wholly-owned subsidiary of JPMorgan Asset Management (Asia) Inc. ("JPAM Asia"), which is a company incorporated in Delaware. JPAM Asia is a wholly-owned subsidiary of JPMorgan Asset Management Holding Inc. ("JPAM Holdings"), which is a company incorporated in Delaware. Accordingly, by virtue of the SFO, JPAM Asia and JPAM Holdings were deemed to have interest in the 30,986,000 shares beneficially owned by JFAM.

J.P. Morgan Investment Management Inc. ("JPIM"), a shareholder of the Company, is a company incorporated in United States and beneficially owns 15,334,000 shares, representing approximately 1.92% of the issued share capital of the Company. JFIM is a wholly–owned subsidiary of JPAM Holdings. Accordingly, by virtue of the SFO, JPAM Holdings were deemed to have interest in the 15,334,000 shares beneficially owned by JFIM.

JPMorgan Chase Bank, N.A. ("JPMCB"), which is a shareholder of the Company, is a company incorporated in United States and beneficially owns 17,829,000 shares representing approximately 2.23% of the issued share capital of the Company.

JPAM Holdings and JPMCB are both wholly–owned subsidiary of JPMorgan Chase, which is a company incorporated in Delaware. The capacities of JPMorgan Chase in holding the 64,149,000 shares were, as to 46,320,000 shares as investment manager and as to 17,829,000 shares in the lending pool as custodian corporation.

Save as disclosed above, no other interests or short positions in the shares or underlying shares of the Company were recorded in the register maintained under Section 336 of the SFO as at 30 June 2007.

SHARE OPTION SCHEME

The purpose of the Share Option Scheme is to provide incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Share Option Scheme include any employees, directors, substantial shareholders or any of their respective associates of the Company and/or any of its subsidiaries or associated companies.

As at 30 June 2007, share options had been granted under the Share Option Scheme and the following table discloses the movement of the Company's share options during the six months ended 30 June 2007:

				Number of share options			
	Date of grant	Exercisable period	Exercise price per share *HK$*	Balance as at 1 January 2007	Granted during the period	Lapsed upon resignation	Balance as at 30 June 2007
Category 1: *Directors*							
Song Jiacheng	23 May 2007	23 May 2008 – 22 May 2017	2.80	–	250,000	–	250,000
Song Jiacheng	23 May 2007	23 May 2009 – 22 May 2017	2.80	–	250,000	–	250,000
Song Jiacheng	23 May 2007	23 May 2010 – 22 May 2017	2.80	–	250,000	–	250,000
Cao Yu	23 May 2007	23 May 2008 – 22 May 2017	2.80	–	200,000	–	200,000
Cao Yu	23 May 2007	23 May 2009 – 22 May 2017	2.80	–	200,000	–	200,000
Cao Yu	23 May 2007	23 May 2010 – 22 May 2017	2.80	–	200,000	–	200,000

	Date of grant	Exercisable period	Exercise price per share HK$	Number of share options: Balance as at 1 January 2007	Granted during the period	Lapsed upon resignation	Balance as at 30 June 2007
Category 1:							
Directors							
Peng Kai Chen	23 May 2007	23 May 2008 – 22 May 2017	2.80	–	150,000	–	150,000
Peng Kai Chen	23 May 2007	23 May 2009 – 22 May 2017	2.80	–	150,000	–	150,000
Peng Kaichen	23 May 2007	23 May 2010 – 22 May 2017	2.80	–	150,000	–	150,000
Zeng Jun	23 May 2007	23 May 2008 – 22 May 2017	2.80	–	150,000	–	150,000
Zeng Jun	23 May 2007	23 May 2009 – 22 May 2017	2.80	–	150,000	–	150,000
Zeng Jun	23 May 2007	23 May 2010 – 22 May 2017	2.80	–	150,000	–	150,000
Lee Kwan Hung, Eddie	23 May 2007	23 May 2008 – 22 May 2017	2.80	–	150,000	–	150,000
Lee Kwan Hung, Eddie	23 May 2007	23 May 2009 – 22 May 2017	2.80	–	150,000	–	150,000
Lee Kwan Hung, Eddie	23 May 2007	23 May 2010 – 22 May 2017	2.80	–	150,000	–	150,000
Chang Tso Tung, Stephen	23 May 2007	23 May 2008 – 22 May 2017	2.80	–	150,000	–	150,000
Chang Tso Tung, Stephen	23 May 2007	23 May 2009 – 22 May 2017	2.80	–	150,000	–	150,000
Chang Tso Tung, Stephen	23 May 2007	23 May 2010 – 22 May 2017	2.80	–	150,000	–	150,000
Chan Chi On, Derek	23 May 2007	23 May 2008 – 22 May 2017	2.80	–	150,000	–	150,000
Chan Chi On, Derek	23 May 2007	23 May 2009 – 22 May 2017	2.80	–	150,000	–	150,000
Chan Chi On, Derek	23 May 2007	23 May 2010 – 22 May 2017	2.80	–	150,000	–	150,000
Sun Lun	23 May 2007	23 May 2008 – 22 May 2017	2.80	–	150,000	–	150,000
Sun Lun	23 May 2007	23 May 2009 – 22 May 2017	2.80	–	150,000	–	150,000
Sun Lun	23 May 2007	23 May 2010 – 22 May 2017	2.80	–	150,000	–	150,000
				–	4,050,000	–	4,050,000

	Date of grant	Exercisable period	Exercise price per share	Number of share options: Balance as at 1 January 2007	Granted during the period	Lapsed upon resignation	Balance as at 30 June 2007
			HK$				
Category 2:							
Employees	23 May 2007	23 May 2008 – 22 May 2017	2.80	–	300,000	–	300,000
Employees	23 May 2007	23 May 2009 – 22 May 2017	2.80	–	300,000	–	300,000
Employees	23 May 2007	23 May 2010 – 22 May 2017	2.80	–	300,000	–	300,000
				–	900,000	–	900,000
				–	4,950,000	–	4,950,000

The closing price of the Company's share on 22 May 2007, the date immediately before the date of grant of the share options (23 May 2007), was HK$2.80 per share.

The fair value of the 4,950,000 share options granted determined by a third party was approximately HK$3,560,733 (approximately RMB3,482,397) and HK$344,364 (approximately RMB336,788) of the fair value of the share options granted was recognized for the six months ended 30 June 2007 (1H2006: Nil). The following significant assumptions were used to derive the fair value using the Black-Scholes option pricing model:

Expected life of options	2-4 years
Expected volatility based on historical volatility of share price	34%
Expected annual dividend yield	2.61%
Risk Free Interest rate	4.002% – 4.099%

Due to the subjectivity and uncertainty of the values of options, such values are subject to a number of assumptions and with regard to the limitation of the model.

PURCHASES, SALE AND REDEMPTION OF THE SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares for the six months ended 30 June 2007. As at 30 June 2007, 800,000,000 shares were in issue.

No share options granted has been exercised for the six months ended 30 June 2007.

COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE PRACTICES AND THE MODEL CODE

None of the Directors is aware of any information which would reasonably indicate that the Company is not, or was not, in compliance with the Code of Corporate Governance Practices as set out in Appendix 14 to the Listing Rules for the six months ended 30 June 2007 except that both the roles of chairman and chief executive officer of the Company are performed by Mr Song Jiacheng ("Mr Song"), which constitutes a deviation from the Code Provision A.2.1 which stipulates that the chairman and chief executive officer should be separate and should not be performed by the same individual. However, due to the fact that Mr Song is a founder of the business of the Group and possesses substantial experience that is valuable to the Group's operations, the Board of Directors considered that it is in the best interests of the Company and its shareholders currently to have Mr Song to serve these roles. The Company therefore does not currently intend to separate Mr Song's roles as the chairman and the chief executive officer.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules for securities transactions by Directors. Having made specific enquiry of all Directors, all Directors have complied with the required standard set out in the Model Code regarding securities transactions by Directors for the six months ended 30 June 2007.

AUDIT COMMITTEE

The Company has established an audit committee in accordance with the requirements of the Code of Corporate Governance Practice. The audit committee comprises three independent non–executive Directors, including Mr Chang Tso Tung, Stephen, Mr Chan Chi On, Derek and Mr Sun Lun. Mr Chang Tso Tung, Stephen is the chairman of the audit committee. The rights and duties of the audit committee comply with the Model Code provisions. The audit committee is responsible for reviewing and supervising the Group's financial reporting process and internal control system and providing advice and recommendations to the Board.

The 2007 interim financial statements have been reviewed by the audit committee and the Company's auditor in accordance with Hong Kong Standards on Review Engagements ("HKSRE") 2410 issued by Hong Kong Institute of Certified Public Accountants.

REMUNERATION COMMITTEE

The Company has established a remuneration committee which comprises two independent non-executive Directors and one non-executive Director, including Mr. Chan Chi On, Derek, Mr Chang Tso Tung, Stephen and Mr. Lee Kwan Hung, Eddie. Mr. Chan Chi On, Derek is the chairman of the remuneration committee. The remuneration committee has rights and duties consistent with those set out in the provisions of the Model Code. The remuneration committee is principally responsible for formulating the Group's policy and structure for all remuneration of the Directors and senior management and providing advice and recommendations to the Board.

By order of the Board
Song Jiacheng
Chairman

Hong Kong, 31 August 2007