

IMPORTANT

If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.



海灣控股有限公司

GST HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

GLOBAL OFFERING

**Number of Offer Shares under the : 200,000,000 Shares (subject to adjustment
Global Offering and the Over-allotment Option)**
**Number of Hong Kong Offer Shares : 20,000,000 Shares
(subject to adjustment)**
**Number of International Offering Shares : 180,000,000 Shares (subject to
reallocation and the Over-allotment
Option)**
**Maximum Offer Price : HK\$2.06 per Offer Share (payable in full
on application in Hong Kong dollars,
subject to refund on final pricing), plus
brokerage of 1%, a SFC transaction
levy of 0.005%, an investor
compensation levy of 0.002% and a
Stock Exchange trading fee of 0.005%**
Par value : HK\$0.10 per Share
Stock code : 416

Global Co-ordinator, Bookrunner and Sponsor

Morgan Stanley

Joint Lead Managers

Morgan Stanley



The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the paragraph headed "Documents delivered to the Registrar of Companies in Hong Kong" in Appendix VII to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Hong Kong Companies Ordinance, Chapter 32 of the Laws of Hong Kong. The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any other documents referred to above.

The Offer Price is expected to be determined by agreement between the Company and the Global Co-ordinator (on behalf of the Underwriters) on the Price Determination Date which is expected to be on or around Friday, 24 June, 2005, but, in any event no later than Sunday, 26 June, 2005 (Hong Kong time). The Offer Price will be not more than HK\$2.06 per Offer Share and is expected to be not less than HK\$1.69 per Offer Share. Applicants for the Offer Shares are required to pay, on application, the maximum offer price of HK\$2.06 for each Hong Kong Offer Share together with 1% brokerage, 0.005% SFC transaction levy, 0.002% investor compensation levy and 0.005% Stock Exchange trading fee subject to refund if the Offer Price as finally determined should be lower than HK\$2.06. The Global Co-ordinator (on behalf of the Underwriters) may, with the consent of the Company, reduce the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, a notice of the reduction of the number of Offer Shares and/or the indicative Offer Price range will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. If applications for Hong Kong Offer Shares have been submitted prior to the day which is the last day for lodging applications under the Hong Kong Public Offering, then even if the number of Offer Shares and/or the Offer Price is so reduced, such applications cannot subsequently be withdrawn. If, for any reason, the Offer Price is not agreed between the Company and the Global Co-ordinator (on behalf of the Underwriters) on or before Sunday, 26 June, 2005, the Global Offering will not become unconditional and will lapse.

Pursuant to the force majeure provisions contained in the Underwriting Agreements in respect of the Offer Shares, the Global Co-ordinator, on behalf of the Underwriters, has the right in certain circumstances, in the sole discretion of the Global Co-ordinator, to terminate the obligations of the Underwriters pursuant to the Underwriting Agreements at any time prior to 8:00 a.m. (Hong Kong time) on the date when dealings in the Shares first commence on the Stock Exchange (such first dealing date is currently expected to be Thursday, 30 June, 2005). Further details of the terms of the force majeure provisions are set out in the section headed "Underwriting — Grounds for termination" in this prospectus.

The Offer Shares have not been and will not be registered under the U.S. Securities Act and may not be offered, sold, pledged or transferred within the United States or to, or for the account or benefit of US persons, except that Offer Shares may be offered, sold or delivered to QIBs in reliance on an exemption from registration under the U.S. Securities Act provided by, and in accordance with the restrictions of, Rule 144A or outside the United States in accordance with Rule 903 or Rule 904 of Regulation S.

20 June, 2005

EXPECTED TIMETABLE

The Company will issue an announcement in Hong Kong to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) if there is any change in the following expected timetable of the Hong Kong Public Offering.

Date⁽¹⁾

Application lists of the Hong Kong Public

Offering open⁽²⁾ 11:45 a.m. on Thursday, 23 June, 2005

Latest time for lodging **WHITE**

and **YELLOW** Application Forms 12:00 noon on Thursday, 23 June, 2005

Latest time to give **electronic application**

instructions to HKSCC^(2 and 3) 12:00 noon on Thursday, 23 June, 2005

Application lists of the Hong Kong

Public Offering close⁽²⁾ 12:00 noon on Thursday, 23 June, 2005

Expected Price Determination Date⁽⁴⁾ Friday, 24 June, 2005

Announcement of the Offer Price and the indication

of the levels of interest in the International Offering and the results

and the basis of allotment of the Hong Kong Offer Shares

(with successful applicants' identification document numbers, where appropriate)

to be published in the South China Morning Post

(in English) and the Hong Kong Economic Times

(in Chinese) on Wednesday, 29 June, 2005

Despatch of share certificates and refund cheques in respect of

wholly or partially unsuccessful applications pursuant

to the Hong Kong Public Offering on^(5 and 6) Wednesday, 29 June, 2005

Dealings in Shares on the Stock Exchange to

commence on Thursday, 30 June, 2005

Notes:

- (1) All times refer to Hong Kong local time. Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering" in this prospectus.
- (2) If there is a "black" rainstorm warning or a tropical cyclone warning signal number eight or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, 23 June, 2005, the application lists will not open on that day. Further information is set out in the section headed "How to Apply for the Hong Kong Offer Shares — Effect of bad weather on the opening of the application lists" in this prospectus.
- (3) Applicants who apply by giving electronic application instructions to HKSCC should refer to the section headed "How to Apply for the Hong Kong Offer Shares — Applying by giving **electronic application instructions** to HKSCC" in this prospectus.
- (4) The Price Determination Date is expected to be on or about Friday, 24 June, 2005, and in any event no later than Sunday, 26 June, 2005. If, for any reason, the Offer Price is not agreed on or before Sunday, 26 June, 2005, the Global Offering will not proceed.

EXPECTED TIMETABLE

- (5) Share certificates will only become valid certificates of title at 8:00 a.m. on Thursday, 30 June, 2005 (Hong Kong time), provided that (i) the Global Offering has become unconditional in all respect and (ii) the right of termination in the Underwriting Agreements had not been exercised by the Global Co-ordinator (on behalf of the Underwriters) terminated in accordance with their terms. Investors who trade Shares on the basis of publicly available allocation details prior to the receipt of share certificates or prior to the share certificates becoming valid certificates of title do so entirely at their own risk.
- (6) Refund cheques will be issued in respect of wholly or partially unsuccessful applications and in respect of successful applications if the final Offer Price is less than the price payable on application. Part of your Hong Kong Identity Card number/passport number, or, if you are joint applicants, part of the Hong Kong Identity Card number/passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such data would also be transferred to a third party for refund purpose. Your banker may require verification of your Hong Kong Identity Card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong Identity Card number/passport number may lead to delay in encashment of or may invalidate your refund cheque.

Applicants who apply on **WHITE** Application Forms for 1,000,000 Shares or more under the Hong Kong Public Offering and have indicated in their Application Forms that they wish to collect refund cheques and (where applicable) share certificates in person from the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited from 9:00 a.m. to 1:00 p.m. on Wednesday, 29 June, 2005. Identification and (where applicable) authorization documents acceptable to our share registrar must be produced at the time of collection.

Applicants who apply on **YELLOW** Application Forms for 1,000,000 Shares or more under the Hong Kong Public Offering and have indicated in their Application Forms that they wish to collect refund cheques in person may collect their refund cheques (if any) but may not elect to collect their share certificates, which will be deposited into CCASS for credit to their designated CCASS Participants' stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedure for collection of refund cheques for applicants who apply on **YELLOW** Application Forms for Shares is the same as that for **WHITE** Application Form applicants.

Uncollected share certificates and refund cheques will be despatched by ordinary post (at the applicants' own risk) to the addresses specified in the relevant Application Forms. Further information is set out in the section headed "How to apply for the Hong Kong Offer Shares — Refund of your money — Additional information" in this prospectus.

For details of the Structure of the Global Offering, including conditions of the Hong Kong Public Offering, please refer to the section headed "Structure of the Global Offering".

CONTENTS

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. The Company has not authorized anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorized by the Company, the Global Co-ordinator, the Underwriters, any of their respective directors or any other person or party involved in the Global Offering.

	Page
Expected Timetable	i
Summary	1
Definitions	9
Glossary of Technical Terms	18
Risk Factors	19
Waivers from Compliance with the Listing Rules	32
Information about this Prospectus and the Global Offering	34
Directors and Parties Involved in the Global Offering	41
Corporate Information	46
Industry Overview	48
Business	58
Overview	58
Competitive Strengths	58
Strategy	61
History and Development	62
Reorganization	64
Simplified Group Structure	68
Products and Services	69
Facilities	72
Quality Control	74
Quality Certifications	74
Research and Development	75
Marketing, Sales and After Sales Service	76
Customers	78
Pricing Policy	79

CONTENTS

	<i>Page</i>
Credit Policy	79
Provision Policy	79
Warranty Policy	79
Suppliers of Raw Materials	80
Logistics	81
Intellectual Property	81
Information System	83
Employees	83
Property	83
Insurance	85
Taxation	85
Environmental Compliance	85
Legal Proceedings	86
Connected Transactions	87
Directors, Senior Management and Compliance Adviser	91
Share Capital	96
Substantial Shareholders and Other Shareholders	99
Financial Information	102
Future Plans and Prospects	124
Underwriting	125
Structure of the Global Offering	132
How to Apply for the Hong Kong Offer Shares	139
Terms and Conditions of the Hong Kong Public Offering	165

CONTENTS

	<i>Page</i>
Appendices	
Appendix I — Accountants’ Report	172
Appendix II — Pro Forma Financial Information	207
Appendix III — Profit Forecast	211
Appendix IV — Property Valuation	220
Appendix V — Summary of the Constitution of the Company and Cayman Islands Company Law	263
Appendix VI — Statutory and General Information	280
Appendix VII — Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection	322

SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to invest in the Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Shares are summarized in the section headed “Risk Factors” in this prospectus. You should read that section carefully before you decide to invest in the Shares.

BUSINESS OVERVIEW

We are the leading fire alarm systems provider in China and are primarily engaged in the manufacturing and distribution of fire alarm systems and fire alarm network products, as well as related products, including security systems, building automation systems and electronic power meters. According to i & i, a leading international independent industry research consultancy company, we have the largest market share by revenue in the manufacturing and installation of fire alarm systems in China, accounting for approximately 20% market share, which is twice that of our closest competitors. Our success over the past ten years has made our “GST” brand one of the top brands in this sector in China, and our brand was certified in 2004 as the only “well-known trademark” in the fire alarm systems industry by the State Administration for Industry and Commerce.

Among the participants in the fire alarm systems market in China, we believe we have the largest nationwide sales and distribution network, with 61 offices throughout China and approximately 600 sales and marketing personnel and after-sales technical support staff. Through these sales persons and technical support staff, we believe we provide timely and comprehensive sales and after-sales services to our clients that is differentiated from what any of our domestic or international competitors are able to provide in China. In addition, we sell our products through 22 distributors located throughout China.

In recent years, we have leveraged our distribution network and brand recognition in the fire alarm systems industry in China to expand into related product areas, including fire alarm network systems, video entry systems, building automation systems and electronic power meters. We are also engaged in the provision of building installation services for low-voltage products. Our diversified product range and comprehensive building installation services enable us to offer a one-stop bundled solution to our customers. We believe our performance in 2004 further strengthened our position as the leading company in the fire alarm systems and network industry in China, and demonstrated our development in video entry systems, building automation systems, electronic power meters and building installation services. For the years ended 31 December, 2002, 2003 and 2004, revenues generated from sales of fire alarm systems were RMB273.7 million, RMB283.9 million and RMB354.1 million, respectively, representing approximately 91.8%, 90.0% and 83.5% of our total revenue.

COMPETITIVE STRENGTHS

We believe our competitive strengths have enabled us to become the leading supplier of fire alarm systems in China and enable us to be well-positioned to take advantage of future growth in the fire alarm systems and network, security systems and building automation, electronic power meters and building installation services industries in China.

We believe our competitive strengths are:

- leading market position
- extensive nationwide distribution network
- well-recognized brand
- strong product quality and research and development
- experienced and dedicated management team

STRATEGY

Our goal is to continue to build upon our leading position in the fire alarm systems market as well as to increase the market share of our other products. In order to achieve this goal, we plan to:

- further expand the coverage of our distribution network
- increase sale of and expand our broad suite of products
- broaden our customer base
- continue to invest in research and development
- continue to expand internationally
- pursue strategic acquisitions

RISK FACTORS

We believe that there are certain risks involved in our operations. Many of these risks are beyond our control and can be categorized into: (i) risks related to our business; (ii) risks related to the fire alarm systems industry in China; (iii) risks related to the PRC; and (iv) risks related to the Global Offering.

Risks related to our business

- We may experience a further decline in our profit margins as a result of the decline in the average selling price of our products.
- We might not be successful in implementing our strategy of diversifying our product offerings beyond our core fire alarm systems business, which would have a material adverse effect on our competitive position and ability to generate revenues.
- If we do not compete successfully against our competitors, we may lose our market share and our profitability could be adversely affected.
- We are exposed to payment delays and/or default by our customers.

SUMMARY

- As most of our products are subject to inspection and certification by government authorities and our installation business is subject to our being qualified to only install fire alarm systems products, if we fail or are unable to pass inspection or are not properly certified or qualified, our business would be adversely affected.
- The nature of our business requires us to design and produce equipment and systems and provide service in response to changes in market demand and government regulation. If we are unable to successfully respond to these changes, our business may be adversely affected.
- If we fail to efficiently manage the manufacturing and logistics aspects of our business, or fail to ensure that our products meet our quality standards, our results of operation could be adversely affected.
- The profitability of our business is subject to factors beyond our control, including the cost of raw materials and labor as well as the market price of our products. In the event our production costs increase or the market price of our products decreases, our profitability could be adversely affected.
- If our suppliers fail to deliver key components on a timely basis or meet our product quality standards, our business could be materially adversely affected.
- We may not maintain sufficient insurance coverage for the risks associated with the operations of our business.
- Disputes over intellectual property rights could be costly and could deprive us of technology that we need to stay competitive.
- There can be no assurance that we will be able to identify attractive acquisition targets or successfully integrate any future acquisitions into our business.
- We are dependent on our senior management team to manage and develop the business and key technical employees to design and develop our products, and the loss of any key member of our team may impair our ability to operate effectively and may adversely affect our business.
- We may experience cost overruns or delays in completion in connection with the construction of our new manufacturing facility.
- We have no control over the timing of completion of projects in which we provide installation services. Accordingly, we may not be able to recognize revenue for these services until the completion of the projects.
- If we are not successful in our applications for product certifications in other countries, it would hinder our ability to market and sell our products overseas, which could impact our plan to expand overseas.
- Our results of operations are subject to seasonality and may fluctuate from period to period.
- There can be no assurance that dividends will be paid annually at a steady rate or at all.
- An outbreak of severe acute respiratory syndrome (“SARS”) or other serious infection may adversely and materially affect our business.

Risks related to the fire alarm systems industry in China

- Growth in the fire alarm systems industry, as well as the markets for security system and building automation products and related products, is highly dependent on growth in the cyclical PRC real estate market. Any downturn in the PRC real estate market could therefore adversely affect our business.
- The fire alarm systems industry is highly competitive. The entry of new players and emergence of new technologies and products may cause increased competition and uncertainties in the future, and our business would suffer if we could not successfully compete with other companies in the market.
- If establishment of fire alarm network control centers does not become mandatory nationwide, or if local rules are not enforced, the development of our networking business may be hindered.

Risks related to the PRC

- Political and economic policies of the PRC Government could affect our business, results of operation and financial condition.
- The PRC legal system is not fully developed and there are inherent uncertainties that could limit the legal protections available to our Shareholders.
- It may be difficult to effect service of process upon us or our Directors or executive officers who live in the PRC or to enforce against them in the PRC any judgments obtained from non-PRC courts.
- Government control of currency conversion and future movements in exchange rates may adversely affect our ability to distribute dividends, increase competition from imports, affect the value of our net assets, earnings and dividends in foreign currency terms, or inhibit our ability to import equipment.
- If the favorable tax treatment that we currently receive is altered or eliminated, our business may be adversely affected.
- PRC foreign exchange controls may affect our ability to receive dividends and other payments from our PRC subsidiaries.

Risks related to the Global Offering

- There has been no prior public market for our Shares, and an active trading market may not develop after the Global Offering.
- The liquidity and market prices of our Shares following this Global Offering may be volatile.
- Because the initial public offering price is higher than the net tangible book value per Share, you will incur immediate dilution.
- Sales of substantial amounts of our Shares in the public market after the Global Offering could adversely affect the prevailing market price of our Offer Shares.

SUMMARY

- Our ability to raise capital in the future may be limited, and our failure to raise capital when needed could prevent us from executing our growth strategy.
- We will be controlled by GST International Management, whose interests may differ from those of other Shareholders.
- There are risks associated with forward-looking statements.
- Certain facts and statistics contained in this prospectus have come from official government publications whose reliability cannot be assumed or assured.

FINANCIAL INFORMATION

The following is a summary of the Group's consolidated results for the years ended 31 December, 2002, 2003 and 2004, which has been derived from and should be read in conjunction with, our audited financial statements included in the Accountants' Report set out in Appendix I to this prospectus. Our financial statements have been prepared in accordance with IFRS.

Consolidated profit and loss accounts

	For the year ended 31 December,					
	2002		2003		2004	
	(RMB in millions)	Percentage of revenue	(RMB in millions)	Percentage of revenue	(RMB in millions)	Percentage of revenue
Revenue	298.0	100.0%	315.6	100.0%	424.1	100.0%
Cost of goods sold	(122.3)	(41.0%)	(143.2)	(45.4%)	(209.6)	(49.4%)
Gross profit	175.7	59.0%	172.4	54.6%	214.5	50.6%
Other income	16.9	5.7%	27.3	8.7%	26.6	6.3%
Distribution costs	(41.1)	(13.8%)	(48.0)	(15.2%)	(53.0)	(12.5%)
Administrative and general expenses	(44.7)	(15.0%)	(52.7)	(16.7%)	(58.5)	(13.8%)
Operating profit	106.8	35.9%	99.0	31.4%	129.6	30.6%
Finance costs	(2.9)	(1.0%)	(3.9)	(1.3%)	(3.2)	(0.8%)
Share of results of						
Jointly controlled entity . . .	(0.2)	(0.1%)	(0.3)	(0.1%)	0.1	0.0%
Associates	(0.3)	(0.1%)	(0.3)	(0.1%)	0.0	0.0%
Profit before taxation	103.4	34.7%	94.5	29.9%	126.5	29.8%
Taxation	(26.0)	(8.7%)	(14.6)	(4.6%)	(3.6)	(0.8%)
Profit after taxation	77.4	26.0%	79.9	25.3%	122.9	29.0%
Minority interests	(6.6)	(2.2%)	(1.1)	(0.3%)	(0.0)	(0.0%)
Profit for the year	<u>70.8</u>	<u>23.8%</u>	<u>78.8</u>	<u>25.0%</u>	<u>122.9</u>	<u>29.0%</u>
Dividends	<u>23.5</u>		<u>129.9</u>		<u>126.3</u>	

SUMMARY

The following is an analysis of the revenue by major product segments:

	For the year ended 31 December,					
	2002		2003		2004	
	(RMB in millions)	Percentage of revenue (%)	(RMB in millions)	Percentage of revenue (%)	(RMB in millions)	Percentage of revenue (%)
Fire alarm systems . . .	273.7	91.8%	283.9	90.0%	354.1	83.5%
Fire alarm network systems	1.8	0.6%	4.8	1.5%	8.7	2.1%
Video entry systems . .	—	—	2.4	0.8%	14.1	3.3%
Building automation systems	2.4	0.8%	1.7	0.5%	4.8	1.1%
Electronic power meters	0.2	0.1%	4.1	1.3%	10.7	2.5%
Installation services . .	19.9	6.7%	18.7	5.9%	31.7	7.5%
Total	<u>298.0</u>	<u>100.0%</u>	<u>315.6</u>	<u>100.0%</u>	<u>424.1</u>	<u>100.0%</u>

For additional information on the track record of the Group, please refer to the section headed “Financial Information” in this prospectus and Appendix I to this prospectus.

FORECAST FOR THE YEAR ENDING 31 DECEMBER, 2005

Forecast consolidated profit attributable to equity holders of the Company for the year ending 31 December, 2005⁽¹⁾ . . . not less than RMB159 million (HK\$150 million)

Unaudited forecast earnings per Share weighted average⁽²⁾ not less than RMB0.23 (HK\$0.21)
pro forma⁽³⁾ not less than RMB0.20 (HK\$0.19)

Notes:

- (1) The bases and assumptions on which the above profit forecast for the year ending 31 December, 2005 have been prepared are summarized in Appendix III to this prospectus.
- (2) The calculation of unaudited forecast earnings per Share on a weighted average basis is calculated by dividing the forecast consolidated profit attributable to equity holders of the Company for the year ending 31 December, 2005 and a weighted average number of 700,549,451 Shares expected to be in issue during the year which assumes Shares to be issued upon the conversion of all Series A Preferred Shares and pursuant to the Capitalization Issue had been in issue on 1 January, 2005 and the Shares to be issued pursuant to the Global Offering are issued since 30 June, 2004. It does not take into account any Shares which may be issued upon exercise of the Over-allotment Option).
- (3) The calculation of unaudited pro forma forecast earnings per Share is calculated by dividing the forecast consolidated profit attributable to equity holders of the Company for the year ending 31 December, 2005 by a total of 800,000,000 Shares (including the Shares in issue at the date of this prospectus and assuming the Shares to be issued upon the conversion of all Series A Preferred Shares and pursuant to the Capitalization Issue and Global Offering had been in issue on 1 January, 2005 but without taking into account any Shares which may be issued upon exercise of the Over-allotment Option).

SUMMARY

OFFER STATISTICS

	Based on an Offer Price of HK\$1.69 per Share	Based on an Offer Price of HK\$2.06 per Share
Market capitalization of the Shares ⁽¹⁾	HK\$1,352 million	HK\$1,648 million
Forecast price/earnings multiple		
— weighted average ⁽²⁾	7.9 times	9.6 times
— pro forma ⁽³⁾	9.0 times	11.0 times
Unaudited pro forma adjusted net tangible asset value per Share ⁽⁴⁾	HK\$0.72	HK\$0.81

Notes:

- (1) The calculation of the market capitalization of the Shares is based on 800,000,000 Shares in issue immediately after completion of the Global Offering, the Capitalization Issue and the conversion of all Series A Preferred Shares but does not take into account any Shares which may be allotted and issued upon exercise of the Over-allotment Option or of any options which may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by the Company pursuant to the Issuing Mandate and the Repurchase Mandate.
- (2) The calculation of forecast price/earnings multiple on a weighted average basis is based on the forecast earnings per Share on a weighted average basis for the year ending 31 December, 2005 of approximately HK\$0.21 at the respective Offer Price of HK\$1.69 and HK\$2.06 per Share, and is based on the assumption set out in note (1) above.
- (3) The calculation of forecast price/earnings multiple on a pro forma basis is based on the forecast earnings per Share on a pro forma basis for the year ending 31 December, 2005 of approximately HK\$0.19 at the respective Offer Price of HK\$1.69 and HK\$2.06 per Share assuming that the Over-allotment Option is not exercised and the 800,000,000 Shares were in issue (assuming the Shares in issue at the date of this prospectus and Shares to be issued upon the conversion of all Series A Preferred Shares and pursuant to the Capitalization Issue and Global Offering had been in issue on 1 January, 2005 but without taking into account any Shares which may be issued upon exercise of the Over-allotment Option).
- (4) The unaudited pro forma adjusted net tangible asset value per Share has been arrived at after the adjustments referred to in the section headed “Financial Information” in this prospectus and on the basis of 800,000,000 Shares in issue at the respective Offer Price of HK\$1.69 and HK\$2.06 per Share immediately following completion of the Global Offering, the Capitalization Issue and the conversion of all Series A Preferred Shares but without taking into account any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or of any options which may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by the Company pursuant to the Issuing Mandate and the Repurchase Mandate.

DIVIDEND POLICY

Our Directors may recommend a final dividend to be declared by the shareholders at a general meeting or declare interim dividends after taking into account, among other things, our results of operations, cash flows and financial condition, operating and capital requirements, the amount of distributable profits based on IFRS, our Memorandum and Articles of Association, the Cayman Companies Law, applicable laws and regulations and other factors that our Directors deem relevant.

USE OF PROCEEDS

The Directors believe that the net proceeds of the Global Offering will finance the Group’s capital expenditures and business expansion, strengthen the Group’s capital base and improve its financial position.

SUMMARY

The net proceeds of the Global Offering after deducting related expenses, and assuming an Offer Price of HK\$1.875 per Share (being the mid-point of the stated range of the Offer Price of between HK\$1.69 and HK\$2.06 per Share) and that the Over-allotment Option is not exercised in whole or in part, are estimated to be HK\$353.9 million and the Group would apply such proceeds as follows:

- approximately HK\$198.1 million for the development and construction of new manufacturing facilities in Beijing;
- approximately HK\$70.8 million for the expanding and upgrading the Group's existing primary manufacturing facilities in Qinhuangdao and construction of ancillary facilities;
- approximately HK\$75.5 million for the expanding and improving the Group's sales network; and
- the remainder for general corporate purposes and general working capital.

In the event that the Over-allotment Option is exercised, the additional net proceeds of about HK\$54.3 million (assuming the Offer Price is determined at the mid-point of the stated range) will be applied by the Group for expanding and improving the Group's sales network and general corporate purposes and general working capital.

In the event that the Offer Price is fixed at HK\$1.69 per Share, being the lowest point of the estimated price range, the net proceeds will be reduced by approximately HK\$35.7 million. In such circumstances, the Directors intend to reduce the application of the proceeds for expanding and improving the Group's sales network by HK\$26.2 million and general corporate purposes and general working capital by HK\$9.5 million.

In the event that the Offer Price is fixed at HK\$2.06 per Share, being the highest point of the estimated price range, the net proceeds will increase by approximately HK\$35.7 million. In such circumstances, the Directors intend to increase the application of the proceeds for expanding and improving the Group's sales network by HK\$10.0 million and general corporate purposes and general working capital by HK\$25.7 million.

To the extent that the net proceeds of the Global Offering are not immediately required for the above purposes, the Directors presently intend that such proceeds will be placed on short-term deposits with licensed banks or authorized financial institutions in Hong Kong.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following expressions shall have the following meanings.

“3i”	3i Group plc, a licensed bank under the Banking Act of England and one of our Shareholders.
“3i Asia Pacific”	3i Asia Pacific 2004-06 LP, a limited partnership registered under the Limited Partnership Act 1907 of England and its general partner is an indirect wholly-owned subsidiary of 3i.
“3i APTech”	3i Asia Pacific Technology LP, a limited partnership registered under the Limited Partnership Act 1907 of England and its general partner is an indirect wholly-owned subsidiary of 3i.
“Application Form(s)”	WHITE application form(s) and YELLOW application form(s) or, where the context so requires, either of them.
“Articles of Association” or “Articles”	the articles of association of the Company conditionally adopted on 7 June, 2005 which will take effect on the Listing Date, as amended from time to time.
“Associate(s)”	has the meaning ascribed thereto in the Listing Rules.
“Banking Ordinance”	Banking Ordinance, Chapter 155 of the Laws of Hong Kong.
“Beijing Environmental”	北京海灣旭日環保技術有限公司 (Beijing Gulf Xuri Environmental Technology Company Limited*), a limited liability company established in the PRC and owned as to 71% by Gulf Group and 29% by Beijing Software.
“Beijing GST”	北京海灣安全技術有限公司 (Beijing Gulf Security Technology Company Limited*), a limited liability company established in the PRC and owned as to 80% by GST and 20% by Hebei Gulf.
“Beijing Gulf”	北京海灣威爾自控技術有限公司 (Beijing Gulf Wei’er Automation Technology Company Limited*), a limited liability company established in the PRC and owned as to 80% by Gulf Group and 20% by Beijing Software.
“Beijing Gulf Engineering”	北京海灣威爾電子工程有限公司 (Beijing Gulf Wei’er Electrical Engineering Company Limited*), a limited liability company established in the PRC and owned as to 60% by GST and 40% by Hebei Gulf.
“Beijing Gulf Property”	北京海灣京城房地產開發有限公司 (Beijing Gulf Jingcheng Property Development Company Limited*), a limited liability company established in the PRC and owned as to 92.24% by Gulf Group, 4.76% by Beijing Software and 3% by an independent third party.

DEFINITIONS

“Beijing Software”	北京阿爾泰克軟件系統技術有限公司 (Beijing Aertaike Software System Technology Company Limited*), a limited liability company established in the PRC and owned as to 80% by Gulf Group and 20% by Beijing Gulf.
“Board”	our board of Directors.
“Business Day”	any day (other than a Saturday or a Sunday) on which banks in Hong Kong are generally open for normal banking business.
“BVI”	the British Virgin Islands.
“Capitalization Issue”	the issue of Shares to be made upon capitalization of part of the amount standing to the credit of the share premium account of the Company referred to in the section headed “Written resolutions of the shareholders of the Company passed on 7 June, 2005” in Appendix VI to this prospectus.
“Cayman Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC.
“CCASS Broker Participant”	a person admitted to participate in CCASS as a broker participant.
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant.
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation.
“CCASS Participant”	a CCASS Broker Participant, CCASS Custodian Participant or a CCASS Investor Participant.
“China” or “PRC”	the People’s Republic of China, but for the purposes of this prospectus and for geographical reference only (unless otherwise indicated), excluding Taiwan, the Macau Special Administrative Region of the PRC and Hong Kong.
“Chongqing Gulf”	重慶海灣電氣工程有限公司 (Chongqing Gulf Electrical Engineering Company Limited*) (formerly known as 重慶海灣建築消防有限公司), a limited liability company established in the PRC and owned as to 90% by Gulf Group and 10% by Beijing Gulf.
“Chongqing Meiyuan”	重慶美源方大網絡有限責任公司 (Chongqing Meiyuan Fangda Network Company Limited*), a limited liability company established in the PRC and owned as to 15% by Gulf Network and 85% by independent third parties.

DEFINITIONS

“Company”, “Our Company”, “We” or “us”	GST Holdings Limited (海灣控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 27 April, 2004, and where the text requires, “We”, “us” or “Our” shall mean the Group.
“Dalian Hongyang”	大連宏陽消防物業管理網絡有限公司 (Dalian Hongyang Fire Prevention Property Management Network Company Limited*), a limited liability company established in the PRC and owned as to 25% by Qinhuangdao GST and 75% by an independent third party.
“Director(s)”	director(s) of our Company or any one of them.
“Global Offering”	the Hong Kong Public Offering and the International Offering.
“Group”	the Company and its subsidiaries or where the text refers to any time before the Company became the holding company of its present subsidiaries, the Company’s present subsidiaries and the business currently operated by such subsidiaries as the case may be.
“GST”	海灣安全技術有限公司 (Gulf Security Technology Company Limited*), a wholly foreign owned enterprise incorporated in the PRC and a wholly owned subsidiary of GST Group International.
“GST Group International”	GST Group International Limited, a limited liability company incorporated in BVI on 17 March, 2004 and a wholly owned subsidiary of the Company.
“GST International Management”	GST International Management Limited, a limited liability company incorporated in BVI on 17 March, 2004 and the controlling shareholder of the Company.
“GST plc”	Global System Technology PLC, a company incorporated in the United Kingdom and owned as to 51% by GST Group International.
“Guangzhou Gulf”	廣州海灣威爾自控技術有限公司 (Guangzhou Gulf Wei’er Automation Technology Company Limited*), a limited liability company established in the PRC and owned as to 90% by GST and 10% by Hebei Gulf.
“Gulf Group”	海灣科技集團有限公司 (Gulf Technology Group Company Limited*), a limited liability company established in the PRC.
“Gulf Labour”	秦皇島海灣勞務派遣有限公司 (Qinhuangdao Gulf Labour Services Company Limited*), a limited liability company established in the PRC and owned as to 80% by GST and 20% by Hebei Gulf.
“Gulf Meters”	北京海灣電力儀錶有限公司 (Beijing Gulf Electric Meters Company Limited*), a wholly foreign owned enterprise established in the PRC and wholly owned by GST Group International.

DEFINITIONS

“Gulf Network”	秦皇島海灣消防網絡有限公司 (Qinhuangdao Gulf Fire Prevention Network Company Limited*), a wholly foreign owned enterprise established in the PRC and wholly owned by GST Group International.
“Hebei Gulf”	河北海灣電氣工程有限公司 (Hebei Gulf Electrical Engineering Company Limited*), a limited liability company established in the PRC and owned as to 80% by GST and 20% by Gulf Network.
“Henan Yinghua”	河南省英華計算機科技有限公司 (Henan Province Yinghua Computer Technology Company Limited*), a limited liability company established in the PRC and owned as to 30% by Qinhuangdao GST and 70% by two independent third parties.
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly owned subsidiary of Hong Kong Exchanges and Clearing Limited.
“HKSCC Nominees”	HKSCC Nominees Limited.
“HK\$” or “HK dollars” or “cents”	Hong Kong dollars and cents respectively, the lawful currency for the time being of Hong Kong.
“Hong Kong Companies Ordinance”	Companies Ordinance, Chapter 32 of the Laws of Hong Kong.
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC.
“Hong Kong Offer Shares”	the Shares offered by us for subscription pursuant to the Hong Kong Public Offering.
“Hong Kong Public Offering”	the offering by the Company of initially 20,000,000 Shares for Hong Kong Offer Shares for subscription by the public in Hong Kong (subject to adjustment as described in the section headed “Structure of the Global Offering” in this prospectus) for cash at the Offer Price (plus brokerage of 1% of the Offer Price, a SFC transaction levy of 0.005% of the Offer Price, an investor compensation levy of 0.002% of the Offer Price and a Stock Exchange trading fee of 0.005% of the Offer Price) on the terms and conditions described in this prospectus and the Application Forms.
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offering listed in the section headed “Underwriting — Names of Hong Kong Underwriters” in this prospectus.
“Hong Kong Underwriting Agreement”	the underwriting agreement dated 17 June, 2005 relating to the Hong Kong Public Offering and entered into by, among others, the Global Co-ordinator, the Hong Kong Underwriters and us as further described in the section headed “Underwriting — Underwriting arrangements and expenses” in this prospectus.

DEFINITIONS

“IFRS”	the International Financial Reporting Standards, which include standards and interpretations approved by the International Accounting Standards Board (IASB), and the International Accounting Standards (IAS) and interpretations issued by the International Accounting Standards Committee (IASC).
“Indemnifiers”	Mr Song Jiacheng, Mr Cao Yu, Mr Peng Kaichen, Mr Xu Shaowen and GST International Management.
“International Offering”	the conditional placing of the International Offering Shares by the International Underwriters with professional and institutional investors for cash at the Offer Price, as further described in the section headed “Structure of the Global Offering” in this prospectus, and in the United States to QIBs in reliance on Rule 144A as further described in the section headed “Structure of the Global Offering” in this prospectus.
“International Offering Shares”	the Shares offered pursuant to the International Offering.
“International Underwriters”	the underwriters of the International Offering listed in the section headed “Underwriting — Names of International Underwriters” in this prospectus.
“International Underwriting Agreement”	the underwriting agreement expected to be entered into on or before 24 June, 2005 by, among others, the Global Co-ordinator, the International Underwriters and us in respect of the International Offering, as further described in the section headed “Underwriting — International Offering”.
“Investors”	collectively, 3i, 3i Asia Pacific and 3i APTech.
“Issuing Mandate”	the general unconditional mandate given to the Directors by the Shareholders relating to the issue of new Shares, further details of which are contained in the section headed “Written resolutions of the shareholders of the Company passed on 7 June, 2005” in Appendix VI to this prospectus.
“Junhui Car”	秦皇島開發區軍輝汽車美容裝飾有限公司 (Qinhuangdao Development Zone Junhui Car Repair & Decoration Company Limited*), a limited liability company established in the PRC and is owned as to 80% by Gulf Group and 20% by an independent third party.
“Kadmus”	北京海灣康德曼智能儀錶有限公司 (Beijing Gulf Kadmus Intelligent Meters Company Limited*), a limited liability company established in the PRC and owned as to 70% by Gulf Group and 30% by an independent third party.
“Latest Practicable Date”	14 June, 2005, being the latest practicable date for the inclusion of certain information in this prospectus prior to its publication.

DEFINITIONS

“Listing”	listing of the Shares on the Stock Exchange.
“Listing Committee”	the Listing Committee of the Stock Exchange.
“Listing Date”	the date, expected to be on or about Thursday, 30 June, 2005, on which our Shares are listed and from which dealings therein are permitted to take place on the Stock Exchange.
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange.
“Memorandum of Association” or “Memorandum”	the memorandum of association of the Company as currently adopted.
“Morgan Stanley” or “Global Co-ordinator” or “Sponsor”	Morgan Stanley Dean Witter Asia Limited, a deemed licenced corporation under the SFO permitted to engage in types 1, 4, 6 and 9 of the regulation activities (as defined under the SFO), acting as the Global Co-ordinator, bookrunner, lead manager of the Global Offering and sponsor to the Listing.
“Nanning Gulf”	南寧海灣消防網絡技術有限公司 (Nanning Gulf Fire Prevention Network Technology Company Limited*), a limited liability company established in the PRC and owned as to 25% by GST Network and 75% by an independent third party.
“Offer Price”	the final offer price per Offer Share (exclusive of brokerage fee of 1%, SFC transaction levy of 0.005%, investor compensation levy of 0.002% and Stock Exchange trading fee of 0.005%) of not more than HK\$2.06 and expected to be not less than HK\$1.69, at which Hong Kong Offer Shares are to be subscribed pursuant to the Hong Kong Public Offering and International Offering Shares are to be offered pursuant to the International Offering, to be agreed upon by the Global Co-ordinator (on behalf of the Underwriters) and us at or before the Price Determination Date.
“Offer Share(s)”	the Hong Kong Offer Shares and the International Offering Shares, collectively, and where relevant, together with any additional shares to be issued pursuant to the exercise of the Over-allotment Option.
“Over-allotment Option”	the option granted by us to the International Underwriters, exercisable by the Global Co-ordinator on behalf of the International Underwriters at any time from the date of the International Underwriting Agreement until 30 days after the last day for the lodging of applications on the Hong Kong Public Offering, to require us to issue up to an aggregate of 30,000,000 additional Shares (representing 15% of the Shares initially being offered under the Global Offering) to cover over-allocations in the International Offering, details of which are described in the section headed “Structure of the Global Offering — The Global Offering”.

DEFINITIONS

“PRC Government”	the government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities).
“Price Determination Agreement”	the agreement to be entered into by the Global Co-ordinator (on behalf of the Underwriters) and us on the Price Determination Date to record and fix the Offer Price.
“Price Determination Date”	the date, expected to be on or about Friday, 24 June, 2005 (Hong Kong time) on which the Offer Price is determined, or such later time as the Global Co-ordinator (on behalf of the Underwriters) and us may agree, but in any event no later than Sunday, 26 June, 2005.
“QIBs”	qualified institutional buyers within the meaning of Rule 144A.
“Qiqiha’er Longcheng”	齊齊哈爾龍誠報警網絡有限公司 (Qiqiha’er Longcheng Security Network Company Limited*), a limited liability company established in the PRC and owned as to 20% by Qinhuangdao GST and 80% by two independent third parties.
“Qinhuangdao Chengan”	秦皇島市城安消防網絡有限公司 (Qinhuangdao Chengan Fire Prevention Network Company Limited*), a limited liability company established in the PRC and owned as to 35% by Gulf Network and as to 65% by an independent third party.
“Qinhuangdao Environmental”	秦皇島開發區海灣環保技術有限公司 (Qinhuangdao Development Zone Gulf Environmental Technology Company Limited*), a limited liability company established in the PRC and owned as to 71% by Gulf Group and 29% by Beijing Software.
“Qinhuangdao GST”	秦皇島開發區海灣報警網絡有限公司 (Qinhuangdao Development Zone Gulf Security Network Company Limited*), a limited liability company established in the PRC and owned as to 92% by Gulf Group and as to 8% by Beijing Software.
“Qinhuangdao Meters”	秦皇島開發區海灣電力儀錶有限公司 (Qinhuangdao Development Zone Gulf Electrical Meters Company Limited*), a limited liability company established in the PRC and owned as to 70% by Qinhuangdao GST and 30% by an independent third party.
“Qinhuangdao Textile Factory”	秦皇島市棉紡廠 (Qinhuangdao Municipal Textile Factory*), a limited liability company established in the PRC, the predecessor to 秦皇島聯峰紡織集團有限公司 (Qinhuangdao Lianfeng Textile Group Co., Ltd.*), and is an independent third party to the Group.
“Regulation S”	Regulation S under the U.S. Securities Act.
“Reorganization”	the reorganization arrangements undergone by the Group in preparation for the Listing as described in the sections headed “Business — Reorganization” and “Corporate Reorganization” in Appendix VI to this prospectus.

DEFINITIONS

“Repurchase Mandate”	the general unconditional mandate to repurchase Shares given to the Directors by the Shareholders, further details of which are contained in the section headed “Written resolutions of the shareholders of the Company passed on 7 June, 2005” in Appendix VI to this prospectus.
“RMB” and “Renminbi”	the lawful currency of the PRC.
“Rule 144A”	Rule 144A under the U.S. Securities Act.
“Series A Preferred Shares”	series A preferred shares of the Company with a nominal value of HK\$0.10 each
“SFC”	the Securities and Futures Commission of Hong Kong.
“SFO”	the Securities and Futures Ordinance, (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time.
“Shanghai Gulf”	上海海灣自控技術有限公司 (Shanghai Gulf Automation Technology Company Limited*), a limited liability company established in the PRC and owned as to 90% by Beijing Gulf Engineering and 10% by Hebei Gulf.
“Shareholder(s)”	holders of our Shares.
“Share Option Scheme”	the share option scheme conditionally approved and adopted by the Company on 7 June, 2005, the principal terms of which are summarized in the section headed “Share Option Scheme” in Appendix VI to this prospectus.
“Shares”	ordinary shares in the share capital of the Company, with a nominal value of HK\$0.10 each.
“Sichuan Tianxing”	四川天星網絡技術有限公司 (Sichuan Tianxing Network Technology Company Limited*), a limited liability company established in the PRC and owned as to 20% by Qinhuangdao GST.
“Stock Exchange”	The Stock Exchange of Hong Kong Limited.
“Subsidiaries”	has the meaning ascribed thereto in section 2 of the Hong Kong Companies Ordinance.
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers.
“Track Record Period”	the three years ended 31 December, 2004.
“Underwriters”	the International Underwriters and the Hong Kong Underwriters.
“Underwriting Agreements”	the International Underwriting Agreement and the Hong Kong Underwriting Agreement.

DEFINITIONS

“U.S.” or “United States”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction.
“U.S. Securities Act”	the United States Securities Act of 1933, as amended, supplemented or otherwise modified from time to time.
“US\$” or “US dollars”	United States dollars, the lawful currency for the time being of the United States.
“%”	per centum.

Unless otherwise specified, translations of HK\$ into RMB and RMB into HK\$ in this prospectus are based on the rates set out below (for the purpose of illustration only):

RMB1.00 : HK\$0.94

HK\$1.00 : RMB1.06

No representation is made that any amounts in RMB and HK\$ can be or could have been converted at the relevant dates at the above rates or any other rates at all.

** For identification purpose only*

GLOSSARY OF TECHNICAL TERMS

“CCTV”	a closed circuit television system.
“CFPA”	中國消防協會 (China Fire Protection Association), a legally established national association for non-profit purposes, whose members comprise technicians and academic researchers specialized in fire prevention.
“ERP”	enterprise resource planning, a software system that helps a manufacturer or other business manage the important parts of its business, including product planning, parts purchasing, maintaining inventories, interacting with suppliers, providing customer service, and tracking orders.
“iiBS Software”	an integrated intelligent building management systems software.
“LPCB”	the Loss Prevention Certification Board, a U.K. organization which operates product certification and installer certification schemes for fire and security products and services and management systems certification to support the product and installer certification.
“PCB”	printed circuit board, a single- or multi-layer board of circuitry in laminate which provides electrical interconnections and a surface for mounting chips and other electronic components.
“VPN”	Virtual Private Network.

RISK FACTORS

You should pay particular attention to the fact that that we are a company incorporated under the laws of Cayman Islands and our business is located almost exclusively in the PRC. There are risks associated with investing in our Shares not typical of investments in the capital stock of companies incorporated and/or engaging in business in Hong Kong or the United States. Any of the risks and uncertainties described below could have a material adverse effect on our business, results of operations financial condition on the trading price of our Shares, and could cause you to lose all or part of your investment.

We believe that there are certain risks involved in our operations. Many of these risks are beyond our control and can be categorized into: (i) risks related to our business; (ii) risks related to the fire alarm systems industry in China; (iii) risks related to the PRC; and (iv) risks related to the Global Offering.

RISKS RELATED TO OUR BUSINESS

We may experience a further decline in our profit margins as a result of the decline in the average selling price of our products.

Our gross profit margin has been declining because prices in the fire alarm systems industry have been declining, as measured by the decline in the average selling price of our products. Our gross margin for fire alarm systems is highest when new products and systems are first developed. As the products mature, market pressures push average selling prices down and cause gross margin erosion. We are often forced to reduce our prices for more mature products in order to remain competitive against other fire alarm systems manufacturers on price, and any reduction in our product prices decreases our gross margin. Our gross margin may decline further if competitors lower their prices as a result of decreased costs, to absorb excess capacity, to liquidate excess inventories, to restructure or to attempt to gain market share. In order to sustain higher average margins, we must design and manufacture improved products, decrease our costs and increase the volume of products we sell. If we are unable to maintain a high proportion of newer, improved products in our fire alarm systems portfolio, or to decrease our per product cost by lowering our costs and selling more units, we may experience a further decline in our gross margin.

We might not be successful in implementing our strategy of diversifying our product offerings beyond our core fire alarm systems business, which would have a material adverse effect on our competitive position and ability to generate revenues.

Sales of fire alarm systems products have been the main source of income for us during the past 12 years, and accounted for 91.8%, 90.0% and 83.5% of our annual revenue during the years ended 31 December, 2002, 2003 and 2004. Due to intense competition in the fire alarm systems market in the PRC, the average selling price of our fire alarm system products decreased from 2002 to 2004. Although we believe the total decline of the selling price of our fire alarm systems products will decrease, we have attempted to increase sales of our other products and services, including fire alarm network systems, video entry systems, building automation systems and electronic power meters, in order to maintain and increase our annual sales revenue and our profit margins. As we are a recent entrant in the security systems and building automation and electronic power meter markets, there can be no assurance that our efforts to increase our revenues from these businesses will be successful, or if successful that a change in our product mix may not negatively impact our margins.

RISK FACTORS

Further, as we are in the early stages of producing some of our products, such as video entry systems, and must compete with specialist manufacturers, there can be no assurance that we will be successful in implementing our strategy of expanding our product base and operations to become an integrated provider of related products including video entry products, building automation systems and electronic power meters, in addition to our traditional fire alarm systems products. If we are not successful in implementing this integrated strategy, our annual sales revenues and profit margins may decline.

If we do not compete successfully against our competitors, we may lose our market share and our profitability could be adversely affected.

The market for our products is intensely competitive. Our competitors include international players with substantially greater resources than ours, as well as new domestic and foreign market entrants. In addition, some international companies have agreed to form mergers or joint ventures with some of our domestic competitors. These mergers or joint venture entities may have certain advantages over companies like us, including the ability to distribute each other's products within and outside of China. Furthermore, some of our domestic competitors may merge in the future, and any consolidation of the industry could pose new challenges to us. Our competitors may develop and introduce new products sooner, or provide more attractively priced, enhanced or better quality products and systems, than we do. The development of other new technologies and potential changes in customer behaviour as well as relevant government regulations also may change the competitive landscape for our products in ways that we cannot currently predict.

In our core fire alarm systems business, we believe we are a leader in the PRC market with a known brand and reputation within our core domestic market. Nonetheless, the market for fire alarm systems in the PRC is fragmented, and we face intense competition from domestic and international providers of those products. Therefore there can be no assurance that we will be able to maintain our position as a leading provider of these products in the future as the market matures. In our other businesses, such as security systems and building automation and electronic power meters, we are not a leading market participant, and therefore our challenge is to become a leading provider of these products and systems while facing considerable competition from domestic and international companies, some of which have more recognized brands with respect to these products and services within China. While we believe that our established manufacturing and distribution capabilities will help us to become a leading provider of security systems and building automation and electronic power meters, there is no assurance that this strategy will be successful or that we will be able to expand and develop these businesses or operate them on a profitable basis.

We are exposed to payment delays and/or default by our customers.

We are exposed to payment delays and/or default by our customers. Certain of our contracts provide for our customers to settle our invoices by installments. Our average trade receivable turnover days for the three years ended 31 December, 2002, 2003 and 2004 were 64.8, 84.2 and 67.4 days, respectively. We cannot ensure that our customers will meet their payment obligations on time or in full or that our average trade receivable days will not increase. Any inability on the part of our customers to settle or settle promptly the amounts due to us may cause our financial performance and operating cash flows to be adversely affected. See “Financial Information — Trade receivables — Trade receivable turnover days”.

As most of our products are subject to inspection and certification by government authorities and our installation business is subject to our being qualified to only install fire alarm systems products, if we fail or are unable to pass inspection or are not properly certified or qualified, our business would be adversely affected.

Under the current regulatory regime in the PRC, our products, including fire alarm systems, video entry systems and electronic power meters, must pass inspection carried out by the government authorities in charge of the relevant products. Apart from government inspections, some products are also required to have certain approvals, permits, certifications or registrations. We also must obtain certain qualifications in order to engage in our installation service business. In the event that we do not pass, obtain or renew any required inspections, approvals, permits, certification, registrations or the equivalent under the applicable laws and regulations, our operations which rely on those approvals, permits, certification, registration or the equivalent will have to cease and our overall business could be adversely affected. In addition, there can be no assurance that these regulatory regimes and policies will not change. Our operations and profitability may be adversely affected if the changes that occur are more onerous on us.

The nature of our business requires us to design and produce equipment and systems and provide services in response to changes in market demand and government regulation. If we are unable to respond to these changes, our business may be adversely affected.

We are affected by and must comply with various government regulations that impact our products and operating costs. Government regulations can change, and in China regulations and the enforcement of those regulations are not uniform among regions or even municipalities within regions. In addition, customer preferences or requirements can change. In order to fulfill the constantly changing needs of the market and our clients, we must improve the design and function of our products. As a result, we allocate considerable resources in product development and are actively engaged in designing new products and updating our existing products. However, there can be no assurance that we will succeed in any of the research and development projects undertaken or complete the projects within the estimated timeframe. If we do not develop and introduce new products which are responsive to market demand and government regulations in a timely manner, our competitive position, net sales and gross margins may be materially adversely affected.

If we fail to efficiently manage the manufacturing and logistics agents of our business, or fail to ensure that our products meet our quality standards, our results of operations could be adversely affected.

The manufacturing of our products is complex, requires advanced equipment and includes outsourcing part of the assembly process for components of its fire alarm buttons and modules to independent contractors which were carried out on normal commercial terms and on arm's length basis. We are required to continuously adjust our manufacturing process in an effort to improve efficiency and flexibility. We may experience difficulties in ramping up or down production at our facilities, adopting new manufacturing processes or finding the most efficient way to develop the best technical solutions for new products. In addition, energy shortages have led to certain manufacturing plants in China to curtail their operations at certain times. While we have not experienced any interruptions in our power supply, our manufacturing capabilities could be negatively impacted if our energy supply became less certain. Difficulties in achieving optimal levels of manufacturing efficiency for, and the uninterrupted output of, our products may have a material adverse effect on our results of operation and may result from, among other things, capacity constraints, construction delays or delays in adjusting production at our facilities, upgrading or expanding existing production capacity, changing process technologies or interrupting the data

RISK FACTORS

communication systems that coordinate our operations. In addition, during periods of decline in our sales or delayed product development, we may have excess capacity and may incur various costs relating to existing contractual commitments to suppliers, redundancies, obsolescence of components, impairment of related assets and structural changes to our operations. Also, a failure could occur at any stage of our product creation, manufacturing and delivery processes, resulting in our products not meeting our quality standards, which could have a material adverse effect on our results of operation.

The profitability of our business is subject to factors beyond our control, including the cost of raw materials and labor, as well as the market price of products. In the event our production costs increase or the market price of our products decreases, our profitability could be adversely affected.

The major raw materials used in our products are integrated circuits, electronic components and plastic parts. The price of these raw materials in both domestic and international markets could increase and we do not hedge against that risk. In the meantime, although we enjoy an advantage in scale production and a fairly low level of unit production cost in the industry, with the development of income and living standard of the Chinese population in general, our employees' salary level will be increased correspondingly, resulting in an increase in our labor cost. In addition, due to the competition in the businesses in which we operate, the market price of products tends to decrease over time and that trend is expected to continue in the future. Therefore, any adverse change in the cost of raw materials and labor, as well as the market price of our products may cause our gross profit to decrease and have a negative impact on our profitability.

If our suppliers fail to deliver key components on a timely basis or meet our product quality standards, our business could be materially adversely affected.

Our manufacturing depends on obtaining, on a timely basis, adequate supplies of fully functional components. Expenditure on such raw materials accounted for approximately 88.9%, 89.0% and 89.9% of our total cost of production for the years ended 31 December, 2002, 2003 and 2004. The major raw materials used in our products are integrated circuits, electronic components and plastic parts. In addition, we do not have any long-term agreements with any of these suppliers obligating them to continue to sell components or products to us. If a component supplier fails to meet our supply requirements, such as, most notably, our product quality standards, and consequently some of our products do not meet our internal standards, this could adversely affect our results of operation. Suppliers may from time to time extend lead times, limit supplies or increase prices due to capacity constraints or other factors, which could adversely affect our ability to deliver our products on a timely basis to meet customer demands and dramatically increase the difficulty to manage the product cost control, resulting in a reduction in our gross margins.

We may not maintain sufficient insurance coverage for the risks associated with the operations of our business.

We have obtained insurance coverage for product liability but our insurance coverage may not be sufficient to cover our exposure to such liability. Currently, insurance coverage for product liability is not required under PRC law and may not be considered a common industry practice in China. If our fire alarm system were to fail in the event of a fire, we may be exposed to substantial claims for damages arising from or in connection with product liability and third party liability. Given the evolving nature of PRC law, if we are held liable for any defects in our fire alarm systems, our insurance coverage for product liability and third party liability may also be inadequate to cover any such claims or losses. In addition, our insurance coverage for damage to existing

RISK FACTORS

properties, inventories and facilities may also be inadequate to reimburse our losses in connection with a specific event. If anyone successfully claims damages against us, and in the event our insurance coverage is inadequate to compensate us for that specified loss, such failure could have a material adverse impact on our operating results for the period in which the loss occurred as well as future periods.

Disputes over intellectual property rights could be costly and could deprive us of technology that we need to stay competitive.

We have certain registered patents and trademarks in the PRC, details of which are set out in Appendix VI to this prospectus. However, infringement of intellectual property rights by other enterprises, by way of counterfeiting products, occurs frequently in the PRC. Although we rely upon a combination of trade secrets, confidentiality policies, nondisclosure and other contractual arrangements, and patent, copyright and trademark laws to protect our intellectual property rights, there can be no assurance that the steps we take in this regard are adequate to prevent or deter infringement or other misappropriation of our intellectual property, and we may not be able to detect unauthorized use or take appropriate and timely steps to enforce our intellectual property rights. Any significant infringement of our confidential information and proprietary technologies and processes used in our business could have an adverse effect on our operations.

In addition, we may need to defend our intellectual property rights in legal proceedings. If we do not succeed in these proceedings, we could be required to pay damages, develop non-infringing products and technology or to obtain licenses to certain products and technology. In the event we are required to obtain any licenses, these may not be available on commercially reasonable terms. Also, defending claims may be expensive and would divert the efforts of our management and technical personnel.

There can be no assurance that we will be able to identify attractive acquisition targets or successfully integrate any future acquisitions into our business.

As part of our business strategy, we intend to consider acquiring companies, technologies or products that could accelerate our ability to compete in our core markets or allow us to enter into new markets. There can be no assurance, however, that we will be able to identify any appropriate acquisition candidates. Moreover, even if we are able to identify an appropriate acquisition candidate, there can be no assurance that we will be able to successfully negotiate the terms, finance the acquisition or integrate the acquired business, products or technologies into our existing business.

In addition, if we finance our acquisition by issuing convertible debt or equity securities, our existing Shareholders may be diluted, which could affect the market price of our Shares. As a result, if we fail to properly evaluate acquisitions or investments, we may not achieve the anticipated benefits of the acquisition, and we may incur costs in excess of what we anticipate, which may result in a material adverse effect on our business, financial condition and results of operation.

We are dependent on our senior management team to manage and develop the business and key technical employees to design and develop our products, and the loss of any key member of our team may impair our ability to operate effectively and may adversely affect our business.

The success of our business depends in part on the expertise of certain members of our senior management and employees who design and develop the products. Although we have entered into non-compete agreements with certain of these key employees, there can be no assurance that we

RISK FACTORS

could successfully enforce those agreements. Furthermore, although we have established incentives to retain our existing management and certain key personnel, no assurance can be given that these incentives will be sufficient to retain these employees. If any key members of our management or key employees, such as Song Jiacheng and Cao Yu, become unable or unwilling to continue in their roles, and we are unable to similarly qualified and experienced personnel. This may have a material adverse effect on our business.

We may experience cost overruns or delays in completion in connection with the construction of our new manufacturing facility.

In order to improve our manufacturing capability, we plan to finish construction of a new manufacturing facility in Beijing in 2007. The construction of this new manufacturing facility may be adversely affected by project completion delays and cost overruns. Factors which may contribute to project completion delays and cost overruns include availability and price changes of key equipment or materials, cost and unavailability of financing, risks relating to construction, changes in safety and/or environmental requirements, changes in general economic conditions in the PRC, adverse weather conditions, natural disasters, accidents and other unforeseen circumstances and problems. This may cause delays in effecting our plans for proceeds raised from the Global Offering. A significant delay in the completion of this project or a material increase in the costs of the project would adversely affect our growth strategy and implementation plan.

We have no control over the timing of completion of projects in which we provide installation services. Accordingly, we may not be able to recognize revenue for these services until the completion of the projects.

When we provide building installation services, the time required for completion of the work depends on various factors such as the complexity of the project and the progress of work of other contractors working on the same project. Delay caused by other contractors may postpone our completion schedule. If an installment payment method is adopted in the course of the provision of services, even if we complete our work on time, we may not receive the balance of the contract sum until the subject property in which the systems are installed has successfully passed the inspection by the relevant governmental authorities and received verification issued by those authorities. The time gap between the completion of the installation of systems by us and the issuance of the verification typically ranges from one to three months. As we lack the ability to control the entire completion schedule, it is not certain when the revenue generated from the provision of installation services will be recognized and reflected in our accounts, which could adversely affect our results of operation and financial position.

If we are not successful in our applications for product certifications in other countries, it would hinder our ability to market and sell our products overseas, which could impact our plan to expand overseas.

Currently we sell some of our products, primarily fire alarm systems products, to some countries in the Middle East, Europe, Africa, as well as South and Southeast Asia. As part of our growth strategy, we intend to further expand our overseas markets in North America and other parts of Europe. To facilitate the sale of our products in these overseas markets, we have been applying for the relevant product certifications for our products in these countries. The standard for the product certification varies from country to country. Products which can satisfy the required standard in one country may or may not satisfy the standard in another country. If we do not succeed in applying for the relevant product certifications in any such countries, we may face difficulties to export our products to these countries, affecting our ability to develop our overseas business.

RISK FACTORS

Our results of operations are subject to seasonality and may fluctuate from period to period.

Our business is subject to seasonality with lower revenue occurring typically in January and February which affects our results for the first quarter of our financial year. This seasonality is due in part to the slowdown in construction and installation work during the Chinese New Year holiday period and the cold winter season. Our operating results for the first quarter of the financial year may not be directly comparable with other quarters of the financial year. As such, seasonality may affect our revenue and profitability from quarter to quarter.

There can be no assurance that dividends will be paid annually at a steady rate or at all.

The declaration, payment and amount of any dividend on the Shares will be subject to the discretion of the Board, and will depend upon, among others, our results of operation, cash flows and financial condition, operating and capital requirements and other relevant factors prevailing at the time. Our future declaration of dividends may or may not reflect our historical declarations of dividends. There is no assurance that dividends will be paid annually at a steady rate or at all.

An outbreak of severe acute respiratory syndrome (“SARS”) or other serious infection may adversely and materially affect our business.

The outbreak of SARS at the end of 2002 in China had significant adverse impact on the normal operation and completion of Chinese construction projects, which also caused delays or even stoppage of product delivery to our customers and raw materials delivery to us and seriously affected our operations in 2003. The outbreak of SARS or other serious infection or similar circumstances beyond our control in the future may similarly interrupt our operations and adversely affect our profitability.

RISKS RELATED TO THE FIRE ALARM SYSTEMS INDUSTRY IN CHINA

Growth in the fire alarm systems industry, as well as the markets for security systems and building automation products and related products, is highly dependent on growth in the cyclical PRC real estate market. Any downturn in the PRC real estate market could therefore adversely affect our business.

Growth in the fire alarm systems industry, as well as the markets for security systems and building automation products and related products, is dependent on the continued economic development of the PRC in general and residential and commercial construction in particular. Since the late 1990s, the PRC Government has been encouraging the development of the real estate market. However, the PRC Government has raised concerns relating to the imbalanced development of the property market in the PRC and proposed measures to adjust the development speed of the real estate industry. Accordingly, the People’s Bank of China has recently raised mortgage lending rates and the minimum down payment for mortgage loans in certain areas of China in an attempt to regulate the real estate industry in the PRC. If the PRC Government’s measures slow the growth of the property market, or if there is a decrease in the growth of the property market for other reasons, the construction and real estate market could be adversely affected, which could result in a material adverse effect on our business.

RISK FACTORS

The fire alarm systems industry is highly competitive. The entry of new players and emergence of new technologies and products may cause increased competition and uncertainties in the future, and our business would suffer if we could not successfully compete with other companies in the market.

The fire alarm systems industry in China has undergone substantial changes over the last decade, and is expected to continue to develop rapidly. Although the industry in general and the fire alarm systems products market in particular was initially dominated by overseas manufacturers, in recent years a number of domestic manufacturers have gained market share in China and have penetrated many market segments previously dominated by overseas manufacturers. In the future, we expect to face increased competition as both existing competitors and new players entering the market will compete with us on the basis of price, emerging technology, greater financial and research and development capabilities, or a combination of those factors. These and other factors that we may not foresee may present great challenges to us. We cannot assure you that we will be able to fully anticipate these uncertainties or meet these challenges successfully.

If establishment of fire alarm network control centers does not become mandatory nationwide, or if local rules are not enforced, the development of our networking business may be hindered.

Currently there are about 53 municipalities in the PRC which have established fire alarm network control centers. Our strategy has been to expand our fire security business by promoting the sale of our fire alarm network systems to those network control centers. While some local governments have issued notices or opinions requiring the compulsory establishment of automatic fire alarm network control centers, on a national basis China has not promulgated any laws and regulations in this regard. In addition, the local opinions or policies requiring the compulsory establishment of fire alarm network control centers may not be enforced. In the event networking control centers do not become mandatory in many of the regions or municipalities of the PRC, or are not enforced where they are in effect, we may not be able to realize the level of growth of our fire alarm network systems that we hope to attain.

RISKS RELATED TO THE PRC

Political and economic policies of the PRC Government could affect our business, results of operation and financial condition.

Substantially all of our business assets and operations are located in the PRC. As a result, our business, results of operation and financial condition are subject to the political, economic, legal and social conditions, laws, regulations and policies in the PRC. The economy of the PRC differs from the economies of most developed countries in such respects as structure, level of government involvement, level of development, growth rate, level and control of capital reinvestment, allocation of resources, rate of inflation and control of foreign exchange.

Before its adoption of reform and open door policies beginning in 1978, China was primarily a planned economy. Since that time, the PRC Government has been reforming the PRC economic system, and has also begun reforming the government structure in recent years. These reforms have resulted in significant economic growth and social progress. Although the PRC Government still owns a significant portion of the productive assets in the PRC, economic reform policies since the late 1970s have emphasized autonomy in business management and the importance of market forces, especially where these policies apply to privately owned businesses such as ours. Although we believe these reforms will have a positive effect on our overall and long-term development, we

RISK FACTORS

cannot predict whether changes in the PRC's political, economic and social conditions, laws, regulations and policies will have any adverse effect on our current or future business, results of operations or financial condition.

The PRC legal system is not fully developed and there are inherent uncertainties that could limit the legal protections available to our Shareholders.

The PRC legal system is based on written statutes and their interpretation by the Standing Committee of the National People's Congress. Prior court decisions may be cited for reference. Since 1979, the PRC Government has been developing a comprehensive system of commercial laws, and considerable progress has been made in introducing laws and regulations dealing with economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade. However, because these laws and regulations are relatively new, as well as the limited number of published cases and their non-binding nature, the interpretation and enforcement of these laws and regulations involve uncertainties.

As an investor holding our Shares, you hold an indirect interest in our operations in China, which are subject to PRC regulations governing PRC companies. These regulations contain provisions that are required to be included in the articles of association of PRC companies and are intended to regulate the internal affairs of these companies. The PRC Company Law and these regulations, in general, and the provisions for the protection of Shareholders' rights and access to information, in particular, are less developed than those applicable to companies incorporated in Hong Kong, the United States and other developed countries or regions. Therefore, our PRC subsidiaries (and indirectly, you) do not enjoy all the shareholder protections that are available in the more developed jurisdictions.

It may be difficult to effect service of process upon us or our Directors or executive officers who live in the PRC or to enforce against them in the PRC any judgments obtained from non-PRC courts.

A majority of our Directors and executive officers reside within the PRC, and substantially all of our assets and substantially all of the assets of those persons are located within the PRC. Therefore, it may not be possible for investors to effect service of process upon us or those persons inside the PRC or to enforce against them in the PRC any judgments obtained from non-PRC courts.

China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with Hong Kong, the United States, the United Kingdom, Japan or most other developed countries. Therefore recognition and enforcement in China of judgments of a court in any of these jurisdictions in relation to any matter not subject to a binding arbitration provision may be difficult or impossible.

Government control of currency conversion and future movements in exchange rates may adversely affect our ability to distribute dividends, increase competition from imports, affect the value of our net assets, earnings and dividends in foreign currency terms, or inhibit our ability to import equipment.

Renminbi currently is not a freely convertible currency. Presently, our operations are primarily in China and we receive almost all of our revenues in Renminbi. Although our exposure to the foreign exchange risk remains fairly limited, we plan to purchase certain raw materials as well as equipment from overseas vendors, thus increasing foreign-currency denominated obligations. In addition, we will be required to pay dividends in foreign currency to our Shareholders.

RISK FACTORS

Any future exchange rate volatility relating to Renminbi may give rise to uncertainties in the value of our net assets, earnings and dividends. An appreciation of Renminbi may subject us to increased competition from foreign competitors; a devaluation of Renminbi may adversely affect the value of our net assets, earnings and dividends in foreign currency terms.

Under the existing foreign exchange regulations in the PRC, we may undertake current account foreign exchange transactions, including payment of dividends, without prior approval from the State Administration of Foreign Exchange, or “SAFE”, by producing commercial documents evidencing such transactions, provided that they are processed through designated banks licensed to engage in foreign currency transactions. However, foreign exchange transactions for capital account purposes, which may include direct overseas investment and various international loans, require the prior approval of or registration with SAFE. If we are unable to obtain SAFE’s consent to convert Renminbi into foreign currencies for such purposes, our capital expenditure plan and, consequently, our results of operation and financial condition could be adversely affected.

If the favorable tax treatment that we currently receive is altered or eliminated, our business may be adversely affected.

We have benefited from favourable tax treatment from the PRC Government. Our subsidiaries, GST, Gulf Network and Gulf Meters are entitled to exemptions from the PRC enterprise income tax for the first two years they start to make profit and at 50% discount of the then effective tax rate for three subsequent years. In addition, GST and Gulf Network are entitled to an immediate tax refunds for software products developed and produced in-house equivalent to the actual value-added tax paid in excess of 3% after paying the value-added tax at the statutory tax rate of 17%. There can be no assurance that the PRC Government will not revise taxation rules or regulations in the future. If any such changes are not favourable to us, our profitability and financial position may be adversely affected.

PRC laws and foreign exchange controls may affect our ability to receive dividends and other payments from our PRC subsidiaries.

Our PRC subsidiaries are subject to the PRC rules and regulations on currency conversion. The ability of our PRC subsidiaries to pay dividends or make other distributions to us may be restricted by these PRC foreign exchange control restrictions. In addition, under PRC law and upon the listing of our Shares on the Stock Exchange, our subsidiaries may only pay dividends out of distributable reserves as determined under PRC GAAP. As a result, our subsidiaries may not have sufficient or any distributable reserves to make dividend distributions to us in the future, including in respect of periods which its financial statements indicate that operations have been profitable. We cannot assure you that the relevant regulations will not be amended to our disadvantage and that the ability of our PRC subsidiaries to distribute dividends to us will not be adversely affected.

RISKS RELATED TO THE GLOBAL OFFERING

There has been no prior public market for our Shares, and an active trading market may not develop after the Global Offering.

Prior to the Global Offering, there was no public market for our Shares. The initial offer price range to the public for our Shares was the result of negotiations among us and the Underwriters, and the Offer Price may differ significantly from the market price for our Shares following the Global

RISK FACTORS

Offering. We have applied to list and deal in our Shares on the Stock Exchange. However, a listing on the Stock Exchange does not guarantee that an active trading market for our Shares will develop following the Global Offering or in the future.

The liquidity and market prices of our Shares following this Global Offering may be volatile.

The price and trading volume of our Shares may be highly volatile. Factors such as variations in our revenues, earnings and cash flows, announcements of new investments, strategic alliances and/or acquisitions, fluctuations in market prices for our products and services or fluctuations in market prices for companies in our industry could cause the market price of our Shares to change substantially. Any such development may result in large and sudden changes in the volume and price at which our Shares will trade. We can give no assurance that these developments will not occur in the future. In addition, shares of other companies listed on the Stock Exchange with significant operations and assets in the PRC have experienced substantial price volatility in the past, and it is possible that our Shares will be subject to changes in price that may not be directly related to our financial or business performance.

Because the initial public offering price is higher than the net tangible book value per Share, you will incur immediate dilution.

The initial public offering price of our Shares is higher than the net tangible book value per Share issued to our original Shareholders. Therefore, purchasers of our Shares in the Global Offering will experience an immediate dilution in pro forma consolidated net tangible book value of HK\$1.11 per Share (assuming an Offer Price of HK\$1.875, being the mid-point of the stated offer price range of HK\$1.69 and HK\$2.06 per Share), and our parent company will receive an increase in the net tangible book value per Share of their Shares. If we issue additional Shares in the future, purchasers of our Shares may experience further dilution.

Sales of substantial amounts of our Shares in the public market after the Global Offering could adversely affect the prevailing market price of our Offer Shares.

Immediately after the completion of the Global Offering, we will have 800,000,000 Shares in issue, of which 200,000,000 Shares, or 25%, will be publicly held by investors participating in the Global Offering and 600,000,000 Shares, or 75%, will be privately held by the existing shareholders (assuming the Over-allotment Option is not exercised). Our Offer Shares sold in the Global Offering will be eligible for immediate resale in the public market in Hong Kong without restriction, while our Shares held by GST International Management may be sold in the public market subject to a contractual lockup of 12 months following the Listing Date. If our controlling shareholder sells a substantial amount of its Shares, the prevailing market price for our Offer Shares could be adversely affected.

Our ability to raise capital in the future may be limited, and our failure to raise capital when needed could prevent us from executing our growth strategy.

We believe that our existing cash and cash equivalents together with the net proceeds from this Global Offering will be sufficient to meet our anticipated cash needs for the next 12 months. The timing and amount of our working capital and capital expenditure requirements may vary significantly depending on a number of factors, including market acceptance of our products, the need to adapt to changing technologies and technical requirements, and the existence of opportunities for expansion.

RISK FACTORS

If our capital resources are insufficient to satisfy our liquidity requirements, we may seek to sell additional equity securities or debt securities or obtain debt financing. The sale of additional equity securities or convertible debt securities could result in additional dilution to our Shareholders. Additional debt would result in increased expenses and could result in covenants that would restrict our operations. We have not made arrangements to obtain additional financing, and there is no assurance that financing, if required, will be available in amounts or on terms acceptable to us, if at all.

We will be controlled by GST International Management, whose interests may differ from those of other Shareholders.

Immediately following the Global Offering, GST International Management will own 62.65% of our issued share capital (assuming no exercise of the Over-allotment Option) and will control us. As our largest shareholder, GST International Management will be able to control the election of Directors, direct our major policy decisions, including decisions concerning strategic, investment, finance, acquisition, disposal, dividend, constitutional and other issues; and influence other areas of policy and management. The interests of GST International Management could conflict with the interests of other Shareholders. There can be no assurance that GST International Management will not take actions that favour its own interests or views but that do not favour the interests or are not in accord with the views of other Shareholders.

There are risks associated with forward-looking statements.

This prospectus contains certain statements and information that are “forward-looking” and uses forward-looking terminology such as “anticipate”, “believe”, “could”, “expect”, “estimate”, “may”, “ought to”, “should” or “will”. Those statements include, among other things, the discussion of our growth strategy and expectations concerning its future operations, liquidity and capital resources. Purchasers of the Shares are cautioned that reliance on any forward-looking statements involves risks and uncertainties and that, although we believe the assumptions on which the forward-looking statements are based are reasonable, any or all of those assumptions could prove to be incorrect and as a result, the forward-looking statements based on those assumptions could also be incorrect. The uncertainties in this regard include, but are not limited to, those identified in this “Risk Factors” section, many of which are not within our control. In light of these and other uncertainties, the inclusion of forward-looking statements in this prospectus should not be regarded as representations by us that our plans or objectives will be achieved, and investors should not place undue reliance on such forward-looking statements. We do not undertake any obligation to update publicly or release any revisions of any forward-looking statements in this prospectus, whether as result of new information, future events or otherwise.

Certain facts and statistics contained in this prospectus have come from official government publications whose reliability cannot be assumed or assured.

Certain facts and statistics in this prospectus relating to the PRC, its economy and the industries in which we operate within the PRC are derived from official government publications generally believed to be reliable. While we have taken reasonable care to reproduce such information, we cannot guarantee the quality and reliability of such source material. These facts and statistics have not been independently verified us and therefore we make no representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside the PRC and may not be complete or up-to-date. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics herein may be inaccurate or may not be comparable from period to

RISK FACTORS

period or to statistics produced for other economies and should not be unduly relied upon. Further there can be no assurance that they are stated or compiled on the same basis or with the same degree or accuracy as may be the case elsewhere.

In all cases, investors should give consideration as to how much weight or importance they should place on all such facts and statistics.

RULE 8.12 OF THE LISTING RULES

According to Rule 8.12 of the Listing Rules, a new applicant applying for a primary listing on the Stock Exchange must have a sufficient management presence in Hong Kong, and this will normally mean that at least two of its executive Directors must be ordinarily resident in Hong Kong.

Since substantially all of the Company's business operations, sales and management are located in the PRC, there is no business need to appoint executive Directors to be based in Hong Kong. As substantially most of its executive Directors currently reside in the PRC, the Company does not, and does not contemplate in the foreseeable future that it will have a sufficient management presence in Hong Kong for the purpose of satisfying the requirement under Rule 8.12 of the Listing Rules.

An application has been made to the Stock Exchange for a waiver from strict compliance with the requirement to have a sufficient management presence in Hong Kong under Rule 8.12 of the Listing Rules and such waiver has been granted by the Stock Exchange.

The arrangements proposed by the Company for maintaining regular and effective communication with the Stock Exchange for the purpose of Rule 8.12 of the Listing Rules are (i) the Company will have at least two independent non-executive directors who ordinarily reside in Hong Kong; (ii) one of the Company's authorized representatives, namely, Mr Kong Wai Kit will ordinarily reside in Hong Kong. Mr Lee Kwan Hung, Eddie, a non-executive Director and alternate authorized representative to Mr Cao Yu, also ordinarily resides in Hong Kong. The Directors who do not ordinarily reside in Hong Kong will be readily contactable through one of the Directors ordinarily reside in Hong Kong by telephone, facsimile or email. The authorized representatives will act as the principal channel of communication between the Company and the Stock Exchange. The authorized representatives will provide their usual contact details to the Stock Exchange and will be readily contactable by the Stock Exchange if necessary; (iii) the Company will retain legal advisers to advise on on-going compliance requirements and other issues arising under the Listing Rules and other applicable laws and regulations in Hong Kong after the Global Offering; and (iv) the Company will retain compliance adviser acceptable to the Stock Exchange to advise on corporate finance matters after listing for the period commencing on the Listing Date and ending on the date on which it complies with Rule 13.46 of the Listing Rules in respect of its financial results for the first full financial year commencing after the Listing Date pursuant to Rule 3A.19 of the Listing Rules.

RULE 10.07(1)(a) OF THE LISTING RULES

Under Rule 10.07(1) of the Listing Rules, controlling shareholder(s) (as defined under the Listing Rules) shall not and shall procure that the relevant registered holder(s) shall not (a) in the period commencing on the date by reference to which disclosure of the shareholding of such controlling shareholder(s) is made in the listing document and ending on the date which is six months from the date on which dealings in the securities of the listing applicant commence on the Stock Exchange, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of those securities in respect of which such controlling shareholder(s) is shown by the listing document to be the beneficial owner(s); or (b) in the period of six months commencing on the date on which the period referred to in Rule 10.07(1)(a) of the Listing Rules expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the securities referred to in Rule 10.07(1)(a) of the Listing Rules if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, that person or group of persons would cease to be a controlling shareholder.

WAIVERS FROM COMPLIANCE WITH THE LISTING RULES

In order to facilitate the exercise of over-allocations in connection with the Global Offering, stock borrowing arrangements are proposed to be entered into between GST International Management and Morgan Stanley & Co. International Limited pursuant to which GST International Management will, if requested by Morgan Stanley & Co. International Limited and subject to the terms of the stock borrowing arrangements, make available to Morgan Stanley & Co. International Limited up to such number of Shares held by it which is equivalent to such number of new Shares to be allotted and issued by the Company under the Over-allotment Option, by way of stock borrowing, in order to cover the over-allocations in connection with the International Offering, if any.

For the purposes of these stock borrowing arrangements, an application has been made to the Stock Exchange for a waiver from strict compliance with Rule 10.07(1)(a) of the Listing Rules which otherwise restricts the disposal of shares by controlling shareholders following a new listing. Such waiver has been granted by the Stock Exchange on the conditions that:

- (1) the stock borrowing arrangements with GST International Management will only be effected by Morgan Stanley & Co. International Limited for settlement of over-allocations in the International Offering;
- (2) the maximum number of Shares borrowed from GST International Management by Morgan Stanley & Co. International Limited will be limited to the maximum number of Shares which may be allotted and issued by the Company upon exercise of the Over-allotment Option;
- (3) the same number of Shares so borrowed must be returned to GST International Management or its nominees (as the case may be), no later than three business days following the earlier of (a) the last day on which the Over-allotment Option may be exercised and (b) the day on which the Over-allotment Option is exercised in full;
- (4) the stock borrowing arrangements will be effected in compliance with all applicable laws and regulatory requirements; and
- (5) no payments will be made to GST International Management by Morgan Stanley & Co. International Limited under the stock borrowing arrangements.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus includes particulars given in compliance with the Hong Kong Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules and the Listing Rules for the purposes of giving information to the public with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement in this prospectus misleading.

UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offering. For applicants under the Hong Kong Public Offering, this prospectus and the related Application Forms contain the terms and conditions of the Hong Kong Public Offering. The Global Offering comprises the Hong Kong Public Offering of initially 20,000,000 Shares and the International Offering of initially 180,000,000 Shares (subject, in each case, to reallocation on the basis described in the section headed “Structure of the Global Offering” in this prospectus)

The listing of the Shares on the Stock Exchange is sponsored by Morgan Stanley as Sponsor. Pursuant to the Hong Kong Underwriting Agreement, the Hong Kong Public Offering is underwritten by the Hong Kong Underwriters on a conditional basis, with one of the conditions that the Offer Price is agreed between the Global Co-ordinator, on behalf of the Underwriters, and us. The International Offering is managed by the Global Co-ordinator and is underwritten by the International Underwriters. The International Underwriting Agreement is expected to be entered into on or around Friday, 24 June, 2005, subject to agreement on the Offer Price between the Company and the Global Co-ordinator, on behalf of the Underwriters. If, for any reason, the Offer Price is not agreed between the Company and the Global Co-ordinator, on behalf of the Underwriters, the Global Offering will not proceed. Further details about the Underwriters and the underwriting arrangements are contained in the section headed “Underwriting” in this prospectus.

DETERMINATION OF THE OFFER PRICE

The Offer Shares are being offered at the Offer Price which will be determined by the Global Co-ordinator (on behalf of the Underwriters) and the Company on or around Friday, 24 June, 2005, and in any event no later than Sunday, 26 June, 2005.

If the Global Co-ordinator (on behalf of the Underwriters) and the Company are unable to reach an agreement on the Offer Price on Sunday, 26 June, 2005, or such later date or time as may be agreed between the Global Co-ordinator (on behalf of the Underwriters) and the Company, the Global Offering will not become unconditional and will lapse.

RESTRICTIONS ON SALE OF SHARES

No action has been taken to permit a public offer of the Offer Shares or the general distribution of this prospectus and/or the related Application Forms in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purposes of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

The Offer Shares are offered for subscription solely on the basis of the information contained and representations made in this prospectus and the related Application Forms, and on the terms and subject to the conditions set out herein and therein. No person is authorized in connection with the Global Offering to give any information, or to make any representation, not contained in this prospectus, and any information or representation not contained in this prospectus must not be relied upon as having been authorized by the Company, the Underwriters, any of their respective directors or any other persons or parties involved in the Global Offering.

United States

The Offer Shares have not been, and will not be, registered under the U.S. Securities Act, and subject to certain exceptions may not be offered, sold, pledged or otherwise transferred within the United States, except to QIBs in accordance with Rule 144A or outside the United States in accordance with Rule 903 or Rule 904 of Regulation S. The Offer Shares are being offered and sold outside the United States in reliance on Regulation S and within the United States to QIBs in reliance on Rule 144A. In addition, until 40 days after the later of the commencement of the Global Offering and the completion of the distribution of the Offer Shares, an offer or sale of Offer Shares within the United States by any dealer (whether or not participating in the Global Offering) may violate the registration requirements of the U.S. Securities Act if such offer or sale is made otherwise than in accordance with an exemption from, or in a transaction not subject to, such requirements or in accordance with Rule 144A.

The Offer Shares have not been approved or disapproved by the United States Securities and Exchange Commission, any state securities commission in the United States or any other United States regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the Global Offering or the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offence in the United States.

United Kingdom

This prospectus has not been approved by an authorized person in the United Kingdom and has not been registered with the Registrar of Companies in the United Kingdom. The Offer Shares may not be offered or sold in the United Kingdom and, prior to the expiry of a period of six months from the latest date of the issue of the Offer Shares, will not be offered or sold to any persons in the United Kingdom, except to persons whose ordinary activities involve acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses, or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995. In addition, no person may communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the “FSMA”)) received by it in connection with the issue or sale of any Shares except in circumstances in which section 21(1) of the FSMA does not apply to our Company.

Australia

This document is not a disclosure document under the Corporations Act 2001 (Cth) (“the Australian Corporations Act”) and does not purport to include the information required of a disclosure document under the Australian Corporations Act. The offer of the Offer Shares under this Prospectus may only be made to persons who are “sophisticated investors” (within the meaning of

section 708(8) of the Australian Corporations Act) or “professional investors” (within the meaning of section 708(11) of the Australian Corporations Act) so that it is lawful to offer the Offer Shares without disclosure to investors under Chapter 6D of the Australian Corporations Act.

Ireland

Each of the Underwriters has, warranted and agreed that:

- (a) it has not offered or sold and will not, for so long as the Companies Act, 1963 of Ireland (as amended) (the “1963 Act”) and the European Communities (Transferable Securities and Stock Exchange) Regulations, 1992 (as amended) (the “1992 Regulations”) remain in force in relation to the Offering Shares, offer or sell any Offer Shares by means of any document except in circumstances which have not resulted or will not result in an offer to the public within the meaning of the Irish Companies Acts 1963 to 2003 (as amended from time to time) (the “Irish Acts”) and/or the 1992 Regulations; and
- (b) it has complied with and will comply with all applicable provisions of the Irish Acts, the 1992 Regulations and the Irish Investment Intermediaries Act, 1995 (as amended) (including, without limitation, Sections 9, 23 (including any advertising restrictions made thereunder) and 50 and will conduct itself in accordance with any code of conduct drawn up pursuant to Section 37)) with respect to anything done by it in relation to the Offer Shares.

Canada

The Offer Shares will not be qualified for sale under the securities laws of any province or territory of Canada. Each of the Underwriters has represented and agreed that it has not offered, sold or distributed and will not offer, sell or distribute any securities, directly or indirectly, in Canada or to or for the benefit of any resident of Canada, other than in compliance with applicable securities laws. Each Underwriter has also represented and agreed that it has not distributed or delivered and will not distribute or deliver the offering circular, or any other offering material in connection with any offering of the offering shares, in Canada other than in compliance with applicable securities laws.

France

This prospectus has not been prepared in the context of a public offering of securities in France within the meaning of Article L.411-1 of the French Code monétaire et financier and has therefore not been submitted to the Autorité des marchés financiers for prior approval. It is made available only to qualified investors and/or to a limited circle of investors (as defined in Article L.411-2 of the French Code monétaire et financier and in the Decree no. 98-880 dated 1 October, 1998), on the condition that it shall not be passed on to any person nor reproduced (in whole or in part), that investors act for their own account in accordance with the terms set out by the said decree and undertake not to retransfer, directly or indirectly, the securities in France, other than in compliance with applicable laws and regulations (Articles L.411-1, L.412-2 and L.621-8 of the French Code monétaire et financier) and that, in the case of an offering to a limited circle of investors, comprising more than 100 investors, such investors have testified that they have personal family or personal business ties to a member of the governing body of our Company.

Germany

Each Underwriter has confirmed that it is aware of the fact that no German sales prospectus (Verkaufsprospekt) within the meaning of the Securities Sales Prospectus Act (Wertpapier-Verkaufsprospektgesetz, the “Prospectus Act”) of the Federal Republic of Germany has been or will be published with respect to the Offer Shares and that it will comply with the Prospectus Act and any other laws and legal and regulatory requirements applicable in the Federal Republic of Germany with respect to the issue, sale and offering of securities. In particular, each of the Underwriter has represented that it has not engaged and has agreed that it will not engage in a public offering (öffentlicher Angebot) within the meaning of the Prospectus Act with respect to any Offer Shares otherwise than in accordance with the Prospectus Act.

Belgium

Neither this prospectus nor any offering material relating to the Offer Shares has been or will be submitted to the “*Commission Bancaire et Financière/Commissie voor het Bank-en Financiewezen*” for approval. Therefore, this prospectus will not constitute a prospectus under Belgium law. Accordingly, neither this prospectus nor any offering material relating to the Offer Shares may be distributed or caused to be distributed, directly or indirectly, to the public in Belgium, except to “qualified investors”, as defined in Article 3, 2° of the Royal Decree of 7 July, 1999 on the public character of financial transactions and acting for their own account, and a restricted group of potential investors (without the intervention of any intermediaries other than those permitted under Belgian law), defined as a group of less than 51 persons, or, without restrictions, if the consideration to be paid by each investor amounts to at least Euro 250,000.

The Netherlands

No contractually binding offers (or solicitations of such offers) in respect of the Offer Shares shall be made to any individual or legal entity *in The Netherlands*, and no offer of the Offer Shares shall be announced in writing (whether electronically or otherwise) *in The Netherlands*, other than to individuals or legal entities, who or which trade or invest in securities in the conduct of a business or profession (which includes banks, securities intermediaries (including dealers and brokers), insurance companies, pension funds, collective investment institutions, central governments, large international and supranational organisations, other institutional investors and other parties, including treasury departments of commercial enterprises, which as an ancillary activity regularly invest in securities; hereinafter “Professional Investors”) and in any documents or advertisements in which a forthcoming offering of such Shares is publicly announced (whether electronically or otherwise) *in The Netherlands* it is stated that such offer is and will be exclusively made to such Professional Investors.

Singapore

This prospectus has not been and will not be lodged as a prospectus with the Monetary Authority of Singapore and the Offer Shares will be offered in Singapore pursuant to exemptions invoked under Subdivision 4, Division 1, of Part XIII, particularly section 274 and section 275, of the Securities and Futures Act (Cap 289, 2002 Rev Edn) of Singapore (the “SFA”). Accordingly, this prospectus and any other offering document or materials in connection with the offer of the Offer Shares may not be issued, circulated or distributed in Singapore nor may any of the Offer Shares be offered for subscription or purchased or sold, directly or indirectly, nor may an invitation or offer to subscribe for or purchase any Offer Shares be made, directly or indirectly, to the public or any member of the public in Singapore other than (a) pursuant to, and in accordance with the

conditions of, exemptions invoked under Subdivision 4, Division 1, of Part XIII, particularly section 274 and section 275, of the SFA and to persons to whom the Offer Shares may be offered or sold under such exemption; or (b) otherwise pursuant to, and in accordance with any other conditions of any other provision of the SFA.

Japan

The Offer Shares have not been and will not be registered under the Securities and Exchange Law of Japan (the “SEL”). The Offer Shares which are being offered hereby may not be offered or sold, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to any exemption available from the registration requirements of the SEL and in compliance with any other applicable requirements of Japanese law. Such other applicable requirements may include (i) the reporting or other regulations under the Foreign Exchange and Foreign Trade Law of Japan, (ii) restrictions on transferability under the SEL, and (iii) regulations of the Japan Securities Dealers Association. As used in this paragraph, a resident of Japan means any individual residing in Japan and business offices located in Japan, including any corporation or other entity established under the laws of Japan.

PRC

This prospectus has not been and will not be circulated or distributed in the PRC and the Offer Shares may not be offered or sold directly or indirectly to any resident of the PRC, or offered or sold to any person for re-offer or re-sale directly or indirectly to any resident of the PRC, except pursuant to applicable laws and regulations of the PRC. For the purposes of this paragraph, PRC does not include Hong Kong, Macau and Taiwan.

Cayman Islands

No offer of Offer Shares may be made to the public in the Cayman Islands.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

Application has been made to the Listing Committee for the Listing of, and permission to deal in, Shares in issue and to be issued pursuant to the Capitalization Issue, the Shares which may fall to be issued under the Over-allotment Option and upon the exercise of options which may be granted under the Share Option Scheme.

Save as disclosed herein, no part of the share or loan capital of the Company is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or is proposed to be sought in the near future.

HONG KONG SHARE REGISTER AND STAMP DUTY

All Shares issued pursuant to applications made in the Hong Kong Public Offering and the International Offering will be registered on the Company’s branch register of members to be maintained in Hong Kong. The Company’s principal register of members will be maintained by the Company’s principal share registrar in the Cayman Islands.

Dealings in the Shares registered in the branch register of the Company in Hong Kong will be subject to Hong Kong stamp duty.

Unless determined otherwise by the Company, dividends payable in Hong Kong dollars in respect of Shares will be paid to the Shareholders listed on the Hong Kong branch register of the Company, by ordinary post, at the Shareholders' risk, to the registered address of each shareholder of the Company.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, the Shares on the Stock Exchange and the Company's compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or any other date as HKSCC chooses. Settlement of transaction between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made for the Shares to be admitted into CCASS.

PROFESSIONAL TAX ADVICE RECOMMENDED

Applicants for the Offer Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of holding and dealing in the Shares. It is emphasized that none of the Company, the Underwriters, the Sponsor, any of their respective directors, supervisors, agents or advisers or any other person involved in the Global Offering accepts responsibility for any tax effects or liabilities of holders of Shares resulting from the subscription, purchase, holding or disposal of Shares.

OVER-ALLOTMENT AND STABILIZATION

In connection with the Global Offering, the Global Co-ordinator (on behalf of the Underwriters) or any person acting for it may over-allot or effect transactions with a view to prevent a decline in the market price of the Shares for a limited period after the issue date. However, there is no obligation on the Global Co-ordinator or any person acting for it to do this. Such stabilization action, if taken, may be discontinued at any time and is required to be brought to an end after a limited period. In Hong Kong and certain other jurisdictions, activity aimed at reducing the market price is prohibited, and the price at which stabilization is effected is not permitted to exceed the Offer Price.

In connection with the Global Offering, the Company intends to grant to the Global Co-ordinator (on behalf of the Underwriters) the Over-allotment Option, such that it may over-allocate or effect any other transactions with a view to stabilising or maintaining the market price of the Shares at a level higher than that which might otherwise prevail in the open market. The option will be exercisable in full or in part by the Global Co-ordinator (on behalf of the Underwriters) for up to 30 days after the last day for the lodging of applications under the Hong Kong Public Offering. Pursuant to the Over-allotment Option, the Company may be required to issue and allot at the Offer Price up to an aggregate of 30,000,000 additional Shares, representing 15% of the total number of Shares initially available under the Global Offering, in connection with over-allocations in the Global Offering, if any.

Further details with respect to stabilization and the Over-allotment Option are set out in the section headed "Structure of the Global Offering — Over-allotment and Stabilization" of this prospectus.

PROCEDURES FOR APPLICATION FOR SHARES

The procedures for applying for the Hong Kong Offer Shares are set out in the section headed “How to Apply for the Hong Kong Offer Shares” and on the relevant Applications Forms.

STRUCTURE OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering” in this prospectus.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

Name	Residential Address	Nationality
<i>Executive Directors</i>		
Song Jiacheng (宋佳城)	No. 801, Building A Shijibaoding Apartment House No. 9 Ding Cheng Road Chaoyang District Beijing PRC	Chinese
Cao Yu (曹榆)	Building 1, Gongyeyuan Zone No. 80 Changjiangdong Road Qinhuangdao Economic & Technological Development Zone Hebei Province PRC	Chinese
Peng Kaichen (彭開臣)	Room 3, 2nd Floor Building 28, Bishuiyuan Qinhuangdao Economic & Technological Development Zone Hebei Province PRC	Chinese
Xu Shaowen (徐紹文)	Room 1710, Building 2 Zijinzhuangyuan Shuzhouqiao Street Haidian District Beijing PRC	Chinese
<i>Non-executive Directors</i>		
Zeng Jun (曾軍)	No. 3B03, No. 66 Minzudaxue Xi Road Haidian District Beijing PRC	Chinese
Lee Kwan Hung, Eddie (李均雄)	Flat G, 21st Floor Block 7, South Horizons Hong Kong	Chinese

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Name	Residential Address	Nationality
<i>Independent non-executive Directors</i>		
Sun Lun (孫倫)	No. 1206, Building 2 Jia-3, Fangxingyuan Fangzhuang, Fengtai District Beijing PRC	Chinese
Chang Tso Tung, Stephen (張祖同)	Flat C, 3rd Floor Shouson Garden 6A Shouson Hill Road Hong Kong	Chinese
Chan Chi On (陳志安)	Flat B, 30th Floor, Block 9 South Horizons Hong Kong	Chinese

Mr Chang Tso Tung, Stephen, Mr Sun Lun and Mr Chan Chi On are members of the audit committee appointed by the Board on 21 February, 2005. Mr Chang Tso Tung, Stephen is the chairman of the audit committee. Mr Chan Chi On, Mr Chang Tso Tung, Stephen and Mr Lee Kwan Hung, Eddie are members of the remuneration committee appointed by the Board on 21 February, 2005. Mr Chan Chi On is the chairman of the remuneration committee.

PARTIES INVOLVED

Global Co-ordinator and Bookrunner	Morgan Stanley Dean Witter Asia Limited 30th Floor, Three Exchange Square Central Hong Kong
Sponsor	Morgan Stanley Dean Witter Asia Limited 30th Floor, Three Exchange Square Central Hong Kong
Joint Lead Managers	Morgan Stanley Dean Witter Asia Limited 30th Floor, Three Exchange Square Central Hong Kong
	DBS Asia Capital Limited 22nd Floor, The Center 99 Queen’s Road Central Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Hong Kong Underwriters

Morgan Stanley Dean Witter Asia Limited
30th Floor, Three Exchange Square
Central
Hong Kong

DBS Asia Capital Limited
22nd Floor, The Center
99 Queen's Road Central
Hong Kong

ICEA Capital Limited
42/F Jardine House
1 Connaught Place
Central
Hong Kong

Celestial Capital Limited
21/F, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

First Shanghai Securities Limited
19/F Wing On House
71 Des Voeux Road
Hong Kong

Prudential Brokerage Limited
9/F World-Wide House
19 Des Voeux Road Central
Central
Hong Kong

Sun Hung Kai International Limited
Level 12, One Pacific Place
88 Queensway
Hong Kong

Tai Fook Securities Company Limited
25th Floor, New World Tower
16–18 Queen's Road Central
Hong Kong

International Underwriters

Morgan Stanley & Co International Limited
25 Cabot Square
Canary Wharf
London E14 4QA
United Kingdom

DBS Asia Capital Limited
22nd Floor, The Center
99 Queen's Road Central
Hong Kong

ICEA Capital Limited
42/F Jardine House
1 Connaught Place
Central
Hong Kong

Auditors and reporting accountants

PricewaterhouseCoopers
Certified Public Accountants
22nd Floor, Prince's Building
Central
Hong Kong

Our legal advisers

as to Hong Kong law
Woo, Kwan, Lee & Lo
27th Floor
Jardine House
One Connaught Place
Central
Hong Kong

as to Cayman Islands law
Conyers Dill & Pearman
Century Yard
Cricket Square
Hutchins Drive
George Town
Grand Cayman
British West Indies

as to PRC law
Commerce & Finance Law Offices
Room 714
Huapu International Plaza
No. 19 Chaowai Avenue
Beijing 100020
PRC

Legal advisers to the Sponsor and the Underwriters

as to Hong Kong law and United States law
Clifford Chance
29th Floor
Jardine House
One Connaught Place
Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Property valuer	Sallmanns (Far East) Limited 22nd Floor, Siu On Centre 188 Lockhart Road Wanchai Hong Kong
Receiving banker	Bank of China (Hong Kong) Limited 1 Garden Road Central Hong Kong

CORPORATE INFORMATION

Registered office	Century Yard Cricket Square Hutchins Drive P.O. Box 2681GT George Town Grand Cayman British West Indies
Head office and principal place of business in Hong Kong	Suite 6308, 63rd Floor Central Plaza 18 Harbour Road Wanchai Hong Kong
Company secretaries	Kong Wai Kit <i>CFA, CPA</i> Codan Trust Company (Cayman) Limited ^(Note)
Qualified accountant	Kong Wai Kit <i>CFA, CPA</i>
Authorized representatives	Kong Wai Kit <i>CFA, CPA</i> Room 3407, 34th Floor Kam Yee House Kam Ying Court Shatin Hong Kong Cao Yu Building 1, Gongyeyuan Zone No. 80 Changjiangdong Road Qinhuangdao Economic & Technological Development Zone Hebei Province PRC Lee Kwan Hung, Eddie <i>(alternate to Mr. Cao Yu)</i> Flat G, 21st Floor Block 7 South Horizons Hong Kong
Compliance adviser	Platinum Securities Company Limited 22nd Floor Standard Chartered Bank Building 4 Des Voeux Road Central Hong Kong

Note: Codan Trust Company (Cayman) Limited shall resign as secretary of the Company on the Listing Date and will be appointed as assistant secretary of the Company on the same date.

CORPORATE INFORMATION

Audit committee	Chang Tso Tung, Stephen Sun Lun Chan Chi On
Remuneration committee	Chan Chi On Chang Tso Tung, Stephen Lee Kwan Hung, Eddie
Principal share registrar and transfer office	Bank of Bermuda (Cayman) Limited P.O. Box 513 GT Strathvale House North Church Street George Town Grand Cayman Cayman Islands British West Indies
Hong Kong branch share registrar and transfer office	Computershare Hong Kong Investor Services Limited Shops 1712–1716 17th Floor Hopewell Centre 183 Queen’s Road East Wanchai Hong Kong
Principal bankers	The Hongkong and Shanghai Banking Corporation Limited Bank of China (Hong Kong) Limited China Construction Bank Industrial and Commercial Bank of China

Certain information furnished in this section is sourced from official government publications. Such information has not been independently verified by the Company, the Sponsor, the Underwriters or their respective directors, officers and advisers, and therefore is not necessarily accurate, complete or updated. While the Company has exercised reasonable prudence in reproducing such information, the Company does not make any representation as to their accuracy and investors should not unduly rely on such information contained in this section. See “Risk Factors — Risks related to the Global Offering — Certain facts and statistics contained in this prospectus have come from official government publications whose reliability cannot be assumed or assured”.

OVERVIEW

We are primarily engaged in the manufacturing and distribution of fire alarm systems and fire alarm network products, as well as related products, including security systems and building automation systems (video entry systems and building automation systems) and electronic power meters. In addition, we offer building installation services for low-voltage products.

THE FIRE PREVENTION PRODUCTS INDUSTRY IN CHINA

The fire prevention products industry in China has been growing in the last decade due to the increase in awareness for fire safety and the related laws and regulations in China. Together with the growth of China’s property and industrial infrastructure development market, there has been increasing demand for such products. See “— Growth Drivers of the Fire Alarm Systems Industry — Growth of China’s property and industrial infrastructure development market”. Currently, there are approximately 2,500 companies engaging in the business of fire prevention products in China. These companies are capable of producing more than 900 types of fire prevention products under 19 broad categories.

Fire Alarm Systems and Network Industry

Fire alarm systems products are our primary market comprising approximately 83.5% of our revenue in 2004. According to i & i, a leading international independent industry research consultancy company, the fire alarm systems market in China (including installation) grew at a compound annual growth rate of 11.9%, from RMB1,512 million in 2000 to RMB2,373 million in 2004, and is expected to grow 11.0% per annum to RMB3,602 million between 2004 and 2008.

We sell to our customers through four distribution channels — installers, value added resellers (including specialist installers), distributors and end-users (including property developers, building owners and contractors). Distributors typically resell to installers and value added resellers (including specialist installers). In addition, in choosing fire alarm systems, our customers are often influenced by third party consultants, architects and engineers. Our customer base tends to be dispersed, with customers typically operating regionally as opposed to nationally, and the largest customer accounted for only 1.5% of our total revenue in 2004. In terms of the Chinese fire alarm systems industry, according to i & i, over half of all fire alarm systems are sold to installers, with the remainder sold to value added resellers (including specialist installers), distributors and end-users (including property developers, building owners and contractors). Currently, we possess a “Grade A” installation licence which enables us to undertake all forms of installation of fire alarm systems in China.

Fire alarm network systems represent a new market in China. With new regulations and enhanced awareness of fire safety, an increasing number of regional fire safety bureaus are encouraging the connection of building fire alarm network systems to city networks, creating opportunities for fire alarm network system providers.

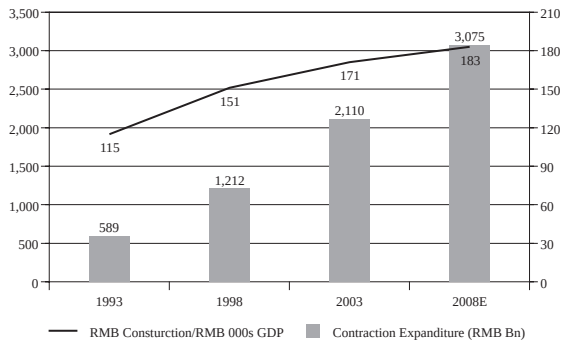
Growth Drivers of the Fire Alarm Systems Industry

The key growth drivers for the fire alarm systems industry include the following:

Growth of China’s property and industrial infrastructure development market

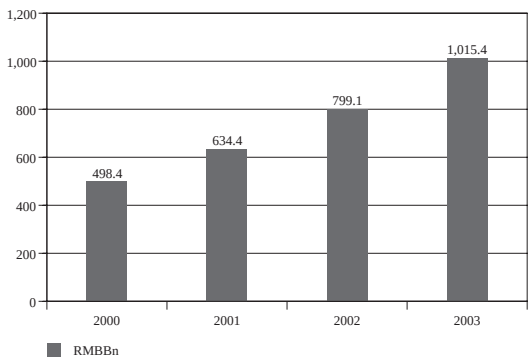
The growth of the fire alarm systems industry has been closely linked to increases in new construction as well as property and industrial infrastructure development projects in China. According to the Freedonia, domestic construction expenditure increased at a compound annual growth rate of 11.7%, from RMB1,212 billion in 1998 to RMB2,110 billion in 2003, and is expected to grow at a rate of 7.8% per annum between 2003 and 2008 to RMB3,075 billion. Similarly, China’s completed investment in real estate development has also increased at a compound annual growth rate of 26.8%, from RMB498.4 billion in 2000 to RMB1,015.4 billion in 2003. Set forth below are charts demonstrating both historical construction and property development expenditures and expected growth of construction expenditures from 2003 to 2008.

China GDP vs. Construction Expenditure



Source: Freedonia 1 June, 2004

China Completed Investment in Real Estate Development



Source: China Statistics Yearbook 2004

The PRC government has recently raised concerns relating to the imbalanced development of the property market in the PRC and proposed measures to adjust the development speed of the real estate industry. See “Financial Information — Significant Factors Affecting Our Results of Operation — Economic development and expenditure on construction in the PRC”.

Increasing government awareness of the importance of fire safety

New fire safety regulations and stricter enforcement of those regulations is an important factor driving the market growth and product development in the fire safety industry in China. In order to increase public safety and avoid the economic harm and loss of life associated with fire accidents, the Chinese government has imposed increasingly stringent regulatory requirements on fire protection, strengthened enforcement of fire alarm systems installation

and regular inspections, and increased penalties for failure to observe these enhanced fire security standards. For example, the Ministry of Public Security of the PRC amended the Fire Supervision and Inspection Provisions 《消防監督檢查規定》 in June 2004 to require the installation of automatic sprinkler and fire alarm systems for buildings capable of holding large numbers of people or used for the production and storage of flammable or explosive chemicals. The Production Safety Commission of the State Council, in August 2004, promulgated regulations to focus efforts nationwide on scheduled inspections rectifying fire hazards. At present, we believe that a number of Chinese cities are undergoing a process of scheduled inspections and rectifying fire hazards such as requiring the installation of new fire alarm systems products and the repair of malfunctioning or dated systems.

Another notable trend is increasingly stringent municipal regulations governing the installation of fire alarm systems on a community-wide or city-wide basis as the prevention of fire and other accidents becomes increasingly important to local governments. For example, the Shanghai People's Government Fire Security Bureau and the Tianjin People's Government adopted rules which require the establishment of or connection to fire alarm network systems.

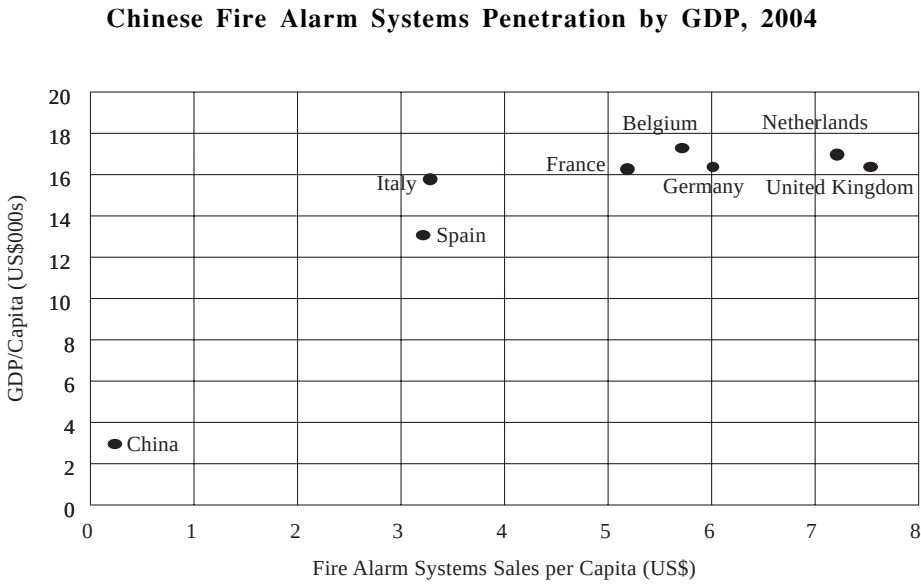
Upgrading, model replacement and maintenance of fire alarm systems and products

As fire alarm system products can typically function for a period of 10 years, the products installed during the 1990s are due for upgrading or replacement in the coming years. This represents a potential increase in demand for our fire alarm systems and our fire alarm network systems.

Moreover, China's laws and regulations have become more stringent such that building owners and managers must ensure that installed fire alarm system products are properly functioning. i & i has noted a gradual trend in the fire alarm systems market, where the refurbishment and retrofit sector, which accounted for 7% of the fire alarm systems market in 2002, most recently accounted for 11% of the market in 2004, a trend i & i expects will continue. By providing product upgrades and replacements and maintenance services to buildings requiring renovation, we may be able to secure additional business opportunities.

Under-penetration of the Chinese market for fire alarm systems

Penetration of China’s fire alarm systems products has considerable growth potential when compared with other countries and regions around the world. The following chart compares the fire alarm systems penetration by GDP between China and seven European countries.



Source: i & i, 2004

We believe that as China’s GDP per capita grows in the coming years, the domestic market penetration levels will increase towards the levels of countries with currently higher GDP per capita than China.

In addition, we believe the market for fire alarm systems in China will continue to expand as China’s economy continues to grow and the urbanization trend in China continues. As more commercial and industrial buildings as well as high rise residential buildings are constructed in medium and small cities and rural areas, the customer base for fire alarm system products will continue to expand, increasing the demand for those products.

Competition in the Fire Alarm Systems and Network Industry

- Fire Alarm Systems

Statistics of the Fire Security Products Assessment Center under the Public Security Bureau show that there were 142 qualified suppliers, consisting of 121 domestic companies and 21 foreign companies in 2004.

Following two decades of development, China’s market for fire alarm system products has evolved from being import-dominated to a market dominated by domestic-made products. From the early 1980s to early 1990s, domestic manufacturing of fire alarm system products remained in a nascent stage characterized by a lack of product variety and technical inferiority.

Since then, domestic manufacturers have improved the quality of their products, cost competitiveness and provision of quality after-sales services. In addition, domestic manufacturers were able to utilize their understanding of the Chinese market to establish or expand their distribution networks, thereby increasing the market penetration of their products and reducing the market share of imported products. According to reports published by i & i, domestic manufacturers dominated the market for fire alarm system products in 2004.

In China, the top 20 manufacturers, including domestic and foreign fire alarm systems companies, accounted for over 80% of the market in terms of revenue in 2004, while the remainder are smaller scale manufacturers offering limited types of fire alarm system products. With increasing competition and rising technical standards, we believe manufacturers without the benefit of economies of scale will gradually lose market share to the more dominant manufacturers in the future. In 2002, i & i issued an independent report on the China fire detection market. The report was entitled “The Chinese Fire Detection Market — Overview of the Market 2002” (the “i & i 2002 Report”). According to the i & i 2002 Report, we had the leading market share in China by sales revenue of approximately 20%, which was twice of that of each of our two closest competitors. In February 2005, we commissioned i & i to prepare a report as part of our efforts to obtain further and updated market information to assess position in the PRC market. This report was entitled “The Chinese Fire Detection Market — Selected 2004 Update” (the “i & i 2004 Report”). We paid in aggregate a total amount of £8,200 (approximately RMB124,000) to i & i for preparing this report. According to i & i 2004 Report, in 2004, our market share in China by sales revenue was approximately 20%, whilst each of our two closest competitors had approximately 10%.

- *Fire Alarm Network Systems*

The fire alarm network systems market in China is a fast growing industry as an increasing number of regional fire safety bureaus are encouraging the connection of building fire alarm network systems to city networks to allow for the central monitoring of individual fire alarm systems and for the operation of emergency services by regional fire bureaus. The network control centers require the support of the manufacturers of fire alarm systems to provide interface protocols to connect the buildings which have installed the specific manufacturer’s fire alarm systems into the city networks. Domestic fire alarm product manufacturers such as us have advantages over foreign manufacturers as the product features and interfaces are more suitable to connect into the control centers. Of the approximately 53 Chinese cities that we believe have installed fire alarm network control centers, 43 are using our products. Although there is no legal restriction on the number of fire alarm network control centers each city can establish, in practice only one control center is set up in one city.

Security Systems and Building Automation Industry

Our primary security systems product is video entry systems used principally in residential buildings. We believe the video entry market has grown significantly, due to the same property and industrial infrastructure development trends that are contributing to market growth for fire alarm systems. See “Industry Overview-Growth Drivers of the Fire Alarm Systems Industry”. Competition in the video entry systems market is fragmented among domestic and foreign producers. We believe that domestic producers have certain advantages over foreign producers, as the foreign-produced systems tend to be more expensive and less suitable to the manner in which buildings are configured in China. Domestic security system suppliers also have better manufacturing and distribution capabilities and market knowledge than their foreign competitors. With our large manufacturing capacity, broad distribution and servicing network and commitment to research and development, we believe we have advantages over many of our domestic competitors in terms of manufacturing

capacity, procurement, distribution network and research and development. For a discussion of the competitive advantages we believe we have in terms of scale, see “Business — Competitive Strengths”.

Our building automation products provide automated control and centralized management of mechanical equipment in a building, such as air conditioning, lighting, elevators, ventilation, water supply and discharge, power supply, low-voltage appliances and devices. Rising standards of quality, energy conservation, comfort and management convenience for buildings are a key market growth driver for building automation systems in China. In addition, building automation market growth is also linked to the same property and industrial infrastructure development trends that are contributing to market growth for fire alarm systems. See “Industry Overview — Growth Drivers of the Fire Alarm Systems Industry”.

Building automation systems are typically sold to the higher-end of the markets and customers we target and we compete principally with foreign competitors. We believe that this market is becoming tiered as domestic installers and property developers are seeking an increasingly wide array of more economically-priced and quality domestic products that are supported by timely after-sales service. We believe that domestic companies, like us, with broad distribution and servicing networks will be able to capture a larger share of the PRC market in the future.

Electronic Power Meters Industry

Power meters are widely used to measure power usage in residential and commercial buildings. Product substitution is an important source of market growth for electronic power meters as electronic power meters are replacing traditional mechanical power meters in China due to their higher accuracy, greater reliability, ease of reading, function scalability and lower cost. According to China Electric Post (中國電子報) in August 2004, mechanical power meters are expected to be phased out and replaced by electronic power meters in three to five year’s time. In addition to the substitution of electronic power meters for mechanical power meters, we believe growth in this market is also fuelled by the same property and industrial infrastructure development trends that are contributing to market growth for fire alarm systems. See “Industry Overview — Growth Drivers of the Fire Alarm Systems Industry”.

According to the statistics of Branch of China Instrument Society of Electrical Measuring Instrument (中國儀器儀錶行業協會電工儀器儀錶分會), there are at present over 80 major domestic manufacturers of power meters. We believe, however, that customers will demand higher technical product requirements which will favor manufacturers with greater research and development capabilities, manufacturing expertise and technical service networks such as us.

Building Installation Services Industry

The building installation services industry encompasses licensed services to install a wide array of devices and fixtures that are necessary for the completion of a building, including heating and cooling, plumbing, fire safety, electrical and other building systems. We offer building installation services for low-voltage devices that capitalize on Chinese customers’ rising demands for comfort, safety and convenience in their homes and offices. Market demand is also driven by the same property and industrial infrastructure development trends that are contributing to market growth for fire alarm systems. See “Industry Overview — Growth Drivers of the Fire Alarm Systems Industry”.

In 2004 there were more than 1,000 licensed PRC companies certified to design and install intelligent building systems. Given the fact that installation and services are both technology- and labor-intensive and therefore subject to human and capital resources, most domestic companies in this business operate on a regional basis, resulting in a fragmented market. Large-scale installation and services providers are mainly based in Beijing, Shanghai and Guangzhou. In addition, most companies specializing in installation and services do not have the support of in-house products, and therefore incur higher procurement costs for purchasing equipment from third-party sales agents. They are also less able to provide timely technical services. In recent years, customers have demonstrated a preference for companies that supply products as well as provide installation and services.

THE PRC LAWS AND REGULATIONS IN RELATION TO FIRE PREVENTION INDUSTRY

The Fire Prevention Law of the PRC (中華人民共和國消防法) (the “Fire Prevention Law”) promulgated in 1998 which requires specific certification for their manufacture. The promulgation of the Fire Prevention Law led to an increase in related regulations and standards which in turn contributed to the development of fire prevention products in the PRC. Currently, the PRC has national and industry standards for many fire prevention and safety products. The legal framework ensures a regulated environment of the market for fire prevention and safety products in the PRC.

Pursuant to the Fire Prevention Law, all municipal governments must incorporate fire prevention facilities into its overall municipal planning. The Fire Prevention Law also encourages to strengthen science research and to use advanced fire prevention equipment. Each organization, including government institutions and companies, are required to formulate fire prevention systems and fire safety systems and procedures, schedule fire prevention inspections to eradicate fire hazards and adhere to relevant state regulations in installing fire prevention facilities and equipment. The quality of fire prevention and safety products adopted by such entities must conform to national or relevant industry standards. Production, sale or use of fire prevention and safety products, which are neither tested nor approved by a testing agency accredited under the Product Quality Law of the PRC (the “**Product Quality Law**”) (產品質量法), is prohibited under PRC law.

The regulations governing the Chinese fire prevention and safety products market mainly comprise three systems, namely (a) market access; (b) supervision and examination; and (c) quality supervision and management. Brief descriptions of these three systems are as follows:

- **Market access**

All fire prevention and safety products distributed in the PRC are subject to (i) compulsory product certification; (ii) product type approval; and (iii) mandatory testing.

The “Catalogue of the First Batch Products under Compulsory Product Certification” (第一批實施強制性產品認證的產品目錄) (the “Compulsory Product Certification Catalogue”) issued on 3 December, 2001 by the State Administration for Quality Supervision, Inspection and Quarantine (國家質量監督檢驗檢疫總局) (“SAQSIQ”) and the State Certification and Conformity Supervision and Management Commission (國家認證認可監督管理委員會) (the “**State Certification Commission**”) includes fire prevention and safety products, such as fire alarm equipment, fire hoses, sprinkler fire extinguishing equipment. All fire prevention and safety products listed in the Mandatory Product Certification Catalogue are subject to the compulsory product certification system. These fire prevention and safety products must obtain certification after certified by the certification organization designated by the State prior to being distributed and used in the PRC.

The Ministry of Public Security of the PRC (中華人民共和國公安部) (the “Ministry of Public Security”) and the SAQSIQ, on 15 May, 2003, further promulgated the “Notice on Further Strengthening Quality Supervision and Control on Fire Safety Products” (關於加強消防產品質量監督管理工作的通知) (the “Notice”). According to the Notice and other relevant regulations, fire prevention and safety products which fall within the product type approval catalogue will have to obtain approval prior to being distributed and used in the PRC. In addition, the Notice also states that fire prevention and safety products which do not fall within the Compulsory Production Certification Catalogue and the product type approval catalogue must undergo mandatory testing by the testing agencies designated by the State. Upon successful testing and receipt of the requisite certifications, these fire prevention and safety products can be distributed and used in the PRC.

● Supervision and Examination

The Ministry of Public Security issued the “Fire Prevention and Safety — Supervision and Inspection Regulations” (消防監督檢查規定) (“FSI Regulations”) on 9 June, 2004. Public security fire services authorities are responsible for conducting the supervision and examination of fire prevention and safety in accordance with the FSI Regulations. Prior to organising supervision and examination, the public security fire services authority may make public announcements of the scope, contents, requirements and timing.

When conducting supervision and examination, the public security fire services authority shall determine whether the buildings or premises inspected complies with the FSI Regulations based on several factors, such as:

- (i) if the building being tested has passed the fire prevention design audit conducted by the relevant public security fire services authorities;
- (ii) if the use of the building is in accordance with laws and regulations;
- (iii) if the passages, safety exits, evacuation instructions and signages, emergency lightings, etc, complies with relevant laws and regulations; and
- (iv) if the operation of fire services facilities, conditions of fire hydrants and distribution of fire extinguishing equipment complies with relevant laws and regulations.

Violations of inspected units are subject to the penalties imposed by the public security fire services authority in accordance with the relevant provisions of the Fire Prevention Law.

● Quality Supervision and Management

Public security fire services authorities, quality control authorities and the Entry-Exit Inspection Quarantine Department are responsible for the overall quality, supervision and testing management of all fire prevention and safety products in the PRC.

Companies manufacturing, selling or importing fire prevention and safety products not in accordance with the relevant laws and regulations or evading inspection will face similar penalties. Serious violators could have their business licences revoked and may be subject to criminal sanctions.

Laws and regulations relating to fire alarm network systems

On 18 November, 1996, the Ministry of Public Security promulgated the “Notice regarding the accelerated construction of urban fire prevention and safety communications and deployment command system” (關於加快城市消防通信調度指揮系統建設的通知) which encouraged the construction of urban fire prevention and safety command centres and the installation of the necessary facilities. As at 31 December, 2004, 53 cities, including Shanghai, Tianjin, Shenzhen, Guangzhou and Qingdao, have installed urban fire alarm network systems and urban fire prevention and safety command centers.

Laws and regulations relating to the security systems and building automation industry

The State Quality Technical Supervision Bureau (國家質量技術監督局) and the Ministry of Public Security jointly promulgated the “Security Technology Product Management Measures” (安全技術防範產品管理辦法) (the “Management Measures”) on 16 June, 2000 to regulate the quality of security technology products and strengthen the supervision and management of the security technology production industry. The State Quality Technology Supervision Bureau and the Ministry of Public Security jointly formulated and announced the “Catalogue of Security Technology Products” (安全技術防範產品目錄) in the Management Measures. Video entry systems are specialized products listed in the Catalogue of Security Technology Products. Companies producing and selling such products are required to adhere to the Management Measures.

The Ministry of Public Security further promulgated the “Notice regarding several issues in the standardization of management of security technology industry” (公安部關於規範安全技術防範行業管理工作幾個問題的通知) (“Security Technology Notice”). Pursuant to the Security Technology Notice, video entry systems are subject to an approval system whereby all production and sale of video entry systems must be approved by the provincial public security authority. Companies producing and selling security technology products covered by the Security Technology Notice must adhere to the relevant provisions of quality technology supervision laws and regulations and ensure that their product quality conforms to the requirements of the relevant standards. Companies which are only engaged in sales of video entry systems must conduct due diligence on the manufacturers to ensure that they have obtained the necessary product approval prior to any sale.

Laws and regulations relating to the building installation services industry

The Construction Ministry on 19 October, 1998, promulgated the “Interim Measures regarding the administration of quality of the system engineering design and system integration project for the construction of intelligent building systems construction” (建築智能化系統工程設計和系統集成專項資質管理暫行辦法) (the “Intelligent Building Interim Measures”) to regulate companies engaging in the business of system engineering design and system integration. Such companies must comply with the Intelligent Building Interim Measures by obtaining certification prior to the commencement of their system engineering design and system integration businesses respectively.

In order to strengthen the administration of quality of companies engaged in system engineering design and system integration for intelligent building systems construction, the Construction Ministry promulgated the “Practising quality standards of system engineering design and system integration of intelligent building system construction” (建築智能化系統工程設計和系統集成執業資質標準) on 19 October, 1998. Such standards combine the professional standards of system engineering of intelligent building construction in regulating and supervising the quality and business scope undertaken by companies.

According to the Construction Law of the PRC (the “Construction Law”) promulgated on 1 March, 1998, construction companies must have obtained the relevant grade of quality certification before they can undertake construction work as prescribed in their respective quality certification.

OVERVIEW

We are the leading fire alarm systems provider in China and are primarily engaged in the manufacturing and distribution of fire alarm systems and fire alarm network products, as well as related products, including security systems, building automation systems and electronic power meters. According to i & i, a leading international independent industry research consultancy company, we have the largest market share by revenue in the manufacturing of fire alarm systems in China, accounting for approximately 20% market share, which is twice that of our closest competitors. Our success over the past ten years has made our brand one of the top brands in this sector in China, and our brand was certified in 2004 as the only “well-known trademark” in the fire alarm systems industry by the State Administration for Industry and Commerce.

Among the participants in the fire alarm systems market in China, we believe we have the largest nationwide sales and distribution network, with 61 offices throughout China and approximately 600 sales and marketing personnel and after-sales technical support staff. Through these sales persons and technical support staff, we believe we provide timely and comprehensive sales and after-sales services to our clients that is differentiated from what any of our domestic or international competitors are able to provide in China. In addition, we sell our products through 22 distributors located throughout China.

In recent years, we have leveraged our distribution network and brand recognition in the fire alarm systems industry in China to expand into related product areas, including fire alarm network systems, video entry systems, building automation systems and electronic power meters. In addition, we are also engaged in the provision of building installation services for low-voltage products. Our diversified product range and comprehensive building installation services enables us to offer a one-stop bundled solution to our customers. We believe our performance in 2004 further strengthened our position as the leading company in the fire alarm systems and network industry in China, and demonstrated our development in video entry systems, building automation systems, electronic power meters and building installation services business. For each of the years ended 31 December, 2002, 2003 and 2004, revenues generated from sales of fire alarm systems were RMB273.7 million, RMB283.9 million and RMB354.1 million, respectively, representing approximately 91.8%, 90.0% and 83.5% of our total revenue.

COMPETITIVE STRENGTHS

We believe our competitive strengths have enabled us to become a leading supplier of fire alarm systems in China and enable us to be well-positioned to take advantage of future growth in the fire alarm systems and network, security systems and building automation, electronic power meters and building installation services industries in China.

We believe our competitive strengths are:

- leading market position
- extensive nationwide distribution network
- well-recognized brand
- strong product quality and research and development
- experienced and dedicated management team

Leading Market Position

We are the leading supplier of fire alarm systems products in China. In 2004, we sold approximately 2.0 million fire detectors, the most important component of fire alarm systems, and achieved a market share of approximately 20% in terms of revenue generated from sales of fire alarm systems in 2004, approximately twice of each of our two nearest competitors according to i & i. We believe our leading market position allows us to attain certain advantages over our domestic competitors in terms of economies of scale derived from the largest production capacity in the manufacturing of fire alarm systems in China. We also enjoy procurement advantages over our domestic competitors as we are one of the largest customers of our suppliers for the majority of our raw materials, including integrated circuits and plastic parts. We believe that these economies of scale, coupled with the reputation for reliability and quality that our products enjoy as the market-leading brand in fire alarm systems market, have contributed to our ability to achieve historical earnings growth and to maintain gross margins at 59.0%, 54.6% and 50.6% for 2002, 2003 and 2004, respectively.

Extensive Nationwide Distribution Network

We believe our over 600-person specialized sales and marketing personnel based in 61 offices in major cities across China, together with 22 distributors, is more extensive and better able to support customers nationwide than the sales and distribution networks of any of our competitors. We believe our specialized sales force, which both distributes our products and offers technical support, provides an effective distribution channel and helps us maintain close relationships with our customers, including fire alarm systems installation companies, security system installers, building automation system installers, construction contractors, architects, real estate developers and government procurement departments.

Our proximity to and close relationships with our customers allow us to be responsive to the changing dynamics and demands of our markets and afford a competitive advantage over both our domestic and international competitors. We believe neither of our two largest domestic competitors has as extensive a distribution network as we do and that our relative strengths in distribution capability will continue to help us gain market share from our domestic competitors as we invest in developing new ways to leverage our nationwide distribution network. We believe our distribution advantage is even more pronounced with our international competitors. Our foreign competitors predominantly rely on distributors rather than their own specialized sales force in China, and as a result we believe that we are better able to offer after sales service and meet the needs of customers in the PRC.

Well-Recognized Brand

Since our establishment in 1993, the “ ” brand has become one of the best known brands within China’s fire alarm systems industry. We have been recognized by a number of government ministries and trade groups in China for our strong brand. In 2004, our “ ” brand was certified as the only “well-known trademark” in the fire alarm systems industry by the State Administration for Industry and Commerce. We believe our well-recognized brand helped us to be chosen for high profile projects, such as the Beijing Railway Station and the Qinhuangdao Stadium project for the Beijing Olympics. It also enhances our ability to sell directly to our customers instead of relying on third-party distributors. We believe our brand recognition in fire alarm systems gives our customers the assurance of quality that is associated with our products and has greatly facilitated our ability to

diversify into fire alarm networks and related products, including video entry and building automation systems as well as electronic power meters and building installation services, to enable us to offer a total solution to our customers.

Strong Product Quality and Research and Development

We have a strong focus on research and development with a view to increasing our product portfolio, improving quality and achieving cost efficiency. We are one of the few Chinese companies in the industry that has received the ISO9001 quality management system certification and the LPCB product certification, and we believe we are the only domestic fire alarm systems manufacturer that has received UL certification for our products which meet international standards. As of the Latest Practicable Date, our research and development department comprises of a team of 129 dedicated specialists, all of whom have university degrees and 15 of whom have postgraduate degrees. The department is equipped with modern equipment and technology, and has helped us develop a broad range of new products. In addition to our strong in-house research and development efforts, we collaborate with a number of institutions, including the Institute of Software of China's Academy of Science and Tsinghua University, to study trends in the industry and focus our innovation efforts on product attributes that are most valued by our customers.

Our focus on research and development is also reflected in the awards we have won, including the Outstanding Technology Innovation Award from the State Economic Commission for one of our fire alarm panels, as well as the 29 registered patents in China that we own (including two invention patents) and the 15 software copyrights in China that we hold. In addition, we have applied for an additional seven patents (including two pending invention patents).

Experienced and Dedicated Management Team

We have a highly experienced management team with a proven track record in the fire alarm systems industry. A number of our senior management members helped to pioneer the development of the fire alarm systems industry in China by acting as members of fire safety industry associations and industry standards formulation committees, including the National Committee for the Fire Services Technology Standardization, CFPA and the Expert Group of Intelligent Building Technology of the Ministry of Construction. Some members of our management have also participated in the formulation of standards for fire alarm systems in China. We believe our senior management's knowledge of China's fire alarm systems market, coupled with their management and executive abilities, help to differentiate us from our international and domestic competitors.

We were founded by, among others, members of our senior management team, in 1993, who have retained a significant interest in our share capital, and who, upon completion of the Global Offering, will directly or indirectly own an aggregate 62.65% of our issued share capital. We believe the significant ownership of our business by our management team provides strong incentives to our management to maximize shareholder value.

STRATEGY

Our goal is to continue to build upon our leading position in the fire alarm systems market as well as to increase the market share of our other products and services. In order to achieve this goal, we plan to:

- **Further expand the coverage of our distribution network.**

We are engaged in both expanding and deepening our existing sales channels. We plan to establish new representative offices in some smaller urban areas where we currently do not have local coverage and which we expect will experience economic growth. In addition, we plan to add sales and technical support personnel this year to certain offices, particularly in economically fast-growing urban areas such as Beijing, Shanghai, and Guangzhou. Specifically, we will add further fire alarm sales personnel to increase our direct sales to property developers as well as customers in new markets. We also plan to increase the number of sales and technical support personnel who will have responsibility to increase the market share of our newer products such as video entry systems, building automation systems and electronic power meters.

- **Increase sales of and expand our broader suite of products.**

We plan to continue to leverage our nationwide distribution network to increase our market share in the products and services that we began offering in recent years, including fire alarm network systems, security systems and building automation and electronic power meter products as well as building installation services. In order to facilitate such increase, we plan to increase our production capacity by expanding our production facilities which includes the construction of a new plant in Beijing and the expansion of our plant in Qinhuaangdao. In addition, we intend to continuously assess opportunities to profitably expand the range of products we offer in order to provide one-stop bundled solutions for our customers as well as to enhance the level of building installation services capabilities we are able to provide.

- **Broaden our customer base.**

Currently, our products are primarily used in the residential and commercial sectors. We intend to capitalize on our leading market position and brand by aggressively pursuing what we believe are significant new market opportunities in the increasing demand for fire alarm systems as awareness and enforcement of regulations increase in the industrial sector and as industrial growth continues in China. In particular, we plan to target customers in the petroleum, smelting, chemical, power, ship building, port and telecommunications industries. We also intend to increase our customer base by seeking to increase the penetration of our products with schools, hospitals and the military.

- **Continue to invest in research and development.**

We believe that one of the key elements for our success has been attributable to our continuous investment in research and development to improve the quality and technical capabilities of our products. We believe that sustaining our market leadership and reputation for quality and innovation that our products enjoy will require ongoing investment in product development, and we intend to invest approximately 5% of our annual revenue in research and development in the coming years. In addition, we will continue to engage in joint research programs with scientific research institutions in China.

- **Continue to expand internationally.**

We began selling our fire alarm systems outside of China in 2001, and we presently have the international accreditations required to sell certain of our products to markets in the United States, Europe, South and Southeast Asia as well as the Middle East and Africa. We intend to continue to expand our international sales by both accessing new markets in the United States and Europe in particular and by seeking accreditation for more of our products in overseas markets. In addition, we also intend to seek alliances with strategic partners that have effective global distribution networks.

- **Pursue strategic acquisitions.**

We believe that increasing price competition coupled with customers' demands for greater product quality and reliability will drive consolidation among the fragmented domestic players in China's fire alarm systems, security systems and building automation and electronic power meters industries. Although we currently do not have any specific merger or acquisition plans, we intend to use our position as the market leader in fire alarm systems to selectively pursue suitable acquisition opportunities created by this trend.

HISTORY AND DEVELOPMENT

Our 11 founding Shareholders established the Group in 1993 in Qinhuangdao Economic and Technological Development Zone, Hebei Province, to manufacture fire alarm systems. From 1993 to 1999, we focused on establishing our presence in the industry and gaining market share. Since 1999, given our established position in the fire alarm systems market, we began to expand our business into other areas, including video entry systems and electronic power meters. Our history is outlined as follows:

- GST was established in the PRC as a limited liability company by 11 founding shareholders on 5 August, 1993. At the time of establishment, GST was known as 秦皇島開發區海灣安全技術有限公司 (Qinhuangdao Development Zone Gulf Security Technology Company Limited*) and the registered capital of GST was RMB150,000. GST was then held by Deng Liancan as to 28%, Song Jiacheng as to 20%, Zeng Jun as to 20%, Peng Kaichen as to 10%, Cao Yu as to 10%, Yu Wanxi as to 3.5%, Zhang Nan as to 2.5% and each of Jiao Fuxiang, Chen Nanping, Xu Shaowen and Xing Guoshi as to 1.5%.
- In 1993, we had 30 employees and launched our first fire alarm products in the PRC market.
- In 1994, we established representative offices in 17 provincial capital cities. We were awarded the Certificate of High and New Technology Enterprise by the Hebei Province Committee of Science and Technology in January 1994.
- By 1995, the number of our employees had grown to 188. Hebei Province recognized us as one of the Top 10 Private Technology Enterprises.
- In 1996, we established Beijing GST (a subsidiary established in Beijing Municipality) and 秦皇島開發區海灣建築電氣設備安裝工程有限公司 (Qinhuangdao Development Zone Gulf Electrical Engineering Equipment Installation Co., Ltd.), now changed to Hebei Gulf. In May 1996, GST was held by Song Jiacheng as to 23%, Zeng Jun as to 22%, Peng

* For identification purpose only

Kaichen as to 15%, Cao Yu as to 15%, Yu Wanxi as to 5%, Xu Shaowen as to 4%, each of Zhang Guojun, Che Liming, He Kui, He An, Wu Xiaodi, Xu Weidong and Liu Yubing as to 2%, and each of Yang Shuyou and Liu Ming as to 1%.

- In 1997, we constructed office buildings and manufacturing facilities in Qinhuangdao Economic and Technological Development Zone with a site area of 296,200.2 square feet. In the same year, certain founding shareholders of GST established Qinhuangdao GST and we registered our website (<http://www.gst.com.cn>). In December 1997, GST was held by Song Jiacheng as to 27.38%, Zeng Jun as to 26.19%, each of Peng Kaichen and Cao Yu as to 17.86%, Yu Wanxi as to 5.95% and Xu Shaowen as to 4.76%.
- In 1998, we continued to expand our product lines by introducing building automation products. In 1999, we launched explosion-proof fire alarm systems and expanded our office site in Qinhuangdao Economic and Technological Development Zone by approximately 61,566.9 square feet.
- In 1999, we established 上海聖海電氣設備有限公司 (Shanghai Shenghai Electrical Equipment Co., Ltd.) (now changed to Shanghai Gulf) and Guangzhou Gulf. In February 1999, the previous name of GST, namely, 秦皇島開發區海灣安全技術有限公司 (Qinhuangdao Development Zone Gulf Security Technology Company Limited*), was changed to 海灣安全技術有限公司 (Gulf Security Technology Company Limited*). In September 1999, certain founding shareholders of GST transferred their interests in Qinhuangdao GST to GST. GST and another shareholder of Qinhuangdao GST then respectively transferred 82% and 10% equity interests in Qinhuangdao GST to Gulf Group. As a result, Qinhuangdao GST was owned as to 92% by Gulf Group in April 2000.
- On 25 April, 2000, GST became a joint stock limited company with a registered capital of RMB65,000,000. GST changed its name to 海灣安全技術股份有限公司 (Gulf Security Technology Joint Stock Company Limited*). GST was held by Gulf Group, previously known as 秦皇島開發區海灣科技發展有限公司 (Qinhuangdao Development Zone Gulf Technology Development Company Limited*), as to approximately 90.56%, 秦皇島市雲海船務有限公司 (Qinhuangdao City Yunhai Shipping Company Limited*) as to approximately 3.28%, 秦皇島市長發貿易有限公司 (Qinhuangdao City Changfa Trade Company Limited*) as to approximately 2.62%, 北京東方經典商務顧問有限公司 (Beijing Dongfang Jingdian Business Consulting Company Limited*) as to approximately 2.31% and 秦皇島領先科技發展有限公司 (Qinhuangdao Lingxian Technology Development Company Limited*) as to approximately 1.23%. We established our first overseas joint venture company, GST plc, in the United Kingdom in December 2000 and its representative office in Dubai in 2001.
- Since 2001, we have established a number of joint ventures with local fire engineering companies in Chongqing, Qinhuangdao and Nanning, in order to set up fire alarm network monitoring centers and to conduct business related to fire alarm network systems.
- In April 2001, the Hebei Provincial Administration for Industry and Commerce recognized our registered trademark “” as a “well-known trademark”. In the same year, we registered our trademark in the United Kingdom and the United Arab Emirates.
- The “Forum of Top 30 Companies in the Fire Security Industry in China”, held in 2001 and 2003, ranked us as the No. 1 manufacturer of fire alarm systems products.

* For identification purpose only

- In July 2002, we completed our second manufacturing facility in Qinhuangdao Economic and Technological Development Zone with a site area of 357,767.1 square feet and a gross floor area of 231,638.8 square feet. This facility increased our manufacturing capacity by approximately 100%. In 2002, we also started manufacturing video entry systems and electronic power meters.
- In June 2003, GST was held by Gulf Group as to approximately 90.56%, Beijing Software as to approximately 3.28%, Beijing Gulf as to approximately 2.62%, Beijing Gulf Property as to approximately 2.31% and Hebei Gulf as to approximately 1.23%.
- In 2004, we established Beijing Gulf Engineering, Gulf Meters and Gulf Network and increased our representative offices to 39. We also leased a manufacturing site in Beijing in November 2004, which has an annual production capacity of 300,000 electronic power meters. In the same year, the Group completed its offshore corporate restructuring with the incorporation of the Company and the investment by the Investors.
- On 16 April, 2004, GST was converted into a wholly foreign-owned enterprise and changed its name to 海灣安全技術有限公司 (Gulf Security Technology Company Limited*). As a result, GST became wholly-owned by GST Group International.
- In November 2004, the State Administration for Industry and Commerce accredited our registered trademark “ ” as a “well-known trademark of the PRC”.
- In March 2005, we established Gulf Labour. Gulf Labour is owned as to 80% by GST and as to 20% by Hebei Gulf and is principally engaged in the provision of human resources services.
- As at the Latest Practicable Date, we had 61 offices throughout China and for the year ended 31 December, 2004, our revenue was approximately RMB424.1 million.

REORGANIZATION

The companies comprising the Group underwent a reorganization to rationalize the Group's structure in preparation for the listing of the Shares on the Stock Exchange. As a result, the Company became the holding company of the Group. The major steps of the reorganization involved the following:

- (a) On 17 March, 2004, GST Group International, a company with limited liability with an authorized share capital of US\$50,000 divided into 5,000,000 shares of US\$0.01 each, was incorporated in the BVI and one share of US\$0.01 in the capital of GST Group International was allotted and issued to GST International Management for cash at par on 25 March, 2004.
- (b) A share transfer agreement dated 19 March, 2004 was entered into between Hebei Gulf as transferor and Beijing Software as transferee whereby Hebei Gulf agreed to transfer its interest in Qinhuangdao Environmental to Beijing Software in cash at a consideration of approximately RMB1,534,416.

* For identification purpose only

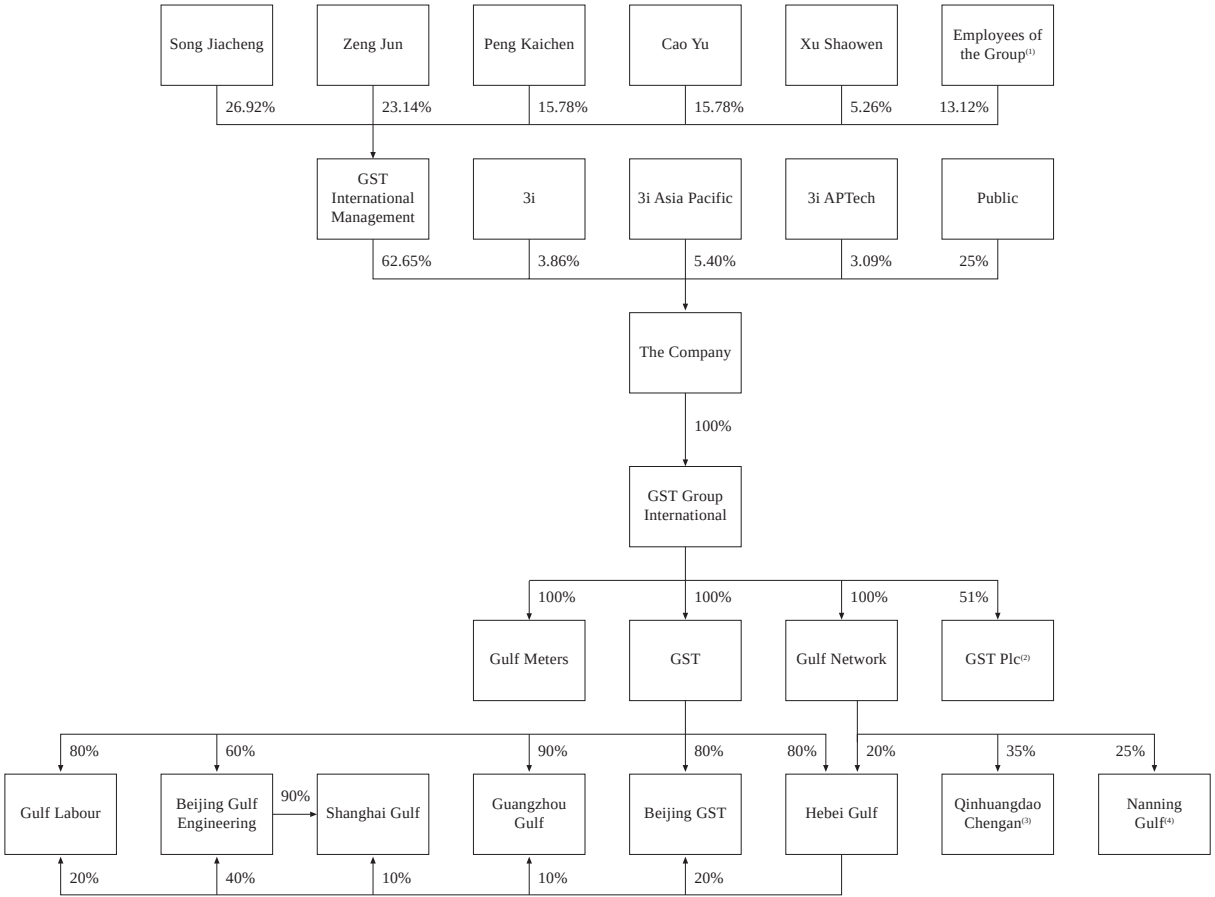
- (c) A share transfer agreement dated 19 March, 2004 was entered into between Hebei Gulf as transferor and Beijing Software as transferee whereby Hebei Gulf agreed to transfer its interest in Beijing Environmental to Beijing Software in cash at a consideration of approximately RMB602,531.
- (d) A share transfer agreement dated 19 March, 2004 was entered into between Hebei Gulf as transferor and Beijing Software as transferee whereby Hebei Gulf agreed to transfer its interest in Beijing Gulf to Beijing Software in cash at a consideration of approximately RMB974,776.
- (e) A share transfer agreement dated 19 March, 2004 was entered into between Hebei Gulf as transferor and Beijing Gulf as transferee whereby Hebei Gulf agreed to transfer its interest in Beijing Software to Beijing Gulf in cash at a consideration of RMB2,000,000.
- (f) On 24 March, 2004, the Beijing Municipal Administration for Industry and Commerce issued a business license and approved the establishment of Beijing Gulf Engineering as a limited liability company in the PRC with a total registered capital of RMB10,000,000 and Beijing Gulf Engineering was held as to 50% by Gulf Group and as to 50% by Hebei Gulf.
- (g) A share transfer agreement dated 5 April, 2004 was entered into between Gulf Group, Beijing Software, Beijing Gulf, Beijing Gulf Property and Hebei Gulf as transferors and GST Group International as transferee whereby Gulf Group, Beijing Software, Beijing Gulf, Beijing Gulf Property and Hebei Gulf agreed to transfer the entire interest in GST to GST Group International in cash at a total consideration of RMB110,500,000.
- (h) An assets and business acquisition agreement dated 5 April, 2004 was entered into between Gulf Group as vendor and Gulf Meters as purchaser whereby Gulf Group agreed to sell and Gulf Meters agreed to purchase the assets and business of the electric power meters department of Gulf Group in cash at a total consideration of RMB5,500,000.
- (i) On 12 April, 2004, the Hebei Provincial Department for Commerce (河北省商務廳) approved the transformation of GST from a joint stock company to a wholly foreign owned enterprise in the PRC with a total registered capital of US\$7,860,000 and GST became a wholly owned subsidiary of GST Group International. On 14 April, 2004, the People's Government of Hebei Province (河北省人民政府) issued a certificate of approval for establishment of enterprises with foreign investment in the PRC and the Hebei Provincial Administration for Industry and Commerce (河北省工商行政管理局) issued a business license on 16 April, 2004.
- (j) On 12 April 2004, the Hebei Provincial Department for Commerce (河北省商務廳) approved the establishment of Gulf Network as a wholly foreign owned enterprise in the PRC with a total registered capital of US\$1,000,000 and Gulf Network became a wholly owned subsidiary of GST Group International. On 14 April, 2004, the People's Government of Hebei Province (河北省人民政府) issued a certificate of approval for establishment of enterprises with foreign investment in the PRC and the Hebei Provincial Administration for Industry and Commerce (河北省工商行政管理局) issued a business license on 16 April, 2004.

- (k) An assets and business acquisition agreement dated 16 April, 2004 was entered into between Qinhuangdao GST as vendor and Gulf Network as purchaser whereby Qinhuangdao GST agreed to sell and Gulf Network agreed to purchase the assets and business of Qinhuangdao GST in cash at a total consideration of RMB1,750,000.
- (l) A share transfer agreement dated 18 April, 2004 entered into between Hebei Gulf as transferor and Beijing Gulf as transferee whereby Hebei Gulf agreed to transfer the interest in Chongqing Gulf to Beijing Gulf at a consideration of RMB500,000.
- (m) A share transfer agreement dated 19 April, 2004 was entered into between Gulf Group, Beijing Software, Gulf Network and GST whereby (i) Gulf Group agreed to transfer its interest in Hebei Gulf (representing the then 70% of the interest in Hebei Gulf) to GST in consideration of RMB10,592,050 and (ii) Beijing Software agreed to transfer its interest in Hebei Gulf (representing the then remaining 20% and 10% of the interest in Hebei Gulf) to Gulf Network and GST respectively in consideration of RMB3,026,300 and RMB1,513,150 respectively. As a result, Hebei Gulf was held by GST as to 80% and Gulf Network as to 20%.
- (n) A share transfer agreement dated 19 April, 2004 was entered into between Gulf Group as transferor and GST as transferee whereby Gulf Group agreed to transfer the interest in Beijing Gulf Engineering, representing 50% of the interest in Beijing Gulf Engineering, to GST in cash at a consideration of RMB5,000,000. As a result, Beijing Gulf Engineering was held by GST as to 50% and Hebei Gulf as to 50%.
- (o) An assets and business acquisition agreement dated 30 April, 2004 was entered into between Gulf Group as vendor and Beijing Gulf Engineering as purchaser whereby Gulf Group agreed to sell and Beijing Gulf Engineering agreed to purchase the assets and business of the system installation department of Gulf Group in cash at a consideration of RMB1,955,400.
- (p) On 23 April, 2004, the Beijing Municipal Commission of Foreign Trade and Economic Cooperation of Chaoyang District (北京市朝陽區對外經濟貿易委員會) approved the establishment of Gulf Meters as a wholly foreign owned enterprise in the PRC with a total registered capital of US\$1,200,000 and Gulf Meters became a wholly owned subsidiary of GST Group International. On 23 April, 2004, the People's Government of Beijing Municipality (北京市人民政府) issued a certificate of approval for establishment of enterprises with foreign investment in the PRC and the Beijing Municipal Administration of Industry and Commerce issued a business license and approved the establishment of Gulf Meters as a wholly foreign owned enterprise in the PRC on 10 May, 2004.
- (q) On 21 June, 2004, GST transferred 25,500 shares of £1.00 each in GST plc, representing 51% of the issued share capital of GST plc, to GST Group International.
- (r) On 1 July, 2004, the registered capital of Beijing Gulf Engineering was increased from RMB10,000,000 to RMB15,000,000 and the Beijing Municipal Administration for Industry and Commerce (北京市工商行政管理局) issued a new business license on 13 July, 2004. GST and Hebei Gulf contributed RMB4,000,000 and RMB1,000,000, respectively to the registered capital of Beijing Gulf Engineering. As a result, Beijing Gulf Engineering was held by GST as to 60% and Hebei Gulf as to 40%.

- (s) A share exchange deed dated 20 December, 2004 was entered into between, among others, GST International Management and the Company whereby GST International Management agreed to sell to the Company the entire issued share capital of GST Group International in consideration of the Company allotting and issuing to GST International Management a total of 999,999 shares credited as fully paid. The Company also credited as fully paid the 1 share which was allotted and issued as nil paid to GST International Management on 9 September, 2004.
- (t) A share transfer agreement dated 15 January, 2005 was entered into between GST as transferor and Beijing Gulf Engineering as transferee whereby GST agreed to transfer the interest in Shanghai Gulf, representing 90% of the interest in Shanghai Gulf, to Beijing Gulf Engineering at a consideration of RMB4,710,000. As a result, Shanghai Gulf was held by Beijing Gulf Engineering as to 90% and Hebei Gulf as to 10%.
- (u) A share transfer agreement dated 25 January, 2005 was entered into between Xu Weidong as transferor and Hebei Gulf as transferee whereby Xu Weidong agreed to transfer his interest in Beijing GST, representing 2% of the interest in Beijing GST, to Hebei Gulf at a consideration of RMB63,925. As a result, Beijing GST was held by GST as to 80% and Hebei Gulf as to 20%.
- (v) On 4 March, 2005, the Qinhuangdao Municipal Labour Services Cooperation Service Centre (秦皇島市勞務協作服務中心) and Qinhuangdao Municipal Labour and Social Security Bureau (秦皇島市勞動和社會保障局) approved the establishment of Gulf Labour as a labour service company in the PRC. On 9 March, 2005, the Qinhuangdao Municipal Administration of Industry and Commerce (秦皇島市工商行政管理局) issued a business license. Gulf Labour was established as a limited liability company in the PRC with a total registered capital of RMB500,000 and is held as to 80% by GST and as to 20% by Hebei Gulf.

SIMPLIFIED GROUP STRUCTURE

The following chart sets out our shareholding and corporate structure (comprising principal subsidiaries) and two associated companies of the Group immediately following completion of the Global Offering and the Capitalization Issue, assuming the Over-allotment Option is not exercised.



Notes:

1. The aggregate shareholding of approximately 13.12% in GST International Management are beneficially owned by 17 employees of the Group, namely Yu Wanxi as to approximately 5.26%, Liu Weihua as to approximately 1.18%, Yu Zhihong as to approximately 1.04%, each of Li Haibo, Yan Zhiming, Yang Chengeng and Zhang Guojun as to approximately 0.74%, each of Che Jianhua, Li Shiquan, Li Xiangyang, Wang Aizhong, Wang Jianhua and Yu Ping as to approximately 0.32%, Wang Tongwu as to approximately 0.25%, and each of Wang Ji, Xia Zhiming and Xie Shiliang as to approximately 0.17%. Apart from the transfers of shares of Gulf Group between (i) Zhao Sai as transferor and Xia Zhiming as transferee as to approximately 0.17% on 10 January, 2004 and (ii) Zhang Yahong as transferor and Song Jiacheng as transferee as to approximately 0.74% on 17 February, 2004, all the existing shareholders of Gulf Group (except Xia Zhiming) has had an equity interest in Gulf Group since its establishment on 5 April, 2000. On the basis of the history of the shareholdings in GST International Management and Gulf Group, the 22 individual shareholders except Xia Zhiming could for the sole purpose of interpretation of connected transactions under Chapter 14A of the Listing Rules be viewed as a group.
2. GST plc, a company incorporated in the United Kingdom on 23 November, 2000, is held as to 51% by GST Group International and as to 49% by Mr. Dominic Hugh Findlow, a third party independent of and not connected with the directors, chief executives or substantial shareholders of the Company or their respective associates. Mr. Findlow is a managing director of GST plc.

GST plc is considered as a subsidiary within the meaning of section 2 of the Hong Kong Companies Ordinance. However, GST plc is treated as a jointly controlled entity for the purpose of the Company's consolidated financial statements.

3. Qinhuangdao Chengan, a limited liability company established in the PRC on 9 August, 2001, is held as to 35% by Gulf Network and as to 65% by 秦皇島市恒峻經貿有限公司 (Qinhuangdao Hengjun Economic and Trading Company Limited*), a third party independent of and not connected with the directors, chief executives or substantial shareholders of the Company or their respective associates.
4. Nanning Gulf, a limited liability company established in the PRC on 19 September, 2001, is held as to 25% by Gulf Network and as to 75% by 廣西明珠科技發展有限公司 (Guangxi Mingzhu Technology and Development Company Limited*), a third party independent of and not connected with the directors, chief executives or substantial shareholders of the Company or their respective associates.

PRODUCTS AND SERVICES

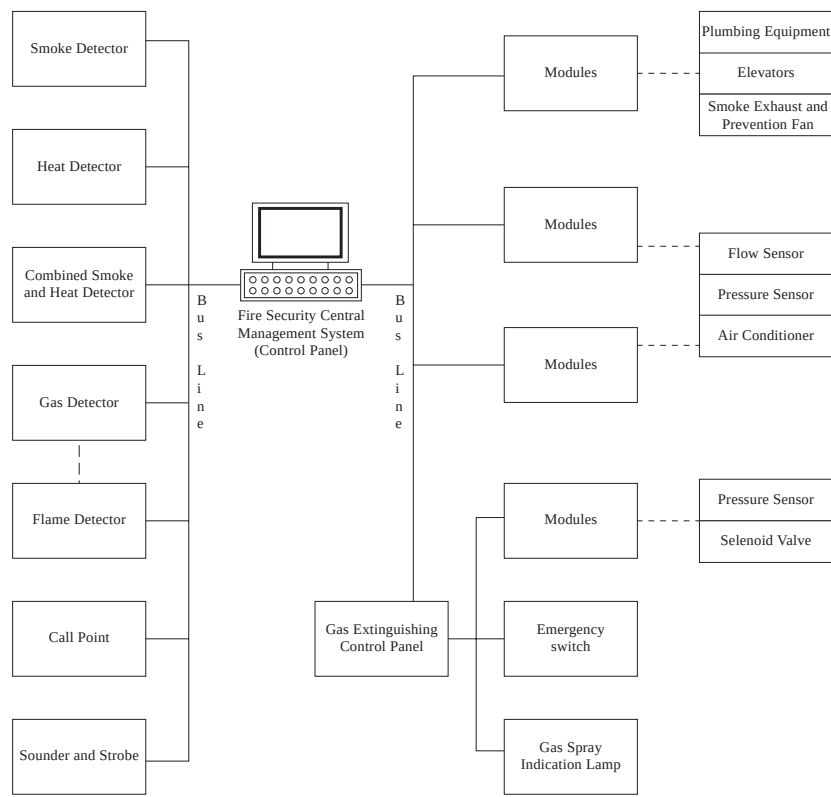
We currently manufacture five main products, which include fire alarm systems, fire alarm network systems, video entry systems, building automation systems and electronic power meters. In addition, we provide building installation services for low-voltage products. We have obtained all the necessary approvals for our products and all of our products have passed the necessary regulations and standards in China. Further information in relation to the breakdown of our revenues from sales of these products and the provision of services during the three years from 2002 to 2004 is set out in the section headed "Financial Information" in this prospectus.

Fire alarm systems

Fire alarm systems are the critical part of any fire safety system. Fire alarm systems are comprised of control panels, detectors and modules. We manufacture numerous models of detectors, control panels and modules. Various types of detectors are used to detect the presence of smoke, heat, or flames and signal to the connected control panel. Once the presence of smoke, heat, or flames has been detected, the panel will then start a sequence of pre-determined events by signalling the modules which, in turn, affect the sounding of alarms to alert the occupants to evacuate from the area of risk, control the elevators, air handling and smoke extract systems and, where applicable, initiate automatic extinguishing systems. In 2004, our sales of fire detectors accounted for approximately 35.0% of our fire alarm systems revenue. The most popular detector in our product range is the JTY-GD-G3 Intelligent Optical Smoke Detector, or the G3 fire detector, which accounted for 74.3% of the sales of our fire detectors in 2004. We expect to launch a new generation of detectors to succeed our G3 detectors in the second half of 2005 which will reduce the unit raw material costs.

* For identification purpose only

Set below is a chart of a typical fire alarm system:



We produce over 20 detector and control panel models and over 10 module models. Our fire alarm systems products include:

- General fire alarm systems, which are mainly utilized in industrial, residential and commercial buildings.
- Explosion-proof fire alarm systems, which include various types of explosion-proof fire detectors and control modules, are designed for an environment where explosive gas is likely to be present.
- Special fire detectors, which are used in special environments where general fire alarm detectors are not suitable. These environments include clean places that require early detection of potential fire hazards (such as integrated circuit manufacturing plants), dusty, hot and humid environment (such as steel manufacturing plants), and spacious buildings that are over 20 meters high.

We are the leading manufacturer of fire alarm systems in China, accounting for approximately 20% of the China market by sales revenue in 2004. Our strategy is to leverage our nationwide distribution network to increase our market share by offering a broader range of fire alarm systems to respond to the demands of our customers. We believe that as we expand our portfolio of fire alarm systems products, we will increase our opportunities to bundle these products with the other products and services that we began offering in recent years, including fire alarm network systems, video entry systems, building automation systems and electronic power meters as well as building installation services.

Fire alarm network systems

We produce products for two types of fire alarm network systems. The first type of system monitors the operation of individual fire alarm systems, while the second type connects individual systems to the relevant local fire bureaus. The second type of system is known as a 119 network system in China.

The first type of network system monitors the operation of individual fire alarm systems that are connected to the network system. The network reports any failure or malfunction of any equipment, fire accident or other fire-related information to the central control center, which then alerts the staff in the control center to take responsive action. We manufacture the equipment for these systems and market and sell them to suppliers of these central control centers. We also provide the computer software that is used by these systems.

A 119 network system, on the other hand, is a computer system used in fire emergency call centers (119 is the emergency number for fire in China). When there is a fire emergency, the computer system will immediately send out fire alerts within the centers to inform the staff of the location of the fire and the nearest fire fighting facilities. This information helps enhance the efficiency of the 119 network staff in coordinating fire fighting efforts. With respect to 119 network systems, we manufacture computer-related software products and equipment and market and sell the systems to local fire bureaus.

Video entry systems

The video entry system is an electronic security system that consists of in-door intercom, entrance intercom, central system equipment, system connecting equipment, and auxiliary facilities. The system provides a video/audio communication channel among the residents of a building, visitors and the building management center, and provides security by allowing residents to view people wanting to gain entrance by video camera without having to open the door. With respect to video entry systems, we manufacture the control unit and the software system, as well as the intercoms and connecting equipment, and our main customers are largely the same as those who purchase our fire alarm systems.

Building automation systems

Building automation system is a control and management system that provides intelligent control over various electrical systems in a building, including air-conditioning, lighting, elevators, ventilation systems, water supply and discharge systems and power supply systems. A building automation system primarily consists of sensors (現場傳感器), actuators (執行器), a direct digital controller (現場控制器) and a computer management software system. Our main products are the direct digital controller and the computer management software system, and our main customers are similar to those who purchase our fire alarm systems.

Electronic power meters

Power meters are widely used for measuring power usage in residential, commercial and industrial buildings. Currently there are two types of power meters, mechanical and electronic. Electronic power meters are superior to their mechanical counterparts in terms of precision, reliability, energy efficiency, overload characteristics, compactness and prevention of electricity theft. Within our power meter product suite, prepaid electronic power meters were our most popular product by sales volume in 2004. We also offer multi-rate electronic power meters, which we

believe have great growth potential as China begins to adopt more sophisticated national power management and usage systems. We started to develop, produce and market electronic power meters in 2002. Our key customers for electronic power meters are local power bureaus, real estate developers and property owners.

Building installation services

Building installation services provides comprehensive solutions for various low-voltage building systems, including fire alarm systems, building automation, computer network, security, CCTV monitoring, access control, emergency broadcasting and background music systems. It also provides technical consultancy, scheme design, equipment selection, as well as installation, testing and maintenance for those systems. Installation services improve the quality and lower the costs for the design and maintenance of low-voltage building systems.

We commenced our building installation services business in 1996. Our building installation services include building installation and maintenance services for low-voltage products that are produced either by ourselves or third parties. Our two subsidiaries, Hebei Gulf and Beijing Gulf Engineering, have obtained all necessary certificates and qualifications required to engage in the building installation business.

FACILITIES

We have established two manufacturing facilities. One is located in Qinhuangdao, Hebei with a site area of approximately 358,000 square feet, with capacity to manufacture 2.6 million fire detectors, 30,000 control devices (控制設備) and nearly 200,000 sets of video intercoms each year. The other is located in Beijing with a site area of 43,000 square feet with an annual production capacity of 300,000 electronic power meters.

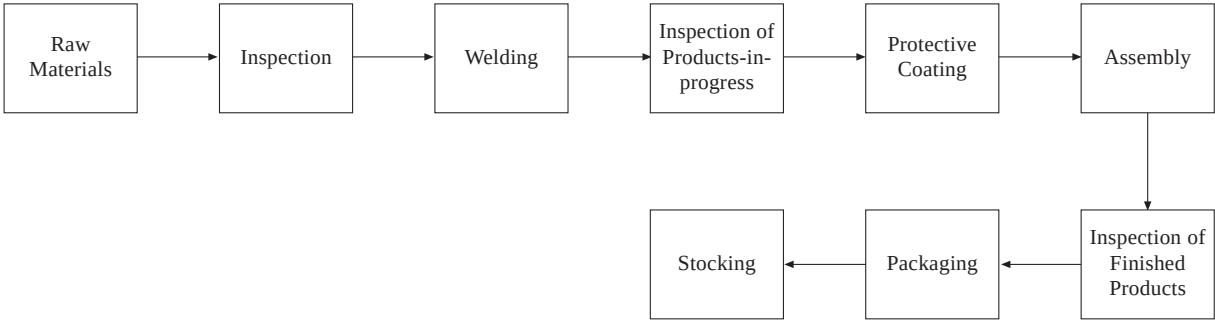
We plan to expand and upgrade the manufacturing facility in Qinhuangdao, Hebei in 2006 and establish another manufacturing facility in Beijing in 2007, by which time our annual production capacity will grow to approximately 7.6 million fire detectors, 50,000 control devices, 1.1 million sets of video intercoms and 1.1 million electronic power meters.

Flexible manufacturing capabilities

Our production is managed through an ERP system which contributes to the flexibility of our manufacturing capabilities. Our production lines are designed to enable us to produce different products, such as fire alarm modules and detectors, through a relatively short-period transition. This enables us to adjust our production schedule more efficiently to respond to changes in our customers' requirements.

Production process

The production processes of our various products are essentially the same. The similarity of the production process allows us to efficiently leverage our current facilities to expand our range of products. Set below is the flowchart for our standard production process:



Capacities

The respective production capacity, actual production capacity and the utilization rate of the products manufactured by the Group for the three years ended 31 December, 2004 are set out as follows:

	2002			2003			2004		
	Production capacity	Actual production (‘000 pieces)	Utilization rate	Production capacity	Actual production (‘000 pieces)	Utilization rate	Production capacity	Actual production (‘000 pieces)	Utilization rate
Fire detectors	1,100	920	83.6%	1,700	1,450	85.3%	2,600	2,000	76.9%
Modules	650	560	86.2%	1,000	840	84.0%	2,100	1,440	68.6%
Control devices	10	6	60.0%	15	10	66.7%	30	12	40.0%
Video intercoms	5	3	60.0%	50	33	66.0%	200	163	81.5%
Electronic power meters	60	40	66.7%	150	55	36.7%	300	74	24.7%

QUALITY CONTROL

We have implemented a quality control system that features self-inspection, cross-inspection, overall-inspection and sampling inspection, and requires professional technicians to conduct the inspection of products and the production process. We also established a product reliability laboratory, an aging test laboratory (老化實驗室), a temperature change test laboratory (高低溫交變實驗室), and a fire testing laboratory in order to ensure that our fire alarm systems and related products successfully operate under various conditions.

We have not experienced any recalls or defects of our products during the Track Record Period. We provide repair services at the request of our customers.

QUALITY CERTIFICATIONS

Due to our strict quality control system and international-level standards for both of our production process and products, we have obtained a number of certifications as to our quality that are relevant to our operations, including:

- **ISO 9001 quality management system certification**

We obtained this certification from LPCB in 2001. ISO 9001 is an international standard and is awarded when a supplier meets specific requirements during several product stages, including design and development, production, testing, inspection and servicing. Only organizations that conduct research and development as well as production are eligible for ISO 9001.

- **ISO 9001 quality management system certification**

We obtained this certification from China Quality Certification Centre in 2003. China Quality Certification Centre is a specialized certification body approved by State Certification Commission of the PRC.

- **ISO 14001 environmental management system certification**

We obtained this certification from China Quality Certification Centre in 2003. ISO 14001 is an international standard for the operation of an environmental management system.

- **ISO 10012.1 measurement and inspection system certification**

We obtained this certification from the General Administration of Quality Supervision, Inspection and Quarantine of the PRC in 2003. ISO 10012.1 is an international standard on the operation of a measurement and inspection system.

In addition, we have obtained many significant certifications for our products, including China's Compulsory Product Certification for 20 of our products, UL certification for one of our products, product type approvals (產品型式認可) granted by the Evaluation Centre for Fire Security Products of the Chinese Ministry of Public Security for nine of our products, LPCB product certification for four of our products, and CE certification for 16 of our products.

RESEARCH AND DEVELOPMENT

Our research and development activities are important in maintaining our position as the leading manufacturer in the fire alarm systems industry. Our research and development efforts focus on collaborating with our customers and research institutions on product design and system development, and improving production efficiency to reduce overall manufacturing costs. We believe that close collaboration between our research and development teams and our customers during the design and development process facilitates our technological innovation in the manufacturing of fire alarm systems and related products.

The majority of our research and development personnel are based at our research and development centers in Qinhuangdao and in Beijing. Our research and development team consists of 129 dedicated specialists. For the years ended 31 December, 2002, 2003 and 2004, we invested RMB16.8 million, RMB17.9 million and RMB21.2 million, respectively in research and development.

We believe that sustaining our market leadership and reputation for quality and innovation that our products enjoy will require ongoing investment in product development, and we intend to continue to invest no less than 5% of our annual revenue in research and development in the coming years. In addition, we will continue to engage in joint research programs with both foreign companies and scientific research institutions in China.

Technological Achievements

We attach great importance to the research and development of new products, technologies and processes. Sustained research and development efforts over the years have led us to technological achievements whereby some of our products are well recognized by the market, and we believe we have maintained our leading position ahead of our industry peers in technological advancement.

We hold 29 registered patents and are currently applying for another seven patents. We have also been granted software copyrights for 15 software products and software product certification for 96 products. Further information in relation to these patents and copyrights is set out in the section headed “Intellectual Property” in Appendix VI to this prospectus.

We have also made achievements in the following technologies:

- *Automatic fire detection technology.* Our technology in this area include upright backward scattered optical smoke detection technology (invention patent pending) (立式後向散射型光電感煙探測技術); upright backward and forward scattered optical smoke detector (立式雙向散射型光電感煙探測器) (invention patent pending) and intelligent fire identification algorithm based on digital filtering and fuzzy logic (基於數字濾波和模糊邏輯的智能火災判定算法).
- *Electronic coding technology.* Our electronic coding technology, which is widely used in our products, has been granted an invention patent.
- *Digitalized bus communication technology* (數字化總綫通訊技術). Our digitalized bus communication technology, which includes the two-wire bus communication devices (一種兩線制通訊總線裝置) (invention patent) which are widely used in our fire alarm systems, is a communication technology for signal transmission between fire detectors and control devices.

- *iiBS software.* This software is a product co-developed by us and the Software Institute of the Chinese Academy of Science. We jointly own the copyright of the software with the Software Institute of the Chinese Academy of Science. This technology is used in our building automation systems.

MARKETING, SALES AND AFTER SALES SERVICE

Our overall marketing and sales strategies are formulated by sales executives at the head office. The individual representative offices are responsible for promotional programs, marketing activities to promote brand recognition of our products, actual sales of our products, the provision of technical support services to our customers in their respective areas, and the supervision of the sales activities of the distributors in their respective regions.

Marketing Strategy

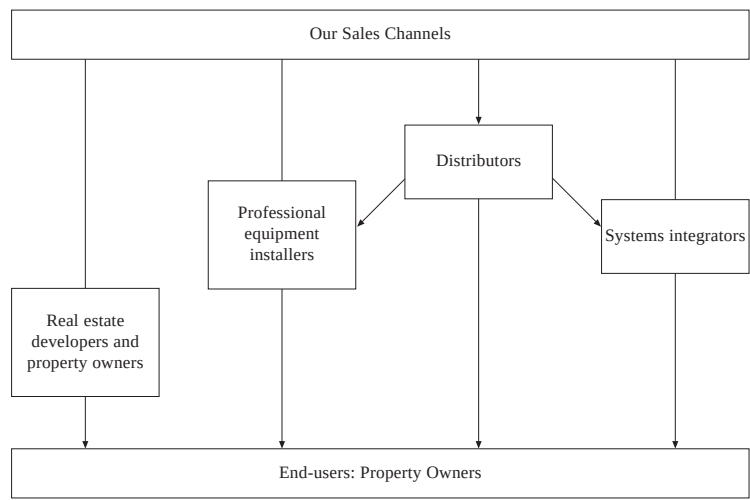
As part of our marketing strategy, we frequently advertise in professional journals, participate in exhibitions, organize promotion campaigns and offer technical training to enhance the customers' knowledge of our products.

In addition, we maintain regular contacts with installers, value added resellers (including specialist installers), distributors and end-users (including property developers, building owners and contractors), and provide them with the latest information of both our products and technical and application services. We have also implemented a "key client programme" to enable us to establish and develop relationships with large nationwide customers. We believe such efforts will enhance our business opportunities and help us maintain and increase our market share in China.

Sales

We have established an extensive sales and distribution network, consisting of an over 600 persons specialized sales force that is based in 61 offices in major cities across China, together with 22 distributors, to support our customers nationwide. We believe our specialized sales force, which both distributes our products and offers technical support, provides an effective distribution channel and helps us maintain close relationships with our customers, including fire alarm systems installation companies, security system installers, building automation system installers, construction contractors, architects, real estate developers and government procurement departments.

We sell substantially all of our products through our own sales channels — professional equipment installers, systems integrators (including specialist installers), distributors and real estate developers and property owners. We also appoint 22 distributors, all being independent third parties who possess appropriate skills and offer them various incentives, including selling our products to them at discounts. We sign annual distribution agreements with our distributors and the renewal of which depends, among others, the sales performance of these distributors. Distributors typically resell to professional equipment installers and systems integrators (including specialist installers). Distributors accounted for 2.4%, 6.2% and 5.8% of our sales for the years ended 31 December, 2002, 2003 and 2004. Our 22 distributors are primarily located in areas where we have limited coverage through our representative offices. Our distributors are located in Taizhou, Dandong, Jiaqing, Huizhou, Meizhou, Zhongshen, Zhuhai, Yinchuan, Xi'an, Urumqi, Dalian, Harbin, Nanjing, Shenzhen, Yantai, Kunming, Quzhou, Shaoxing, Chengzhou and Mudanjiang.



There is an increasing trend that equipment used in large scale projects is selected by the owners themselves as opposed to the installers. Accordingly, we plan to further enhance our promotions targeted at building owners. We also have plans to enhance our relationship with the industry administration agencies and architecture design institutes in order to solidify our existing sales channels and increase our sales opportunities.

Internationally, we have been successful since 2001 in selling our fire alarm systems to countries in the Middle East, Europe, Africa, and South and Southeast Asia through either our own sales force or through GST plc which employs its own sales force to sell our products. We intend to further increase our international sales of fire alarm systems products by seeking alliances with strategic partners that have effective global distribution networks, appointing overseas distributors and/or setting up our own overseas sales offices. Based on our sales policy, we neither offer our customers nor distributors any right to return goods sold.

We primarily obtain our installation and services contracts from property developers or building owners directly.

Set below is a map showing the geographical distribution of our sales office nationwide.

Geographical Distribution of Our Representative Offices



After-sales Service

We offer a wide range of after-sales services to our customers, including the provision of field testing, maintenance and training service, 24-hour telephone and website technical support service and remote system monitoring service. These after-sale services are provided by our 61 representative offices throughout China.

In addition, we typically offer up to two-year warranty on all our products. To complement our after-sales service strategy, we conduct random testing of our products during warranty periods and conduct a complete set of tests one month prior to the expiry of the warranty period in order to ensure that our products still operate in good conditions. We report the results of such testing to customers in a timely manner.

CUSTOMERS

Our key customers are professional equipment installers. Our five largest customers, including professional equipment installers, distributors and real estate developers, vary from year to year.

For the years ended 31 December, 2002, 2003 and 2004, aggregate sales to our five largest customers accounted for 6.1%, 6.0% and 5.4% of our total sales, respectively, and sales to our largest customer accounted for 3.6%, 1.6% and 1.5% of our total sales, respectively.

For the two years ended 31 December, 2002 and 2003, two of our five largest customers were connected persons of the Company, which are Qinhuangdao Meters and Chongqing Gulf. For the two years ended 31 December, 2002 and 2003, sales to these two customers in aggregate accounted for 4.2% and 2.6% of our total sales, respectively. None of the Directors, their respective associates, or as far as the Directors are aware, shareholders who will own more than 5% of our issued share capital immediately following completion of the Global Offering and the Capitalization Issue had any interest in any of our five largest customers during the years ended 31 December, 2002, 2003 and 2004.

PRICING POLICY

In determining product pricing, we primarily consider the following factors: costs, projected next year overall market price level, brand name and customer recognition of competing products. Pricing of building installation services is generally determined on the basis of service fees and installation fees, which is in line with national industry standards.

We formulate tailored pricing strategies for each region given the different competition in each region based on levels of discounts, if any, available to our established price for each product. For sales to our long-term customers, we typically offer preferential prices. In addition, we offer incentives to customers if they purchase “bundled” products (for example, a combination of fire alarm systems, video entry systems, building automation systems and electronic power meters as required by a real estate developer) as a package.

CREDIT POLICY

We only grant credit terms to corporate customers with sound financial background and good repayment histories. No credit terms are granted to new customers. We grant credit terms ranging from 30 days to 180 days or on terms depending on customers’ progress of installation of our products.

PROVISION POLICY

We make provision against account receivables to the extent amounts are considered to be uncollectible or unlikely to be collectible within a reasonable period of time which varies depending on the credit terms granted to customers, creditworthiness and past payment histories of customers. Account receivables aged over three years are generally deemed to be uncollectible or unlikely to be collectible. We specifically analyze factors such as the collectibility of individual accounts, customer creditworthiness, change in customer payment pattern, current economic situation, to assess the adequacy of provision.

WARRANTY POLICY

We typically offer warranty on our products up to a period of two years. During the warranty period, faulty products are repaired or replaced.

SUPPLIERS OF RAW MATERIALS

The major raw materials used in our products include: electronic components, integrated circuits, PCB (printed circuit boards) (印刷綫路板), infrared receivers/emitters (紅外綫接收管／發射管), monitors, cameras, ABS plastic enclosures and metal enclosures.

Expenditures on raw materials accounted for approximately 88.9%, 89.0% and 89.9% of our total costs of production for the years ended 31 December, 2002, 2003 and 2004. The most important components of our products are integrated circuits, electronic components and plastic parts. For the years ended 31 December, 2002, 2003 and 2004, we spent approximately 20.3%, 21.5% and 19.8% of our total raw material purchases on integrated circuits. Electronic components, being the second most important component, accounted for approximately 14.2%, 17.4% and 17.7% of our total raw materials purchases during the same period. Plastic parts, being the third most important component, accounted for approximately 16.4%, 14.3% and 11.5% of our total raw materials purchases during the same period.

We source most of our raw materials from local distributors or agents of foreign suppliers in China. Suppliers are chosen based on their production scale and quality and price of their products. Most of our suppliers have obtained ISO 9001 certification. During the Track Record Period, we have not encountered any significant failures of our suppliers to meet the Group's supply requirements including product quality and production standards.

The credit terms our major suppliers offered to us during the Track Record Period were typically 30 to 90 days.

Five Largest Suppliers

For the three years ended 31 December, 2002, 2003 and 2004, purchases from our five largest suppliers accounted for 40.9%, 35.7% and 30.8%, respectively, of our total raw material purchases, and purchases from our largest supplier accounted for 15.8%, 12.7% and 9.0% respectively of our total raw material purchases. We have never experienced any major problems when sourcing raw materials during past years.

None of the Directors, their respective associates, shareholders who will own more than 5% of our issued share capital immediately following completion of the Global Offering and the Capitalization Issue had any interests in any of the five largest suppliers for the three years ended 31 December, 2002, 2003 and 2004.

Stability in the Supply of Raw Materials

We purchase almost all of our raw materials with Renminbi, and only purchase raw materials with Japanese Yen and British Pounds in exceptional circumstances. Despite devaluations of the US dollar (and consequently, the Renminbi), prices of our raw materials supplied by foreign suppliers remain relatively stable. This is mainly because we have entered into supply contracts with certain suppliers or their local distributors (or agents) in China pursuant to which prices of raw materials are fixed for a period of one year. In addition, we have made every effort to minimize the impact of possible price changes by reducing the components and materials we use through technology advancement.

LOGISTICS

Our logistics department had a total of 40 employees as at 31 December, 2004. The department is divided into three different groups, namely, planning, warehousing and transportation. The planning group is responsible for formulating production and procurement plans and supervising the implementation of such plans. The warehousing group is in charge of allocating products to warehouses established in various parts of China. The transportation group arranges for delivery of products to such warehouses or offices. To enable the efficient management of inventory and to reduce time required for delivery to customers, we have rented five warehouses in Beijing, Shanghai, Zhengzhou, Chengdu and Guangzhou, respectively. The warehousing, inspection, allocation and delivery of products in these warehouses are carried out by personnel of our logistics department.

In addition to the above, to ensure the timely delivery of products to customers, we have appointed various major domestic carriers, such as Qinhuangdao Development Area Post Office, China Railway United Logistics Company (CRUL), ZJS Express and CAAC Pengyuan Logistics Company, to handle the delivery of our products.

INTELLECTUAL PROPERTY

Over the past 12 years, we have developed a number of intellectual property rights, ranging from patents, software, trademarks, domain names to technical know-how.

Patents

As at the Latest Practicable Date, we held 29 patents, including 21 external design patents, six utility model patents and two invention patent in connection with a wide range of products including electronic programmers, smoke detectors, flame detectors, heat detectors, manual call points, sounders and strobes (聲光報警器), video intercoms, and patrol system data collectors (電子巡更器). We also have seven pending patents, the applications for registration of which have been accepted. These pending patents include five external design patents and two invention patents. Details of some of the patents which are held or applied for by us as at the Latest Practicable Date are as follows:

1. Registered invention and utility model patent

Patent	Type of Patent	Registrant	Registration number	Period of Validity
電子編碼器 (Electronic programmer)	Invention	GST	ZL 99 1 23763.3	20 years commencing on 22 November, 1999
家用可燃氣體報警器 (Residential combustible gas detector)	Utility model	GST	ZL 98 2 04674.X	10 years commencing on 21 May, 1998
紫外火焰探測器 (Ultra-violet flame detector).	Utility model	GST	ZL 99 2 54358.4	10 years commencing on 22 November, 1999
線型紅外光束感煙探測器 (Linear infrared beam smoke detector)	Utility model	GST	ZL 99 2 57190.1	10 years commencing on 7 December, 1999
立式雙向散射光電感煙探測器 (Upright backward and forward scattered optical smoke detector)	Utility model	GST	ZL 03 2 36048.7	10 years commencing on 17 January, 2003

<u>Patent</u>	<u>Type of Patent</u>	<u>Registrant</u>	<u>Registration number</u>	<u>Period of Validity</u>
一種對講機組合安裝結構 (An installation structure of audio handset)	Utility model	GST	ZL 03206097.1	10 years commencing on 23 July, 2003
立式後向散射型光電感煙探測器 (Upright backward scattered optical smoke detector) .	Utility model	GST	ZL 03236047.9	10 years commencing on 17 January, 2003
一種兩線制通訊總線裝置 (Two wire bus communication device). .	Invention	GST	ZL 02129002.4	20 years commencing on 23 August, 2002

2. *Application of invention patent undergoing final approval*

<u>Patent</u>	<u>Type of Patent</u>	<u>Applicant</u>	<u>Application number</u>
立式後向散射型光電感煙探測器 (Upright backward scattered optical smoke detector)	Invention	GST	03100625.6
立式雙向散射型光電感煙探測器 (Upright backward and forward scattered optical smoke detector). .	Invention	GST	03100624.8

Note: Please refer to the section headed “Intellectual Property” in Appendix VI to this prospectus for information on all of the registered patents held by the Company as at the Latest Practicable Date.

Trademark

We are the registered owner of the trademark “”. This well-known trademark is widely used on our existing products, such as fire alarm systems, fire alarm network systems, building automation systems and video entry systems. We have registered the trademark “” in China, the United Kingdom and the United Arab Emirates. In 2004, our “” brand was certified as the only “well-known trademark” in the fire alarm systems industry by the State Administration for Industry and Commerce in China.

Domain Name

As at the Latest Practicable Date, we were the registered holder of the domain name of www.gst.com.cn.

Software

As at the Latest Practicable Date, we have obtained registration certificates and verification certificates in respect of authorships of 15 software programmes used in our products and 96 other software programmes.

Technical Know-how

We have independently developed and own three core technical know-how: manufacturing engineering of intelligent optical smoke detector (智能光電感煙探測器製造工藝), algorithm of intelligent fire detector (智能火災探測器算法), intelligent algorithm of expanding frequency carrier communication (擴頻載波通訊智能算法).

INFORMATION SYSTEM

Our existing information management system is an IFS ERP system. We began system implementation in December 2003 and completed the test run in August 2004. This system has been in full operation on 1 January, 2005.

Our ERP system is capable of comprehensive management of our logistics, information flows, fund flows and supply chain. It provides full solutions to purchase orders processing, financial management, warehousing, production schedule control, logistics support, sales and customer management. The ERP system can be accessed by all of our subsidiaries and branches via VPN and terminal long-distance connections, enabling real time inputs and status checks.

At present, we are planning to establish additional information management systems, including Office Automated System (OA), Product Data Management System (PDM), Customer Relationship Management System (CRM), Knowledge Management System (KM) and Human Resource Management System (HR) to enhance our information management capabilities.

EMPLOYEES

As of 31 December, 2004, we employed 1,280 full-time employees, including 129 in research and development, 257 in sales and marketing, 362 in technical services, 448 in production and logistics and 84 in general and administration.

In order to reward staff and attract talent, we have conditionally adopted the Share Option Scheme whereby certain selected classes of participants (including, but not limited to, any executive or non-executive Directors including independent non-executive Directors or any employees (whether full-time or part-time) of each member of the Group) may be granted options to subscribe for Shares at the discretion of the Board or a committee thereof. The principal terms of the Share Option Scheme are summarized in the section headed “Share Option Scheme” in Appendix VI to this prospectus.

We participate in certain defined contribution retirement, pension and medical insurance schemes organized by the respective municipal governments of the areas where we operate. We have no obligation beyond the monthly contributions. Last year we paid an aggregate of RMB1,497,000 in respect of these schemes.

We provide loans to staff to purchase accommodations. As at 31 December, 2004, we provided an aggregate of RMB2,016,000 loans to employees. These loans are unsecured, non-interest bearing and repayable within five years.

The Directors consider that the Group maintains good working relationships with its employees and has not experienced any difficulty in recruiting suitable staff or any disruption to its operations due to labour disputes for the past three years ended 31 December, 2004.

PROPERTY

We own and lease real estate in many major cities, including 29 owned properties and 49 leased properties, most of the leased properties are used as our representative offices and constitute a significant part of our nationwide distribution network.

In relation to the properties currently occupied by the Group, the Group has not obtained sufficient title certificates or documents in respect of two office units owned by the Group in Shenyang, Liaoning Province and six properties leased by the Group in the PRC (the “Defective Title Properties”) which would affect the Group to freely use or lease the properties. The Defective Title Properties are primarily used either as liaison or representative offices in various cities of the PRC or as staff quarters which are neither directly related to the operations/business of the Group nor used for any revenue generating purposes. The Directors believe that the Defective Title Properties are not material to the business of the Group.

In respect of the owned Defective Title Properties in Shenyang, Liaoning Province, the Group intends to dispose of the property in the near future and is in the course of looking for purchasers to purchase the property.

GST International Management, the controlling shareholder of the Company, has agreed to keep us indemnified against (i) all losses, claims, actions, damages, payments, liabilities, costs and expenses (including professional fees) arising out of or in connection with our use or occupation of the Defective Title Properties and (ii) any costs of relocation suffered by the relevant Group company in the event that it was evicted from the Defective Title Properties.

Gulf Meters has leased certain properties situated at Yanxi Industrial Development Zone, Huairou, Beijing (北京市懷柔雁棲工業開發區) (the “Huairou Properties”) for use as manufacturing site for part of the production processes of electronic power meters and as offices and staff quarters for a term of ten years ending on 18 November 2014. Under the terms of the tenancy agreement, Gulf Meters has an option to renew the existing tenancy prior to its expiry and a right of first refusal to purchase the Huairou Properties in the event that the landlord shall dispose of the property to a third party. Therefore, Gulf Meters has a relative long-term period of occupation at the Huairou Properties.

Although the Huairou Properties are used for our manufacturing process, the Group does not consider that the Huairou Properties are crucial to the operations of the Group as a whole as (1) the production facilities located at the Huairou Properties are only used for the assembly process of electronic power meters, being part of the manufacturing process whilst the principal production facilities for manufacturing electronic components of the electronic power meters are located at the manufacturing site at Qinhuangdao; (2) the turnover attributed to the assembly process carried out at the Huairou Properties only accounted for a minor portion of the total turnover of the Group for the year ended 31 December 2004; (3) the gross floor area occupied by Gulf Meters at the Huairou Properties is approximately 1,500 sq. m, representing approximately 6.07% of the aggregate gross floor area of the production facilities of the Group located at Qinhuangdao; and (4) the fixed assets of Gulf Meters as at 31 December 2004 are less than 1% of the total fixed assets of the Group as at 31 December 2004.

In view of the use of the Huairou Properties in the assembly process, in the event that Gulf Meters loses occupation at the Huairou Properties, it would not be difficult to relocate or find other comparable properties in the vicinity to continue the assembly process and the cost of such relocation would not be material. Therefore, the Directors consider that the Huairou Properties are not crucial to the operations of the Group as a whole. However, GST International Management, the controlling shareholder of the Company, has agreed to keep us indemnified against any costs of relocation suffered by Gulf Meters in the event that Gulf Meters is required by the landlord to be evicted from the Huairou Properties prior to the expiry of the tenancy agreement.

For further details of the property interests owned and/or leased by the Group, please refer to “Property Valuation” in Appendix IV to this prospectus.

INSURANCE

We have obtained property insurance to cover our main fixed assets, inventory, raw materials and finished products, and personal accidental injury insurance coverage for our employees with the People’s Insurance Company of China, or PICC. We also maintain product liability insurance for our fire alarm systems and some of our other products. Fire alarm systems alone accounted for 83.5% of our total revenue in 2004.

TAXATION

Our major Subsidiaries registered in the PRC were subject to the statutory corporate income tax at the rate of 33% in 2002. In 2003, GST was entitled to a preferential corporate income tax rate of 10% as a recognized software enterprise. In April 2004, our subsidiaries, GST, Gulf Network and Gulf Meters were reorganized and converted into foreign invested enterprises, or FIEs, and as such, were entitled to enjoy the preferential enterprise income tax treatments in the PRC, including enterprise income tax “holidays” for two years from the year they start to make profit, and at 50% discount of the then effective enterprise income tax rate for three subsequent years. In addition, being registered in a designated economic and technological development zone in the PRC, both GST and Gulf Network would have been subject to a preferential income tax rate of 15% since April 2004 in the absence of their tax holiday. See “— Taxation” and Note 8 to our consolidated financial statements set out in Appendix I to this prospectus for details of the respective preferential treatments for each of these subsidiaries. In addition, our subsidiaries GST and Gulf Network are entitled to a value added tax refund with respect to software developed by themselves, i.e., if the net amount of the value added tax payable exceeds 3% of software sales, the excess portion of the value added tax is refundable immediately. This policy is effective from 2000 until 2010.

As a result of these tax preferences, our effective tax rate for each of the three years ended 31 December, 2002, 2003 and 2004 was 25.2%, 15.4%, and 2.9%, respectively. Once the two-year tax “holidays” of GST, Gulf Network and Gulf Meters ends in 2005 or 2006, we expect our effective tax rate to increase.

ENVIRONMENTAL COMPLIANCE

We have installed waste treatment facilities and implemented waste treatment procedures in each of our production facilities to treat waste discharged during the production process. The types of waste discharged include waste water, smoke emissions, metal and plastic waste, and industrial waste. All waste produced by us is treated before being discharged in compliance with applicable environmental standards.

We have not been subject to any fines or legal action involving non-compliance with any relevant environmental regulations, nor are we aware of any threatened or pending action by any environmental regulatory authority in any place where we operate our business.

We obtained the ISO 14001 Environmental Management System Certification of the China Quality Certification Centre in 2003. ISO 14001 is an international standard on the operation of an environmental management system.

LEGAL PROCEEDINGS

In order to secure banking facilities for the use in their normal course of business, GST and Qinhuangdao Textile Factory provided guarantees to one and the other with local commercial banks in relation to certain loans. On 28 November and 11 December, 1997, Qinhuangdao Textile Factory borrowed two loans (the “loans”) totalling RMB3.49 million from the Qinhuangdao Branch of the Bank of Communications (the “Bank”). GST provided the Bank with a guarantee in respect of the loans with joint and several liability. Qinhuangdao Textile Factory has only repaid RMB20,000 and was unable to repay the outstanding principal of RMB3.47 million and accrued interest of RMB0.8 million.

On 27 February, 2002, the Bank sued Qinhuangdao Textile Factory and GST in the Qinhuangdao Municipal Intermediate People’s Court. Because the Bank failed to claim against GST within the statutory limitation period, the Qinhuangdao Municipal Intermediate People’s Court held that GST should not be liable for the guarantee provided in relation to the loans. The Bank has appealed to the Hebei Provincial Higher People’s Court against the judgment of the Qinhuangdao Municipal Intermediate People’s Court.

On 5 April, 2005, GST, 秦皇島市輕工紡織工業國有資產經營有限公司 (Qinhuangdao Municipal Light and Textile Industries State-owned Assets Operating Co., Ltd.*) (being the authority in charge of 秦皇島聯峰紡織集團有限公司 (Qinhuangdao Municipal Lianfeng Textile Group Co., Ltd.*), the successor of Qinhuangdao Textile Factory)) (the “Operating Company”) and 中國信達資產管理公司石家莊辦事處 (The Shijiazhuang Office of China Xinda Asset Management Corporation*) (being the assignor the Loan) (“Xinda”) entered into a mediation agreement in respect of the GST guarantee.

Pursuant to the Mediation Agreement, as approved by the Hebei Provincial Higher People’s Court, GST and the Operating Company paid Xinda RMB0.8 million and RMB3.5 million, respectively. In return, Xinda agreed to (i) release GST from any and all claims in connection with the guarantee; and (ii) withdraw its appeal.

Save for the above, to the best of our knowledge we are not a party to any other material legal proceedings and there is no material legal proceeding pending.

* For identification purpose only

RELATIONSHIP WITH GULF GROUP

Prior to the Reorganization in preparation of the Global Offering, GST was owned directly or indirectly by Gulf Group as to approximately 99.93%. Gulf Group is currently owned by the 22 shareholders who are the same beneficial shareholders of GST International Management, the controlling shareholder of the Company.

As part of the Reorganization, a number of subsidiaries, associated companies and departments of the Gulf Group were transferred to the Group. Details of the Reorganization are set out in the paragraph headed “Reorganization” in the “Business” section of this prospectus and the paragraph headed “Corporate reorganization” in Appendix VI to this prospectus. After the Reorganization, Gulf Group retains 10 subsidiaries, namely, Beijing Gulf Property, Beijing Software, Beijing Gulf, Kadmus, Beijing Environmental, Qinhuangdao GST, Qinhuangdao Environmental, Chongqing Gulf, Junhui Car and Qinhuangdao Meters as well as interests in 4 associated companies, namely, Qiqiha’er Longcheng, Dalian Hongyang, Sichuan Tianxing and Henan Yinghua.

The business scope of each member of the Gulf Group is as follows:

Gulf Group	Investment holding and management
Beijing Gulf Property	Sale and development of real properties
Beijing Software	Development and sale of software ⁽¹⁾
Beijing Gulf	Sales of building automation systems ⁽²⁾
Kadmus	Manufacturing and sales of water meters
Beijing Environmental	Development of environmental protection products and environmental engineering projects ⁽³⁾
Qinhuangdao GST	Sales of fire alarm network systems ⁽⁴⁾
Qinhuangdao Environmental	Development of environmental protection products and environmental engineering projects ⁽⁵⁾
Chongqing Gulf	Sales of fire alarm systems and provision of building installation services ⁽⁶⁾
Junhui Car	Maintenance and repairing of automobiles, interior and exterior decoration of automobiles
Qinhuangdao Meters	Sales and electronic power meters ⁽⁷⁾
Dalian Hongyang	Fire alarm network project in Dalian ⁽⁸⁾
Sichuan Tianxing	Fire alarm network project in Sichuan ⁽⁹⁾
Henan Yinghua	Fire alarm network project in Henan ⁽¹⁰⁾
Qiqiha’er Longcheng	Fire alarm network project in Qiqiha’er ⁽¹¹⁾

Notes:

- (1) Beijing Software has been dormant since early 2004.
- (2) Beijing Gulf has been dormant since 2000.
- (3) Beijing Environmental has been dormant since late 2002.
- (4) Qinhuangdao GST has been dormant since mid-2004 (except as investment holding of four associated companies, namely, Qiqiha’er Longcheng, Dalian Hongyang, Sichuan Tianxing and Henan Yinghua).
- (5) Qinhuangdao Environmental has been dormant since late 2002.
- (6) Chongqing Gulf has been dormant since early 2004.
- (7) Qinhuangdao Meters has been dormant since late 2003.
- (8) Dalian Hongyang has been dormant since 2002.
- (9) Sichuan Tianxing has been dormant since 2002.
- (10) Henan Yinghua has been dormant since 2002.
- (11) Qiqiha’er Longcheng has been dormant since 2002.

Neither Gulf Group nor the controlling shareholder of the Company is interested in a business which competes or is likely to compete, either directly or indirectly, with the Group's business. The Company is satisfied that it is capable of carrying on its business independently of GST International Management, the controlling shareholder of the Company.

The 4 associated companies, namely, Qiqiha'er Longcheng, Dalian Hongyang, Sichuan Tianxing and Henan Yinghua were originally transferred to the Group pursuant to an assets and business acquisition agreement dated 16 April, 2004 as part of the Reorganization. However, as the 4 associated companies were dormant and no legal procedure could be conducted to implement the transfer, Gulf Network transferred back the interests in the 4 associated companies to Qinhuangdao GST.

Pursuant to a confirmation dated 21 February, 2005 entered into between Gulf Network and Qinhuangdao GST, Qinhuangdao GST has undertaken to indemnify Gulf Network for any loss, claims, litigation, arbitration arising from the transfer back of the interests in the 4 associated companies to Qinhuangdao GST. Subject to the pre-emptive right of the other shareholders of the 4 associated companies under PRC law, Gulf Network has a first right of refusal to acquire the interest in the 4 associated companies, individually or collectively, when it considers appropriate. As the 4 associated companies have been dormant, the Directors consider that there are no businesses retained by the Gulf Group and its associated companies which may compete, directly or indirectly, with the Group.

CONNECTED TRANSACTIONS

Prior to the corporate reorganization in preparation of the Global Offering, GST was owned directly or indirectly by Gulf Group as to approximately 99.93%. Based on the fact that (1) Gulf Group is owned by the 22 shareholders who are the same beneficial shareholders of GST International Management, the controlling shareholder of the Company; (2) the directors of Gulf Group, namely, Mr Song Jiacheng and Mr Peng Kaichen, are also the directors of the Company; and (3) a lock-up agreement dated 26 November, 2004 was entered into among the 22 shareholders of GST International Management for non-disposal of shares of the Company, the Company considers that Gulf Group together with its subsidiaries (but not associated companies) as connected persons of the Company for the sole purpose of the interpretation of connected transactions under the Listing Rules.

Continuing Connected Transactions

The Group has entered into the following agreements with Gulf Group and/or its subsidiaries, which will continue to be effective after the Shares are listed on the Stock Exchange and constitute continuing connected transactions for the Company under the Listing Rules following the listing of the Shares on the Stock Exchange. Our Directors (including independent non-executive Directors) are of the opinion that (i) these continuing connected transactions have been concluded, and will be carried out, in our ordinary and usual course of business on normal commercial terms, are fair and reasonable, and are in the interests of our Shareholders as a whole and (ii) the annual caps for these continuing connected transactions are fair and reasonable as far as the Shareholders as a whole are concerned.

The Company will comply with the applicable provisions under Rules 14A.35(1), 14A.35(2), 14A.36, 14A.37, 14A.38, 14A.39 and 14A.40 of the Listing Rules should any exempt continuing connected transactions set out below falls outside the criteria under Rule 14A.33 of the Listing Rules.

Exempt Continuing Connected Transaction

1. Provision of car repair services

Junhui Car is owned by Gulf Group as to 80%. Junhui Car provided car repair services to GST. Junhui Car is principally engaged in the maintenance and repairing of automobiles, and interior and exterior decoration of automobiles. Pursuant to a service agreement entered into between GST and Junhui Car (the “Car Repair Services Agreement”), Junhui Car will continue to provide car repair services to GST for a period commencing from 10 June, 2005 and ending on 31 December, 2007.

For the three financial years ended 31 December, 2002, 2003 and 2004, Junhui Car charged GST approximately RMB192,000, RMB245,000 and RMB101,000 respectively as car repair service charges. To the best of our knowledge, the Directors confirm that the car repair service charges were based on the then prevailing market rates.

To the best of our knowledge, the Directors consider that the continuing connected transactions under the Car Repair Services Agreement is on normal commercial terms. The estimated car repair service charges will be approximately RMB200,000 for the three financial years ending 31 December, 2007 and such charges will fall within the de-minimis exemption under Rule 14A.33(3) of the Listing Rules and is therefore exempt from the reporting, announcement and independent shareholders’ approval requirements under the Listing Rules.

2. Lease agreement

On 9 March, 2005, GST entered into a lease agreement with Gulf Group (the “Lease”) under which Gulf Group agreed to lease its property located at 靜安區曹家渡街129坊80/1丘, Shanghai, PRC (the “Shanghai Property”) to GST as its place of business in Shanghai, PRC. The term of the Lease commenced on 1 March, 2005 for a period of 3 years and shall expire on 28 February, 2008. GST shall pay Gulf Group RMB240,000 per annum as rent (exclusive of utilities and management fees). To the best of our knowledge, the rent payable by GST was determined based on market rent.

The rent payable under the Lease will be approximately RMB240,000 for each of the periods ending 28 February, 2008 and such rent will fall within the de-minimis exemption under Rule 14A.33(3) of the Listing Rules and is therefore exempt from the reporting, announcement and independent shareholders’ approval requirements under the Listing Rules.

3. Provision of services

Prior to 2005, Gulf Group provided certain services, at nil consideration, to GST including the provision of food and beverages to the employees and guests of GST served at employee’s canteen of GST and the guests’ restaurant of GST, transportation services, environmental maintenance services such as green-zone management services, security guards, and property management services and other related or similar services (the “Services”).

On 10 June, 2005, GST entered into a service agreement (服務協議) with Gulf Group (the “Service Agreement”) under which Gulf Group agreed to provide the Services to GST. The term of the Service Agreement takes retrospective effect from 1 January, 2005 and shall expire on 31 December, 2006.

The service fees payable by GST to Gulf Group pursuant to the Service Agreement for the two financial years ending 31 December, 2006 will be approximately RMB909,700 (equivalent to approximately HK\$858,208) and approximately RMB1,046,000 (equivalent to approximately

HK\$986,792) and such service fee will fall within the de-minimis exemption under Rule 14A.33(3) of the Listing Rules and is therefore exempt from the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

Non-exempt Connected Transactions

1. Construction agreement (建設工程施工協議)

On 10 June, 2005, Beijing Gulf Engineering, owned as to 60% by GST and as to 40% by Hebei Gulf, entered into an agreement (建設工程施工協議) with Beijing Gulf Property, a limited liability company established in the PRC and is owned as to 92.24% by Gulf Group, as to 4.76% by Beijing Software and 3% by an independent third party, and 北京城建四建設工程有限責任公司 (Beijing Chengjiansi Construction and Engineering Company Limited*) (“Beijing Chengjiansi”) relating to the construction and development of the Property Development (as hereinafter defined) (the “Construction Agreement”). Beijing Gulf Property is principally engaged in sale and development of real properties and Beijing Chengjiansi is principally engaged in sub-contracting of construction projects.

A property development of Beijing Gulf Property is currently under construction in Beijing, the PRC (the “Property Development”). Beijing Gulf Property has appointed Beijing Chengjiansi to be the main contractor of the Property Development. Pursuant to the terms of the Construction Agreement, Beijing Chengjiansi has appointed Beijing Gulf Engineering to be a sub-contractor in providing building installation and maintenance services, which shall include the supply and installation of water supply system for fire extinguishing purpose and fire alarm system and the design, supply and installation of low voltage building system of the Property Development.

The fees payable by Beijing Gulf Property are on terms no less favourable than that available to other customers of the Group. The contracted construction fees under the Construction Agreement was RMB20 million and shall be payable in stages by Beijing Gulf Property to Beijing Gulf Engineering within 25 days upon application to be made by Beijing Gulf Engineering after completing the prescribed work schedule. As the completion date of the Property Development is expected to be beyond 2005, payments of the contracted construction fees will be made by Beijing Gulf Property to Beijing Gulf Engineering in various tranches following the Global Offering.

The Construction Agreement was a one-off connected transaction entered into by the Group prior to the Global Offering. The Directors consider that the Construction Agreement was entered into in the ordinary course of business of the Group and on normal commercial terms and consider that the terms of the Construction Agreement are fair and reasonable.

2. First right of refusal to acquire interests in associated companies of Gulf Group

Pursuant to a confirmation dated 21 February, 2005 entered into between Gulf Network and Qinhuangdao GST, subject to pre-emptive right, Gulf Network has a first right of refusal to acquire interest in four associated companies of Gulf Group established in the PRC, individually or collectively.

The Sponsor is of the view that (i) the transactions described in the sections headed “Continuing Connected Transactions” are conducted in the usual and ordinary course of business, on normal commercial terms, fair and reasonable to the Group and in the interests of our Shareholders as a whole; and (ii) the annual limits for such continuing connected transactions are fair and reasonable as far as the Shareholders as a whole are concerned.

GENERAL

The Board consists of nine Directors, three of whom are independent non-executive Directors. Each of the executive Directors has entered into a service agreement with us for an initial period of three years.

Pursuant to the investment agreement dated 22 December, 2004 entered into between, among others, 3i, 3i Asia Pacific and 3i APTech and the Company, 3i, 3i Asia Pacific and 3i APTech are jointly entitled to nominate and appoint a non-executive Director to the Board and such right of appointment shall terminate upon the Global Offering.

According to Rule 8.12 of the Listing Rules, an issuer must have sufficient management presence in Hong Kong including that normally at least two of the issuer's executive directors must be ordinarily resident in Hong Kong. Since our operations are primarily located in the PRC, we do not and, for the foreseeable future, will not have a management presence in Hong Kong. Currently, two independent non-executive Directors and a non-executive Director reside in Hong Kong. Accordingly, we have applied to the Stock Exchange for a waiver under Rule 8.12 of the Listing Rules. We have made internal arrangements to maintain effective communication between us and the Stock Exchange.

Mr Kong Wai Kit and Mr Cao Yu have also been appointed as the authorized representatives of the Company under Rule 3.05 of the Listing Rules. As Mr Cao is not a resident in Hong Kong, Mr Cao has appointed Mr Lee Kwan Hung, Eddie as his alternate. The authorized representatives (including the alternate) both residing in Hong Kong or elsewhere will act as the principal communication channel with the Stock Exchange and can easily make themselves available in Hong Kong whenever necessary to deal with enquiries from the Stock Exchange. As and when the Stock Exchange contacts the authorized representatives for any matters, they have means to contact all members of the Board (including the independent non-executive Directors) immediately at all times. As a result, such internal arrangement can ensure that all members of the Board can be promptly informed of any such matters and can maintain effective communications channel with the Stock Exchange.

DIRECTORS

Executive Directors

Mr Song Jiacheng (宋佳城), aged 45, is the chairman of the Board, an executive Director, the chief executive officer of the Company and one of the founding shareholders of the Group. Mr Song graduated from Southwest University of Science and Technology (formerly known as Sichuan College of Construction Materials Industry (四川建築材料工業學院)) with a bachelor's degree in geology in 1983. Mr Song gained management expertise by consecutively serving as the chairman of the Board and the chief executive officer of the Group since 1993. He has over 12 years of experience in the PRC fire alarm systems industry. From 1985 to 1993, Mr Song was a lecturer at the Management Cadre School Qinhuangdao Branch under the State Administration of Buildings Materials Industry (國家建材局管理幹部學院秦皇島分院講師). Mr Song was awarded one of the "Top Ten Excellent Entrepreneurs of Privately-owned Science and Technology Companies in Hebei Province" (河北省十佳民營科技實業家) in 1997 and 1998 and is a member of the standing committee of the Hebei Provincial Committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議河北省委員會常務委員會委員). He was also given the award of one of the "Year 2002 Excellent Entrepreneurs of China's Privately-owned Science and Technology Companies" (中國優秀民營科技企業家) by China's National Association of Industry and Commerce

(中華全國工商業聯合會) in 2002. He currently serves as a vice president of Hebei Provincial Association of Industry and Commerce (河北省工商業聯合會) and a member of the standing committee of CFPA.

Mr Cao Yu (曹榆), aged 43, is an executive Director and president of the Company and one of the founding shareholders of the Group. Mr Cao graduated from Tianjin University (天津大學) with a master's degree in communications and electronic systems in 1987 and a bachelor's degree in electronic engineering in 1982. Mr Cao has been a director of GST and has served in various management positions in the Group since 1993. He has over 12 years of experience in the PRC fire alarm systems industry. He is currently a member of the Qinhuangdao Municipal Committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議秦皇島市委員會委員) and serves as a vice president of the Committee on Fire Security Electronic Products of CFPA (中國消防協會電子行業分會) and is a member of China's National Committee on Fire Security Technology Standardization (全國消防標準化技術委員會). Mr Cao is a director of the Research Committee on Fire Prevention Comprehensive Technology of China Construction Association (中國建築學會建築防火綜合技術分會), a member of the Expert Committee on Intelligent Building Technology of the Ministry of Construction of the PRC (建設部建築智能化技術專家委員會), and a member of the US National Fire Protection Association. Mr Cao is also a vice director of Hebei Province Quality Management Association (河北省質量協會).

Mr Peng Kaichen (彭開臣), aged 43, is an executive Director and senior vice president of the Company and one of the founding shareholders of the Group. Mr Peng graduated from Southwest University of Science and Technology (formerly known as Sichuan College of Construction Materials Industry (四川建築材料工業學院)) with a bachelor's degree in building materials industrial automation in 1984. Since 1993, Mr Peng has been a director of the GST and has served in various management positions, including the manager for the research and development department, chief engineer, vice general manager in charge of production of GST.

Mr Xu Shaowen (徐紹文), aged 37, is an executive Director, vice president of the Company and one of the founding shareholders of the Group. Mr Xu graduated from Shanghai Jiaotong University (上海交通大學) with a bachelor's degree in radio engineering in 1990. Mr Xu has been a director of GST and has served in various management positions in the Group since 1993.

Non-executive Directors

Mr Zeng Jun (曾軍), aged 37, is a non-executive Director, a vice chairman of the Board and one of the founding shareholders of the Group. Mr Zeng graduated from Fudan University (復旦大學) with a bachelor's degree in genetic engineering in 1989 and from Sino-Europe International Business School (中歐國際工商學院) with an MBA degree in 2002. Mr Zeng has been the vice chairman of GST since 1993 and was the executive vice general manager of GST from 1993 to 2000.

Mr Lee Kwan Hung, Eddie (李均雄), aged 39, is a non-executive Director. Mr Lee graduated from the University of Hong Kong with a bachelor's degree in law in 1988 and a Postgraduate Certificate in Laws in 1989. He was qualified as a solicitor in Hong Kong in 1991 and in England and Wales in 1997. He was a senior manager of the Stock Exchange and is a partner of Woo, Kwan, Lee & Lo. Mr Lee is also a non-executive director of Mirabell International Holdings Limited and an independent non-executive director of Innomaxx Biotechnology Group Limited, both companies are listed on the main board of the Stock Exchange. Mr Lee joined the Company in December 2004.

Independent Non-executive Directors

Mr Sun Lun (孫倫), aged 64, is an independent non-executive Director. He joined the Company in February 2005. Mr Sun graduated from Zhongbei University (中北大學) (formerly known as Taiyuan College of Mechanics (太原機械學院)) with a bachelor's degree in chemical engineering in 1965. He is the chairman of the China's Fire Security Association. From 1991 to 2001, Mr Sun was a director, vice president and president of the Fire Security Bureau of the Ministry of Public Security of the PRC (中華人民共和國公安部消防局), and from 1993 to 2001, he was the chairman of China's National Committee on Fire Security Technology Standardization (全國消防標準化技術委員會). Mr Sun has over 25 years of experience in the fire security industry. In 1997, Mr Sun was awarded the Medal of the International Civil Defence Organization by the International Civil Defence Organization in honor of his contributions to the development of the fire security industry in China.

Mr Chang Tso Tung, Stephen (張祖同), aged 56, is an independent non-executive Director. He joined the Company in February 2005. Mr Chang was the former deputy chairman and a member of the management committee of Ernst & Young, Hong Kong. Mr Chang graduated from London University with a bachelor's degree in science in 1973. Mr Chang is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England and Wales. Mr Chang previously served as the chairman of the audit department and also as the managing partner for professional services of Ernst & Young, Hong Kong. Mr Chang has over 30 years of experience in auditing and advisory services.

Mr Chan Chi On (陳志安), aged 42, is an independent non-executive Director. He joined the Company in February 2005. Mr Chan is an executive director of Tai Fook Securities Group Limited, a company listed on the Stock Exchange, and is in charge of its corporate finance division. He also holds directorship in certain companies in hotel investment. He graduated from the Hong Kong University of Science & Technology with a master's degree in business administration in 1994 and graduated from the University of Hong Kong with a bachelor's degree of social sciences majoring in economics in 1985. Between 1989 and 1996, he had worked for the Stock Exchange. He is an adjunct professor in the School of Accounting and Finance of the Hong Kong Polytechnic University. Mr Chan has over 15 years of experience in the financial services industry.

SENIOR MANAGEMENT

Mr Ho Yui Pok, Eleutherius (何睿博), aged 39, is the chief financial officer of the Company. Mr Ho graduated from the University of Kent at Canterbury, England with a bachelor's degree in accounting in 1987 and a master degree in management science in 1989. Mr Ho joined the Company in 2005. Prior to joining the Company, Mr Ho was a manager of an international accounting firm. In addition, he was the group financial controller of EC-Founder (Holdings) Company Limited, a company listed on the Main Board of the Stock Exchange. He is an associate member of both the Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants. Mr Ho has over 15 years' experience in finance and accounting.

Ms Liu Weihua (劉衛華), aged 39, is a vice president of the Company. Ms Liu graduated from Shenyang Automation Institute of China's Academy of Sciences (中國科學院沈陽自動化研究所) with a master's degree in pattern recognition and intelligent control in 1995 and from Beijing University of Aeronautics and Astronautics (北京航空學院) with a bachelor's degree in electric technology in 1987. Ms Liu joined GST in 1995 and has since served as manager of the research and development department, vice chief engineer, chief engineer, and vice president in charge of technology.

Mr Zhu Panming (朱泮明), aged 42, is a vice president of the Company in charge of the Company's sales and marketing department. Mr Zhu graduated from Changsha Railway College (長沙鐵路學院) with a bachelor's degree in mechanic manufacturing in 1984. Mr Zhu joined GST in 2001 and has since served as manager of the enterprise management department, assistant to general manager and vice president of marketing department of GST.

Mr Li Haibo (李海波), aged 40, is the financial controller of the Company. Mr Li graduated from Hunan University of Finance and Economics (湖南財經學院) with a bachelor's degree in accounting in 1986. Mr Li was a manager, vice director and director of financial department of Tianjin Xingang Vessel Company (天津新港船廠) from 1986 to 1999. He joined GST in 1999 and has since served as the financial controller of the Group.

Mr Kong Wai Kit (江偉傑), aged 32, is the qualified accountant and company secretary of the Company employed on a full-time basis. Mr Kong graduated from the Hong Kong University of Science and Technology with a bachelor's degree in business administration in 1995. He joined the Company in February 2005. Prior to joining the Company, Mr Kong was a manager of an international accounting firm. In addition, he was the qualified accountant and company secretary of Far Eastern Polychem Industries Limited from August 2003 to February 2005, a company listed on the GEM of the Stock Exchange. He is a fellow of the Chartered Association of Certified Accountants in the United Kingdom and an associate of the Hong Kong Institute of Certified Public Accountants. He is also a Chartered Financial Analyst charterholder. Mr Kong has over nine years of experience in finance and accounting. He is the qualified accountant of the Company pursuant to Rule 3.24 of the Listing Rules.

AUDIT COMMITTEE

We established an audit committee in February 2005. The primary duties of the audit committee are to review and supervise our financial reporting process and internal control system, nominate and monitor external auditors and provide advice and comments to our Board. The audit committee consists of three members, being Mr Chang Tso Tung, Stephen, Mr Sun Lun and Mr Chan Chi On. All of them are independent non-executive Directors. This committee is chaired by Mr Chang Tso Tung, Stephen.

REMUNERATION COMMITTEE

We established a remuneration committee in February 2005. The primary duties of the remuneration committee are to evaluate the performance and make recommendations on the remuneration of our senior management and recommend members to the Board. The remuneration committee consists of three members, of whom two are independent non-executive Directors being Mr Chan Chi On and Mr Chang Tso Tung, Stephen, and the third member is a non-executive Director, being Mr Lee Kwan Hung, Eddie. This committee is chaired by Mr Chan Chi On, an independent non-executive Director.

DIRECTORS' REMUNERATION

All our Directors receive reimbursements from us for expenses that are necessarily and reasonably incurred for providing services to us or in the execution of matters in relation to our operations. Our executive Directors are also our employees and receive, in their capacity as our employees, compensation in the form of salaries and contribution to the pension scheme.

The aggregate amount of salaries, housing allowances, other allowances and benefits in kind paid by the Group to the Directors for each of the three years ended 31 December, 2002, 2003 and 2004 were approximately RMB679,000, RMB1,029,000 and RMB1,255,000, respectively. Approximately RMB25,000, RMB26,000 and RMB27,000 were paid by the Group as contribution to the pension schemes in respect of the Directors for each of the three years ended 31 December, 2002, 2003 and 2004. We expect that the aggregate remuneration to be paid to the Directors for the financial year which will end on 31 December, 2005 will be approximately HK\$2,874,500.

Save as disclosed above, no other payments have been made or are payable by the Company to the Directors, in respect of the three years ended 31 December, 2004.

COMPLIANCE ADVISER

The Company has appointed Platinum Securities Company Limited, being a corporation deemed licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, as its compliance adviser (the “Compliance Adviser”) pursuant to Rule 3A.19 of the Listing Rules. Pursuant to the terms of the engagement letter entered into between the Company and the Compliance Adviser, the Compliance Adviser will advise the Company, among others, on the following matters:

- (1) before the publication of any regulatory announcement, circular or financial report;
- (2) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;
- (3) where the Company proposes to use the proceeds of the Global Offering in a manner different from that detailed in the prospectus or where the business activities, developments or results of the Company deviate from any forecast, estimate, or other information in the prospectus; and
- (4) where the Stock Exchange makes an inquiry of the Company regarding unusual movements in the price or trading volume of the Company.

In addition, the Compliance Adviser will also provide, *inter alia*, the following services/advice to the Company:

- (a) if required by the Stock Exchange, deal with the Stock Exchange in respect of any or all matters listed in paragraphs (1) to (4) above;
- (b) in relation to an application by the Company for a waiver from any of the requirements in Chapter 14A of the Listing Rules, advise the Company on its obligations and in particular the requirement to appoint an independent financial adviser;
- (c) assess the understanding of all new appointees to the Board regarding the nature of their responsibilities and fiduciary duties as a director of a listed issuer, and, to the extent we form an opinion that the new appointees’ understanding is inadequate, discuss the inadequacies with the Board and make recommendations to the Board regarding appropriate remedial steps such as training.

The term of appointment of the Compliance Adviser shall commence on the Listing Date and ends on the date of despatch of the annual report of the Company in respect of its financial results for the first full financial year commencing after the Listing Date and such appointment shall be subject to extension by mutual agreement.

SHARE CAPITAL

The authorized and issued share capital of the Company is as follows:

<i>Authorized share capital:</i>		<i>HK\$</i>
1,999,813,760	Common shares of HK\$0.10 each in the capital of the Company ⁽¹⁾	199,981,376
186,240	Series A Preferred Shares ⁽¹⁾	<u>18,624</u>
		<u><u>200,000,000</u></u>

Assuming the Over-allotment Option is not exercised, the Company's share capital immediately following completion of the Global Offering will be as follows:

<i>Issued and to be issued, fully paid or credited as fully paid upon completion of the Global Offering:</i>		<i>Approximate percentage of issued share capital (%)</i>
	<i>HK\$</i>	
1,131,463	Shares in issue at the date of this prospectus ⁽²⁾	113,146.3
598,868,537	Shares to be issued pursuant to the Capitalization Issue ⁽²⁾	59,886,853.7
180,000,000	Shares to be issued pursuant to the International Offering	18,000,000.0
20,000,000	Shares to be issued pursuant to the Hong Kong Public Offering	2,000,000.0
<u>800,000,000</u>	Total⁽²⁾	<u><u>80,000,000.0</u></u>
		<u><u>100.00</u></u>

Assuming the Over-allotment Option is exercised in full, the Company's share capital immediately following completion of the Global Offering will be as follows:

<i>Issued and to be issued, fully paid or credited as fully paid upon completion of the Global Offering:</i>		<i>Approximate percentage of issued share capital (%)</i>
	<i>HK\$</i>	
1,131,463	Shares in issue at the date of this prospectus ⁽²⁾	113,146.3
598,868,537	Shares to be issued pursuant to the Capitalization Issue ⁽²⁾	59,886,853.7
230,000,000	Shares to be issued pursuant to the Global Offering ⁽³⁾	23,000,000.0
<u>830,000,000</u>	Total⁽²⁾⁽³⁾	<u><u>83,000,000.0</u></u>
		<u><u>100.00</u></u>

Notes:

1. Conditional on the fulfillment of certain conditions as mentioned in the section headed “Changes in share capital of the Company” in Appendix VI to this prospectus, the 186,240 Series A Preferred Shares beneficially owned by the Investors as at the date of this prospectus will be converted, re-designated and re-classified as 186,240 common shares of HK\$0.10 each immediately prior to Listing. The shares resulted from such conversion shall rank *pari passu* in all respects with the shares then in issue so that immediately following such conversion, there will only be one class of shares in the issued and unissued share capital of the Company and the Company will have an authorized share capital of HK\$200,000,000 divided into 2,000,000,000 shares of HK\$0.10 each. The authorized and issued share capital of the Company immediately following completion of the Global Offering and the Capitalization Issue will consist of ordinary shares with a nominal value of HK\$0.10.
2. Assuming conversion of the 186,240 Series A Preferred Shares has taken place.
3. If the Over-allotment Option is exercised in full, an aggregate of 30,000,000 additional Shares will be allotted and issued.

Assumptions

The above tables assume that the Global Offering, the conversion of the Series A Preferred Shares and the Capitalization Issue become unconditional. It takes no account of Shares which may be allotted and issued upon the exercise of any options that may be granted under the Share Option Scheme or of any Shares which may be allotted and issued or repurchased by the Company pursuant to the Issuing Mandate and Repurchase Mandate as described below.

Ranking

The Offer Shares will rank *pari passu* in all respects with all other Shares in issue as mentioned in this prospectus, and in particular, will rank in full for all dividends and other distributions hereafter declared, paid or made on the Shares after the date of this prospectus save for entitlement under the Capitalization Issue.

ISSUING MANDATE

The Directors have been granted a general unconditional mandate to allot, issue and deal with unissued Shares with an aggregate nominal value not exceeding the sum of:

1. 20% of the total nominal amount of the share capital of the Company in issue as at the Listing Date; and
2. the total amount of the share capital of the Company repurchased by the Company (if any) pursuant to the Repurchase Mandate.

The Directors may, in addition to the Shares which they are authorized to issue under the mandate, allot, issue and deal in the Shares pursuant to a rights issue, an issue of Shares pursuant to the exercise of subscription rights attaching to any warrants of the Company, scrip dividends or similar arrangements or the exercise of options granted under the Share Option Scheme.

This mandate will expire:

- (i) at the conclusion of the Company’s next annual general meeting; or

- (ii) upon the expiry of the period within which the Company is required by any applicable laws of the Cayman Islands or its Articles of Association to hold its next annual general meeting; or
- (iii) when varied, revoked or renewed by an ordinary resolution of the Shareholders in general meeting;

whichever occurs first.

For further details of the Issuing Mandate, see the paragraph headed “Written resolutions of the shareholders of the Company passed on 7 June, 2005” in Appendix VI to this prospectus.

REPURCHASE MANDATE

The Directors have been granted a general unconditional mandate to exercise all the powers of the Company to repurchase Shares with a total nominal value of not more than 10% of the total nominal amount of the share capital of the Company immediately following the completion of the Global Offering and the Capitalization Issue.

This mandate relates only to repurchases made on the Stock Exchange and/or on any other stock exchange on which the Shares are listed (and which is recognized by the SFC and the Stock Exchange for this purpose), and which are made in accordance with the Listing Rules. A summary of the relevant Listing Rules is set out in the section headed “Repurchase by the Company of its own securities” in Appendix VI to this prospectus.

This mandate will expire:

- (i) at the conclusion of the Company’s next annual general meeting; or
- (ii) upon the expiry of the period within which the Company is required by any applicable laws of the Cayman Islands or its Articles of Association to hold its next annual general meeting; or
- (iii) when varied, revoked or renewed by an ordinary resolution of the Shareholders in general meeting;

whichever occurs first.

For further information about the Repurchase Mandate, see the section headed “Written resolutions of the shareholders of the Company passed on 7 June, 2005” in Appendix VI to this prospectus.

SUBSTANTIAL SHAREHOLDERS AND OTHER SHAREHOLDERS

As far as our Directors are aware, and without taking into account any Shares which may be issued on any exercise of options under the Share Option Scheme, the following persons (who are not our Directors) will, immediately following completion of the Global Offering and the Capitalization Issue (assuming the Over-allotment Option is not exercised), be directly or indirectly interested in 10% or more of our issued share capital carrying the right to vote in all circumstances at general meetings of the Company:

Name	Name of registered owner	Name of beneficial owner	Number of Shares	Approximate percentage of issued share capital
GST International Management	GST International Management	GST International Management	501,239,369	62.65%
3i Investments plc ⁽¹⁾ . . .	N/A	N/A	98,760,631 ⁽²⁾	12.35% ⁽³⁾
3i ⁽¹⁾	3i	3i	98,760,631 ⁽²⁾	12.35% ⁽³⁾

Notes:

1. 3i, which is a shareholder of the Company, is a company incorporated in England and having its shares listed on the London Stock Exchange. 3i legally and beneficially owns 30,862,697 Shares, representing approximately 3.86% of the issued share capital of the Company immediately following completion of the Global Offering and the Capitalization Issue.

3i Nominees Limited is a shareholder of the Company and acts as nominee of 3i Asia Pacific, an English limited partnership. 3i Asia Pacific beneficially owns 43,207,776 Shares, representing approximately 5.40% of the issued share capital of the Company immediately following completion of the Global Offering and the Capitalization Issue.

3i APTech Nominees Limited is a shareholder of the Company and acts as nominee of 3i APTech, an English limited partnership. 3i APTech beneficially owns 24,690,158 Shares, representing approximately 3.09% of the issued share capital of the Company immediately following completion of the Global Offering and the Capitalization Issue. 3i Investments plc, as the manager of these funds, has the discretionary power to control the exercise of the voting rights to the shares beneficially owned by 3i, 3i Asia Pacific and 3i APTech. Accordingly, 3i Investments plc is deemed to be interested in all the Shares held by 3i, 3i Nominees Limited (as nominee of 3i Asia Pacific) and 3i APTech Nominees Limited (as nominee of 3i APTech), being a total of 98,760,631 Shares, representing approximately 12.35% of the issued share capital of the Company immediately following completion of the Global Offering and the Capitalization Issue. 3i Investments plc is an indirect wholly owned subsidiary of 3i. Similarly, 3i Nominees Limited, 3i AP Tech Nominees Limited and each of the general partners of 3i Asia Pacific and 3i AP Tech are also indirect wholly-owned subsidiaries of 3i.

3i is a leading international venture capital group, with operations in Europe, Asia Pacific and US.

On 22 December, 2004, pursuant to an investment agreement (the “Investment Agreement”) in relation to the sale and purchase of shares in the Company, 3i, 3i Asia Pacific and 3i APTech (collectively, the “Investors”) acquired 17,118 common shares of HK\$0.10 each (“Common Shares”), 23,965 Common Shares and 13,694 Common Shares respectively from GST International Management for an aggregate consideration of US\$5,500,000 and the Company allotted and issued 41,082 Series A Preferred Shares, 57,515 Series A Preferred Shares and 32,866 Series A Preferred Shares to 3i and the respective nominees of 3i Asia Pacific and 3i APTech for an aggregate consideration of US\$15,000,000. On the same day, all the Common Shares acquired by the Investors were redesignated as Series A Preferred Shares. As a result, GST International Management beneficially owned 945,223 Common Shares, 3i legally and beneficially owned 58,200 Series A Preferred Shares, 3i Asia Pacific beneficially owned 81,480 Series A Preferred Shares and 3i APTech owned 46,560 Series A Preferred Shares. The Directors consider that the investments by the Investors provided capital required in connection with the Group’s restructuring in order to prepare for the Global Offering. In addition, the Investors’ investment was made approximately six months before the completion of the Global Offering, thereby was subject to significant liquidity risk. Subject to fulfillment of certain conditions as mentioned in the section headed “Changes in share capital of the Company” in Appendix VI to this prospectus, the 186,240 Series A

Preferred Shares beneficially owned by the Investors as at the date of this prospectus will, immediately prior to Listing, be converted, re-designated and re-classified as 186,240 Shares. Immediately following the conversion, re-designation and re-classification of the Series A Preferred Shares and the Capitalisation Issue, the consideration paid by the Investors in relation to the 186,240 Series A Preferred Shares pursuant to the Investment Agreement was equivalent to approximately HK\$1.615 per Share, representing approximately 13.87 per cent. discount to the mid-point of the Offer Price within the indicative Offer Price range. The Directors also consider that the investment by the Investors had not only improved the Company's working capital position but would also enhance the Company's shareholder profile and could be viewed as recognition of the Company's capabilities as a leading fire alarm systems and networks provider. Therefore, the Directors are of the view that the consideration of investment by the Investors of approximately HK\$1.615 per Share is fair and reasonable.

2. Upon Listing, in addition to the 30,862,697 Shares beneficially owned by 3i, 3i will also be deemed to be interested in the Shares beneficially owned by 3i Asia Pacific and 3i APTech and will be interested or deemed to be interested in a total of 98,760,631 Shares. 3i Investments plc, as investment manager, will also be deemed to be interested in those Shares.
3. The 98,760,631 Shares represent the same interests and are therefore duplicated among 3i, 3i Investments plc and 3i Asia Pacific.

Save as disclosed above, the Directors are not aware of any person who will, immediately following completion of the Global Offering and the Capitalization Issue, be directly or indirectly interested in 10% or more of our issued share capital carrying the right to vote in all circumstances at general meetings of the Company.

GST International Management has undertaken to the Stock Exchange and the Company that, save as permitted under the Listing Rules and the stock borrowing arrangement referred to in the paragraph headed "Stabilising Action" in the section "Structure of the Global Offering" in this prospectus, it will not:

- (a) for a period commencing on the date of this prospectus and ending on the date which is six months from the date on which dealings in the Shares on the Stock Exchange first commence (the "First Six-Month Period"), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of any of the Shares of which GST International Management is the beneficial owner; and
- (b) for a period of six months commencing on the date on which the First Six-Month Period expires (the "Second Six-Month Period"), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of any of the Shares referred to in (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it would cease to be a controlling shareholder of the Company (as defined under the Listing Rules).

GST International Management has also undertaken to the Stock Exchange and the Company that within 12 months from the Listing Date, it shall:

- (1) when it pledges/charges any Shares beneficially owned by it in favour of an authorized institution (as defined in the Banking Ordinance) for a bona fide commercial loan, immediately inform the Company of such pledge/charge together with the number of Shares so pledged/charged; and

- (2) when it receives indications, whether verbal or written, from the pledgee/chargee that any of the pledged/charged Shares will be disposed of, immediately inform the Company of such indications.

Each of 3i, 3i Asia Pacific and 3i APTech has severally undertaken to the Sponsor, the Underwriters and the Company that, without the prior written consent of the Sponsor (for itself and on behalf of the Underwriters), each of them will not for a period commencing on the date by reference to which disclosure of its shareholding is made in this prospectus and ending on the date which is six months from the Listing Date,

- (a) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of, directly or indirectly, any Shares respectively beneficially owned by it as at the date of giving the undertaking or as at the Listing Date or any securities convertible into or exercisable or exchangeable for, or that represent the right to receive, the Shares beneficially owned by it as at the date of giving the undertaking or as at the Listing Date, or
- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Shares respectively beneficially owned by it as at the date of giving the undertaking or as at the Listing Date,

whether any such transaction is to be settled by delivery of the Shares beneficially owned by it as at the date of giving the undertaking or as at the Listing Date or such other securities, in cash or otherwise.

Each of 3i, 3i Asia Pacific and 3i APTech has further severally undertaken to the Sponsor, the Underwriters and the Company that, without the prior written consent of the Sponsor (for itself and on behalf of the Underwriters), each of them will not for a period commencing six months from the Listing Date to the date falling 12 months from the Listing Date,

- (a) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of, directly or indirectly, more than 50% of Shares respectively beneficially owned by it as at the Listing Date or any securities convertible into or exercisable or exchangeable for, or that represent the right to receive, more than 50% of Shares respectively beneficially owned by it as at the Listing Date, or
- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of more than 50% of Shares respectively beneficially owned by it as at the Listing Date,

whether any such transaction is to be settled by delivery of more than 50% of Shares respectively beneficially owned by it as at the Listing Date, in cash or otherwise.

The following discussion and analysis should be read in conjunction with our audited consolidated financial statements for each of the three years ended 31 December, 2004, with the related notes thereto, included elsewhere in this prospectus. This discussion and analysis contains forward-looking statements that involve risks and uncertainties. The consolidated financial statements are prepared in accordance with IFRS, which differ in certain significant respects from generally accepted accounting principles in certain other countries. We have not described the impact of those differences on our financial information in this prospectus. In making an investment decision, investors should consult their own professional advisers for an understanding of the various differences and how those differences might affect the financial information herein.

OVERVIEW

We are the leading fire alarm systems provider in China and are primarily engaged in the manufacturing and distribution of fire alarm systems and fire alarm network products, as well as related products, including security systems, building automation systems and electronic power meters. According to i & i, a leading international independent industry research consultancy company we have the largest market share by revenue in fire alarm systems in China, accounting for an approximately 20% market share, which is twice that of our closest competitors. Our success over the past ten years has made our “ ” brand one of the top brands in this sector in China, and our brand was certified in 2004 as the only “well-known trademark” in the fire alarm systems industry by the State Administration for Industry and Commerce.

Among the participants in the fire alarm systems market in China, we believe we have the largest nationwide sales and distribution network, with 61 offices throughout China and approximately 600 sales and marketing persons and after-sales technical support staff. Through these sales persons and technical support staff, we believe we provide timely and comprehensive sales and after-sales services to our clients that is differentiated from what any of our domestic or international competitors are able to provide in China. In addition, we also sell our products through 22 distributors located throughout China.

In recent years, we have leveraged our distribution network and brand recognition in the fire alarm systems industry in China to expand into related product areas, including fire alarm network systems, video entry systems, building automation systems and electronic power meters. In addition, we are also engaged in the provision of building installation services for low-voltage products. Our diversified product range and comprehensive building installation services enable us to offer a one-stop bundled solution to our customers. We believe our performance in 2004 further strengthened our position as a leading player in the fire alarm systems and network industry in China, and demonstrated our development in video entry systems, building automation systems, electronic power meters and building installation services business. For each of the three years ended 31 December, 2002, 2003 and 2004, revenues generated from sales of fire alarm systems were RMB273.7 million, RMB283.9 million and RMB354.1 million, respectively, representing approximately 91.8%, 90.0% and 83.5% of our total revenue.

SIGNIFICANT FACTORS AFFECTING OUR RESULTS OF OPERATION

Sales volume

As we are operating in an environment where the average sales price of many of our products is decreasing, our revenue depends on our ability to increase sales volumes for our products, particularly our fire alarm systems. The factors which affect our sales volumes are primarily the

state of economic development in the PRC (particularly large residential and commercial construction projects), the prices at which we sell our fire alarm systems (see “— Pricing”) and the level of competition we face in our business.

- ***Economic development and expenditure on construction in the PRC***

Our business depends on continued economic development in the PRC. As the PRC economy has grown, demand for new or refurbished residential and commercial properties and expenditure on construction has increased. This demand, coupled with the fact that developers and consumers in the PRC have become increasingly safety conscious, has led to market growth and allowed us to increase our sales volumes. Our fire alarm systems have become an increasingly required and standard feature of newly-constructed buildings in the PRC. For a discussion of certain macroeconomic factors that may contribute to our ability to maintain high sales volumes, see “Industry Overview — Growth Drivers of the Fire Alarm Systems Industry”.

In addition, the fire alarm systems in buildings are typically replaced after 10 years. An increasing amount of our sales volume is expected to be derived from sales of replacement fire alarm systems, particularly in light of the large installed base of GST products. As fire alarm system products have a typical life of 10 years, those installed in the 1990s will increasingly need upgrading or replacement. Moreover, China’s laws and regulations have become more stringent to the effect that building operators in certain regions are held accountable for installed fire alarm system products functioning properly. Accordingly, fire alarm system products that are no longer functioning properly or are becoming obsolete should be upgraded or replaced. By providing product upgrades and replacements and paid maintenance services to buildings requiring renovation, we expect to secure ongoing and stable business opportunities.

We expect growth to be driven by factors such as the Summer Olympics in 2008, the Shanghai World Expo in 2010 and the implementation of certain large construction projects to be completed pursuant to China’s Tenth Five Year Plan. The PRC Government has, however, recently raised concerns relating to the imbalanced development of the property market in the PRC and proposed measures to adjust the development speed of the real estate industry. The People’s Bank of China (the “PBOC”) has recently made a series of policy fine-tuning measures including the lowering of interest rates on excess reserves and raising the minimum down payment for mortgage loans from 20% to 30% to attempt to slow down the rising property prices in certain areas of China. The PBOC also announced it was removing the preferential mortgage rate and banks in China have increased the mortgage lending interests rates as a result. The Shanghai municipal government has also recently imposed a 5% tax on people selling property units after less than 12 months of ownership. This could cause the rate of new construction of commercial and residential buildings to slow.

- ***Competition***

The market for our products is intensely competitive and highly fragmented. With increasing sophistication of China consumers in demanding reliable fire safety products, we expect competition will continue to concentrate on such factors as quality, price, brand recognition, technology, sales and marketing.

- ***Impact of SARS outbreak***

The outbreak of Severe Acute Respiratory Syndrome, or SARS, is believed to have started in the PRC in late 2002. The SARS outbreak impacted our 2003 revenues by disrupting the progress of many of our customers' construction projects and travel throughout the PRC, resulting in delays and, in some cases, complete stoppage, of product deliveries as well as installation services to our customers.

Pricing

In determining product pricing, we primarily consider the following factors:

- production costs;
- projected price levels in the overall market; and
- the pricing, brand name and customer recognition of competing products.

During the three years ended 31 December, 2004, the prices for our products have been decreasing, which is consistent with the general market trend. For our fire alarm systems, we believe that pricing trends for our G3 fire detector is representative of our overall fire alarm systems (consisting typically of detectors, modules and control panels) since fire alarm systems pricing is typically done with reference to the detector component. The average per-unit sales price of our G3 fire detectors decreased by 25.3% from 2002 to 2003 and by 18.3% from 2003 to 2004. This decrease was the result of a variety of factors, including our ability to lower costs for the manufacture and sale of such products, increased competition and our strategy to attract new customers by offering our products at competitive prices. Despite the decreases in average per unit sales price of our G3 fire detectors, the revenue from the sales of our fire alarm systems recorded 3.8% and 24.7% growth in 2003 and 2004, respectively. Although there can be no assurance our prices will not continue to decline, we believe that the rate of decline for the sales prices for our fire alarm systems will significantly decrease in the near-term due to our belief that many of our competitors will be unable to continue to operate at sales prices below current market prices in China.

Our ability to maintain low costs of raw materials and leverage economies of scale

Expenditures on raw materials accounted for approximately 88.9%, 89.0% and 89.9% of our total cost of production for the three years ended 31 December, 2002, 2003 and 2004. The most important components of raw materials used in the manufacturing of our products are integrated circuits, electronic components and plastic components. For the three years ended 31 December, 2002, 2003 and 2004, we spent approximately 20.3%, 21.5% and 19.8% of our total raw materials purchases on integrated circuits. Electronic components, being the second most important component, accounted for approximately 14.2%, 17.4% and 17.7% of our total raw materials purchases during the same period. Plastic parts, being the third most important component, accounted for approximately 16.4%, 14.3% and 11.5% of our total raw materials purchases during the same period. Most of these materials need to be purchased from third parties.

We use our strong position in the market to purchase large volumes of raw materials at lower costs, including participating in auctions where our suppliers bid against each other for large contracts. We typically negotiate with our suppliers at the beginning of the year and agree on prices for our raw materials. Then we submit orders for raw materials, depending on our business needs,

two to three months in advance. We also offer our suppliers better payment terms (such as offering partial cash payments in advance of delivery) than our competitors, in exchange for which our suppliers typically offer us better prices.

We enjoy an advantage in scale production and, accordingly, relatively lower unit production costs. We have established a manufacturing complex of approximately 358,000 square feet in Qinhuangdao, Hebei and leased a manufacturing complex of approximately 43,000 square feet in Beijing. We believe we use more technologically advanced production equipment and refined production processes than most of our competitors within the industry and enjoy manufacturing cost advantages as a result.

As a result, our average per unit cost of sales for our G3 fire detectors, which is a significant portion of our core fire alarm systems products, decreased by 17.3% from 2002 to 2003, and by 21.3% from 2003 to 2004.

Our ability to expand sales of other products and services

Sales of fire alarm systems products have been our primary source of income during the past 12 years. Revenue from the sale of fire alarm systems constituted 91.8%, 90.0% and 83.5%, respectively, of our total revenue for the three years ended 31 December, 2002, 2003 and 2004, and revenue from the sale of our other products constituted 8.2%, 10.0% and 16.5%, respectively, of our total revenue for the same period. However, in order to diversify our revenues and to offer more integrated product solutions for our customers, we have made significant efforts to increase sales of our other products and services, including fire alarm networking systems as well as security and building automation systems and provision of installation services. Although to date the contribution from our sales of non-fire alarm systems products and the provision of building installation services are relatively low as compared to the contribution from sales of fire alarm system products, we expect future growth from the revenue generated in these sectors will increasingly contribute to growth in our total revenue.

Taxation

Most of our subsidiaries registered in the PRC were subject to the statutory corporate income tax at the rate of 33% in 2002. In 2003, GST became entitled to a preferential corporate income tax rate of 10% as a recognized software enterprise. In April 2004, our subsidiaries, GST, Gulf Network and Gulf Meters were reorganized and converted into foreign invested enterprises, or FIEs, and accordingly were entitled to enjoy preferential enterprise income tax treatment in the PRC, including enterprise income tax “holidays” for two years from the year they start to make profit, and at 50% discount of the then effective enterprise income tax rate for three subsequent years. In addition, being registered in a designated economic and technological development zone in the PRC, both GST and Gulf Network would have been subject to a preferential income tax rate of 15% since April 2004 in the absence of their tax holiday. Please refer to “Taxation” under “Business” and Note 8 to our consolidated financial statements set out in Appendix I to this prospectus for details of the respective preferential treatments for each of these subsidiaries. In addition, our subsidiaries GST and Gulf Network are entitled to a value added tax refund with respect to software developed by themselves, i.e., if the net amount of the value added tax payable exceeds 3% of software sales, the excess portion of the value added tax is refundable immediately. This policy is effective from 2000 until 2010, and we recorded any amounts reimbursed to us under the other income line item.

As a result of these tax preferences, our effective tax rate for each of the three years ended 31 December, 2002, 2003 and 2004 was 25.2%, 15.4%, and 2.9%, respectively. Once the two-year tax “holiday” of GST, Gulf Network and Gulf Meters ends in 2005 or 2006, we expect our effective tax rate to increase.

Regulation

Regulation is an important factor driving the market growth and product development. In order to safeguard public safety and avoid the economic harm and loss of life associated with fire accidents, the Chinese government has imposed increasingly stringent regulatory requirements relating to fire protection, strengthened enforcement of fire security system installation and regular inspection, and increased penalties for violations of the enhanced fire security standards. Furthermore, an increasing number of Chinese cities are adopting new regulations and implementing or planning to implement community-wide or city-wide fire alarm networks in China, with a view to enhancing the ability to prevent and cope with fire and other accidents. Meanwhile, local governments are adopting laws and regulations to enhance community safety and precaution standards as the safety issue becomes increasingly important in the agenda of local governments. These laws and regulations, coupled with enhanced enforcement, have been a significant growth driver for the market of fire alarm systems and fire alarm network systems. Please refer to “Industry Overview — Growth Drivers of the Fire Alarm Systems Industry” for a description of these regulations.

CRITICAL ACCOUNTING POLICIES

In preparing the consolidated financial statements, we make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate the estimates, including those related to goodwill and intangible assets, revenue recognition, accounts receivable and allowance for doubtful accounts, inventories and provision for obsolescence. We base our estimates on historical experience and on various assumptions that we believe to be reasonable under the circumstances, the results of which form our basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Our results of operations may differ if prepared under different assumptions or conditions.

We believe the following principal accounting policies are subject to more significant judgments and estimates in the preparation of our consolidated financial statements.

Revenue recognition

Revenue from the sale of goods, net of value added taxes, is recognized on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

For sales of fire alarm systems, fire alarm network systems, video entry systems and building automation systems, revenue is only recognized when all critical components of the systems are delivered to and accepted by customers. For contracts where the critical components are not yet delivered and accepted by customers, the components delivered are recognized as inventories and cash received in respect of these contracts are included in the current liabilities as advance from customers.

FINANCIAL INFORMATION

Revenue from sales of electronic power meters is recognized when the goods are delivered to customers and title has passed.

Revenue from installation services is recognized 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.

OVERVIEW OF REVENUE AND EXPENSES

The table below has been derived from our audited consolidated financial statements and shows the items within our income statement, which are also expressed as a percentage of total revenue, for the periods indicated.

	For the year ended 31 December,					
	2002		2003		2004	
	(RMB in millions)	Percentage of revenue	(RMB in millions)	Percentage of revenue	(RMB in millions)	Percentage of revenue
Revenue	298.0	100.0%	315.6	100.0%	424.1	100.0%
Cost of goods sold	(122.3)	(41.0%)	(143.2)	(45.4%)	(209.6)	(49.4%)
Gross profit	175.7	59.0%	172.4	54.6%	214.5	50.6%
Other income	16.9	5.7%	27.3	8.7%	26.6	6.3%
Distribution costs	(41.1)	(13.8%)	(48.0)	(15.2%)	(53.0)	(12.5%)
Administrative and general expenses	(44.7)	(15.0%)	(52.7)	(16.7%)	(58.5)	(13.8%)
Operating profit	106.8	35.9%	99.0	31.4%	129.6	30.6%
Finance costs	(2.9)	(1.0%)	(3.9)	(1.3%)	(3.2)	(0.8%)
Share of results of						
Jointly controlled entity	(0.2)	(0.1%)	(0.3)	(0.1%)	0.1	0.0%
Associates	(0.3)	(0.1%)	(0.3)	(0.1%)	0.0	0.0%
Profit before taxation	103.4	34.7%	94.5	29.9%	126.5	29.8%
Taxation	(26.0)	(8.7%)	(14.6)	(4.6%)	(3.6)	(0.8%)
Profit after taxation	77.4	26.0%	79.9	25.3%	122.9	29.0%
Minority interests	(6.6)	(2.2%)	(1.1)	(0.3%)	(0.0)	(0.0%)
Profit for the year	<u>70.8</u>	<u>23.8%</u>	<u>78.8</u>	<u>25.0%</u>	<u>122.9</u>	<u>29.0%</u>
Dividends	<u>23.5</u>		<u>129.9</u>		<u>126.3</u>	

FINANCIAL INFORMATION

Revenue

A substantial portion of our revenue is generated from the sale of fire alarm systems. The table below has been derived from our audited consolidated financial statements and sets forth our revenue for the three years ended 31 December, 2002, 2003 and 2004, which are also expressed as a percentage of total revenue for the periods indicated.

	For the year ended 31 December,					
	2002		2003		2004	
	(RMB in millions)	Percentage of revenue (%)	(RMB in millions)	Percentage of revenue (%)	(RMB in millions)	Percentage of revenue (%)
Fire alarm systems	273.7	91.8%	283.9	90.0%	354.1	83.5%
Fire alarm network systems	1.8	0.6%	4.8	1.5%	8.7	2.1%
Video entry systems	—	—	2.4	0.8%	14.1	3.3%
Building automation systems	2.4	0.8%	1.7	0.5%	4.8	1.1%
Electronic power meters. . .	0.2	0.1%	4.1	1.3%	10.7	2.5%
Installation services	19.9	6.7%	18.7	5.9%	31.7	7.5%
Total	<u>298.0</u>	<u>100.0%</u>	<u>315.6</u>	<u>100.0%</u>	<u>424.1</u>	<u>100.0%</u>

Our fire alarm systems sales are determined by the volume of units sold and the price per unit. Price is determined by the level of discount to our listed price. Price and volume are interrelated when we offer volume discounts. For each fire alarm systems contract, the customer determines the composition and technical capabilities of the systems as well as the contract size by setting the quantities and the models of product components, i.e. detectors, controllers and modules, it needs. The contract value is then calculated by totalling “set prices” of the product components and multiplying the sum with the “price discount”.

Revenue from the sale of fire alarm systems in 2004 (excluding fire alarm network systems) consisted of sales of detectors (35.0%) while the remainder consisted of sales of modules, control panels and other components. Revenue from the sale of our G3 fire detectors, which is our leading fire detector, constituted 74.3% of our revenue from the sale of fire detectors in 2004. The sales volume of our G3 fire detectors has increased by 38.6% from 2002 to 2003, and by 47.4% from 2003 to 2004. Although the average unit sales price of our G3 fire detectors decreased by 25.3% from 2002 to 2003 and by 18.3% from 2003 to 2004 due to a variety of factors including increased competition, our overall revenue from the sale of G3 fire detectors grew during these periods due to our strong market position, which contributed to an increase in the revenue from fire alarm systems of 3.8% in 2003 and 24.7% in 2004.

We also derive revenue from the sale of fire alarm network systems, video entry systems, building automation systems and electronic power meters, as well as the provision of installation services. The total revenue generated from these products accounted for RMB24.3 million, RMB31.7 million and RMB70.0 million, representing 8.2%, 10.0% and 16.5% of our total revenue for the three years ended 31 December, 2002, 2003 and 2004, respectively. The increases in percentage contribution of revenue from non-fire alarm system business were primarily due to the increases in revenue from the provision of building installation services and from the sales of video entry systems.

Based on our sales policy, we do not offer our customers any rights of return of goods sold.

FINANCIAL INFORMATION

We typically offer warranties on our products up to a period of two years. During the warranty period, faulty products are repaired or replaced. Warranty costs, comprise mainly raw material costs and are charged as incurred. For the years ended 31 December, 2002, 2003 and 2004, warranty costs recognized were RMB0.2 million, RMB0.2 million and RMB0.4 million, respectively. Due to the level of warranty costs incurred during the Track Record Period, no warranty provision was made as at 31 December, 2004.

Cost of goods sold

Cost of goods sold mainly consists of costs for raw materials used in manufacturing our products, most significantly, integrated circuits, plastic parts and electronic components.

Our raw materials costs accounted for 88.9%, 89.0% and 89.9% of our total cost of production for 2002, 2003 and 2004, respectively. The remainder consists principally of direct labour costs and manufacturing overhead, such as depreciation and amortization and maintenance of production equipment, indirect material costs, indirect labour costs, utilities and insurance.

Gross profit and gross margins

The table below has been derived from our audited consolidated financial statements and sets forth the gross profit and gross profit margin of our business segments for the three years ended 31 December, 2002, 2003 and 2004.

	For the year ended 31 December,					
	2002		2003		2004	
	Gross profit (RMB in million)	Gross profit margin (%)	Gross profit (RMB in million)	Gross profit margin (%)	Gross profit (RMB in million)	Gross profit margin (%)
Fire alarm systems	166.0	60.6%	161.0	56.7%	190.4	53.8%
Fire alarm network systems	1.3	75.4%	3.3	67.5%	6.4	73.7%
Video entry systems	—	—	0.3	10.7%	3.3	23.2%
Building automation systems	1.3	52.0%	0.9	54.6%	1.7	33.5%
Electronic power meters	0.0	21.2%	1.1	25.8%	3.9	36.5%
Installation services	<u>7.1</u>	35.7%	<u>5.8</u>	31.3%	<u>8.8</u>	27.8%
Total	<u>175.7</u>	59.0%	<u>172.4</u>	54.6%	<u>214.5</u>	50.6%

Our gross profit margin decreased from 59.0% in 2002 to 54.6% in 2003 and further to 50.6% in 2004. This was attributable to a decrease in gross profit margin of our fire alarm systems as a result of lower average product prices and an increase in the proportion of products or services with lower gross profit margins than fire alarm systems, such as video entry systems, building automation systems, electronic power meters and installation services, in our total sales.

Other income

Other income primarily consists of refunds for value added tax related to our software sales after we were designated as a key software producing enterprise by the Chinese government. In addition, other income includes grants from the government (which we expect will generate nominal or no revenue in any future periods)

Distribution costs

Distribution costs primarily consist of wages for sales and marketing staff, entertainment expenses, travel expenses and delivery costs.

Administrative and general expenses

Administrative and general expenses consist primarily of research and development expenses, salaries and travel expenses for administrative staff, provisions for doubtful debts and depreciation.

Finance costs

Finance costs consist of interest expenses on bank loans and related fees.

YEAR ENDED 31 DECEMBER, 2004 COMPARED TO YEAR ENDED 31 DECEMBER, 2003**Revenue**

Revenue increased by 34.4% from RMB315.6 million in 2003 to RMB424.1 million in 2004. This increase was primarily the result of a 24.7% increase in the fire alarm systems revenue from RMB283.9 million in 2003 to RMB354.1 million in 2004, which was principally due to increased sales volume, partially offset by a decrease in average selling prices. Increases in sales of other products also contributed to the increase in 2004 revenue. These principally included video entry systems revenue, which increased approximately five times from RMB2.4 million in 2003 to RMB14.1 million in 2004, and growth in installation services revenue, which increased by 70.2% from RMB18.7 million in 2003 to RMB31.7 million in 2004.

Cost of goods sold

Cost of goods sold increased by 46.3% from RMB143.2 million in 2003 to RMB209.6 million in 2004. This increase was primarily attributable to our increase in sales volume which caused our aggregate raw material purchases to increase. This increase in volume of raw materials used was partially offset by reduced raw material prices we were able to negotiate in 2004 and an improvement in production process to reduce material usage.

Gross profit

Our gross profit increased by 24.4% from RMB172.4 million in 2003 to RMB214.5 million in 2004. Our gross profit margins decreased from 54.6% in 2003 to 50.6% in 2004, primarily because our cost of sales as a percentage of revenue increased, as we altered our sales mix from 2003 to 2004, resulting in an increase in the proportion of products or services with lower gross profit margins than fire alarm systems, such as video entry systems, building automation systems, electronic power meters and installation services, in our total sales. The negative effect on gross profit margins due to the decrease in unit prices for our fire alarm systems was mostly offset by the decrease in our unit costs for those products.

Other income

Other income decreased marginally from RMB27.3 million in 2003 to RMB26.6 million in 2004. The decrease was mainly due to our value added tax refund increased by RMB2.5 million, offset by a decrease of RMB3.0 million in government grants.

Distribution costs

Distribution costs increased by 10.5% from RMB48.0 million in 2003 to RMB53.0 million in 2004. This increase was mainly due to increases in the number of representative offices from 41 in 2003 to 43 in 2004 and the average sales, marketing and technical staff from 446 in 2003 to 579 in 2004.

Administrative and general expenses

Administration and general expenses increased by 11.0% from RMB52.7 million in 2003 to RMB58.5 million in 2004 as a result of an increase in our provisions relating to litigation of RMB4.3 million and general increases in research and development and other expenses connected with increases in headcount due to corresponding increases in the scale and scope of our operations as well as increases in our research and development expenses. For a description of our litigation-related provision, see “— Contractual Obligations and Contingent Liabilities”. Our research and development expenses accounted for 34.0% and 36.3% of our total administrative and general expenses for 2003 and 2004, respectively (although our research and development expenses declined as a percentage of revenue, from 5.7% in 2003 to 5.0% in 2004). This increase in administrative and general expenses was partially offset by a decrease in the provision for doubtful debts as a result of our tighter controls on trade receivables.

Operating profit

As a result of the foregoing, operating profit increased by 30.9% from RMB99.0 million in 2003 to RMB129.6 million in 2004.

Operating profit in 2003 and 2004 was stated after charging depreciation expenses of RMB12.3 million and RMB9.7 million, respectively. In 2004, following the conversion of certain of our subsidiaries into foreign invested enterprises (which are allowed by PRC accounting rules to use a higher estimated fixed asset residual values for the purpose of depreciation computation) and an internal review of the estimated fixed asset residual values, the Group changed its estimate of fixed asset residual values from 3% to 10% of the original purchase costs of fixed assets. As a result, the Group recorded a reduced amount of depreciation expenses in 2004.

Finance costs

Finance costs decreased by 18.0% from RMB3.9 million in 2003 to RMB3.2 million in 2004. This decrease was mainly the result of a reduction in the average outstanding loan balance in 2004.

Profit before taxation

As a result of the foregoing, profit before tax increased by 33.8% from RMB94.5 million in 2003 to RMB126.5 million in 2004.

Taxation

Taxation decreased by 75.2% from RMB14.6 million in 2003 to RMB3.6 million in 2004 and effective tax rate decreased from 15.4% in 2003 to 2.9% in 2004 mainly due to the preferential tax treatment three of our PRC subsidiaries received in April 2004. Pursuant to this preferential tax treatment, those three PRC subsidiaries will be exempted for the first two profitable years, and receive 50% relief for the next three profitable years, from the applicable enterprise income tax.

Profit after taxation and profit for the year

As a result of the foregoing, our profit after taxation increased by 53.7% from RMB79.9 million in 2003 to RMB122.9 million in 2004, and consequently we realized profit for the year of RMB122.9 million in 2004 compared to profit for the year of RMB78.8 million in 2003.

YEAR ENDED 31 DECEMBER, 2003 COMPARED TO YEAR ENDED 31 DECEMBER, 2002**Revenue**

Revenue increased by 5.9% from RMB298.0 million in 2002 to RMB315.6 million in 2003, of which revenue from the sale of fire alarm systems increased 3.8% from RMB273.7 million in 2002 to RMB283.9 million in 2003. The increase in revenue was primarily due to increases in our fire alarm sales volume, which was partially offset by the negative impact of SARS and the decrease in our average selling prices for our fire alarm systems during the period.

Cost of goods sold

Cost of goods sold increased by 17.1% from RMB122.3 million in 2002 to RMB143.2 million in 2003. This increase was primarily attributable to our increase in sales volume that caused our aggregate raw material purchases to increase. This increase in volume of raw materials used was partially offset by reduced raw material prices we were able to negotiate in 2003 and the improvement in production process to reduce material usage.

Gross profit

Our gross profit decreased by 1.9% from RMB175.7 million in 2002 to RMB172.4 million in 2003. Our gross profit margins decreased from 59.0% in 2002 to 54.6% in 2003, primarily due to the decrease in sales prices of our fire alarm systems offsetting the decrease in our unit costs for those products. In addition, the increased proportion of products with lower gross profit margins than fire alarm systems in 2003 also contributed to a decrease in our gross profit margins.

Other income

Other income increased by 61.7% from RMB16.9 million in 2002 to RMB27.3 million in 2003. This increase was mainly the result of a RMB5.4 million increase in value added tax refunds due to an increased number of our products that were subject to such preferential treatment. In addition, there was a RMB4.0 million increase in government grants which we did not expect to continue. These increases were partially offset by a RMB1.5 million decrease in gain from the disposal of subsidiaries in 2002, which was a one-time event.

Distribution costs

Distribution costs increased by 16.7% from RMB41.1 million in 2002 to RMB48.0 million in 2003. This increase was mainly due to increases in the number of representative offices from 39 in 2002 to 41 in 2003 and in the average sales, marketing and technical staff from 357 in 2002 to 446 in 2003.

Administrative and general expenses

Administration and general expenses increased by 17.8% from RMB44.7 million in 2002 to RMB52.7 million in 2003 as a result of general increases in expenses connected with our increases in operating scale as well as increases in research and development expenses and provision for doubtful debts. As our operations and portfolio of products expanded in 2003, we increased our research and development headcount.

Operating profit

As a result of the foregoing, operating profit decreased by 7.3% from RMB106.8 million in 2002 to RMB99.0 million in 2003.

Operating profit in 2002 and 2003 was stated after charging depreciation expenses of RMB8.2 million and RMB12.3 million, respectively. The increase in depreciation expenses in 2003 was due to the increase in operation scale of the Group following the completion of the expansion of our manufacturing facilities in 2002.

Finance costs

Finance costs increased by 36.3% from RMB2.9 million in 2002 to RMB3.9 million in 2003, due to the increase of our average outstanding loan balance in 2003.

Profit before taxation

As a result of the foregoing, profit before tax decreased by 8.6% from RMB103.4 million in 2002 to RMB94.5 million in 2003.

Taxation

Taxation expense decreased by 43.9% from RMB26.0 million in 2002 to RMB14.6 million in 2003 and effective tax rate decreased from 25.2% in 2002 to 15.4% in 2003 mainly due to the reduction of the tax rate from 33% to 10% after one of our subsidiaries was recognized as a key software producing enterprise by the Chinese government in 2003.

Profit after taxation and profit for the year

As a result of the foregoing, profit after taxation increased by 3.3% from RMB77.4 million in 2002 to RMB79.9 million in 2003, and profit for the year increased from RMB70.8 million in 2002 to RMB78.8 million in 2003.

Working Capital Analysis

Liquidity Ratios

	Year ended 31 December,		
	2002	2003	2004
	(in days)		
Inventory turnover days ⁽¹⁾	188.3	180.9	167.3
Inventory turnover days (excluding components delivered in respect of contracts not yet completed at year end) ⁽²⁾ . . .	164.4	121.7	96.8
Trade receivable turnover days ⁽³⁾	64.8	84.2	67.4
Trade payable turnover days ⁽⁴⁾	109.0	138.8	127.0

Notes:

- (1) Inventory turnover days = Average of beginning and ending inventory balances/Cost of goods sold x 365 days
- (2) Inventory turnover days (excluding components delivered in respect of contracts not yet completed at year end) = Average of beginning and ending inventory balances (excluding components delivered in respect of contracts not yet completed at year end)/Cost of goods sold x 365 days
- (3) Trade receivable turnover days = Average of beginning and ending trade receivable balances/Turnover x 365 days
- (4) Trade payable turnover days = Average of beginning and ending trade payable balances/Cost of goods sold x 365 days

Inventories

Inventory turnover days

We actively monitor our inventory levels. Although we plan to expand our production scale, our policy is to maintain a low inventory level. We purchase raw materials and manufacture products in accordance with our planned production schedules which are prepared by making references to market demand.

As a result of our revenue recognition policy, we recognized revenue when all critical components of our fire alarm systems, video entry systems and building automation systems are delivered and accepted by our customers. For contracts without all critical components delivered and accepted by customers as at the respective balance sheet dates, the components delivered are recognized as inventories. The adoption of this policy resulted in a high inventory balance and inventory turnover days were 188.3 days, 180.9 days and 167.3 days for the years ended 31 December, 2002, 2003 and 2004, respectively. Alternatively, the inventory turnover days (excluding components delivered in respect of contracts not yet completed at year end) which we believe more accurately reflects actual movements of inventories from our store rooms were 164.4 days, 121.7 days and 96.8 days for the years ended 31 December, 2002, 2003 and 2004, respectively. The decrease in inventory turnover days resulted from of our efforts to maintain a lower inventory level.

Inventory provision policy

Inventories are stated at the lower of cost and net realizable value. Net realizable value is stated at the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. We do not have a general provisioning policy on inventory based on ageing given the nature of our inventories which are not subject to frequent wear and tear and

frequent technological changes. We periodically review our inventories' market value based on estimation of future demand and market conditions and we perform stock take semi-annually and obsolete stock is identified. We make provision on specific items we identify as obsolete or when our estimate of net realizable value is below the cost of inventory.

Inventory provision was not significant to our operations. For the year ended 31 December, 2003, we wrote off inventories of RMB294,000. For the years ended 31 December, 2002 and 2004, we wrote back inventories in the amount of RMB96,000 and RMB80,000, respectively.

Trade receivables

Trade receivable turnover days

Our average trade receivable turnover days were 64.8, 84.2 and 67.4 days for the years ended 31 December, 2002, 2003 and 2004, respectively. The trade receivable turnover days were generally consistent with the typical credit terms of 30 to 90 days with up to 180 days in the case of large contracts for which we supply products in multiple shipments. We also grant favorable credit terms to certain customers with whom we have strong commercial relationships.

In 2003, the general market conditions were weakened due to the outbreak of SARS. Many of our customers had low sales and were only able to collect their sales proceeds at a slower pace. As a result, the Group also experienced a longer collection period which led to the increase in trade receivable turnover days in 2003. In 2004, as a result of requiring our customers to make more of their payments in cash upon delivery and due to our tighter controls over trade receivables, we were able to improve our collection of trade receivables and consequently had a lower trade receivable turnover days as compared to that of 2003.

Trade receivable provision policy

Our provision against account receivables to the extent amounts are considered to be uncollectible or unlikely to be collectible within a reasonable period of time which varies depending on the credit terms granted to customers, creditworthiness and past payment histories of customers. Account receivables aged over three years are generally deemed to be uncollectible or unlikely to be collectible. Our management specifically analyzes factors such as the collectibility of individual accounts, customer creditworthiness, change in customer payment pattern, current economic situation, to assess the adequacy of provision.

For the years ended 31 December, 2002, 2003 and 2004, we provisioned for doubtful debts of approximately RMB7.1 million, RMB10.2 million and RMB7.8 million, respectively. The increase in provision in 2003 was due to a slight slowdown in trade receivable collection and the decrease in provision in 2004 was due to the tighter controls over trade receivables.

Having considered the Group's procedures to assess the creditability of customers, the procedures to monitor settlement of trade receivables and the procedures to assess the adequacy of trade receivable provision, the Directors are of the view that adequate provision has been made for the Group's trade receivables.

Trade payables

Trade payable turnover days

Trade payable turnover days for the years ended 31 December, 2002, 2003 and 2004 were 109.0, 138.8 and 127.0, respectively. The increase in trade payable turnover days from 2002 to 2003 and 2004 was due to the fact that we were able to negotiate better settlement terms with our suppliers as our purchases increased.

Other working capital items

Other receivables, deposits and prepayments

	As at 31 December,		
	2002	2003	2004
	(RMB)	(RMB)	(RMB)
	(in million)		
Other receivables, deposits and prepayments	41.7	39.0	28.5

Other receivables, deposits and prepayments was mainly comprised of a value added tax refund receivable, prepayments for raw material purchases and travelling advances to employees. As at 31 December, 2002, 2003 and 2004, we had other receivables, deposits and prepayments of approximately RMB41.7 million, RMB39.0 million and RMB28.5 million, respectively. The decrease in other receivables, deposits and prepayments from 2002 to 2003 was mainly due to a decrease in the value added tax refund receivable which was offset by an increase in prepayments for raw material purchases. The decrease in other receivables, deposits and prepayments from 2003 to 2004 was also due to a decrease in the value added tax refund receivable. The decrease in the value added tax refund receivables were due to a decrease in payments received from the tax authorities in the PRC.

Gearing ratio

	Year ended 31 December,		
	2002	2003	2004
Gearing ratio ⁽¹⁾	13.8%	17.9%	13.8%

Note:

(1) Gearing ratio = Total debt/Total assets x 100%

The increase in gearing ratio from 2002 to 2003 was due to an increase in bank loans outstanding from RMB57.0 million as at 31 December, 2002 to RMB70.0 million as at 31 December, 2003. Although bank loans outstanding as at 31 December, 2003 and 2004 were maintained at the same level of RMB70.0 million, the gearing ratio decreased as a result of our issuance of Series A Preferred Shares to 3i in December 2004 which increased the Group's cash balance and its total assets.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity and Cash Flows

Our primary source of liquidity is cash from operations. In addition, we obtained cash from equity investment made by 3i in connection with the Series A Preferred Shares financing on 22 December, 2004. As at 31 December, 2004, we had cash and bank balances of RMB162.6 million, of which RMB124.0 million was from the aforesaid equity investment made by 3i.

As at 31 December, 2002, 2003 and 2004, the Group had short-term bank loans of RMB57.0 million, RMB70.0 million and RMB70.0 million, respectively, which were borrowed to finance the Group's general working capital. The short-term bank loans were unsecured and bore fixed interest rates ranging from 4.79% to 5.31% per annum. Except for RMB20.0 million of the bank loans outstanding as at 31 December, 2004, all the bank loans were guaranteed by Gulf Group. All short-term bank loans guaranteed by Gulf Group were repaid subsequent to 31 December, 2004. As at the Latest Practicable Date, the Group had unutilized bank facilities of approximately RMB102.0 million for general capital loans and trade finance.

As at 31 December, 2002, 2003 and 2004, we had net working capital, defined as the difference between current assets and current liabilities, of RMB78.2 million, RMB40.5 million and RMB163.3 million, respectively. Our Board believes that after taking into consideration our current cash and bank balances and the cash we have generated from operations, we have adequate liquidity and capital resources to meet our present requirements and the requirements for the next 12 months.

The following table sets forth certain information about our audited consolidated cash flows during the three years ended 31 December, 2004.

	Year ended 31 December,		
	2002	2003	2004
	(RMB)	(RMB)	(RMB)
	(in millions)		
Net cash flows from operating activities.	70.7	96.0	99.2
Net cash flows from investing activities.	(44.8)	(14.1)	23.2
Net cash flows from financing activities.	(12.5)	(117.0)	(2.3)
Net increase/(decrease) in cash and bank balances	13.4	(35.1)	120.1
Cash and bank balances at beginning of the year	64.2	77.6	42.5
Cash and bank balances at end of the year	77.6	42.5	162.6

Our net cash inflows from operating activities were RMB70.7 million, RMB96.0 million and RMB99.2 million in the years ended 31 December 2002, 2003 and 2004, respectively. The increase between 2002 and 2003 was mainly due to an increase in outstanding trade payables and as a result of requiring our customers to make more of their payments in cash upon delivery. However, this increase was partially offset by a RMB15.3 million increase in inventories and a RMB9.5 million increase in trade receivables.

The increase between 2003 and 2004 was primarily due to an increase in operating profit from RMB99.0 million in 2003 to RMB129.6 million in 2004. The increase was also due to a RMB10.5 million reduction in other receivables, deposits and prepayments and a RMB19.5 million increase in

trade payables. This increase was partially offset by a RMB19.4 million increase in trade receivables, a RMB35.0 million increase in inventories as well as a RMB24.7 million decrease in advance from customers.

Our net cash used in investing activities for the year ended 31 December, 2002 was RMB44.8 million, mainly comprised of the purchase of fixed assets in the amount of RMB44.4 million for plant and production line expansions and advances to related companies in the amount of RMB17.3 million. These cash outflows were partially offset by net proceeds we obtained from the disposal of five of our subsidiaries to a related company in the amount of RMB18.6 million, comprised of gross proceeds of RMB19.3 million after deducting cash and bank balances of RMB0.7 million. The aggregate net asset value of the subsidiaries disposed of was RMB17.8 million and we recorded a gain on disposal of RMB1.5 million. The decrease in net cash used in investing activities between 2002 and 2003 was primarily due to a decrease in the purchase of fixed assets by RMB38.4 million, which was partially offset by a RMB3.7 million cash outflow for the purchase of additional interest in our subsidiaries pursuant to the Group's reorganization, which was a one-time event. In the year ended 31 December, 2004, we had a net cash inflow from investing activities of RMB23.2 million as compared to a net cash outflow of RMB14.1 million in the year ended 31 December, 2003. This was primarily due to settlement of repayment from related companies in the amount of RMB24.9 million in 2004 as compared to RMB8.7 million advanced to related companies in 2003, and the one-time cash outflow related to the purchase of additional interest in our subsidiaries in 2003. Our Board expect that we will not have any cash flows in relation to advances to related companies and settlement of such advances after the completion of the Global Offering.

Our net cash outflows used in financing activities were RMB12.5 million, RMB117.0 million and RMB2.3 million in the three years ended 31 December, 2002, 2003 and 2004, respectively. Our subsidiaries paid dividends to their shareholders in amounts of RMB23.5 million, RMB129.9 million and RMB126.3 million in the three years ended 31 December, 2002, 2003 and 2004, respectively. In 2002 and 2003, we had net cash inflows of RMB13.5 million and RMB13.0 million from short term bank loans. In December 2004, we also received a cash inflow of RMB124.0 million from 3i in connection with the Series A Preferred Shares financing.

CAPITAL EXPENDITURE AND DIVESTMENT

Historical Capital Expenditure

Our capital expenditures were RMB44.4 million, RMB6.0 million and RMB12.0 million in the three years ended 31 December, 2002, 2003 and 2004, respectively. These capital expenditures related primarily to the purchase of fixed assets for plant and production line expansion.

Planned Capital Expenditure and Divestment

Capital expenditure for the year ending 31 December, 2005 is budgeted at RMB93.0 million. The expenditure will mainly be used to (i) develop and construct new manufacturing facilities; (ii) expanding and upgrading the existing manufacturing facilities and construction of ancillary facilities; and (iii) expanding and improving the Group's sales network. We intend to fund this capital expenditure through operating cash flows and the proceeds from the Global Offering.

CONTRACTUAL OBLIGATIONS AND CONTINGENT LIABILITIES

As at 30 April, 2005, we had total contractual obligations in respect of land and buildings under non-cancellable operating leases in the amount of RMB4.2 million.

The following table sets forth our contractual cash obligations for the periods indicated.

	<u>As at 30 April, 2005 (RMB in millions)</u>
2005	1.6
2006–2009	1.6
2010–2014	1.0

As at 30 April, 2005, we had total capital commitments in respect of the purchase of fixed assets in the amount of RMB2.5 million.

RECENT ACCOUNTING PRONOUNCEMENTS

The International Accounting Standard Board (“IASB”) has issued a number of new International Financial Reporting Standards (“IFRS”) and revised International Accounting Standards (“IAS”), which are effective for accounting periods beginning on or after 1 January, 2005.

For the year beginning 1 January, 2005, the Company will adopt IFRS3 “Business Combinations” which is effective for accounting periods commencing on or after 1 January, 2005. Under IFRS3, goodwill will no longer be amortized but instead, it will be tested annually for impairment and carried at cost less accumulated impairment losses. IFRS3 requires prospective adoption and accordingly will have no financial effect on the 2004 consolidated balance sheet and consolidated profit and loss account.

During the track record period, the Company did not adopt IFRS3 or any other changes that apply to future accounting periods. The Company is in the process of assessing of the impact of these revised IAS and new IFRS, and have preliminarily concluded that other than IFRS3, the adoption of these other revised and new standards would not have a significant impact on the Company’s results of operations or financial position.

INDEBTEDNESS

As at 30 April, 2005, being the latest practicable date for the purpose of this indebtedness statement, we had RMB25.0 million in outstanding, unsecured short-term bank loans.

Save as abovementioned, the Group did not have any mortgages, charges, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptance credits or any guarantees or other material contingent liabilities outstanding as at 30 April, 2005.

As at 30 April, 2005, all short-term bank loans guaranteed by Gulf Group had been fully repaid together with the release of the underlying guarantees provided by Gulf Group.

Our Directors confirm that there is no material change in indebtedness and contingent liabilities since the indebtedness date.

NET CURRENT ASSETS

As at 30 April, 2005, we had net current assets of approximately RMB193 million comprising current assets of approximately RMB356 million and current liabilities of RMB163 million. Current assets of the Group comprise mainly inventories of RMB112 million, trade receivables of RMB131 million, due from related companies of RMB5 million, other receivables, deposits and prepayments of RMB34 million and cash and bank balances of RMB74 million. Current liabilities of the Group comprise mainly trade payables of RMB65 million, short term bank loan of RMB25 million, other payables and accruals of RMB9 million, advance from customers of RMB50 million and taxation payable of RMB14 million.

MARKET RISK

We are, in the normal course of business, exposed to risks relating to fluctuations in interest rates and exchange rates, as well as credit risks and commodity price risks. Our risk management strategy aims to minimize the adverse effects of these risks on our financial performance.

Foreign currency exchange risk

We are exposed to exchange rate risk in connection with the relative value of the U.S. dollar and the RMB. Typically, approximately 95% of our sales and approximately 98% of our raw material purchases are denominated in RMB. However, the purchases of raw materials by our suppliers are usually denominated in US dollars. To the extent the US dollar were to depreciate in value compared to the RMB, our costs for raw materials would probably decrease. We have not entered into any hedging arrangements relating to foreign currency exchange risk.

Interest rate risk

We are exposed to interest rate risk primarily associated with our cash short-term investments and short-term bank loans. As all of our outstanding indebtedness is subject to fixed rates of interest, we do not believe we are subject to interest rate risk. To date, we have not entered into any type of derivatives to hedge against interest rate changes.

Inflation risk

We are exposed to fluctuations in the prices of our raw materials, which represented approximately 88.9%, 89.0% and 89.9% of our total cost of goods sold for the three years ended 31 December, 2002, 2003 and 2004. Such purchases are made at market prices. In addition, all our sales of our products are made at market prices. Therefore, fluctuation in the prices of our raw materials, which constitute primarily of integrated circuits, plastic parts and electronic components, have a significant effect on our results of operations. To date, we have not entered into any futures contracts to hedge against commodity price changes.

Seasonality

During the three years ended 31 December, 2002, 2003 and 2004, our revenue has shown significant seasonal fluctuations, with sales higher in the third and fourth quarters and lower in the first and second quarters, due to the slowdown in construction and installation work during the Chinese New Year holiday period and the cold winter season.

DIRECTORS' CONFIRMATION ON NO MATERIAL ADVERSE CHANGE

Up to the date of this prospectus, the Directors confirm that there has been no material adverse change in the financial or trading positions or prospects of the Group since 31 December, 2004, the date of the most recent audited financial statements of the Group.

Our Directors confirm that they have performed sufficient due diligence on the Group to ensure that, up to the date of this prospectus, there has been no material adverse change in our financial or trading position or prospects since 31 December, 2004, the date of the most recent audited financial statements of the Group, and there is no event since 31 December, 2004 which would materially affect the information shown in the Accountants' Report, the text of which is set out in Appendix I to this prospectus.

WORKING CAPITAL

Taking into consideration the financial resources available to us, including our internally generated funds, our currently available banking facilities and the estimated net proceeds from the Global Offering, we confirm that we have sufficient working capital for our requirements currently and for the period ending 12 months from the date of this prospectus.

DIVIDEND POLICY AND DISTRIBUTABLE RESERVES

Our Directors may declare dividends after taking into account, among other things, our results of operations, cash flows and financial condition, operating and capital requirements, the amount of distributable profits based on IFRS, our Memorandum and Articles of Association, the Cayman Islands Companies Law, applicable laws and regulations and other factors that our Directors deem relevant.

We did not declare or pay dividends since our date of incorporation. However, our subsidiaries paid dividends to their shareholders in amounts of RMB23.5 million, RMB129.9 million (which was issued in connection with our restructuring in order to prepare for the Global Offering) and RMB126.3 million in the three years ended 31 December, 2002, 2003 and 2004, respectively. Our future declaration of dividends may or may not reflect our historical declarations of dividend and will be at the absolute discretion of the Board. We had RMB276.7 million of distributable reserve as at 31 December, 2004. Our distributable reserves include share premium and contributed surplus.

FINANCIAL INFORMATION

ADJUSTED NET TANGIBLE ASSETS

The following statement of our adjusted net tangible assets is based on our unaudited pro forma net tangible assets as at 31 December, 2004, prepared in accordance with Rule 4.29 of the Listing Rules to illustrate the effects of the Global Offering on the consolidated net assets as at 31 December, 2004, as shown in the Accountants' Report set out in Appendix I to this prospectus, adjusted as described below:

	Audited consolidated net assets of the Group as at 31 December, 2004 ⁽¹⁾⁽²⁾ RMB'000	Less: Intangible assets as at 31 December, 2004 ⁽¹⁾ RMB'000	Estimated net proceeds from the Global Offering ⁽³⁾ RMB'000	Unaudited pro forma net tangible assets of the Group RMB'000	Unaudited pro forma net tangible assets per Share ⁽⁴⁾⁽⁵⁾ RMB	HK\$
Based on an Offer						
Price of HK\$1.69 per						
Share	276,775	(5,972)	337,260	608,063	0.76	0.72
Based on an Offer						
Price of HK\$2.06 per						
Share	276,775	(5,972)	412,955	683,758	0.85	0.81

Notes:

- (1) The audited consolidated net assets and intangible assets of the Group are extracted from the Accountants' Report set out in Appendix I to this prospectus.
- (2) In accordance with the Group's accounting policies, land use rights and buildings are stated at cost less accumulated depreciation and impairment losses, if any. The Group's land use rights and buildings as of 31 March, 2005 were revalued by Sallmanns (Far East) Limited, independent property valuer. The valuation surplus arising on the revaluation of the Group's land use rights and buildings was not incorporated in the accounts of the Group. If the revaluation surplus of approximately RMB6,211,000 was incorporated in the Group's accounts, the depreciation charge of the Group would be increased by approximately RMB165,000 for the year ending 31 December, 2005.
- (3) The estimated net proceeds from the Global Offering are based on the Offer Price of HK\$1.69 to HK\$2.06 per Share respectively and takes no account of any Shares which may be issued pursuant to the Over-allotment Option. If the Over-allotment Option is exercised in full, the adjusted net tangible asset value per Share will be increased, while the earnings per Share will be diluted correspondingly.
- (4) The unaudited pro forma net tangible assets per Share is arrived at after the adjustment referred to in the preceding paragraphs and on the basis that 800,000,000 Shares were in issue (including the Shares in issue at the date of this prospectus and assuming the Shares to be issued upon the conversion of all Series A Preferred Shares and pursuant to the Capitalization Issue and Global Offering but without taking into account any Shares which may be issued upon exercise of the Over-allotment Option).
- (5) Unaudited pro forma net tangible assets per Share is converted into Hong Kong dollars at the rate of HK\$1 to RMB1.06.

PROFIT FORECAST FOR THE YEAR ENDING 31 DECEMBER, 2005

In the absence of any unforeseen circumstances and on the bases and assumptions set out in Appendix III to this prospectus, certain forecast data of the Group for the year ending 31 December, 2005 are set forth below:

Forecast consolidated profit attributable to
equity holders of the Company for the
year ending 31 December, 2005⁽¹⁾ not less than RMB159 million (HK\$150 million)

Unaudited pro forma forecast earnings per Share⁽²⁾ not less than RMB0.20 (HK\$0.19)

Notes:

- (1) The forecast consolidated profit attributable to equity holders of the Company for the year ending 31 December, 2005 prepared by the Directors is based on the unaudited consolidated management accounts of the Group for the four months ended 30 April, 2005 and a forecast results of the Group for the remaining eight months ending 31 December, 2005. The bases and assumptions on which the above profit forecast for the year ending 31 December, 2005 have been prepared are summarized in Appendix III to this prospectus. In addition, the forecast has been prepared on the basis of the accounting policies consistent in all material respect with those currently adopted by the Group as summarized in Appendix III of this prospectus.
- (2) The calculation of unaudited pro forma forecast earnings per Share is calculated by dividing the forecast consolidated profit attributable to equity holders of the Company for the year ending 31 December, 2005 by a total of 800,000,000 Shares (including the Shares in issue at the date of this prospectus and assuming the Shares to be issued upon the conversion of all Series A Preferred Shares and under the Capitalization Issue and the Global Offering had been in issue on 1 January, 2005 but without taking into account any Shares which may be issued upon exercise of the Over-allotment Option).
- (3) Forecast earnings per Share is converted into Hong Kong dollars at the rate of HK\$1 to RMB1.06.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

We confirm that there are no circumstances that would give rise to a disclosure requirement under Rules 13.13 to Rules 13.19 of the Listing Rules.

FUTURE PLANS AND PROSPECTS

For information on our future plans and prospectus, please see the sections headed “Industry Overview”, “Business — Strategy” and “Future Plans and Prospects — Use of Proceeds” in this prospectus.

USE OF PROCEEDS

The Directors believe that the net proceeds of the Global Offering will finance the Group’s capital expenditures and business expansion, strengthen the Group’s capital base and improve its financial position.

The net proceeds of the Global Offering after deducting related expenses, and assuming an Offer Price of HK\$1.875 per Share (being the mid-point of the stated range of the Offer Price of between HK\$1.69 and HK\$2.06 per Share) and that the Over-allotment Option is not exercised in whole or in part, are estimated to amount to about HK\$353.9 million. The Group intends to apply the net proceeds as follows:

- approximately HK\$198.1 million for the development and construction of new manufacturing facilities in Beijing;
- approximately HK\$70.8 million for the expanding and upgrading the Group’s existing primary manufacturing facilities in Qinhuangdao and construction of ancillary facilities;
- approximately HK\$75.5 million for the expanding and improving the Group’s sales network; and
- the remainder for general corporate purposes and general working capital.

In the event that the Over-allotment Option is exercised, the additional net proceeds of about HK\$54.3 million (assuming the Offer Price is determined at the mid-point of the stated range) will be applied by the Group for expanding and improving the Group’s sales network and general corporate purposes and general working capital.

In the event that the Offer Price is fixed at HK\$1.69 per Share, being the lowest point of the estimated price range, the net proceeds will be reduced by approximately HK\$35.7 million. In such circumstances, the Directors intend to reduce the application of the proceeds for expanding and improving the Group’s sales network by HK\$26.2 million and general corporate purposes and general working capital by HK\$9.5 million.

In the event that the Offer Price is fixed at HK\$2.06 per Share, being the highest point of the estimated price range, the net proceeds will increase by approximately HK\$35.7 million. In such circumstances, the Directors intend to increase the application of the proceeds for expanding and improving the Group’s sales network by HK\$10.0 million and general corporate purposes and general working capital by HK\$25.7 million.

To the extent that the net proceeds of the Global Offering are not immediately required for the above purposes, the Directors presently intend that such proceeds will be placed on short-term deposits with licensed banks or authorized financial institutions in Hong Kong.

UNDERWRITERS

Names of Hong Kong Underwriters:

Morgan Stanley Dean Witter Asia Limited
DBS Asia Capital Limited
ICEA Capital Limited
Celestial Capital Limited
First Shanghai Securities Limited
Prudential Brokerage Limited
Sun Hung Kai International Limited
Tai Fook Securities Company Limited

Names of International Underwriters:

Morgan Stanley & Co. International Limited
DBS Asia Capital Limited
ICEA Capital Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

(a) Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, the Company is offering 20,000,000 Hong Kong Offer Shares (subject to adjustment) for subscription by way of Hong Kong Public Offering on and subject to the terms and conditions of this prospectus and the related Application Forms at the Offer Price.

Subject to (i) the Listing Committee granting listing of, and permission to deal in, the Shares (subject only to allotment) on or before the Price Determination Date and dealings in the Shares being allowed by the Stock Exchange to commence on the Stock Exchange on or before 30 June 2005 (or such later date as the Company and the Global Coordinator on behalf of the Hong Kong Underwriters may agree); and (ii) certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have severally agreed to apply or procure applications, on the terms and conditions of this prospectus and the related Application Forms, for the Hong Kong Offer Shares now being offered and which are not taken up under the Hong Kong Public Offering.

The Hong Kong Underwriting Agreement is conditional on and subject to the International Underwriting Agreement having been signed and becoming unconditional.

Grounds for termination

The obligations of the Hong Kong Underwriters to subscribe or procure subscribers for the Hong Kong Offer Shares will be subject to termination by notice from the Global Co-ordinator (for itself and on behalf of the Hong Kong Underwriters) if any of the following events occur prior to 8:00 a.m. on the Listing Date:

there shall develop, occur, exist or come into effect:

- (i) any moratorium, suspension or material restriction on trading in securities generally on or by, as the case may be, any of the Hong Kong Stock Exchange, the New York Stock Exchange, the London Stock Exchange, the American Stock Exchange, the Nasdaq National Market, the Chicago Board of Options Exchange, the Chicago Mercantile Exchange or, the Chicago Board of Trade; or
- (ii) a material disruption in securities settlement, payment or clearance services in Hong Kong, the PRC or the US; or
- (iii) any moratorium on commercial banking activities by US federal or New York State, PRC, or Hong Kong authorities; or
- (iv) any new law or regulation, or any change in existing laws or regulations, or any change in the interpretation or application thereof by any court or other competent authority, of Hong Kong, the PRC, the US or the Cayman Islands; or
- (v) any change or development, or any event or series of events likely to result in any change or development, in local, national or international financial, political, economic, currency or market conditions or any monetary or trading settlement system (including but not limited to a material devaluation of the Hong Kong currency or the Renminbi against any foreign currencies) in the PRC, Hong Kong, or the US; or
- (vi) a change, or development occurs involving a prospective change, in taxation or exchange control in Hong Kong, the PRC or the US; or;
- (vii) any outbreak or escalation of hostilities or calamity or crisis involving Hong Kong, the PRC, the US, or the United Kingdom; or
- (viii) any event of force majeure, including without limitation any act of God, war, riot, public disorder, civil commotion, economic sanctions, fire, flood, explosion, epidemic, terrorism, labour dispute, strike or lock-out involving Hong Kong, the PRC, the US, or the United Kingdom,

which in the sole opinion of the Global Co-ordinator (for itself and on behalf of the Hong Kong Underwriters):

- (a) is or will be or is likely to be materially adverse to the business, financial or other condition or prospects of the Company or, in the case of paragraphs (i) to (viii) above to any present or prospective Shareholder in his/its capacity as such; or

- (b) has or will have or is likely to have a material adverse effect on the success of the Global Offering or the level of the Offer Shares being applied for or accepted or the distribution of the Offer Shares; or
- (c) makes it inadvisable or impracticable to proceed with the Global Offering or the delivery of the Offer Shares on the terms and in the manner contemplated by this prospectus; or
- (d) there comes to the notice of the Global Co-ordinator any matter or event showing any of the warranties of the Hong Kong Underwriting Agreement to be untrue or misleading in any respect which is material in the context of the Global Offering when given or repeated; or
- (e) there comes to the notice of the Global Co-ordinator any breach on the part of the Company of any of the provisions of the Hong Kong Underwriting Agreement which is material in the context of the Global Offering.

Underwriting Commission

The Hong Kong Underwriters will receive an underwriting commission of 3.0% of the aggregate Offer Price of all the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering, out of which they will pay any sub-underwriting commission. For unsubscribed Offer Shares reallocated to the International Offering, the Company will pay an underwriting commission at the rate applicable to the International Offering and such commission will be payable to the Global Co-ordinator and the relevant International Underwriters. Such commission and fees, together with the Stock Exchange listing fees, the Stock Exchange trading fee, the SFC transaction levy, the investor compensation levy, legal and other professional fees, printing and other expenses relating to the Global Offering which are currently estimated to be approximately HK\$21.1 million in aggregate (based on an Offer Price of HK\$1.875 per Share, being the mid-point of the stated range of the Offer Price of between HK\$1.69 and HK\$2.06 per Share and the assumption that the Over-allotment Option is not exercised) is to be borne by the Company. We have also agreed to pay to the Global Co-ordinator an incentive fee of 0.5% of the aggregate Offer Price of all the Offer Shares initially offered under the Global Offering.

Undertakings

The Company has undertaken to the Hong Kong Underwriters in the Hong Kong Underwriting Agreement that, except pursuant to the Global Offering (including pursuant to the Over-allotment Option) and options which may be granted under the Share Option Scheme and save as mentioned in this prospectus or with the prior written consent of the Global Co-ordinator (for itself and on behalf the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules, it will not allot or issue, or agree to allot or issue, Shares or other securities of the Company (including warrants or other convertible securities) or grant or agree to grant any options, warrants or other rights to subscribe for or convertible or exchangeable into Shares or other securities of the Company or repurchase Shares or other securities of the Company or enter into any swap or other arrangement that transfers, in whole or in part, any of the economic consequence of ownership of any Shares or offer to or agree to do any of the foregoing or announce any intention to do so during the six months immediately following the Listing Date and in the event of the Company doing any of the foregoing by virtue of the aforesaid exceptions or during the period of six months

immediately following the expiry of the first six months period after the Listing Date, it will take all reasonable steps to ensure that any such act will not create a disorderly or false market for any Shares or other securities of the Company.

GST International Management has undertaken to the Sponsor, the Underwriters and the Company that, save as permitted under the Listing Rules and the stock borrowing arrangement as referred to in this Prospectus:

- (a) it shall not, and shall procure that its associates (as defined under the Listing Rules) or companies controlled by it or nominees or trustees holding in trust for it shall not, without the prior written consent of the Sponsor (in its capacity as sponsor for the listing of the Shares and on behalf of the Underwriters), offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of, directly or indirectly, any Shares or any securities convertible into or exercisable or exchangeable for, or that represent the right to receive, the Shares beneficially owned by it or the relevant company, nominee or trustee (including any interest on any shares in any company controlled by it) which is directly or indirectly the beneficial owner of any of the Shares or securities of the Company immediately following the completion of the Global Offering and the Capitalisation Issue (the “Relevant Securities”) within the first twelve months from the Listing Date (the “Lock-up Period”); and
- (b) it shall not, and shall procure that none of its associates (as defined under the Listing Rules) or companies controlled by it or nominees or trustees holding in trust for it shall, enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Shares within the Lock-up Period,

whether any such transaction in paragraph (a) or (b) above is to be settled by delivery of the Relevant Securities beneficially owned by it or such other securities, in cash or otherwise, if immediately following such transaction, GST International Management would cease to be a controlling shareholder (within the meaning of the Listing Rules) of the Company. In the event of any such transaction referred to in paragraph (a) or (b) above, all reasonable steps shall be taken to ensure that such transaction shall be effected in such a manner so as not to create a disorderly or false market for the Shares during the progress of such transaction or after the completion thereof.

GST International Management further undertakes to the Sponsor, the Underwriters and the Company that, during the Lock-up Period, it will:

- (a) when it pledges or charges any securities or interests in the Relevant Securities, immediately inform the Company and the Sponsor in writing of such pledges or charges together with the number and of securities and nature of interest so pledged or charged;
- (b) when it receives indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged securities or interests in the securities of the Company will be sold, transferred or disposed of, immediately inform the Company and the Sponsor in writing of such indications.

UNDERWRITING

Each of 3i, 3i Asia Pacific and 3i APTech has severally undertaken to the Sponsor, the Underwriters and the Company that, without the prior written consent of the Sponsor (for itself and on behalf of the Underwriters), each of them will not for a period commencing on the date by reference to which disclosure of its shareholding is made in this prospectus and ending on the date which is six months from the Listing Date,

- (a) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of, directly or indirectly, any Shares respectively beneficially owned by it as at the date of giving the undertaking or as at the Listing Date or any securities convertible into or exercisable or exchangeable for, or that represent the right to receive, the Shares beneficially owned by it as at the date of giving the undertaking or as at the Listing Date, or
- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Shares respectively beneficially owned by it as at the date of giving the undertaking or as at the Listing Date,

whether any such transaction is to be settled by delivery of the Shares beneficially owned by it as at the date of giving the undertaking or as at the Listing Date or such other securities, in cash or otherwise.

Each of 3i, 3i Asia Pacific and 3i APTech has further severally undertaken to the Sponsor, the Underwriters and the Company that, without the prior written consent of the Sponsor (for itself and on behalf of the Underwriters), each of them will not for a period commencing six months from the Listing Date to the date falling 12 months from the Listing Date,

- (a) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of, directly or indirectly, more than 50% of Shares respectively beneficially owned by it as at the date of entering into such undertaking or as at the Listing Date or any securities convertible into or exercisable or exchangeable for, or that represent the right to receive, more than 50% of Shares respectively beneficially owned by it as at the Listing Date, or
- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of more than 50% of Shares respectively beneficially owned by it as at the Listing Date,

whether any such transaction is to be settled by delivery of more than 50% of Shares respectively beneficially owned by it as at the Listing Date, in cash or otherwise.

GST International Management has undertaken to the Stock Exchange and the Company that, save as permitted under the Listing Rules and the stock borrowing arrangement referred to in the paragraph headed “Stabilization Action” in the section headed “Structure of the Global Offering” in this prospectus, it will not:

- (a) for a period commencing on the date of this prospectus and ending on the date which is six months from the date on which dealings in the Shares on the Stock Exchange first commence (the “First Six-Month Period”), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of any of the Shares of which GST International Management is the beneficial owner; and
- (b) for a period of six months commencing on the date on which the First Six-Month Period expires (the “Second Six-Month Period”), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of any of the Shares referred to in (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it would cease to be a controlling shareholder of the Company (as defined under the Listing Rules).

GST International Management has also undertaken to the Stock Exchange and the Company that within 12 months from the Listing Date, it shall:

- (i) when it pledges/charges any Shares beneficially owned by it in favor of an authorized institution (as defined in the Banking Ordinance) for bona fide commercial loan, immediately inform the Company of such pledge/charge together with the number of Shares so pledged/charged; and
- (ii) when it receives indications, whether verbal or written, from the pledgee/chargee that any of the pledged/charged Shares will be disposed of, immediately inform the Company of such indications.

The Company will inform the Stock Exchange as soon as it has been informed of the matters referred to in (i) and (ii) above by GST International Management and disclose such matters by way of a press announcement.

(b) International Offering

International Offering Agreement

In connection with the International Offering, we expect to enter into the International Underwriting Agreement with the International Underwriters and the Global Coordinator. Under the International Underwriting Agreement, the International Underwriters, subject to certain conditions, will agree severally to purchase the International Offer Shares being offered pursuant to the International Offering.

Under the International Underwriting Agreement, we intend to grant to the International Underwriters the Over-allotment Option, exercisable by the Global Co-ordinator on behalf of the International Underwriters from the date of the International Underwriting Agreement until the 30th day after the last day for lodging applications under the Hong Kong Public Offering, to require us to issue and allot up to an aggregate of 30,000,000 additional Shares representing

UNDERWRITING

in aggregate not more than 15% of the maximum number of Offer Shares initially available under the Global Offering. These additional Shares will be issued at the Offer Price and will be solely for the purpose of covering over-allocations, if any, in the International Offering.

Underwriters' interests in the Company

Other than pursuant to the Underwriting Agreements, none of the Underwriters has any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

OFFER PRICE AND PRICE PAYABLE ON APPLICATION

The Offer Price will not be more than HK\$2.06 and is expected to be not less than HK\$1.69 per Offer Share. Based on the maximum Offer Price of HK\$2.06 per Offer Share, plus 1% brokerage fee, 0.005% SFC transaction levy, 0.002% investor compensation levy and 0.005% Stock Exchange trading fee, one board lot of 2,000 Shares will amount to a total of HK\$4,161.70.

The Offer Price is expected to be determined by the Company and the Global Co-ordinator (on behalf of the Underwriters) on or around Friday, 24 June, 2005, and in any event no later than Sunday, 26 June, 2005.

If, based on the level of interests expressed by prospective professional and institutional investors during the book-building process, the Global Co-ordinator (on behalf of the Underwriters, and with the consent of the Company) thinks it appropriate (for instance, if the level of interests is below the indicative Offer Price range), the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range may be reduced below that stated in this prospectus at any time prior to the morning of the last day for lodging applications. In such case, the Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering cause there to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) notice of the reduction of the number of Offer Shares and/or the indicative Offer Price range. Such notice will also include any financial information which may change as a result of any such reduction. **If applications for Hong Kong Offer Shares have been submitted prior to the day which is the latest day for lodging applications under the Hong Kong Public Offering, then even if the number of Offer Shares and/or the Offer Price is so reduced, such applications cannot be subsequently withdrawn.**

If, for any reason, the Offer Price is not agreed between the Company and the Global Co-ordinator (on behalf of the Underwriters) before the Price Determination Date (or such later day as agreed), the Global Offering will not proceed and will lapse.

CONDITIONS

Acceptance of all applications for the Global Offering will be conditional upon, among other things:

- (i) the Listing Committee granting a listing of, and permission to deal in the Shares in issue, the Shares to be issued pursuant to the Capitalization Issue, the Shares which may fall to be issued pursuant to the exercise of the Over-allotment Option and any Shares which fall to be issued pursuant to the exercise of the options granted under the Share Option Scheme, and such listing and permission not subsequently having been revoked prior to the commencement of dealings in the Shares on the Stock Exchange;
- (ii) the Offer Price having been duly determined and the International Underwriting Agreement having been executed and delivered on or about the Price Determination Date; and

- (iii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including the waiver of any condition(s) by the Global Co-ordinator on behalf of the Underwriters) and not being terminated in accordance with the terms of that agreement or otherwise,

in each case, on or before the dates and times specified in the Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the date which is 30 days after the date of this prospectus. If these conditions are not fulfilled, all application monies will be returned, without interest, on the terms set out in the section “How to Apply for the Hong Kong Offer Shares”. In the meantime, such monies will be held in a separate bank account with the receiving banker or other licensed bank(s) in Hong Kong.

OFFER MECHANISM — BASIS OF ALLOCATION OF SHARES

The Global Offering

The Global Offering consists of the International Offering and the Hong Kong Public Offering. The 200,000,000 Shares initially offered will comprise 180,000,000 Shares being offered under the International Offering and 20,000,000 Shares being offered under the Hong Kong Public Offering. The 200,000,000 Shares being offered under the Global Offering will represent about 25% of the Company’s enlarged share capital immediately after completion of the Global Offering and the Capitalization Issue (without taking into account the exercise of the Over-allotment Option).

Subject to possible reallocation on the basis set forth below, 20,000,000 Shares, representing 10% of the total number of Shares initially being offered under the Global Offering, will be offered to the public in Hong Kong under the Hong Kong Public Offering. The Hong Kong Public Offering is open to all members of the public in Hong Kong.

Out of the total 200,000,000 Shares offered pursuant to the Global Offering, 180,000,000 Shares, representing 90% of the total number of Shares initially being offered under the Global Offering, will be placed with professional and institutional investors in Hong Kong, the United States, Europe and elsewhere under the International Offering. The International Offering Shares will be offered in Hong Kong, Europe and other jurisdictions outside the United States in offshore transactions, as defined in, and in reliance on, Regulation S, and in the United States to QIBs, as defined in and in reliance on, Rule 144A.

Investors may apply for Shares under the Hong Kong Public Offering or indicate an interest, if qualified to do so, for Shares under the International Offering, but may not do both. The Global Co-ordinator may require investors who have been allotted Shares under the International Offering to provide sufficient proof that they have not applied for Shares under the Hong Kong Public Offering.

The levels of indication of interest in the International Offering and the basis of allotment and the results of application under the Hong Kong Public Offering are expected to be published in the South China Morning Post (in English) and in the Hong Kong Economic Times (in Chinese) on or before Wednesday, 29 June, 2005.

The Hong Kong Public Offering

The Company is initially offering 20,000,000 Hong Kong Offer Shares, subject to reallocations representing 10% of the total number of Shares initially being offered in the Global Offering, for subscription by way of a public offer in Hong Kong. The Hong Kong Offer Shares are being offered at the Offer Price. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters, subject to the terms and conditions of the Underwriting Agreements.

The total number of Shares available for subscription under the Hong Kong Public Offering (after taking into account of any reallocation referred to below) is to be divided equally into two pools for allocation purposes: pool A and pool B. The Shares in pool A will be allocated on an equitable basis to applicants who have applied for Shares with an aggregate subscription price of HK\$5 million (excluding the brokerage fee, the SFC transaction levy, the investor compensation levy and the Stock Exchange trading fee payable) or less. The Shares in pool B will be allocated on an equitable basis to applicants who have applied for Shares with an aggregate subscription price of more than HK\$5 million (excluding the brokerage fee, the SFC transaction levy, the investor compensation levy and the Stock Exchange trading fee payable) and up to the value of pool B. Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If Shares in one (but not both) of the pools are undersubscribed, the surplus Shares will be transferred to the other pool to satisfy demand in that pool and be allocated accordingly.

Applicants can only receive an allocation of Shares from either pool A or pool B but not from both pools. Multiple or suspected multiple applications within either pool or between pools and any application for more than the total number of Shares originally allocated to each pool (i.e., 10,000,000 Shares) are liable to be rejected. Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the Application Form submitted by him that he and any person(s) for whose benefit he is making the application have not received any Shares under the International Offering, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be).

The allocation of the Shares between the International Offering and the Hong Kong Public Offering is subject to adjustment. If the number of Shares validly applied for under the Hong Kong Public Global Offering represents 15 times or more but less than 50 times the number of Shares initially available for subscription under the Hong Kong Public Offering, then Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of Shares available for subscription under the Hong Kong Public Offering will increase to 60,000,000 Shares, representing 30% of the Shares initially available for subscription under the Global Offering. If the number of Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of Shares initially available for subscription under the Hong Kong Public Offering, then the number of Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased so that the total number of Shares available for subscription under the Hong Kong Public Offering will be 80,000,000 Shares, representing 40% of the Shares initially available for subscription under the Global Offering. If the number of Shares validly applied for under the Hong Kong Public Offering represents 100 times or more the number of Shares initially available for subscription under the Hong Kong Public Offering, then the number of Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased, so that the total number of Shares available for subscription under the Hong Kong Public Offering will increase to 100,000,000 Shares, representing 50% of the Shares initially available for subscription under the Global Offering. In each such case, the

additional Shares reallocated to the Hong Kong Public Offering will be allocated equally between pool A and pool B and the number of Shares allocated to the International Offering will be correspondingly reduced.

In addition, if the Hong Kong Public Offering is not fully subscribed, the Global Co-ordinator in its discretion may reallocate all or any unsubscribed Shares originally included in the Hong Kong Public Offering to the International Offering.

Morgan Stanley is the Global Co-ordinator and Lead Manager of the Hong Kong Public Offering which is underwritten at the Offer Price by the Hong Kong Underwriters, on and subject to the terms and conditions of the Underwriting Agreements.

Allocation of Hong Kong Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants but, subject to that, will be made strictly on a pro-rata basis, although this could, where appropriate, consist of balloting. Balloting would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

The International Offering

The Company is initially offering 180,000,000 International Offering Shares, subject to reallocation representing 90% of the total number of Shares initially being offered in the Global Offering, for subscription by way of the International Offering. The International Offering is fully underwritten by the International Underwriters, subject to the pricing agreement and the other terms and conditions of the Underwriting Agreements.

The International Underwriters are soliciting from prospective professional and institutional investors indications of interest in acquiring International Offering Shares in the International Offering. Professional investors generally include brokers, dealers and companies (including fund managers) whose ordinary business involves dealing in shares and other securities and entities which regularly invest in shares and other securities. Prospective professional and institutional investors will be required to specify the number of International Offering Shares they would be prepared to acquire either at different prices or at a particular price. This process is known as “book building”. In Hong Kong, retail investors should apply for Shares in the Hong Kong Public Offering, as retail investors applying for International Offering Shares, including retail investors applying through banks and other institutions, are unlikely to be allocated any International Offering Shares.

Allocation of the International Offering Shares pursuant to the International Offering is based on a number of factors, including the level and timing of demand and whether or not it is expected that the relevant investor is likely to buy further and/or hold or sell its Shares after the Listing. Such allocation is generally intended to result in a distribution of the International Offering Shares on a basis which would lead to the establishment of a broad shareholder base to the benefit of the Company and its Shareholders as a whole.

If the Hong Kong Public Offering is not fully subscribed, the Global Co-ordinator may reallocate all or any unsubscribed Shares originally included in the Hong Kong Public Offering to the International Offering.

The International Underwriters or selling agents nominated by the International Underwriters shall, on behalf of the Company, conditionally place the International Offering Shares with professional and institutional investors in Hong Kong, the United States (pursuant to Rule 144A and Regulation S), Europe and other regions. The International Offering of the International Offering Shares shall be subject to the Global Offering restrictions set out under the section “Information about this Prospectus and the Global Offering” in this prospectus.

The International Offering is conditional on the same conditions as set out in the section “Conditions” above. The total number of International Offering Shares to be allotted and issued pursuant to the International Offering may change as a result of the clawback arrangement referred to in the section “The Hong Kong Public Offering” above, the exercise of the Over-allotment Option and any reallocation of unsubscribed Shares originally included in the Hong Kong Public Offering.

OVER-ALLOTMENT AND STABILIZATION

The Over-allotment Option

In connection with the Global Offering, the Company intends to grant to the Global Co-ordinator on behalf of the International Underwriters the Over-allotment Option, which will be exercisable by the Global Co-ordinator on behalf of the International Underwriters up to the date which is the 30th day after the last day for lodging applications under the Hong Kong Public Offering. Pursuant to the Over-allotment Option, the Company may be required to issue and allot at the Offer Price up to an aggregate of 30,000,000 additional Shares, representing 15% of the total number of Shares initially available under the Global Offering, in connection with over-allocations in the International Offering, if any. If the Over-allotment Option is exercised in full, the additional Offer Shares will represent approximately 3.61% of the Company’s enlarged issued share capital following the completion of the Global Offering and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, a press announcement will be made.

Stabilising Action

In connection with the Global Offering, the Global Co-ordinator, on behalf of the International Underwriters, or any person acting for it, may over-allocate or effect transactions with a view to supporting the market price of the Shares at a level higher than that which might otherwise prevail for a limited period after the issue date. Such transactions, if commenced, may be discontinued at any time. The Global Co-ordinator has been or will be appointed as stabilising manager for purposes of the Global Offering in accordance with the Securities and Futures (Price Stabilising) Rules made under the SFO and, should stabilising transactions be effected in connection with the Global Offering, this will be at the absolute discretion of the Global Co-ordinator.

Following any over-allotment of Shares in connection with the Global Offering, the Global Co-ordinator or any person acting for it may cover such over-allocation by (among other methods) making purchases in the secondary market or exercising the Over-allotment Option in full or in part, or by any combination of purchases and exercise of the Over-allotment Option. Any such purchases will be made in compliance with all applicable laws and regulatory requirements including the Securities and Futures (Price Stabilising) Rules made under the SFO. The number of Shares which can be over-allocated will not exceed the number of Shares which may be issued upon exercise of the Over-allotment Option, being 30,000,000 Shares representing 15% of the Shares initially available under the Global Offering.

STRUCTURE OF THE GLOBAL OFFERING

In order to facilitate the exercise of over-allocations in connection with the Global Offering, stock borrowing arrangements are proposed to be entered into between GST International Management and Morgan Stanley & Co. International Limited pursuant to which GST International Management will, if requested by Morgan Stanley & Co. International Limited and subject to the terms of the stock borrowing arrangements, make available to Morgan Stanley & Co. International Limited up to such number of Shares held by it which is equivalent to such number of new Shares to be allotted and issued by the Company under the Over-allotment Option, by way of stock borrowing, in order to cover the over-allocations in connection with the International Offering, if any.

For the purposes of these stock borrowing arrangements, a waiver has been granted by the Stock Exchange from strict compliance with Rule 10.07(1)(a) of the Listing Rules which otherwise restricts the disposal of Shares by the controlling Shareholder(s) following the Listing. The waiver is granted subject to the following conditions:

- (1) the stock borrowing arrangements with GST International Management will only be effected by Morgan Stanley & Co. International Limited for settlement of over-allocations in the International Offering;
- (2) the maximum number of Shares borrowed from GST International Management by Morgan Stanley & Co. International Limited will be limited to the maximum number of Shares which may be allotted and issued by the Company upon exercise of the Over-allotment Option;
- (3) the same number of Shares so borrowed must be returned to GST International Management or its nominees (as the case may be), no later than three business days following the earlier of (a) the last day on which the Over-allotment Option may be exercised and (b) the date on which the Over-allotment Option is exercised in full;
- (4) the stock borrowing arrangements will be effected in compliance with all applicable laws and regulatory requirements; and
- (5) no payments will be made to GST International Management by Morgan Stanley & Co. International Limited under the stock borrowing arrangements.

The possible stabilising action which may be taken by the Global Co-ordinator in connection with the Global Offering may involve (among other things) (i) over-allotment of Shares, (ii) purchasing or agreeing to purchase of Shares, (iii) establishing, hedging and liquidating positions in Shares, (iv) exercising the Over-allotment Option in whole or in part and/or (v) offering or attempting to do any of the foregoing.

Specifically, prospective applicants for and investors in Offer Shares should note that:

- the Global Co-ordinator may, in connection with any stabilising action, maintain a long position in the Shares;
- there is no certainty regarding the extent to which and the time period for which the Global Co-ordinator will maintain such a position;
- liquidation of any such long position by the Global Co-ordinator may have an adverse impact on the market price of the Shares;

STRUCTURE OF THE GLOBAL OFFERING

- no stabilising action can be taken to support the price of the Shares for longer than the stabilising period which will begin on the Listing Date following announcement of the Offer Price and is expected to expire on Saturday, 23 July, 2005, being the 30th day after the date expected to be the latest date for lodging applications under the Hong Kong Public Offering. After this date, when no further action may be taken to support the price of the Shares, demand for the Shares, and therefore the price of the Shares, could fall;
- the price of any security (including the Shares) cannot be assured to stay at or above its offer price by the taking of any stabilising action; and
- stabilising bids may be made or transactions effected in the course of the stabilising action at any price at or below the Offer Price, which means that stabilising bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, the Shares.

LISTING ON ANY OTHER STOCK EXCHANGE

The Directors are not considering any listing of the Company on any other overseas stock exchange. The Company has not submitted any application nor obtained any approval for the listing of the Shares.

1. METHODS TO APPLY FOR THE HONG KONG OFFER SHARES

There are two ways to make an application for the Hong Kong Public Offer Shares. You may either use a **WHITE** or **YELLOW** Application Form or you may give **electronic application instructions** to HKSCC to cause HKSCC Nominees to apply for the Hong Kong Public Offer Shares on your behalf. Except where you are a nominee and provide the required information in your application, you or you and your joint applicant(s) may not make more than one application (whether individually or jointly) by applying on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC.

2. WHICH APPLICATION METHOD YOU SHOULD USE

(a) **WHITE Application Forms**

Use a **WHITE** Application Form if you want the Hong Kong Offer Shares to be registered in your own name.

(b) **YELLOW Application Forms**

Use a **YELLOW** Application Form if you want the Hong Kong Offer Shares to be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.

(c) **Instruct HKSCC to make an electronic application on your behalf**

Instead of using a **YELLOW** Application Form, you may electronically instruct HKSCC to cause HKSCC Nominees to apply for the Hong Kong Offer Shares on your behalf via CCASS. Any Hong Kong Offer Shares allocated to you will be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.

Note: The Offer Shares are not available to existing beneficial owners of the Shares, the Directors, chief executives or substantial Shareholders (as defined in the Listing Rules) of the Company or any of their associates (as defined in the Listing Rules) or United States persons (as defined in Regulation S) or persons who do not have a Hong Kong address.

3. WHERE TO COLLECT THE APPLICATION FORMS

You can collect a **WHITE** Application Form and a prospectus from:

Lead Manager

Morgan Stanley Dean Witter Asia Limited

30th Floor, Three Exchange Square
Central, Hong Kong

Joint-lead Manager

DBS Asia Capital Limited

22nd Floor, The Center
99 Queen's Road Central
Hong Kong

Co-lead Manager

ICEA Capital Limited

42nd Floor, Jardine House
1 Connaught Place
Central, Hong Kong

Co-managers

Celestial Capital Limited

21st Floor, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

First Shanghai Securities Limited

19th Floor, Wing on House
71 Des Voeux Road Central
Central, Hong Kong

Prudential Brokerage Limited

9th Floor, World-Wide House
19 Des Voeux Road
Hong Kong

Sun Hung Kai International Limited

Level 12, One Pacific Place
88 Queensway
Hong Kong

Tai Fook Securities Company Limited

25th Floor, New World Tower
16–18 Queen's Road Central
Hong Kong

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

or any of the following branches of **Bank of China (Hong Kong) Limited** at the following addresses

Hong Kong Island:	Bank of China Tower Branch	3/F, 1 Garden Road
	Central District (Wing On House) Branch	71 Des Voeux Road Central
	Wan Chai (China Overseas Building) Branch	139 Hennessy Road, Wan Chai
	North Point Branch	Roca Centre, 464 King's Road, North Point
	Causeway Bay Branch	18 Percival Street, Causeway Bay
	Sheung Wan Branch	252 Des Voeux Road Central
Kowloon:	Kwun Tong Branch	20–24 Yue Man Square, Kwun Tong
	Whampoa Garden Branch	Shop G8B, Site 1, Whampoa Garden, Hung Hom
	Canton Road Branch	60 Canton Road, Tsim Sha Tsui
	Shanghai Street (Mong Kok) Branch	611–617 Shanghai Street, Mong Kok
New Territories:	Ha Kwai Chung Branch	192–194 Hing Fong Road, Kwai Chung
	Lek Yuen Branch	No. 1, Fook Hoi House, Lek Yuen Estate, Shatin

Your can collect a **YELLOW** Application Form and this prospectus from:

- (i) the **Depository Counter of HKSCC** at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong; or
- (ii) the **Customer Service Centre of HKSCC** at Upper Ground Floor, V-Heun Building, 128-140 Queen's Road Central, Hong Kong; or
- (iii) your stockbroker, who may have such Application Forms and this prospectus available.

4. HOW TO COMPLETE THE APPLICATION FORMS

There are detailed instructions on each Application Form. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected and returned, together with the accompanying cheque(s) or banker's cashier order(s), by ordinary post to you (or the first-named applicant in the case of joint applicants) at your own risk at the address stated in the Application Form.

You should note that by completing and submitting the Application Form, amongst other things, you (and if you are joint applicants, each of you jointly and severally) for yourself or as agent or nominee and on behalf of each person for whom you act as agent or nominee:

- (i) agree with us and each of the Shareholders, and we agree with each of the Shareholders, to observe and comply with the Cayman Companies Law, the Memorandum of Association and the Articles of Association;
- (ii) agree with us and each of the Shareholders that Shares in our Company are freely transferable by the holders thereof;
- (iii) authorize us to enter into a contract on your behalf with each of our Directors and officers whereby such Directors and officers undertake to observe and comply with their obligations to the Shareholders as stipulated in the Articles of Association;
- (iv) confirm that you have only relied on the information and representations in this prospectus in making your application and will not rely on any other information and representations save as set out in any supplement to this prospectus;
- (v) agree that we and the Directors are liable only for the information and representations contained in this prospectus and any supplement thereto;
- (vi) undertake and confirm that, you (if the application is made for your benefit) or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;
- (vii) agree to disclose to us, our registrar, receiving bankers, the Global Co-ordinator and our/their respective advisers and agents personal data and any information which they require about you or the person(s) for whose benefit you have made the application;
- (viii) instruct and authorize the Company and/or the Global Co-ordinator as agent for the Company (or their respective agents or nominees) to do on your behalf all things necessary to effect registration of any Hong Kong Offer Shares allocated to you in your name(s) or HKSCC Nominees, as the case may be, as required by the Articles of Association and otherwise to give effect to the arrangements described in this prospectus and the Application Form;
- (ix) represent, warrant and undertake that you are not, and none of the other person(s) for whose benefit you are applying, is a US person (as defined in Regulation S);

- (x) represent and warrant that you understand that the Shares have not been and will not be registered under the US Securities Act and you are outside the United States (as defined in Regulation S) when completing the Application Form or are a person described in paragraph (h)(3) or Rule 902 of Regulation S;
- (xi) agree (without prejudice to any other rights which you may have) that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xii) warrant the truth and accuracy of the information contained in your application;
- (xiii) agree to disclose to the Company, the Global Co-ordinator and their respective agents any information which they require about you or the person(s) for whose benefit you have made the application;
- (xiv) agree that your application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong;
- (xv) undertake and agree to accept the Shares applied for, or any lesser number allocated to you under the application;
- (xvi) if the laws of any place outside Hong Kong are applicable to your application, agree and warrant that you have complied with all such laws and none of the Company, the Global Co-ordinator and the Hong Kong Underwriters nor any of their respective officers or advisers will infringe any laws outside Hong Kong as a result of the acceptance of your offer to subscribe, or any actions arising from your rights and obligations under the terms and conditions contained in this prospectus; and
- (xvii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and the Application Form and agree to be bound by them.

In order for the **YELLOW** Application Forms to be valid:

- (a) if the application is made through a designated CCASS Participant (other than a CCASS Investor Participant):
 - the designated CCASS Participant or its authorized signatories must sign in the appropriate box; and
 - the designated CCASS Participant must endorse the form with its company chop (bearing its company name) and insert its participant I.D. in the appropriate box;
- (b) if the application is made by an individual CCASS Investor Participant:
 - the Application Form must contain the CCASS Investor Participant's full name and Hong Kong identity card number; and
 - the CCASS Investor Participant must insert its participant I.D. and sign in the appropriate box in the Application Form;

- (c) if the application is made by a joint individual CCASS Investor Participant:
- the Application Form must contain all joint CCASS Investor Participants' full names and Hong Kong identity card numbers of all joint CCASS Investor Participants; and
 - the participant I.D. must be inserted and the authorized signatory(ies) of the CCASS Investor Participant's stock account must sign in the appropriate box in the Application Form;
- (d) if the application is made by a corporate CCASS Investor Participant:
- the Application Form must contain the CCASS Investor Participant's company name and Hong Kong business registration number; and
 - the participant I.D. and company chop (bearing its company name) endorsed by its authorized signatories must be inserted in the appropriate box in the Application Form.

Signature(s), number of signatories and form of chop, where appropriate, in each **YELLOW** Application Form, should match with the records kept by HKSCC. Incorrect or incomplete details of CCASS Participant or the omission or inadequacy of authorized signatory(ies) (if applicable), CCASS Participant I.D. or other similar matters may render the application invalid.

If your application is made through a duly authorized attorney, the Company, the Global Co-ordinator and the Hong Kong Underwriters may accept it at their discretion, subject to any conditions they think fit, including evidence of the authority of your attorney. We and the Global Co-ordinator, in the capacity as our agent, will have full discretion to reject or accept any application, in full or in part, without assigning any reason.

5. HOW TO MAKE PAYMENT FOR THE APPLICATION

Each completed **WHITE** or **YELLOW** Application Form must be accompanied by either one cheque or one banker's cashier order, which must be stapled to the top left hand corner of the Application Form.

If you pay by cheque, the cheque must:

- be in Hong Kong dollars;
- be drawn on your Hong Kong dollar bank account in Hong Kong;
- bear an account name (or, in the case of joint applicants, the name of the first-named applicant) (either pre-printed on the cheque or endorsed on the reverse of the cheque by an authorized signatory of the bank on which it is drawn), which must be the same as the name on your Application Form (or, in the case of joint applicants, the name of the first-named applicant). If the cheque is drawn on a joint account, one of the joint account names must be the same as the name of the first-named applicant);
- be made payable to “**Bank of China (Hong Kong) Nominees Limited — GST Public Offer**”;

- be crossed “**Account Payee Only**”; and
- not be post dated.

Your application may be rejected if your cheque does not meet all of these requirements or is dishonoured on first presentation.

If you pay by banker’s cashier order, the banker’s cashier order must:

- be in Hong Kong dollars;
- be issued by a licensed bank in Hong Kong and have your name certified on the reverse of the banker’s cashier order by an authorized signatory of the bank on which it is drawn. The name on the back of the banker’s cashier order and the name on the Application Form must be the same. If the application is a joint application, the name on the back of the banker’s cashier order must be the same as the name of the first-named applicant;
- be made payable to “**Bank of China (Hong Kong) Nominees Limited — GST Public Offer**”;
- be crossed “**Account Payee Only**”; and
- not be post dated.

Your application may be rejected if your banker’s cashier order does not meet all of these requirements.

The right is reserved to present all or any remittance for payment. However, your cheque or banker’s cashier order will not be presented for payment before 12:00 noon on Thursday, 23 June, 2005. The Company will not give you a receipt for your payment. The Company will keep any interest accrued on your application monies (up until, in the case of monies to be refunded, the date of despatch of refund cheques). The right is also reserved to retain any share certificates and/or any surplus application monies or refunds pending clearance of your cheque or banker’s cashier order.

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC

General

CCASS Participants may give **electronic application instructions** to HKSCC to apply for the Hong Kong Offer Shares and to arrange payment of the monies due on application and payment of refunds. This will be in accordance with their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (<http://ip.ccass.com>) (using the procedures contained in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited

Customer Service Centre
Upper Ground Floor
V-Heun Building
128–140 Queen's Road Central
Hong Kong

and complete an input request form.

Prospectuses are available for collection from the above address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Broker Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You are deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application, whether submitted by you or through your broker or custodian, to the Company and its registrars.

Application for Hong Kong Offer Shares by HKSCC Nominees on your behalf

Where a **WHITE** Application Form is signed by HKSCC Nominees on behalf of persons who have given **electronic application instructions** to apply for the Hong Kong Offer Shares:

- (i) HKSCC Nominees is only acting as a nominee for those persons and shall not be liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees does the following things on behalf of each such person:
 - agrees that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the stock account of the CCASS Participant who has inputted **electronic application instructions** on that person's behalf or that person's CCASS Investor Participant stock account;
 - undertakes and agrees to accept the Hong Kong Offer Shares in respect of which that person has given **electronic application instructions** or any lesser number;
 - represents, warrants and undertakes that that person is not, and none of the other person(s) for whose benefit that person is applying, is a US person (as defined in Regulation S);

- represents and warrants that that person understands that the Hong Kong Offer Shares have not been and will not be registered under the US Securities Act and that the person is outside the United States (as defined in Regulation S) when giving **electronic application instructions** or is a person described in paragraph (h)(3) or Rule 902 of Regulation S;
- undertakes and confirms that that person has not indicated an interest for and will not indicate an interest for, and has not been placed with or allocated (including conditionally and provisionally) any Offer Shares under the International Offering nor otherwise participated in the International Offering;
- (if the **electronic application instructions** are given for that person's own benefit) declares that only one set of **electronic application instructions** has been given for that person's benefit;
- (if that person is an agent for another person) declares that that person has only given one set of **electronic application instructions** for the benefit of that other person and that that person is duly authorized to give those instructions as that other person's agent;
- understands that the above declaration will be relied upon by the Company, the Directors and the Bookrunner in deciding whether or not to make any allotment of Hong Kong Offer Shares in respect of the **electronic application instructions** given by that person and that that person may be prosecuted if he makes a false declaration;
- authorizes the Company to place the name of HKSCC Nominees on the register of members of the Company as the holder of the Hong Kong Offer Shares allotted in respect of that person's **electronic application instructions** and to send share certificate(s) and/or refund monies in accordance with the arrangements separately agreed between the Company and HKSCC;
- confirms that that person has read the terms and conditions and application procedures set out in this prospectus and agrees to be bound by them;
- confirms that that person has only relied on the information and representations in this prospectus in giving that person's **electronic application instructions** or instructing that person's broker or custodian to give electronic application instructions on that person's behalf;
- agrees that the Company and the Directors are liable only for the information and representations contained in this prospectus and any supplement thereto;
- agrees to disclose that person's personal data to the Company and its registrar, receiving bankers, advisers and agents and any information which they may require about that person;
- agrees (without prejudice to any other rights which that person may have) that once the application of HKSCC Nominees is accepted, the application cannot be rescinded for innocent misrepresentation;

- agrees that that person cannot revoke the **electronic application instructions** before Tuesday, 19 July, 2005, such agreement to take effect as a collateral contract with the Company and to become binding when that person gives the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any Hong Kong Offer Shares to any person before Tuesday, 19 July, 2005 except by means of one of the procedures referred to in this prospectus. However, that person may revoke the instructions before Tuesday, 19 July, 2005 if a person responsible for this prospectus under Section 40 of the Companies Ordinance (as applied by Section 342E of the Companies Ordinance) gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus;
- agrees that once the application of HKSCC Nominees is accepted, neither that application nor that person's **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Hong Kong Public Offering published by the Company;
- agrees to the arrangements, undertakings and warranties specified in the participant agreement between that person and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of **electronic application instructions** relating to Hong Kong Offer Shares;
- agrees with us, for ourselves and for the benefit of each of our shareholders (and so that we will be deemed by our acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for ourselves and on behalf of each of our shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies Law, the Memorandum of Association and the Articles of Association;
- authorizes us to enter into a contract on your behalf with each of our Directors and officers whereby each such Director and officer undertakes to observe and comply with his obligations to shareholders stipulated in the Articles of Association;
- agrees with the Company (for the Company itself and for the benefit of each Shareholder of the Company) that Shares in the Company are freely transferable by the holders thereof; and
- agrees that that person's application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong.

Effect of giving electronic application instructions to HKSCC

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Broker Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to the Company or any other person in respect of the things mentioned below:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorized HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy, investor compensation levy and Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or the Offer Price is less than the initial price per Offer Share paid on application, refund of the application monies, in each case including brokerage, SFC transaction levy, investor compensation levy and Stock Exchange trading fee, by crediting your designated bank account;
- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things which it is stated to do on your behalf in the **WHITE** Application Form.

Multiple applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application.

Minimum subscription amount and permitted multiples

You may give or cause your broker or custodian who is a CCASS Broker Participant or a CCASS Custodian Participant to give **electronic application instructions** in respect of a minimum of 2,000 Hong Kong Offer Shares. Such instructions in respect of more than 2,000 Hong Kong Offer Shares must be in one of the multiples set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

Time for inputting electronic application instructions

CCASS Broker/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Monday, 20 June, 2005 — 9:00 a.m. to 8:30 p.m.⁽¹⁾
Tuesday, 21 June, 2005 — 9:00 a.m. to 8:30 p.m.⁽¹⁾
Wednesday, 22 June, 2005 — 9:00 a.m. to 8:30 p.m.⁽¹⁾
Thursday, 23 June, 2005 — 9:00 a.m.⁽¹⁾ to 12:00 noon

(1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Monday, 20 June, 2005 until 12:00 noon on Thursday, 23 June, 2005 (24 hours daily, except the last application date).

Effect of bad weather on the last application day

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Thursday, 23 June, 2005, the last application day. If:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning signal is in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, 23 June, 2005 the last application day will be postponed to the next business day which does not have either of those warning signals in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on such day. Business day means a day that is not a Saturday, Sunday or public holiday in Hong Kong.

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit each such instructions is given will be treated as an applicant.

Deposit of share certificates into CCASS and refund of application monies

- No temporary document of title will be issued. No receipt will be issued for application monies received.
- if your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of the stock account of the CCASS Participant which you have instructed to give **electronic application instructions** on your behalf or your CCASS Investor Participant stock account at the close of business on Wednesday, 29 June, 2005, or, in the event of a contingency, on any other date as shall be determined by HKSCC or HKSCC Nominees.

- We expect to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, we will include information relating to the relevant beneficial owner, where supplied), your Hong Kong identity card/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the newspapers on Wednesday, 29 June, 2005. You should check the announcement published by us and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 29 June, 2005 or such other date as shall be determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Wednesday, 29 June, 2005. HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the offer price per Share initially paid on application, in each case including brokerage of 1%, SFC transaction levy of 0.005%, investor compensation levy of 0.002% and Stock Exchange trading fee of 0.005%, will be credited to your designated bank account or the designated bank account of your broker or custodian on Wednesday, 29 June, 2005. No interest will be paid thereon.

Section 40 of the Companies Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies Ordinance.

Personal data

The section of the Application Form headed "Personal Data" applies to any personal data held by the Company and the registrar about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

Warning

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. The Company, the Directors, the Bookrunner and the Underwriters take no responsibility for the application and provide no assurance that any CCASS Participant will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions** to HKSCC through the CCASS Phone System or the CCASS Internet system, CCASS Investor Participants are advised not to wait until the last minute to input their **electronic application instructions** to the systems. In the event that CCASS Investor Participants have problems connecting to the CCASS Phone System or the CCASS Internet System to submit their **electronic application instructions**, they should either: (i) submit a **WHITE** or **YELLOW** Application Form; or (ii) go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Thursday, 23 June, 2005 or such later date stated in the sub-paragraph headed "Effect of bad weather on the last application day" above.

7. HOW MANY APPLICATIONS YOU MAY MAKE

You may make more than one application for the Offer Shares if and only if:

You are a **nominee**, in which case you may lodge more than one application by: (i) giving **electronic application instructions** to HKSCC via CCASS (if you are a CCASS Participant) or (ii) using a **WHITE** or **YELLOW** Application Form, and lodge more than one Application Form in your own name if each application is made on behalf of different beneficial owners. In the box of the Application Form marked "For nominees" you must include:

- an account number, or
- some other identification code

for **each** beneficial owner. If you do not include this information, the application will be treated as being for your benefit.

Otherwise, multiple applications are not allowed.

It will be a term and condition of all applications that by completing and delivering an Application Form, you (and if you are joint applicants, each of you jointly and severally) for yourself or as agent or nominee and on behalf of each person for whom you act as agent or nominee:

- (if the application is made for your own benefit) warrant that this is the only application which will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS; or
- (if you are an agent for another person) warrant that reasonable enquiries have been made of that other person that this is the only application which will be or has been made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS and that you are duly authorised to sign the Application Form as that other person's agent.

Except where you are a nominee and provide the information required to be provided in your application, all of your applications will be rejected as multiple applications if you, or you and your joint applicant(s) together:

- make more than one application (whether individually or jointly) on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; or
- apply on one **WHITE** or **YELLOW** Application Form (whether individually or jointly) or by giving **electronic application instructions** to HKSCC via CCASS (if you are a CCASS Investor Participant or applying through a CCASS Broker or Custodian Participant) for more than 50% of the Hong Kong Offer Shares initially being offered for public subscription under the Hong Kong Public Offering, as more particularly described in “Structure of the Global Offering — The Hong Kong Public Offering”; or
- have applied for or taken up, or indicated an interest in, or have been or will be placed (including conditionally and/or provisionally) International Offering Shares under the International Offering or otherwise have participated or will participate in the International Offering.

Save as referred to above, **all** of your applications will also be rejected as multiple applications if more than one application is made for **your benefit** (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company

then the application will be treated as being for your own benefit.

Unlisted company means a company with no equity securities listed on the Stock Exchange.

Statutory control in relation to a company means you:

- control the composition of the board of directors of that company; or
- control more than half of the voting power of that company; or
- hold more than half of the issued share capital of that company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

8. HOW MUCH ARE THE HONG KONG OFFER SHARES

The maximum Offer Price is HK\$2.06 per Offer Share. You must also pay brokerage of 1%, SFC transaction levy of 0.005%, investor compensation levy of 0.002% and Stock Exchange trading fee of 0.005%. This means that for every board lot of 2,000 Offer Shares you will pay HK\$4,161.70. The Application Forms have tables showing the exact amount payable for certain multiples of the Offer Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy, Stock Exchange trading fee and investor compensation levy in full when you apply for the Offer Shares. Your payment must be made by one cheque or one banker's cashier order and must comply with the terms set out in the Application Form.

If your application is successful, the brokerage is paid to participants of the Stock Exchange or the Stock Exchange (as the case may be), the transaction levy and investor compensation levy are paid to the SFC, and the trading fee is paid to the Stock Exchange.

If the Offer Price as finally determined is less than HK\$2.06 per Offer Share, appropriate refund payments (including the brokerage, SFC transaction levy, investor compensation levy and Stock Exchange trading fee attributable to the surplus application monies) will be made to applicants, without interest. Details of the procedures for refund are contained below in the section headed "Dispatch/Collection of Share Certificates and Refund Cheques".

9. MEMBERS OF THE PUBLIC — TIME FOR APPLYING FOR HONG KONG OFFER SHARES

Completed **WHITE** or **YELLOW** Application Forms, with payment attached, must be lodged by 12:00 noon on Thursday, 23 June, 2005, or, if the application lists are not open on that day, then by 12:00 noon on the next day the lists are open.

Your completed Application Forms, with payment attached, should be deposited in the special collection boxes provided at any of the branches of Bank of China (Hong Kong) Limited listed in the section headed "Where to collect the Application Forms" above at the following times:

Monday, 20 June, 2005 — 9:00 a.m. to 5:00 p.m.
Tuesday, 21 June, 2005 — 9:00 a.m. to 5:00 p.m.
Wednesday, 22 June, 2005 — 9:00 a.m. to 5:00 p.m.
Thursday, 23 June, 2005 — 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Thursday, 23 June, 2005, except as provided in the paragraph headed "Effect of Bad Weather on the Opening of the Application Lists" below.

10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a "black" rainstorm warning

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, 23 June, 2005. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon.

11. PUBLICATION OF RESULTS

We expect to announce the basis of allotment, the results of applications and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering on Wednesday, 29 June, 2005 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese).

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOCATED HONG KONG OFFER SHARES

You should note the following situations in which Hong Kong Offer Shares will not be allocated to you or your application is liable to be rejected:

(a) If your application is revoked:

By completing and submitting an Application Form or submitting **electronic application instructions** to HKSCC, you agree that you cannot revoke your application before Tuesday, 19 July, 2005. This agreement will take effect as a collateral contract with the Company, and will become binding when you lodge your Application Form or submit your **electronic application instructions** to HKSCC. This collateral contract will be in consideration of the Company agreeing that it will not offer any Hong Kong Offer Shares to any person before Tuesday, 19 July, 2005 except by means of one of the procedures referred to in this prospectus. For this purpose, acceptance of applications which are not rejected will be constituted by announcement of the basis of allocation and/or making available the results of allocation publicly, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

However, you may revoke your application before Tuesday, 19 July, 2005 (excluding for this purpose any day which is not a business day) if a person responsible for this prospectus under section 40 of the Hong Kong Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus.

If any supplement to this prospectus is issued, applicant(s) who have already submitted an application may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If application(s) have not been so notified, or if applicant(s) have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications that have been submitted remain valid and may be accepted. Subject to the above, an application once made is irrevocable and applicants shall be deemed to have applied on the basis of this prospectus as supplemented.

If your application has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(b) If the allocation of Hong Kong Offer Shares is void:

Your allocation of Hong Kong Offer Shares will be void if the Listing Committee does not grant permission to list the Shares either:

- within three weeks from the closing of the applications lists; or
- within a longer period of up to six weeks if the Listing Committee notifies the Company of that longer period within three weeks of the closing of the application lists.

(c) If you make applications under the Hong Kong Public Offering as well as the International Offering:

By filling in any of the Application Forms or giving application instructions to HKSCC electronically, you agree not to apply for International Offering Shares under the International Offering. Reasonable steps will be taken to identify and reject applications under the Hong Kong Public Offering from investors who have received International Offering Shares in the International Offering, and to identify and reject indications of interest in the International Offering from investors who have received Hong Kong Offer Shares in the Hong Kong Public Offering.

(d) If the Company, the Global Co-ordinator or their respective agents exercise their discretion:

The Company, the Global Co-ordinator or their respective agents have full discretion to reject or accept any application, or to accept only part of any application, without having to give any reasons for any rejection or acceptance.

(e) You will not receive any allotment if:

- your application is a multiple or a suspected multiple application;
- your Application Form is not completed correctly;
- your payment is not made correctly or you pay by cheque or banker's cashier order and the cheque or banker's cashier order is dishonoured on its first presentation;
- you or the person for whose benefit you are applying have applied for and/or received or will receive International Offering Shares under the International Offering;
- if you apply for more than 50% of the Hong Kong Offer Shares initially being offered in the public for subscription;
- any of the Underwriting Agreements does not become unconditional or it is terminated in accordance with the terms thereof; or

(f) If you are giving **electronic application instructions to HKSCC to apply for Hong Kong Offer Shares on your behalf, you will also not be allocated any Hong Kong Offer Shares if HKSCC Nominee's application is not accepted.**

13. IF YOUR APPLICATION FOR THE HONG KONG OFFER SHARES IS SUCCESSFUL (IN WHOLE OR IN PART)

(a) **If you are applying using a WHITE Application Form and you elect to receive any share certificate(s) in your name:**

- Refund cheques for these applicants who apply for less than 1,000,000 Hong Kong Offer Shares are expected to be despatched on or before Wednesday, 29 June, 2005 to the same address as that for share certificate(s).
- Applicants who apply on **WHITE** Application Forms for 1,000,000 Hong Kong Offer Shares or more under the Hong Kong Public Offering and have indicated in their Application Forms that they wish to collect share certificates and (where applicable) refund cheques in person from the Company's Hong Kong share registrar may collect share certificates and (where applicable) refund cheques in person from the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9 a.m. to 1:00 p.m. on Wednesday, 29 June, 2005.
- Applicants being individuals who opt for personal collection cannot authorize any other person to make collection on their behalf. Corporate applicants who opt for personal collection must attend by their authorized representatives bearing letters of authorization from the corporation stamped with the corporation's respective chops. Both individuals and authorized representative (if applicable) must produce, at the time of collection, evidence of identity acceptable to the Hong Kong share registrar.
- Uncollected share certificates and (where applicable) refund cheques will be despatched by ordinary post at the applicants' own risk to the addresses specified in the relevant Application Forms.

(b) **If: (i) you are applying using a YELLOW Application Form; or (ii) you are giving electronic application instructions to HKSCC, and in each case you elect to have allocated Hong Kong Offer Shares deposited directly into CCASS:**

If your application is wholly or partly successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as instructed by you (on the Application Form or electronically, as the case may be), at the close of business on Wednesday, 29 June, 2005 or, under certain contingent situations, on any other date as shall be determined by HKSCC or HKSCC Nominees.

- ***If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant) on a YELLOW Application Form:***

For Hong Kong Offer Shares credited to the stock account of your designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allocated to you with that CCASS Participant.

- ***If you are applying as a CCASS Investor Participant on a YELLOW Application Form:***

The Company is expected to make available the results of the Hong Kong Public Offering, including the results of CCASS Investor Participants' applications, in the manner described in the paragraph headed "Publication of Results" in the section headed "How to Apply for the Hong Kong Offer Shares", on Wednesday, 29 June, 2005. You should check the results made available by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 29 June, 2005 or such other date as shall be determined by HKSCC or HKSCC Nominees. Immediately following the credit of the Hong Kong Offer Shares to your stock account you can also check your new account balance via the CCASS Phone System or CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your stock account.

- ***If you have given electronic application instructions to HKSCC:***

The Company is expected to make available the application results of the Hong Kong Public Offering, including the results of CCASS Participants' applications (and in the case of CCASS Broker Participants and CCASS Custodian Participants, the Company shall include information relating to the beneficial owner), your Hong Kong identity card/passport/Hong Kong business registration number or other identification code (as appropriate) in the manner described in the paragraph headed "Publication of Results" in the section headed "How to Apply for the Hong Kong Offer Shares", on Wednesday, 29 June, 2005. You should check the results made available by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 29 June, 2005 or any other date HKSCC or HKSCC Nominees chooses.

- ***If you are instructing your CCASS Broker Participant or CCASS Custodian Participant to give electronic application instructions to HKSCC on your behalf:***

You can also check the number of Hong Kong Offer Shares allocated to you and the amount of refund (if any) payable to you with that CCASS Broker Participant or CCASS Custodian Participant.

- ***If you are applying as a CCASS Investor Participant by giving electronic instruction to HKSCC:***

You can also check the number of the Hong Kong Offer Shares allotted to you and the amount of refund (if any) payable to you via the CCASS Phone System and CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Wednesday, 29 June, 2005. On Thursday, 30 June, 2005 (being the next day following the credit of the Hong Kong Offer Shares to your stock account), HKSCC will also make available to you an activity statement showing the number of the Hong Kong Offer Shares credited to your stock account and the amount of refund credited to your designated bank account (if any).

No receipt will be issued for application monies paid. The Company will not issue temporary documents of title.

14. DISPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND CHEQUES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum price per Share (excluding brokerage, Stock Exchange trading fee, SFC transaction levy and investor compensation levy thereon) paid on application, or if the conditions of the Global Offering are not fulfilled in accordance with the section headed “Structure of the Global Offering — Conditions” or if any application is revoked or any allocation pursuant thereto has become void, the application monies, or the appropriate portion thereof, together with the related brokerage, Stock Exchange trading fee, SFC transaction levy and investor compensation levy, will be refunded, without interest. It is intended that special efforts will be made to avoid any undue delay in refunding application monies where appropriate.

You will receive one share certificate for all the Hong Kong Offer Shares issued to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application but, subject as mentioned below, in due course there will be sent to you by ordinary post, at your own risk to the address specified on the Application Form:

- (a) for applications on **WHITE** Application Forms: (i) share certificate(s) for all the Hong Kong Offer Shares applied for, if the application is wholly successful; or (ii) share certificate(s) for the number of Hong Kong Offer Shares successfully applied for if, the application is partially successful (except for wholly successful and partially successful applicants on **YELLOW** Application Forms whose share certificates will be deposited into CCASS as described above); and/or
- (b) for applicants on **WHITE** and **YELLOW** Application Forms, a refund cheque or refund cheques crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) the surplus application monies for the Hong Kong Offer Shares unsuccessfully applied for, if the application is partially unsuccessful; (ii) all the application monies, if the application is wholly unsuccessful; and/or (iii) the difference between the Offer Price and the maximum price per Share paid on application in the event that the Offer Price is less than the maximum price per Share paid on application, in each case including related brokerage at the rate of 1%, a Stock Exchange trading fee of 0.005%, a SFC transaction levy of 0.005% and the investor compensation levy of 0.002% but without interest.

Subject as mentioned below, refund cheques for surplus application monies (if any) in respect of wholly and partially unsuccessful applications and share certificates for successful applicants under **WHITE** Application Forms are expected to be posted on Wednesday, 29 June, 2005. The right is reserved to retain any share certificates and any surplus application monies pending clearance of cheque(s) or banker’s cashier order(s).

If you are applying using a WHITE Application Form

If you apply for less than 1,000,000 Hong Kong Offer Shares or if you apply for 1,000,000 Hong Kong Offer Shares or more but have not indicated on your Application Form that you will collect your refund cheque(s) (where applicable) and/or share certificate(s) (where applicable) in

person, your refund cheque(s) (where applicable) and/or share certificate(s) (where applicable) will be sent to the address on your Application Form on Wednesday, 29 June, 2005, by ordinary post and at your own risk.

If you are applying using a YELLOW Application Form

If you apply for Hong Kong Offer Shares using a **YELLOW** Application Form and your application is wholly or partially successfully, your share certificates will be issued in the name of HKSCC Nominees Limited and deposited into CCASS for credit to your investor participant stock account or the stock account of your designated CCASS participant as instructed by you in your Application Form at the close of business on Wednesday, 29 June, 2005, or under certain contingent situations, on any other date as shall be determined by HKSCC or HKSCC Nominees Limited.

If you are applying through a designated CCASS participant (other than a CCASS investor participant):

- for Hong Kong Offer Shares credited to the stock account of your designated CCASS participant (other than a CCASS investor participant), you can check the number of Hong Kong Offer Shares allotted to you with that CCASS participant.

If you are applying as a CCASS investor participant:

- the Company expects to publish the results of CCASS investor participants' applications, together with the result of the Hong Kong Public Offering, in the newspaper on Wednesday, 29 June, 2005. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 29 June, 2005 or such other date as shall be determined by HKSCC or HKSCC Nominees Limited. Immediately following the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC will also make available to you an Activity Statement showing the number of Hong Kong Offer Shares credited to your stock account.

15. REFUND OF YOUR MONEY — ADDITIONAL INFORMATION

- (a) You will be entitled to a refund (any interest accrued on refund money prior to the date of despatch of refund cheques will be retained for the benefit of the Company) if:
- your application is not successful, in which case the Company will refund your application money together with the brokerage fee, the SFC transaction levy, the investor compensation levy and the Stock Exchange trading fee to you, without interest;
 - your application is accepted only in part, in which case the Company will refund the appropriate portion of your application money, the brokerage fee, the SFC transaction levy, the investor compensation levy and the Stock Exchange trading fee, without interest;

- the Offer Price (as finally determined) is less than the price per Offer Share initially paid by the applicant on application, in which case the Company will refund the surplus application money together with the appropriate portion of the brokerage fee, the SFC transaction levy, the investor compensation levy and the Stock Exchange trading fee, without interest;
 - Part of your Hong Kong identity card/passport number (or part of the Hong Kong identity card/passport number of the first named-applicant in the case of joint applicants) provided by you will be printed on your refund cheque, if any. Such data would be transferred to a third party for refund purpose. Your bank may require verification of your Hong Kong identity card/passport number before accepting your refund cheque. Applicants are required to ensure that when completing Application Forms your Hong Kong identity card/passport numbers are entered correctly. Incorrect identification information may cause delay in cashing a refund cheque and your bankers may reject to accept your refund cheque; and
 - the conditions of Global Offering are not fulfilled in accordance with the section headed “Structure of the Global Offering — Conditions”.
- (b) If you apply on **YELLOW** Application Form for 1,000,000 Hong Kong Offer Shares or more under the Hong Kong Public Offering and have indicated in the application form that you wish to collect your refund cheque, you may collect it (if any) in person from the Hong Kong share registrar on Wednesday, 29 June, 2005. The procedure for collection of refund cheques for **YELLOW** Application Form applicants is the same as that for **WHITE** Application Form applicants set out in sub-paragraph (a) of the paragraph headed “If your application for the Hong Kong Offer Shares is successful (in whole or in part)” in this section.
- (c) If you are applying by giving electronic instructions to HKSCC to apply on your behalf, all refunds are expected to be credited to your designated bank account (if you are applying as a CCASS Investor Participant) or the designated bank account of your broker or custodian (if you are applying through a CCASS Broker/Custodian Participant) on Wednesday, 29 June, 2005.
- (d) All refunds by cheque will be crossed “Account Payee Only”, and made out to you, or if you are a joint applicant, to the first-named applicant on your Application Form.
- (e) Refund cheques are expected to be despatched on Wednesday, 29 June, 2005. The Company intends to make special efforts to avoid undue delays in refunding money.

16. DEALING AND SETTLEMENT

Commencement of Dealings in the Shares

Dealings in the Shares on the Stock Exchange is expected to commence on Thursday, 30 June, 2005.

The Shares will be traded on the Stock Exchange in board lots of 2,000 Shares. The stock code of the Shares is 416.

Shares will be eligible for admission into CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and the Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for the Shares to be admitted into CCASS.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangements as such arrangements will affect their rights and interests.

17. PERSONAL DATA

The main provisions of the Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong) (the “Ordinance”) came into effect in Hong Kong on 20 December, 1996. This Personal Information Collection Statement informs the applicant for and holder of the Hong Kong Offer Shares of the policies and practices of the Company and the Hong Kong share registrar in relation to personal data and the Ordinance.

(a) Reasons for the collection of your personal data

From time to time it is necessary for applicants for securities or registered holders of securities to supply their latest correct personal data to the Company and the Hong Kong share registrar when applying for securities or transferring securities into or out of their names or in procuring the services of the Hong Kong share registrar.

Failure to supply the requested data may result in your application for securities being rejected or in delay or inability of the Company or its Hong Kong share registrar to effect transfers or otherwise render their services. It may also prevent or delay registration or transfer of the Hong Kong Offer Shares which you have successfully applied for and/or the despatch of share certificate(s), and/or refund cheque(s) to which you are entitled.

It is important that holders of securities inform the Company and the Hong Kong share registrar immediately of any inaccuracies in the personal data supplied.

(b) Purposes

The personal data of the applicants and the holders of securities may be used, held and/or stored (by whatever means) for the following purposes:

- processing of your application and verification of compliance with the terms and application procedures set out in the Application Forms and this prospectus and announcing results of allocations of the Hong Kong Offer Shares;

- enabling compliance with all applicable laws and regulations in Hong Kong and elsewhere;
- registering new issues or transfers into or out of the name of holders of securities including, where applicable, in the name of HKSCC Nominees;
- maintaining or updating the registers of holders of securities of the Company;
- conducting or assisting to conduct signature verifications, any other verification or exchange of information;
- establishing benefit entitlements of holders of securities of the Company, such as dividends, rights issues and bonus issues;
- distributing communications from the Company and its subsidiaries;
- compiling statistical information and shareholder profiles;
- making disclosures as required by any laws, rules or regulations;
- disclosing relevant information to facilitate claims on entitlements; and
- any other incidental or associated purposes relating to the above and/or to enable the Company and the Hong Kong share registrar to discharge their obligations to holders of securities and/or regulators and/or other purpose to which the holders of securities may from time to time agree.

(c) Transfer of personal data

Personal data held by the Company and the Hong Kong share registrar relating to the applicants and the holders of securities will be kept confidential but the Company and the Hong Kong share registrar, to the extent necessary for achieving the above purposes or any of them, make such enquiries as they consider necessary to confirm the accuracy of the personal data and in particular, they may disclose, obtain or provide (whether within or outside Hong Kong) the personal data of the applicants and the holders of securities to or from any and all of the following persons and entities:

- the Company or its appointed agents such as financial advisers and receiving bankers;
- HKSCC and HKSCC Nominees, who will use the personal data for the purposes of operating CCASS (in cases where the applicants have requested for the Hong Kong Offer Shares to be deposited into CCASS);
- any agents, contractors or third party service providers who offer administrative, telecommunications, computer, payment or other services to the Company and/or the Hong Kong share registrar in connection with the operation of their businesses;
- the Stock Exchange, the SFC and any other statutory, regulatory or governmental bodies; and

- any other persons or institutions with which the holders of securities have or propose to have dealings, such as their bankers, solicitors, accountants or stockbrokers.

By signing an Application Form or by giving **electronic application instructions** to HKSCC, you agree to all of the above.

(d) Access and correction of personal data

The Ordinance provides the applicants and the holders of securities with rights to ascertain whether the Company and/or the Hong Kong share registrar hold their personal data, to obtain a copy of that data, and to correct any data that is inaccurate. In accordance with the Ordinance, the Company and the Hong Kong share registrar have the right to charge a reasonable fee for the processing of any data access request. All requests for access to data or correction of data or for information regarding policies and practices or the kinds of data held should be addressed to the Company for the attention of the Company Secretary or (as the case may be) the Hong Kong share registrar for the attention of the Privacy Compliance Officer (for the purposes of the Ordinance).

1. GENERAL

- (a) If you apply for the Hong Kong Offer Shares in the Hong Kong Public Offering, you will be agreeing with the Company and the Global Co-ordinator (on behalf of the Hong Kong Underwriters) as set out below.
- (b) If you electronically instruct HKSCC to cause HKSCC Nominees to apply for the Hong Kong Offer Shares on your behalf, you will have authorized HKSCC Nominees to apply on the terms and conditions set out below, as supplemented and amended by the terms and conditions applicable to the relevant application method.
- (c) In this section, references to “you”, “applicants”, “joint applicants” and other like references shall, if the context so permits, include references to both nominees and principals on whose behalf HKSCC Nominees are applying for the Hong Kong Offer Shares; and references to the making of an application shall, if the context so permits, include references to making applications electronically by giving instructions to HKSCC.
- (d) Applicants should read this prospectus carefully, including other terms and conditions of the Hong Kong Public Offering, the paragraph headed “The Hong Kong Public Offering” in the section headed “Structure of the Global Offering”, and in the section headed “How to Apply for the Hong Kong Offer Shares” and the terms and conditions set out in the relevant Application Form or imposed by HKSCC (as the case may be) prior to making an application.

2. OFFER TO PURCHASE THE HONG KONG OFFER SHARES

- (a) You offer to purchase from the Company at the Offer Price the number of the Hong Kong Offer Shares indicated in your Application Form (or any smaller number in respect of which your application is accepted) on the terms and conditions set out in this prospectus and the relevant Application Form.
- (b) For applicants using Application Forms, a refund cheque in respect of the surplus application monies (if any) representing the Hong Kong Offer Shares applied for but not allocated to you and representing the difference (if any) between the final Offer Price and the maximum Offer Price (including brokerage fee, the SFC transaction levy, the investor compensation levy and the Stock Exchange trading fee attributable thereto), is expected to be sent to you at your own risk to the address stated on your Application Form.

Details of the procedure for refunds relating to each of the Hong Kong Public Offer methods are contained below in the paragraphs headed “If your application for the Hong Kong Offer Shares is successful (in whole or in part)” and “Refund of your money — additional information” in this section.

- (c) Any application may be rejected in whole or in part.
- (d) Applicants under the Hong Kong Public Offering should note that in no circumstances (save for those provided under section 40 of the Hong Kong Companies Ordinance) can applications be withdrawn once submitted. For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each

CCASS Participant who gives, or causes to give, **electronic application instructions** to HKSCC via CCASS is a person who may be entitled to compensation under section 40 of the Hong Kong Companies Ordinance.

3. ACCEPTANCE OF YOUR OFFER

- (a) The Hong Kong Offer Shares will be allocated after the application lists close. The Company expects to announce the final number of Hong Kong Offer Shares, the level of applications under the Hong Kong Public Offering and the basis of allocations of the Hong Kong Offer Shares in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on Wednesday, 29 June, 2005.
- (b) The results of allocations of the Hong Kong Offer Shares under the Hong Kong Public Offering, including the Hong Kong Identity Card numbers, passport numbers or Hong Kong business registration numbers (where applicable) of successful applicants and the number of Hong Kong Offer Shares successfully applied for, will be made available on Wednesday, 29 June, 2005 in the manner described in the paragraph headed “Publication of Results” in the section headed “How to Apply for Hong Kong Offer Shares”.
- (c) The Company may accept your offer to purchase (if your application is received, valid, processed and not rejected) by announcing the basis of allocations and/or making available the results of allocations publicly.
- (d) If the Company accepts your offer to purchase (in whole or in part), there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares in respect of which your offer has been accepted if the conditions of the Global Offering are satisfied or the Global Offering is not otherwise terminated. Further details are contained in the section headed “Structure of the Global Offering”.
- (e) You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

4. EFFECT OF MAKING ANY APPLICATION

- (a) By making any application, you (and if you are joint applicants, each of you jointly and severally) for yourself or as agent or nominee and on behalf of each person for whom you act as agent or nominee:
 - **instruct** and **authorize** the Company and/or the Global Co-ordinator (or their respective agents or nominees) to execute any transfer forms, contract notes or other documents on your behalf and to do on your behalf all other things necessary to effect the registration of any Hong Kong Offer Shares allocated to you in your name(s) or HKSCC Nominees, as the case may be, as required by the Articles and otherwise to give effect to the arrangements described in this prospectus and the relevant Application Form;
 - **undertake** to sign all documents and to do all things necessary to enable you or HKSCC Nominees, as the case may be, to be registered as the holder of the Hong Kong Offer Shares allocated to you, and as required by the Articles;

- **represent** and **warrant** that you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act and you are outside the United States when completing the Application Form (as defined in Regulation S) and are not a U.S. person described under the U.S. Securities Act;
- **represent** and **warrant** that you are outside the United States and will acquire the Hong Kong Offer Shares in an offshore transaction (within the meaning of Regulation S);
- **confirm** that you have received a copy of this prospectus and have only relied on the information and representations contained in this prospectus in making your application, and not on any other information or representation concerning the Company and you agree that neither the Company, the Global Co-ordinator and the Hong Kong Underwriters nor any of their respective directors, officers, employees, partners, agents, advisers or any other parties involved in the Global Offering will have any liability for any such other information or representations;
- **agree** (without prejudice to any other rights which you may have) that once your application has been accepted, you may not revoke or rescind it because of an innocent misrepresentation;
- (if the application is made by an agent on your behalf) **warrant** that you have validly and irrevocably conferred on your agent all necessary power and authority to make the application;
- (if the application is made for your own benefit) **warrant** that the application is the only application which will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC;
- (if you are an agent for another person) **warrant** that reasonable enquiries have been made of that other person that the application is the only application which will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC, and that you are duly authorized to sign the Application Form or to give electronic application instruction as that other person's agent;
- **agree** that the Company, the Global Co-ordinator, the Hong Kong Underwriters and their respective directors and any other parties involved in the Hong Kong Public Offering are liable only for the information and representations contained in this prospectus;
- **agree** to disclose to the Company, its registrar, receiving banker, advisers and agents and the Global Co-ordinator personal data and any information which they require about you or the person(s) for whose benefit you have made this application;
- **agree** that once your application is accepted, your application will be evidenced by the results of the Hong Kong Public Offering made available by the Company;
- **undertake** and **confirm** that you (if the application is made for your benefit) or the person(s) for whose benefit you have made the application have not applied for or taken up or indicated an interest in or received or been placed or allocated

(including conditionally and/or provisionally) and will not apply for or take up or indicate any interest in any International Offering Shares in the International Offering, nor otherwise participate in the International Offering;

- **warrant** the truth and accuracy of the information contained in your application;
- **agree** to disclose to the Company, its registrar, receiving banker, adviser and agent, the Global Co-ordinator, the Hong Kong Underwriters and their respective agents any information about you or the person(s) for whose benefit you have made the application which they require;
- **agree** that your application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong;
- **undertake** and **agree** to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;
- **authorize** the Company to place your name(s) or the name of HKSCC Nominees, as the case may be, on the register of members of the Company as the holder(s) of any Hong Kong Offer Shares allocated to you, and the Company and/or its agents to send any share certificate(s) (where applicable) and/or any refund cheque (where applicable) to you or (in case of joint applicants) the first-named applicant in the Application Form by ordinary post at your own risk to the address stated on your Application Form (except that if you have applied for 1,000,000 Hong Kong Offer Shares or more and have indicated in your Application Form, you can collect your share certificate(s) and/or refund cheque (where applicable) in person between 9:00 a.m. and 1:00 p.m. on Wednesday, 29 June, 2005 (Hong Kong time) from the Company's Hong Kong share registrar;
- **understand** that these declarations and representations will be relied upon by the Company and the Global Co-ordinator in deciding whether or not to allocate any Hong Kong Offer Shares in response to your application;
- if the laws of any place outside Hong Kong are applicable to your application, you **agree** and **warrant** that you have complied with all such laws and none of the Company, the Global Co-ordinator and the Hong Kong Underwriters nor any of their respective officers or advisers will infringe any laws outside Hong Kong as a result of the acceptance of your offer to purchase, or any actions arising from your rights and obligations under the terms and conditions contained in this prospectus;
- **agree** with the Company, for itself and for the benefit of each shareholder of the Company (and so that the Company will be deemed by its acceptance in whole or in part of the application to have agreed, for itself and on behalf of each shareholder of the Company) to observe and comply with the Companies Ordinance, the Cayman Companies Law and the Memorandum and the Articles;
- **agree** with the Company, each shareholder, director, manager and officer of the Company, and the Company acting for itself and for each director, manager and officer of the Company agrees with each shareholder, to refer all differences and claims arising from the Articles or any rights or obligations conferred or imposed by the Cayman Companies Law or other relevant laws and administrative regulations

concerning the affairs of the Company to arbitration in accordance with the Articles, and any reference to arbitration shall be deemed to authorise the arbitration tribunal to conduct hearings in open session and to publish its award. Such arbitration shall be final and conclusive;

- **agree** with the Company and each shareholder of the Company that Shares are freely transferable by the holders thereof;
- **authorize** the Company to enter into a contract on behalf of you with each director and officer of the Company whereby such directors and officers undertake to observe and comply with their obligations to Shareholders stipulated in the Articles; and
- **confirm** that you are aware of the restrictions on Global Offering of the Hong Kong Offer Shares described in this prospectus.

(b) If you apply for the Hong Kong Offer Shares using a **YELLOW** Application Form, in addition to the confirmations and agreements referred to in (a) above you **agree** that

- any Hong Kong Offer Shares allocated to you shall be registered in the name of HKSCC Nominees and deposited directly into CCASS operated by HKSCC for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant, in accordance with your election on the Application Form;
- each of HKSCC and HKSCC Nominees reserves the right (1) **not to accept** any or part of such allotted Hong Kong Offer Shares issued in the name of HKSCC Nominees or **not to accept** such allotted Hong Kong Offer Shares for deposit into CCASS; (2) to cause such allotted Hong Kong Offer Shares to be **withdrawn** from CCASS and transferred into your name at your own risk and costs; and (3) to cause such **allotted Hong Kong Offer Shares to be issued in your name** (or, if you are a joint applicant, to the first-named applicant) and in such a case, to **post the share certificates** for such allotted Hong Kong Offer Shares at your own risk to the address on your Application Form by ordinary post **or to make available the same for your collection**;
- each of HKSCC and HKSCC Nominees may adjust the number of allotted Hong Kong Offer Shares issued in the name of HKSCC Nominees;
- neither HKSCC nor HKSCC Nominees shall have any liability for the information and representations not so contained in this prospectus and the Application Forms;
- neither HKSCC nor HKSCC Nominees shall be liable to you in any way.

(c) In addition, by giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Broker Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and if you are joint applicants, each of you jointly and severally) are deemed to do the following additional things and neither HKSCC nor HKSCC Nominees will be liable to the Company nor any other person in respect of such things:

- **instruct** and **authorize** HKSCC to cause HKSCC Nominees (acting as nominee for the CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- **instruct** and **authorize** HKSCC to arrange payment of the maximum Offer Price, brokerage fee, the SFC transaction levy, the investor compensation levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of wholly or partly unsuccessful applications and/or if the final Offer Price is less than the maximum Offer Price of HK\$2.06 per Hong Kong Offer Share, refund the appropriate portion of the application money by crediting your designated bank account;
- (in addition to the confirmations and agreements set out in paragraph (a) above) **instruct** and **authorize** HKSCC to cause HKSCC Nominees to do on your behalf the following:
 - **agree** that the Hong Kong Offer Shares to be allocated shall be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or the stock account of the CCASS Participant who has inputted **electronic application instructions** on your behalf;
 - **undertake** and **agree** to accept the Hong Kong Offer Shares in respect of which you have given **electronic application instructions** or any lesser number;
 - (if the **electronic application instructions** are given for your own benefit) **declare** that only one set of **electronic application instructions** has been given for your benefit;
 - (if you are an agent for another person) **declare** that you have given only one set of **electronic application instructions** for the benefit of that other person, and that you are duly authorized to give those instructions as that other person's agent;
 - **understand** that the above declaration will be relied upon by the Company and the Global Co-ordinator in deciding whether or not to make any allocation of the Hong Kong Offer Shares in respect of the **electronic application instructions** given by you and that you may be prosecuted if you make a false declaration;
 - **authorize** the Company to place the name of HKSCC Nominees on the register of members of the Company as the holder of the Hong Kong Offer Shares allocated in respect of your **electronic application instructions** and to send share certificates and/or refund in accordance with arrangements separately agreed between the Company and HKSCC;
 - **confirm** that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;

- **confirm** that you have only relied on the information and representations in this prospectus in giving your **electronic application instructions** or instructing your CCASS Broker Participant or CCASS Custodian Participant to give **electronic application instructions** on your behalf;
- **agree** that the Company, the Global Co-ordinator and the Underwriters and any of their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering are liable only for the information and representations contained in this prospectus;
- **agree** (without prejudice to any other rights which you may have) that once the application of HKSCC Nominees has been accepted, the application cannot be rescinded for innocent misrepresentation;
- **agree** to disclose your personal data to Morgan Stanley, the Company, the Hong Kong share registrar, the receiving banker(s), their respective agents and advisers together with any information about you which they require;
- **agree** that you cannot revoke **electronic application instructions** before Tuesday, 19 July, 2005, such agreement to take effect as a collateral contract with the Company and to become binding when you give the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any Hong Kong Offer Shares to any person before Tuesday, 19 July, 2005, except by means of one of the procedures referred to in this prospectus. However, you may revoke the instructions before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a business day) if a person responsible for this prospectus under section 40 of the Hong Kong Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus;
- **agree** that once the application of HKSCC Nominees is accepted, neither that application nor your **electronic application instructions** can be revoked and that acceptance of that application will be evidenced by the results of the Hong Kong Public Global Offering made available by the Company; and
- **agree** to the arrangements, undertakings and warranties specified in the participant agreement between you and HKSCC and read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of **electronic application instructions** relating to the Hong Kong Offer Shares.

The following is the text of a report, prepared for the purpose of inclusion in this prospectus, from the auditors and reporting accountants of the Company, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong.



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong

20 June, 2005

The Directors
GST Holdings Limited

Morgan Stanley Dean Witter Asia Limited

Dear Sirs,

We set out below our report on the financial information relating to GST Holdings Limited (the “Company”), its subsidiaries, its associates and its jointly controlled entity for inclusion in the prospectus of the Company dated 20 June, 2005 (the “Prospectus”) in connection with the initial listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited. The Company and its subsidiaries are hereinafter collectively referred to as the “Group”.

The Company was incorporated in the Cayman Islands on 27 April, 2004 as an exempted company with limited liability under the Companies Law (2004 Revision) of the Cayman Islands. Pursuant to a group reorganisation as detailed in the paragraph headed “Corporate Reorganization” in Appendix VI of the Prospectus, the Company became the holding company of the subsidiaries now comprising the Group on 20 December, 2004 (the “Reorganisation”).

Details of the Company’s subsidiaries, associates and jointly controlled entity at the date of this report are set out in note 35 of section II below. All companies comprising the Group and the associates have adopted 31 December, as their financial year end date and the jointly controlled entity has adopted 31 March, as its financial year end date. The management accounts of all these entities were prepared in accordance with the relevant accounting principles and financial regulations applicable to PRC enterprises except for those of the Company and GST Group International Limited, the directly held subsidiary, which are prepared in accordance with the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standard Board and the jointly controlled entity the account of which is prepared based on the United Kingdom Accounting Standards.

No audited accounts have been prepared for the Company and GST Group International Limited since their respective dates of incorporation as they were newly incorporated and/or have not been involved in any significant business transactions except for the Reorganisation. No audited

accounts have been prepared for other companies comprising the Group for the years ended 31 December, 2002, 2003 and 2004 (the “Relevant Periods”) except for those disclosed in note 35 of Section II below.

The financial information as set out in sections I to III (“Financial Information”) has been prepared based on the audited accounts or unaudited management accounts of all the subsidiaries, associates and jointly controlled entity on the basis set out in note 1 of Section II below, after making such adjustments as are appropriate. The directors of these respective companies, during the Relevant Periods, are responsible for preparing these audited accounts or unaudited management accounts which give a true and fair view. In preparing these accounts, it is fundamental that appropriate accounting policies are selected and applied consistently. We have carried out independent audit procedures on the accounts of the subsidiaries, associates and the jointly controlled entity in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). We have examined the Financial Information and have carried out such additional procedures as are necessary in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the HKICPA.

The directors of the Company are responsible for the Financial Information. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion.

In our opinion, the Financial Information, for the purpose of this report and prepared on the basis set out in note 1 of Section II below, gives a true and fair view of the state of affairs of the Company as at 31 December, 2004, the consolidated state of affairs of the Group as at 31 December, 2002, 2003 and 2004, and of the consolidated results and cash flows of the Group for the Relevant Periods.

I. CONSOLIDATED ACCOUNTS

(a) Consolidated profit and loss accounts

The following is a summary of the consolidated profit and loss accounts of the Group for the Relevant Periods, prepared on the basis as set out in note 1 under Section II below, after making such adjustments as are appropriate:

	Section II Note	Year ended 31 December,		
		2002	2003	2004
		RMB'000	RMB'000	RMB'000
Turnover	3	298,048	315,639	424,109
Cost of goods sold		(122,324)	(143,287)	(209,642)
Gross profit		175,724	172,352	214,467
Other income	4	16,899	27,334	26,649
Distribution costs		(41,119)	(47,978)	(52,993)
Administrative and general expenses		(44,720)	(52,683)	(58,492)
Operating profit	6	106,784	99,025	129,631
Finance costs	7	(2,895)	(3,946)	(3,237)
Share of results of				
Jointly controlled entity		(221)	(299)	92
Associates		(282)	(249)	—
Profit before taxation		103,386	94,531	126,486
Taxation	8	(26,023)	(14,596)	(3,627)
Profit after taxation		77,363	79,935	122,859
Minority interests		(6,583)	(1,152)	(10)
Profit for the year		70,780	78,783	122,849
Dividends	9	23,546	129,909	126,300

(b) Consolidated balance sheets

The following is a summary of the consolidated balance sheets of the Group as at 31 December, 2002, 2003 and 2004, prepared on the basis as set out in note 1 under Section II below, after making such adjustments as are appropriate:

		As at 31 December,		
		2002	2003	2004
		RMB'000	RMB'000	RMB'000
Section II Note				
Non-current assets				
Property, plant and equipment . . .	14	114,289	105,590	102,776
Land use rights	15	5,530	5,405	5,280
Goodwill	17	—	6,689	5,972
Jointly controlled entity	18	(1,325)	(1,624)	(1,532)
Associates	19	6,101	4,602	950
Deferred tax assets	28	7,115	2,158	—
		131,710	122,820	113,446
Current assets				
Inventories	20	63,479	78,515	113,638
Trade receivables	21	73,132	72,479	84,082
Other receivables, deposits and prepayments		41,694	39,033	28,510
Trading investments	22	796	633	456
Due from a jointly controlled entity	18	1,446	1,624	5,053
Due from related companies	23	24,437	32,984	1,153
Cash and bank balances	24	77,646	42,549	162,632
		282,630	267,817	395,524
Current liabilities				
Trade payables	25	45,736	63,216	82,714
Other payables and accruals		10,442	9,785	19,816
Advance from customers	26	68,990	63,050	38,334
Short-term bank loans	27	57,000	70,000	70,000
Taxation payable		22,257	21,269	21,331
		204,425	227,320	232,195
Net current assets		78,205	40,497	163,329
Total assets less current liabilities .		209,915	163,317	276,775
Minority interests		18,668	324	—
Net assets		191,247	162,993	276,775
Financed by:				
Share capital	29	106	106	120
Reserves	30	191,141	162,887	276,655
		191,247	162,993	276,775

(c) Balance sheet

	Section II Note	As at 31 December, 2004 RMB'000
Non-current assets		
Subsidiaries	16	283,673
Current liabilities		
Other payable and accruals		<u>6,898</u>
		<u>276,775</u>
Financed by:		
Share capital.	29	120
Reserves	30	<u>276,655</u>
		<u>276,775</u>

(d) Consolidated cash flow statements

The following is a summary of the consolidated cash flow statements of the Group for the Relevant Periods, prepared on the basis as set out in note 1 under Section II below, after making such adjustments as are appropriate:

	Section II Note	Year ended 31 December,		
		2002	2003	2004
		RMB'000	RMB'000	RMB'000
Operating activities				
Net cash from operations	31(a)	78,598	110,407	109,627
Interest paid		(2,895)	(3,946)	(3,237)
PRC income tax paid		(4,978)	(10,451)	(7,225)
Net cash from operating activities .		70,725	96,010	99,165
Investing activities				
Purchase of fixed assets		(44,393)	(5,955)	(11,958)
Sale of fixed assets		411	1,634	4,936
Interest received		340	1,195	843
(Advance to)/repayment from related companies		(17,286)	(8,735)	24,868
Investment in an associate		(2,000)	(950)	—
Disposal of associates		699	2,200	4,732
Purchase of trading investments . .		(1,374)	—	—
Disposal of trading investments . .		288	203	—
Purchase of additional interest in subsidiaries		—	(3,699)	(198)
Disposal of subsidiaries	31(c)	18,527	—	—
Net cash (used in)/from investing activities		(44,788)	(14,107)	23,223
Financing activities				
Issue of shares		—	—	123,995
Dividends paid		(23,546)	(129,909)	(126,300)
Distributions to minority interest .		(2,454)	(91)	—
Repayments of bank loans		(68,500)	(77,000)	(60,000)
New bank loans raised		82,000	90,000	60,000
Net cash used in financing activities	31(d)	(12,500)	(117,000)	(2,305)
Increase/(decrease) in cash and bank balances		13,437	(35,097)	120,083
Cash and bank balances at beginning of the year		64,209	77,646	42,549
Cash and bank balances at end of the year		77,646	42,549	162,632

(e) Consolidated statements of changes in equity

The following is a summary of the consolidated statements of changes in equity of the Group for the Relevant Periods, prepared on the basis set out in note 1 under Section II below, after making such adjustments as are appropriate:

	Year ended 31 December,		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Total equity at beginning of the year	144,013	191,247	162,993
Issue of shares	—	—	123,995
Share issuance costs	—	—	(6,898)
Profit for the year	70,780	78,783	122,849
Contribution from Gulf Group for additional interest in a subsidiary	—	22,872	136
Dividends	(23,546)	(129,909)	(126,300)
Total equity at end of the year	<u>191,247</u>	<u>162,993</u>	<u>276,775</u>

II. NOTES TO THE CONSOLIDATED ACCOUNTS

1. BASIS OF PREPARATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 27 April, 2004 with GST International Management Limited ("GST Management") being the then sole shareholder. GST Management was owned by 22 individuals ("22 Shareholders"). GST Group International Limited ("GGIL") was incorporated as an investment holding company in the British Virgin Islands on 17 March, 2004 with GST Management as the then sole shareholder.

Gulf Technology Group Company Limited ("Gulf Group") was established in the People's Republic of China (the "PRC") in 1993 as a limited liability corporation and Gulf Group was engaged in the development, manufacturing, sales and installation of intelligent fire detection and control systems, automatic and intelligent security systems for residential and commercial uses, environmental consulting and services. Immediately prior to the reorganisation of the Company, Gulf Group was owned by the 22 Shareholders.

As part of the reorganisation, Gulf Group and its subsidiaries transferred to GGIL or GGIL's subsidiaries the following for cash:

- (a) Gulf Group's equity interests in certain subsidiaries, namely Gulf Security Technology Company Limited ("GST"), Guangzhou Gulf Wei'er Automation Technology Co., Ltd., Shanghai Gulf Automation Technology Co., Ltd, Beijing Gulf Security Technology Co., Ltd., Hebei Gulf Electrical Co., Ltd.; associates, namely Qinhuangdao City Chengan Fire Prevention Network Co., Ltd., Nanning Gulf Fire Prevention Network Technology Co., Ltd.; and a jointly controlled entity, Global System Technology plc, which are engaged in the development, manufacturing, sales and installation of intelligent fire detection and control systems, automatic and intelligent security systems for residential and commercial uses, environmental consulting and services.
- (b) Assets and liabilities of Gulf Group's subsidiary, namely Qinhuangdao GST Company Limited (transferred to Qinhuangdao Gulf Fire Prevention Network Company Limited), and Gulf Group's Electric Power Meter Department (transferred to Beijing Gulf Electric Meters Co., Ltd) and System Integration Department (transferred to Beijing Gulf Wei'er Electrical Engineering Co., Ltd.), which are engaged in the business of development and sales of electronic power meter and system integration respectively.

Certain subsidiaries under the Gulf Group which are dormant or not engaged in the fire detection and intelligent security systems, etc business were not transferred to GGIL or GGIL's subsidiaries.

Pursuant to the terms of a share exchange deed entered into between GST Management and the Company on 20 December, 2004 (the "Reorganisation"), the Company allotted, issued and credited as fully paid 1,000,000 common shares of HK\$0.1 each to acquire the entire issued share capital of GGIL from GST Management, the then sole shareholder of GGIL.

The Financial Information present the consolidated results, cash flows and financial position of the Group as if the Company had been in existence throughout the Relevant Periods and the current structure had been in place as of the earliest period presented, or since the effective dates of incorporation of the companies or up to the effective dates of disposal, whichever is the shorter period except that interests held by shareholders other than the Gulf Group or its subsidiaries in Gulf Security Technology Company Limited and Qinhuangdao GST Company Limited before the further acquisition by the Gulf Group or its subsidiaries during the track record period were accounted for as minority interests.

No balance sheet of the Company as at 31 December, 2002 and 2003 is presented as the Company was not incorporated on those dates.

2. PRINCIPAL ACCOUNTING POLICIES

The Financial Information has been prepared in accordance with IFRS. The policies set out below have been consistently applied to all the years presented. The Financial Information has been prepared under the historical cost convention, as modified by the revaluation of trading investments.

The International Accounting Standard Board ("IASB") has issued a number of new International Financial Reporting Standards ("IFRS") and revised International Accounting Standards ("IAS"), which are effective for accounting periods beginning on or after 1 January, 2005.

For the year beginning 1 January, 2005, the Company will adopt IFRS3 "Business Combinations" which is effective for accounting periods commencing on or after 1 January, 2005. Under IFRS3, goodwill will no longer be amortized but instead, it will be tested annually for impairment and carried at cost less accumulated impairment losses. IFRS3 requires prospective adoption and accordingly will have no financial effect on the 2004 consolidated balance sheet and consolidated profit and loss account.

During the Relevant Periods, the Company did not adopt IFRS3 or any other changes that apply to future accounting periods. The Company is in the process of assessing the impact of these revised IAS and new IFRS, and have preliminarily concluded that other than IFRS3, the adoption of these other revised and new standards would not have a significant impact on the Company's results of operations or financial position.

(a) Subsidiaries

Subsidiaries, which are those 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 cost of an acquisition is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill. Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated; unrealized losses are also eliminated unless cost cannot be recovered.

(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) 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 associate is accounted for by the equity method of accounting. 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.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealized 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 or associate at the date of the acquisition. Goodwill is recognised as an asset and amortised by equal annual instalments over its estimated useful economic life up to a maximum of 20 years. An impairment loss recognised for goodwill shall not be reversed in a subsequent period.

(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
Plant and machinery	5–10 years
Vehicles and equipment	4–6 years

Gains or losses on disposal are determined by comparing the net sales proceeds with the carrying amount and are included in the consolidated profit and loss account.

(f) Construction-in-progress

Construction-in-progress represents capital assets under construction, and is stated at cost. 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 for a period of 50 years. Amortisation of land use rights is calculated on a straight line basis over the period of the land use rights.

(h) Impairment for long lived assets

Property, plant and equipment and land use rights are reviewed for impairment losses whenever events of changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the assets exceeds its recoverable amount which is the higher of an asset’s net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows. Reversal of previous provision of impairment are allowed when the circumstances and events that led to the write-down cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(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. A write-down of inventories to the lower of cost or market value at the close of a fiscal period is a valuation allowance that can be subsequently reversed if the underlying facts and circumstances change.

(j) Trade receivables

Trade receivables are carried at original invoice amounts less provision made for impairment of these receivables. Such provision for impairment of accounts receivables is established when there is an 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 carrying amount and the receivable amount being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers.

(k) Trading investments

Investments that are acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading investments and included in current assets.

Purchases and sales of investments are recognised on the trade date, which is the date that the Group commits to purchase or sell the asset. Trading investments are subsequently carried at fair value. Realised and unrealized gains and losses arising from changes in the fair value of trading investments are included in the profit or loss accounts in the period in which they arise.

(l) Cash and cash equivalents

Cash and cash equivalents are carried in the consolidated balance sheets at cost. For the purpose of the consolidated 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 probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. 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 consolidated 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) 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. 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.

(p) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the consolidated profit and loss account on a straight-line basis over the lease periods.

(q) 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 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, taking into account the principal amounts outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Group.

(r) 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.

(s) 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.

(t) Foreign currency translation**(i) *Measurement and reporting currency***

The Group's reporting currency is Renminbi ("RMB"). Items included in the consolidated accounts of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity (the "measurement currency").

(ii) *Transactions and balances*

Foreign currency transactions are translated into measurement currency using the exchange rates prevailing at the date of the transactions. Monetary assets and liabilities denominated in other currencies are translated into measurement currency at the exchange rates prevailing at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated profit and loss accounts.

(u) 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.

(v) Dividends

Dividends are recorded in the Group's consolidated 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.

(w) 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 REVENUE

The Group is principally engaged in the manufacturing, distribution and installation of fire alarm systems and fire alarm network products, as well as related products, including security systems, building automation systems and electronic power meters. Revenues recognised during the Relevant Periods are as follows:

	Year ended 31 December,		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Sales of:			
Fire alarm systems	273,658	283,940	354,072
Fire alarm network systems	1,766	4,858	8,701
Video entry systems	—	2,360	14,131
Building automation systems	2,448	1,680	4,779
Electronic power meters.	235	4,144	10,681
Installation services	19,941	18,657	31,745
	<u>298,048</u>	<u>315,639</u>	<u>424,109</u>

4. OTHER INCOME

	Year ended 31 December,		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Government grants	1,898	5,852	2,832
VAT refund	13,283	18,675	21,189
Interest income	340	1,195	843
Sales of raw materials, net of cost	(134)	1,612	705
Gain on disposal of subsidiaries.	1,512	—	—
Gain on disposal of associates.	—	—	1,080
	<u>16,899</u>	<u>27,334</u>	<u>26,649</u>

5. 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, 2002	Video entry systems and building automation systems					Total
	Fire alarm systems	Fire alarm network systems	building automation systems	Electronic power meters	Installation services	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	273,658	1,766	2,448	235	19,941	298,048
Segment results	108,347	(429)	634	(801)	(1,307)	106,444
Interest income						340
Operating profit.						106,784
Finance costs						(2,895)
Share of results of						
Jointly controlled entity . . .	(221)	—	—	—	—	(221)
Associates	(282)	—	—	—	—	(282)
Profit before taxation						103,386
Taxation						(26,023)
Minority interests.						(6,583)
Profit for the year						70,780
Segment assets	350,706	4,238	5,124	526	41,855	402,449
Jointly controlled entity	(1,325)	—	—	—	—	(1,325)
Associates	6,101	—	—	—	—	6,101
Deferred taxation						7,115
Total assets						414,340
Segment liabilities	148,340	1,019	4,490	85	28,234	182,168
Taxation payable						22,257
Minority interests.						18,668
Total liabilities and minority interests						223,093
Capital expenditure.	43,829	23	—	—	541	44,393
Depreciation	7,806	49	—	—	326	8,181
Land use right amortisation . .	125	—	—	—	—	125
Provision for doubtful debts .	4,063	—	—	—	3,066	7,129

Year ended			Video entry systems and			
31 December, 2003	Fire alarm systems	Fire alarm network systems	building automation systems	Electronic power meters	Installation services	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	283,940	4,858	4,040	4,144	18,657	315,639
Segment results	96,671	1,302	14	(1,445)	1,288	97,830
Interest income						1,195
Operating profit						99,025
Finance costs						(3,946)
Share of results of						
Jointly controlled entity . . .	(299)	—	—	—	—	(299)
Associates	(249)	—	—	—	—	(249)
Profit before taxation						94,531
Taxation						(14,596)
Minority interests						(1,152)
Profit for the year						78,783
Segment assets	297,985	3,719	18,430	4,074	54,604	378,812
Jointly controlled entity	(1,624)	—	—	—	—	(1,624)
Associates	4,602	—	—	—	—	4,602
Goodwill	6,689	—	—	—	—	6,689
Deferred taxation						2,158
Total assets						390,637
Segment liabilities	135,847	4,116	18,416	6,386	41,286	206,051
Taxation payable						21,269
Minority interests						324
Total liabilities and minority interests						227,644
Capital expenditure	5,846	14	—	—	95	5,955
Depreciation	11,735	42	—	—	498	12,275
Land use right amortisation . .	125	—	—	—	—	125
Goodwill amortisation	477	—	—	—	—	477
Provision for doubtful debts .	9,406	—	—	—	753	10,159

			Video entry systems and building automation	Electronic power meters	Installation services	
Year ended	Fire alarm	Fire alarm	building	Electronic	Installation	Total
31 December, 2004	systems	network	automation	power	services	
	RMB'000	systems	systems	meters	RMB'000	RMB'000
		RMB'000	RMB'000	RMB'000		
Turnover	354,072	8,701	18,910	10,681	31,745	424,109
Segment results	121,192	4,402	475	(79)	2,798	128,788
Interest income						843
Operating profit						129,631
Finance costs						(3,237)
Share of results of						
Jointly controlled entity	92	—	—	—	—	92
Associates	—	—	—	—	—	—
Profit before taxation						126,486
Taxation						(3,627)
Minority interests						(10)
Profit for the year						122,849
Segment assets	313,528	24,685	37,270	21,557	61,394	458,434
Jointly controlled entity	(1,532)	—	—	—	—	(1,532)
Associates	950	—	—	—	—	950
Goodwill	5,972					5,972
Unallocated assets						45,146
Total assets						508,970
Segment liabilities	148,735	1,581	36,795	3,601	13,254	203,966
Taxation payable						21,331
Unallocated liabilities						6,898
Total liabilities						232,195
Capital expenditure	10,550	385	—	—	1,023	11,958
Depreciation	9,282	34	—	—	419	9,735
Land use right amortisation	125	—	—	—	—	125
Goodwill amortisation	717	—	—	—	—	717
Provision for doubtful debts	7,662	23	—	—	142	7,827

6. OPERATING PROFIT

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

	Year ended 31 December,		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Depreciation	8,181	12,275	9,735
Land use right amortisation	125	125	125
Goodwill amortisation	—	477	717
Staff costs (excluding directors' remuneration) (Note 11)	24,673	27,084	31,728
Written (back)/off of inventories	(96)	294	(80)
Provision for doubtful debts	7,129	10,159	7,827
Provision for litigation loss.	—	—	4,300
Operating lease rental — land and buildings	1,105	1,625	1,362
Auditors' remuneration	37	38	41
Loss on disposal of fixed assets.	360	745	101
Research and development costs.	16,792	17,904	21,240
Realised and unrealized loss/(gain) on trading investments	295	(40)	177

7. FINANCE COSTS

	Year ended 31 December,		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Interest on bank loans wholly repayable within one year	2,895	3,946	3,237

8. TAXATION

	Year ended 31 December,		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
PRC enterprise income tax			
Company and subsidiaries			
Current	24,284	9,639	1,469
Deferred (Note 28)	1,739	4,957	2,158
	26,023	14,596	3,627

No provision for Hong Kong profits tax has been made 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") 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, 2003 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. In addition being registered in a designated development zone, the applicable PRC income tax rate is 15% since April 2004 for GST, Gulf Network and Gulf Meters.

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

	Year ended 31 December,		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Profit before taxation	103,386	94,531	126,486
PRC income calculated at statutory rate of 33%	34,117	31,195	41,740
Tax loss not recognised	1,845	2,409	1,330
Non-deductible expenses	1,248	1,404	1,231
Effect from different income tax assessment rate and tax exemption	(1,947)	(15,706)	(35,445)
Additional allowances	(2,053)	(2,254)	(129)
Income not subject to tax	(5,983)	(7,259)	(7,927)
Effect on deferred taxation brought forward due to the reduction of enacted tax rate	—	4,959	2,158
Other	(1,204)	(152)	669
Taxation charge	26,023	14,596	3,627

9. DIVIDENDS

No dividend has been paid or declared by the Company since its incorporation. Dividends shown in the consolidated profit and loss accounts represent dividends paid by GST to its then shareholders.

The rates of dividend and the number of shares ranking for dividends are not presented as such information is not meaningful having regard to the purpose of this report.

10. EARNINGS PER SHARE

No earnings per share information is presented as its inclusion, for the purpose of this report, is not considered meaningful due to the capitalisation issue immediately preceding the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited.

11. STAFF COSTS — EXCLUDING DIRECTORS' EMOLUMENTS

	Year ended 31 December,		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Wages and salaries	15,875	17,484	23,285
Retirement benefit contributions	558	1,049	1,470
Staff welfare and allowances	8,240	8,551	6,973
	24,673	27,084	31,728

The number of employees (excluding the directors) as at 31 December, 2002, 2003 and 2004 were 812, 954 and 1,276 respectively.

12. EMOLUMENTS FOR DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' emoluments

The Company was incorporated in the Cayman Islands on 27 April, 2004. The aggregate amounts of emoluments paid and payable to the directors of the Company by subsidiaries comprising the Group during the Relevant Periods are as follows:

	Year ended 31 December,		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Salaries, allowances and benefits in kind	679	1,029	1,255
Retirement benefit contributions	25	26	27
	704	1,055	1,282

None of the directors of the Company waived any emoluments paid by the companies comprising the Group during the Relevant Periods. No emoluments were paid to independent non-executive directors during the Relevant Periods as they were appointed in February 2005. The emoluments of the four executive and the two non-executive directors of the Company fell within the following bands:

	Number of directors		
	Year ended 31 December,		
	2002	2003	2004
Emolument bands			
Nil to RMB1,060,000 (equivalent to HK\$1,000,000) . .	6	6	6

(b) Five highest paid individuals

The five highest paid individuals included 4 directors whose emoluments are included in the above disclosures. The emoluments of the remaining individual are as follows:

	Year ended 31 December,		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Salaries, allowances and benefits in kind	100	168	214
Retirement benefit contributions	6	6	7
	106	174	221

(c) During the Relevant Periods, no emoluments have been paid to the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

13. RETIREMENT BENEFITS

	Year ended 31 December,		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Obligations on defined contribution plans	583	1,075	1,497

Employees in the Group's PRC subsidiaries are required to participate in defined contribution retirement plans operated by the local municipal government. Contributions by the PRC subsidiaries are calculated based on a percentage of the employees' basic salary or a fixed sum as stipulated under the relevant requirements.

The Group has no other obligations for the payment of retirement and other post-retirement benefits of employees or retirees other than the payments disclosed above.

14. PROPERTY, PLANT AND EQUIPMENT

	<u>Buildings</u>	<u>Plant and</u>	<u>Vehicles and</u>	<u>Construction-</u>	<u>Total</u>
	<u>RMB'000</u>	<u>machinery</u>	<u>equipment</u>	<u>in-progress</u>	<u>RMB'000</u>
Cost					
As 1 January, 2002	31,771	20,716	10,476	28,517	91,480
Additions	1,528	12,582	7,465	22,818	44,393
Transfer	32,575	16,973	—	(49,548)	—
Disposal of subsidiaries	(490)	(1,086)	(528)	—	(2,104)
Disposals	<u>(75)</u>	<u>(200)</u>	<u>(400)</u>	<u>(416)</u>	<u>(1,091)</u>
At 31 December, 2002	65,309	48,985	17,013	1,371	132,678
Additions	1,218	2,595	1,835	307	5,955
Transfer	404	—	—	(404)	—
Disposals	<u>(2,462)</u>	<u>(314)</u>	<u>(164)</u>	<u>—</u>	<u>(2,940)</u>
At 31 December, 2003	64,469	51,266	18,684	1,274	135,693
Additions	5,346	4,604	910	1,098	11,958
Transfer	153	320	—	(473)	—
Disposals	<u>(906)</u>	<u>(1,628)</u>	<u>(3,256)</u>	<u>(1,121)</u>	<u>(6,911)</u>
At 31 December, 2004	<u>69,062</u>	<u>54,562</u>	<u>16,338</u>	<u>778</u>	<u>140,740</u>
Accumulated depreciation					
At 1 January, 2002	2,892	5,927	2,391	—	11,210
Charge for the year	1,453	4,361	2,367	—	8,181
Disposal of subsidiaries	(6)	(493)	(183)	—	(682)
Disposals	<u>(3)</u>	<u>(170)</u>	<u>(147)</u>	<u>—</u>	<u>(320)</u>
At 31 December, 2002	4,336	9,625	4,428	—	18,389
Charge for the year	2,056	7,068	3,151	—	12,275
Disposals	<u>(143)</u>	<u>(279)</u>	<u>(139)</u>	<u>—</u>	<u>(561)</u>
At 31 December, 2003	6,249	16,414	7,440	—	30,103
Charge for the year	1,910	5,671	2,154	—	9,735
Disposals	<u>(53)</u>	<u>(1,456)</u>	<u>(365)</u>	<u>—</u>	<u>(1,874)</u>
At 31 December, 2004	<u>8,106</u>	<u>20,629</u>	<u>9,229</u>	<u>—</u>	<u>37,964</u>
Net book value					
At 31 December, 2002	<u>60,973</u>	<u>39,360</u>	<u>12,585</u>	<u>1,371</u>	<u>114,289</u>
At 31 December, 2003	<u>58,220</u>	<u>34,852</u>	<u>11,244</u>	<u>1,274</u>	<u>105,590</u>
At 31 December, 2004	<u>60,956</u>	<u>33,933</u>	<u>7,109</u>	<u>778</u>	<u>102,776</u>

15. LAND USE RIGHTS

	RMB'000
Cost	
At 31 December, 2002, 2003 and 2004	6,352
Accumulated amortisation	
At 1 January, 2002.	697
Charge for the year	125
At 31 December, 2002	822
Charge for the year	125
At 31 December, 2003	947
Charge for the year	125
At 31 December, 2004	1,072
Net book value	
At 31 December, 2002	5,530
At 31 December, 2003	5,405
At 31 December, 2004	5,280
The land is held under medium term lease in the PRC.	

16. SUBSIDIARIES

	As at 31 December, 2004 RMB'000
Unlisted shares, at cost (note (a)).	159,678
Due from a subsidiary (note (b))	123,995
	283,673

Notes:

- (a) Details of the subsidiaries are set out in Note 35.
- (b) The balance is unsecured, interest-free and has no fixed terms of repayment.

17. GOODWILL

	<u>Total</u> <u>RMB'000</u>
Cost	
At 1 January, 2002 and 2003	—
Additional interests in a subsidiary	<u>7,166</u>
At 31 December, 2003 and 2004	<u>7,166</u>
Accumulated amortisation	
At 1 January, 2002 and 2003	—
Charge for the year	<u>477</u>
At 31 December, 2003	<u>477</u>
Charge for the year	<u>717</u>
At 31 December, 2004	<u>1,194</u>
Net book value	
At 31 December, 2002	<u>—</u>
At 31 December, 2003	<u>6,689</u>
At 31 December, 2004	<u>5,972</u>

Note: Goodwill arose as a result of the acquisition of an additional 9.4% equity interests in a subsidiary, GST, from an unrelated third parties. The acquisition was made by Gulf Group and injected into the Group as part of the Reorganisation.

18. JOINTLY CONTROLLED ENTITY

	<u>As at 31 December,</u>		
	<u>2002</u>	<u>2003</u>	<u>2004</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Share of net liabilities (<i>note (a)</i>)	<u>(1,325)</u>	<u>(1,624)</u>	<u>(1,532)</u>
Due from jointly controlled entity (<i>note (b)</i>)	<u>1,446</u>	<u>1,624</u>	<u>5,053</u>

Notes:

- (a) Details of the jointly controlled entity are set out in Note 35.
- (b) The balance is unsecured, interest-free and repayable in accordance with the trading terms.

19. ASSOCIATES

	<u>As at 31 December,</u>		
	<u>2002</u>	<u>2003</u>	<u>2004</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Share of net assets, unlisted	<u>6,101</u>	<u>4,602</u>	<u>950</u>

Details of the associates are set out in Note 35.

20. INVENTORIES

	As at 31 December,		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Raw materials	17,227	19,806	26,684
Work-in-progress	9,720	5,972	4,183
Finished goods	26,518	16,302	38,284
	53,465	42,080	69,151
Components delivered to customers in respect of contracts not yet completed at year end	10,014	36,435	44,487
	63,479	78,515	113,638

No inventory was carried at net realisable value in the Relevant Periods.

21. TRADE RECEIVABLES

The Group’s sales to corporate customers are entered into on credit terms ranging from 30 to 180 days. The Group also grants credit terms to certain customers with reference to the installation of the Group’s products by its customers at different stages of their projects. The ageing analysis of trade receivables based on invoice date, at the respective balance sheet dates is as follows:

	As at 31 December,		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
0–90 days	51,091	46,010	37,356
91–180 days	10,586	9,994	16,029
181–365 days	7,563	8,625	16,869
Over 365 days	17,248	21,300	30,707
	86,488	85,929	100,961
Less: Provision for doubtful debts	(13,356)	(13,450)	(16,879)
	73,132	72,479	84,082

22. TRADING INVESTMENTS

	As at 31 December,		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Listed securities in the PRC, at market value	796	633	456

23. DUE FROM RELATED COMPANIES

	As at 31 December,		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Trade:			
Chongqing Gulf Electrical Engineering Co., Ltd.	930	742	—
Qinhuangdao Development Zone Gulf Electrical and Power Meter Co., Ltd.	6,221	6,221	—
Non-trade:			
GST International Management Limited	—	—	900
Gulf Group	17,286	26,021	253
	24,437	32,984	1,153

- (a) These are all companies which are subject to control or significant influence by the ultimate shareholders of the Company. Trade receivable balances are unsecured, interest-free and repayable in accordance with the trading terms. Non-trade receivable balances represent temporary advances and are unsecured, have no fixed terms of repayment and are interest-free except for an amount due from Gulf Group of RMB12,000,000 and RMB20,000,000 at 31 December, 2002 and 2003, respectively which were interest bearing at 5.31% per annum and were fully repaid during 2004.
- (b) All balances were subsequently settled after 31 December, 2004.

24. CASH AND BANK BALANCES

A substantial portion of the cash and bank balances are kept in the PRC. The remittance of these funds out of the PRC is subject to the foreign exchange control restrictions imposed by the PRC Government.

25. TRADE PAYABLES

The ageing analysis of trade payables at the respective balance sheet dates is as follows:

	As at 31 December,		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
0–90 days	34,174	50,586	73,883
91–180 days	5,450	5,204	2,230
181–365 days	4,650	5,367	4,399
Over 365 days	1,462	2,059	2,202
	45,736	63,216	82,714

26. ADVANCE FROM CUSTOMERS

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

27. SHORT-TERM BANK LOANS

The short-term bank loans are unsecured and repayable within one year with fixed interest rate ranging from 4.79% to 5.31% per annum. Except for RMB20,000,000 of the bank loans outstanding as at 31 December, 2004, all the loans were guaranteed by Gulf Group. Short-term bank loans guaranteed by Gulf Group were fully repaid together with the release of the underlying guarantees subsequent to 31 December, 2004.

28. DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 33% throughout the Relevant Periods.

The movement on the deferred tax assets account is as follows:

	As at 31 December,		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
At beginning of the year	8,854	7,115	2,158
Charged to profit and loss account (<i>Note 8</i>)	(1,739)	(4,957)	(2,158)
At end of the year	7,115	2,158	—

The movement in deferred tax assets are as follows:

	Provision for doubtful debts	Provision for inventory obsolescence	Total
	RMB'000	RMB'000	RMB'000
At 1 January, 2002.	8,767	87	8,854
Charged to profit and loss account	(1,708)	(31)	(1,739)
At 31 December, 2002	7,059	56	7,115
Charged to profit and loss account	(4,925)	(32)	(4,957)
At 31 December, 2003	2,134	24	2,158
Charged to profit and loss account	(2,134)	(24)	(2,158)
At 31 December, 2004	—	—	—

29. SHARE CAPITAL

	Authorised				
	Common shares		Series A Preferred shares		Total
	of HK\$0.1 each		of HK\$0.1 each (note e)		
	No. of shares	RMB'000	No. of shares	RMB'000	
At 1 January, 2002, 31					
December, 2002 and 2003.	—	—	—	—	—
Upon incorporation on 27					
April, 2004 (<i>note a</i>)	3,800,000	403	—	—	403
Redesignation of shares					
(<i>note d</i>)	(186,240)	(20)	186,240	20	—
	3,613,760	383	186,240	20	403

	Issued				
	Common shares of HK\$0.1 each		Series A Preferred shares of HK\$0.1 each (note (e))		Total
	No. of shares	RMB'000	No. of shares	RMB'000	RMB'000
At 1 January, 2002, 31					
December, 2002 and 2003.	—	—	—	—	—
Issue of share to the initial subscriber (note (b))	1	—	—	—	—
Issue of shares (note (c)) . . .	999,999	106	—	—	106
Issue of shares for cash	—	—	131,463	14	14
Redesignation of shares (note (d))	(54,777)	(6)	54,777	6	—
	<u>945,223</u>	<u>100</u>	<u>186,240</u>	<u>20</u>	<u>120</u>

- (a) The Company was incorporated on 27 April, 2004 in the Cayman Islands with an authorised share capital of HK\$380,000 divided into 3,800,000 shares of HK\$0.1 each.
- (b) On 9 September, 2004, 1 share was allotted and issued nil paid to the initial subscriber.
- (c) Pursuant to the Reorganisation on 20 December, 2004, the Company acquired the entire issued share capital of GST Group International Limited by (i) the issuance of 999,999 shares to GST International Management Limited and (ii) crediting the 1 issued nil paid share as fully paid at par.
- (d) On 22 December, 2004, following a redesignation of 131,463 authorised common shares of HK\$0.1 each to 131,463 authorised Series A Preferred shares of HK\$0.1 each, 131,463 Series A Preferred shares were issued to investors. On the same date, these investors acquired an aggregate of 54,777 common shares from the original sole shareholder of the Company and such common shares acquired were redesignated as Series A Preferred shares of the Company.
- (e) Each Series A Preferred share is convertible, at the option of the holder, into one fully paid common share. All or any part of the Series A Preferred shares are redeemable upon certain circumstances, including, without limitation, to change in control or sales of all or substantial all of the assets of the Group or at time on or after 22 December, 2007 at the original subscription price plus any accrued but unpaid dividends. The holders of Series A Preferred shares carry one vote for every common share into which an Series A Preferred share may be converted. Holders of Series A Preferred shares shall be entitled to an annual dividend equal to 5% of profit on ordinary activities before taxation of the Group accruing from 1 January, 2005. Annual dividend will be pro rated to reflect the number of days that the Series A Preferred shares have been in issue. Annual dividend shall not be payable to the holders of the Series A Preferred shares provided that (i) the Listing Committee of The Stock Exchange of Hong Kong Limited granting the permission on listing of the shares of the Company on or prior to 31 December, 2005; and (ii) the obligations of Morgan Stanley Dean Witter Asia Limited and Morgan Stanley & Co. International Limited under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms of such agreements. Series A Preferred shares shall be converted, re-designated and re-classified as 186,240 common shares at the time when the above criteria were attained.
- (f) The share capital presented in the consolidated balance sheet as at 31 December, 2002 and 2003 represented the share capital of the Company, arising on the incorporation and from the reorganisation as described in notes (b) and (c) above, which is deemed to have been in issue throughout the Relevant Periods in accordance with the basis of preparation as referred to in Note 1.
- (g) Pursuant to a 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 shall upon conversion of all Series A Preferred Shares form a single class of shares ranking pari passu in all respects with each other.

30. RESERVES

	Group				
	Share premium	Merger reserve (note (a))	General reserves (note (b))	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January, 2002.	—	79,894	11,309	52,704	143,907
Profit for the year	—	—	—	70,780	70,780
Dividends	—	—	—	(23,546)	(23,546)
Transfer	—	—	6,644	(6,644)	—
At 31 December, 2002	—	79,894	17,953	93,294	191,141
Profit for the year	—	—	—	78,783	78,783
Dividends	—	—	—	(129,909)	(129,909)
Contribution from Gulf Group for additional interest in a subsidiary.	—	22,872	—	—	22,872
Transfer	—	—	16,519	(16,519)	—
At 31 December, 2003	—	102,766	34,472	25,649	162,887
Issue of shares for cash.	123,981	—	—	—	123,981
Share issuance costs	(6,898)	—	—	—	(6,898)
Profit for the year	—	—	—	122,849	122,849
Dividends	—	—	—	(126,300)	(126,300)
Contribution from Gulf Group for additional interest in a subsidiary.	—	136	—	—	136
Transfer	—	—	18,276	(18,276)	—
At 31 December, 2004	<u>117,083</u>	<u>102,902</u>	<u>52,748</u>	<u>3,922</u>	<u>276,655</u>

	Company Share premium RMB'000
At the date of incorporation	—
Premium on issue of shares for acquisition of subsidiaries pursuant to the Reorganisation	159,572
Issue of shares	123,981
Share issuance costs	(6,898)
At 31 December, 2004	<u>276,655</u>

- (a) Merger reserve of the Group represents the difference between the value of the paid-up capital of the subsidiaries acquired and the value of the Company's shares issued in exchange therefore pursuant to the Reorganisation.
- (b) General reserves, which includes statutory reserve and statutory public welfare reserve, are appropriated at 10% and 5%, respectively, of the net profit of subsidiaries of the Group according to their respective Articles of Association. Such appropriation is subject to board approval on an annual basis.

The reserves available for distribution to the shareholders of the Company amount to RMB Nil as at 31 December, 2002 and 2003 and approximately RMB276,655,000, representing share premium, as at 31 December, 2004.

31. NOTES TO CONSOLIDATED CASH FLOW STATEMENTS

(a) Reconciliation of operating profit to net cash generated from operations

	For the year ended 31 December,		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Operating profit	106,784	99,025	129,631
Depreciation	8,181	12,275	9,735
Land use right amortisation	125	125	125
Amortisation of goodwill	—	477	717
Provision for doubtful debts	7,129	10,159	7,827
Written (back)/off of inventories obsolescence	(96)	294	(80)
Loss on disposal of fixed assets	360	745	101
Interest income	(340)	(1,195)	(843)
Gain on disposal of subsidiaries	(1,512)	—	—
Gain on disposal of associates	—	—	(1,080)
Realised and unrealized loss/(gain) on other investments	295	(40)	177
Operating profit before working capital changes	120,926	121,865	146,310
Increase in trade receivables	(47,515)	(9,506)	(19,430)
(Decrease)/increase in other receivables, deposits and prepayments	(10,756)	2,661	10,523
Increase in inventories	(633)	(15,330)	(35,043)
Increase in amount due from a jointly controlled entity	—	(178)	(3,429)
(Decrease)/increase in due from related companies — trade	(5,266)	188	6,963
Increase in trade payables	18,401	17,480	19,498
Increase/(decrease) in advance from customers	7,521	(5,940)	(24,716)
(Decrease)/increase in other payables and accruals	(5,994)	(657)	3,133
Increase/(decrease) in other taxes payable	1,914	(176)	5,818
Net cash generated from operations	78,598	110,407	109,627

(b) Disposal of subsidiaries

	For the year ended 31 December,		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Fixed assets	1,422	—	—
Long-term investment	24,000	—	—
Inventories	2,962	—	—
Trade receivables	4,332	—	—
Other receivables, deposits and prepayments	11,234	—	—
Cash and bank balances	743	—	—
Accruals and other payables, bills payable	(22,375)	—	—
Minority interests	(4,560)	—	—
Net assets disposed	17,758	—	—
Profit on disposal of subsidiaries	1,512	—	—
Cash consideration	19,270	—	—

(c) Analysis of net inflow of cash and bank balances in respect of the disposal of subsidiaries

	For the year ended 31 December,		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Cash consideration	19,270	—	—
Cash and bank balances disposed	(743)	—	—
	<u>18,527</u>	<u>—</u>	<u>—</u>

(d) Analysis of changes in financing during the Relevant Periods

	Share capital and share premium	Minority interests	Dividends payables	Short-term bank loans	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January, 2002.	106	19,099	—	43,500	62,705
Minority share of profit	—	6,583	—	—	6,583
Disposal of subsidiaries	—	(4,560)	—	—	(4,560)
Dividends	—	—	23,546	—	23,546
Cash (outflow)/inflow from financing . . .	—	(2,454)	(23,546)	13,500	(12,500)
At 31 December, 2002	106	18,668	—	57,000	75,774
Minority share of profit	—	1,152	—	—	1,152
Dividends	—	—	129,909	—	129,909
Purchase of additional interest in a subsidiary	—	(19,405)	—	—	(19,405)
Cash (outflow)/inflow from financing . . .	—	(91)	(129,909)	13,000	(117,000)
At 31 December, 2003	106	324	—	70,000	70,430
Minority share of profit	—	10	—	—	10
Purchase of additional interest in subsidiaries	—	(334)	—	—	(334)
Dividends	—	—	126,300	—	126,300
Share issuance costs	(6,898)	—	—	—	(6,898)
Cash inflow/(outflow) from financing . . .	123,995	—	(126,300)	—	(2,305)
At 31 December, 2004	<u>117,203</u>	<u>—</u>	<u>—</u>	<u>70,000</u>	<u>187,203</u>

32. CONTINGENT LIABILITIES

In 1997, the Group provided a guarantee for a loan of RMB4,500,000 made by Bank of Communications to Qinhuangdao Textile Factory, an unrelated party. In 2001, the bank brought a legal action at Qinhuangdao City Intermediate People's Court against the Group and alleged that the Group is 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 the Group and rejected the bank's claim. The bank appealed to Hebei Provincial People's High Court.

Pursuant to the Mediation Agreement dated 5 April, 2005 entered among the Group, 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"), the Group and the Operating Company repaid Xinda a total amount of RMB800,000 and RMB3,500,000 respectively in April 2005. In return, Xinda has agreed to (i) waive and release the Group from any future claims in connection with the guarantee provided by the Group; and (ii) withdraw its appeal. In the same month, the Hebei Provincial Higher People's Court granted leave to Xinda to withdraw its appeal and ruled that the judgement shall be final and binding on Xinda and the Operating Company.

33. COMMITMENTS

(a) Capital commitments

Capital expenditure contracted for at the respective balance sheet date but not yet incurred is as follows:

	As at 31 December,		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Property, plant and equipment	119	476	860

(b) Operating lease commitments

The future aggregate minimum lease rental expense in respect of land and buildings under non-cancellable operating leases are payable in the following periods:

	As at 31 December,		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
First year.	343	521	937
Second to fifth years	—	158	1,418
After the fifth year.	—	—	250
	343	679	2,605

34. RELATED PARTY TRANSACTIONS

Apart from those disclosed in notes 12, 18, 23 and 27, the Group had the following significant transactions with related companies during the Relevant Periods which were, in the opinion of the directors, carried out in the normal course of business and in accordance with terms of the contracts entered into by the Group and the related parties:

		Year ended 31 December,		
		2002	2003	2004
	Note	RMB'000	RMB'000	RMB'000
Continuing:				
Sales to a jointly controlled entity	(i)	1,861	3,602	9,931
Repair cost paid to a related company	(ii)	192	245	101
Discontinuing:				
Loan to a director	(iii)	—	—	190
Sales to related parties	(iv)	12,511	8,240	491
Service fee paid to a related company	(v)	1,563	8,318	1,731
Software design fee paid to a related company . . .	(vi)	757	1,743	200
Interest income from a related company (Note 23) .		—	962	583
Gain on disposal of subsidiaries to Gulf Group and its affiliated companies	(vii)	1,512	—	—

Notes:

- (i) Sales of finished goods to a jointly controlled entity were conducted in the normal course of business at prices and terms mutually agreed by the parties involved.
- (ii) Repair 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) The loan to a director, Mr. Cao Yu, was unsecured, non-interest bearing and repayable within five years. The maximum amount outstanding during 2004 was RMB200,000. The balance has been included in other receivables and is fully repaid subsequent to 31 December, 2004.
- (iv) Sales of finished goods to Chongqing Gulf Electrical Engineering Co., Ltd., Qinhuangdao Development Zone Gulf Electrical and Power Meter Co., Ltd. and Beijing Gulf Kadmus Intelligent Meters Co., Ltd., subsidiaries of Gulf Group, were conducted at prices and terms mutually agreed by the parties involved.
- (v) The sales service fee paid to Gulf Group was based on 2.2% of sales contracts concluded through Gulf Group.
- (vi) Software design fee paid to Beijing Aertaike Software System Technology Company Limited, a subsidiary of Gulf Group, was conducted at prices and terms mutually agreed by the parties.
- (vii) The consideration paid was agreed by the parties involved and was determined with reference to the net asset values of the subsidiaries disposed of.

35. PARTICULARS OF SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITY

As at 31 December, 2004, 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				
<i>Interests held directly:</i>				
GST Group International Limited ⁽⁷⁾	The British Virgin Islands 17 March, 2004	USD 0.01	100%	Investment holding in the BVI
<i>Interests held indirectly:</i>				
Gulf Security Technology Company Limited ⁽¹⁾	The PRC 25 April, 2004	USD7,860,000	100%	Manufacturing and sales of intelligent fire detection and control systems in the PRC
Qinhuangdao Gulf Fire Prevention Network Company Limited ⁽²⁾	The PRC 16 April, 2004	USD1,000,000	100%	Developing and sales of fire alarm networking products in the PRC
Beijing Gulf Electric Meters Co., Ltd. ⁽³⁾	The PRC 10 May, 2004	USD1,200,000	100%	Developing and sales of intelligent ammeter 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
Hebei Gulf Electrical Engineering Co., Ltd. ⁽⁴⁾	The PRC 24 September, 1996	RMB13,000,000	100%	Sales of fire alarm systems, auto control system and other electronic equipment in the PRC
Beijing Gulf Wei'er Electrical Engineering Co., Ltd. ⁽⁵⁾	The PRC 24 March, 2004	RMB15,000,000	100%	Provision of system integration installation services in the PRC
Guangzhou Gulf Wei'er Automation Technology Co., Ltd. ⁽⁶⁾	The PRC 1 November, 1999	RMB2,000,000	100%	Sales of fire alarm systems, auto control system and other electronic equipment in the PRC
Shanghai Gulf Automation Technology Co., Ltd. ⁽⁷⁾	The PRC 20 January, 1999	RMB2,000,000	100%	Sales of fire alarm systems, auto control system and other electronic equipment in the PRC
Beijing Gulf Security Technology Co., Ltd. ⁽⁷⁾	The PRC 26 July, 1996	RMB5,000,000	*98%	Sales of fire alarm systems, auto control system and other electronic equipment in the PRC
Associates				
Interests held indirectly:				
Qinhuangdao City Chengan Fire Prevention Network Co., Ltd.	The PRC 9 August, 2001	RMB2,000,000	35%	Sales and installation for GST-119NET city fire auto-alarm system; sales, installation, maintenance and technical services of auto-alarm system and computer network in the PRC
Nanning Gulf Fire Prevention Network Technology Co., Ltd..	The PRC 19 September, 2001	RMB1,000,000	25%	Sales, installation, maintenance and technical services of fire auto-alarm system in the PRC

<u>Company</u>	<u>Place and date of incorporation/ establishment</u>	<u>Issued/ registered and fully paid share capital</u>	<u>Attributable equity interests</u>	<u>Principal activities and place of operation</u>
Jointly controlled entity				
<i>Interests held indirectly:</i>				
Global System Technology PLC ⁽⁸⁾	United Kingdom 23 November, 2000	£50,000	51%	Sales of fire alarm systems, power meter and other electronic equipment in Dubai

Subsequent to 31 December, 2004 and up to the date of this report, the Group set up two more subsidiaries:

<u>Company</u>	<u>Place and date of incorporation/ establishment</u>	<u>Issued/ registered and fully paid share capital</u>	<u>Attributable equity interests</u>	<u>Principal activities and place of operation</u>
Qinhuangdao Gulf Labour Services Company Limited	The PRC 9 March, 2005	RMB500,000	100%	Provision of human resources services
Hebei Gulf Plastic and Metal Products Company Limited	The PRC 3 February, 2005	US\$2,000,000	100%	Deregistered on 13 June 2005

* Equity interest increased to 100% subsequent to 31 December, 2004.

Notes:

- (1) The subsidiary is transformed from a joint stock company to a wholly foreign-owned enterprise in the PRC with effect from 25 April 2004. The statutory accounts for the years ended 31 December, 2002, 2003 and 2004 were audited by Qinhuangdao Zheng Yuan Certified Public Accountants Co., Ltd. The consolidated accounts of this company and its subsidiaries, prepared in accordance with IFRS for the year ended 31 December, 2002 were audited by PricewaterhouseCoopers Zhongtian CPA Company Limited.
- (2) The statutory accounts for the year ended 31 December, 2004 were audited by Qinhuangdao Zheng Yuan Certified Public Accountants Co., Ltd.
- (3) The statutory accounts for the year ended 31 December, 2004 were audited by Bei Jing Dingxinli Certified Public Accountants Co., Ltd.
- (4) The statutory accounts for the years ended 31 December, 2002, 2003 and 2004 were audited by Hebei Hengxin Certified Public Accountants Limited.
- (5) The statutory accounts for the years ended 31 December, 2004 were audited by Bei Jing Dingxinli Certified Public Accountants Co., Ltd..
- (6) The statutory accounts for the years ended 31 December, 2003 and 2004 were audited by Guangzhou Zhengde Certified Public Accountants Co., Ltd. There was no statutory accounts for the year ended 31 December, 2002 as audited accounts was not required by the relevant authorities.
- (7) There were no statutory accounts throughout the Relevant Periods as audited accounts were not required by the relevant authorities.

- (8) The statutory accounts for the years ended 31 March, 2002, 2003 and 2004 were audited by Maurice J. Bushell & Co. According to the Articles of Association of GST plc, its board of directors shall consist of four directors, two of which are appointed by GST, whilst the remaining are appointed by the other shareholders, who are independent third parties to the Company. The current board of directors of GST plc consists of two directors, one of whom is nominated by GST and the other one is nominated by the other shareholder. The Board meetings can only be convened with the representation from each side, and board resolutions can only be passed by consent of the directors appointed by each shareholder. Accordingly, GST can only exercise joint control with the other shareholders (but not unilateral control) over GST plc. Hence GST plc is accounted for as a jointly-controlled entity.

36. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks, including the effects of: 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 RMB and did not have significant exposure to foreign exchange risk during the Relevant Periods. As at 31 December, 2002, 2003 and 2004, cash and bank balances of approximately RMB77,477,000, RMB42,437,000 and RMB118,369,000, respectively, were denominated in Renminbi. The remaining cash and bank balances as at 31 December, 2004, amounting to RMB44,263,000 mainly comprised deposits in United States Dollars. The conversion of Renminbi into foreign currencies 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. The Group's exposure to changes in interest rates is mainly attributable to its short-term borrowings, details of which have been disclosed in Note 27 of this section. As at 31 December, 2002, 2003 and 2004, all of the Group's borrowings were at fixed rates. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

(iii) Credit risk

The Group has no significant concentrations of credit risk. The carrying amount of accounts receivables included in the consolidated balance sheets represent the Group's maximum exposure to credit risk in relation to its financial assets. The Group has policies in place to ensure that sales of products are made to customers with an appropriate credit history and the Group performs credit evaluations of its customers.

The Group's historical experience in collection of trade and other receivables falls within the recorded allowances and the directors are of the opinion that adequate provision for uncollectible accounts receivables has been made in the consolidated Financial Information.

(iv) Liquidity risk

The Group ensures that it maintains sufficient cash, which is available to meet its liquidity requirements.

(b) Fair value estimate

The carrying amounts of the Group's financial assets including cash and cash equivalents, accounts receivables and other receivables; and financial liabilities including trade payables, short-term borrowings and other payables, approximate their fair values due to their short maturities. Trading investments are carried at fair value.

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.

37. SUBSEQUENT EVENTS

Other than those disclosed elsewhere in this report, no significant events took place subsequent to 31 December, 2004.

38. ULTIMATE HOLDING COMPANY

As at 31 December, 2004, the directors of the Company regarded GST International Management Limited, a company incorporated in the British Virgin Islands, as being the ultimate holding company.

39. HK GAAP RECONCILIATION

Except for some presentational differences, there is no material difference between IFRS and accounting principles generally accepted in Hong Kong which might have significant effect on the consolidated accounts.

III. SUBSEQUENT ACCOUNTS

No audited accounts have been prepared for the Company or its subsidiaries in respect of any period subsequent to 31 December, 2004. In addition, no dividend or distribution has been declared, made or paid by the Company or its subsidiaries in respect of any period subsequent to 31 December, 2004.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

(A) UNAUDITED PRO FORMA NET TANGIBLE ASSETS

The following unaudited pro forma net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules is for illustration purposes only, and is set out here to illustrate the effect of the Global Offering on the net tangible assets of the Group as at 31 December, 2004 as if they had been taken place on 31 December, 2004.

The unaudited pro forma net tangible assets has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the net tangible assets of the Group following the Global Offering. It is based on the consolidated net assets as at 31 December, 2004 as shown in the Accountants’ Report, the text of which is set out in Appendix I to this Prospectus, and adjusted as described below. The unaudited pro forma net tangible assets statement does not form part of the Accountants’ Report.

	Audited consolidated net assets of the Group as at 31 December, 2004 RMB’000 (Note 1 & 2)	Less: Intangible assets as at 31 December, 2004 RMB’000 (Note 1)	Estimated net proceeds from the Global Offering RMB’000 (Note 3)	Unaudited pro forma net tangible assets of the Group RMB’000	Unaudited forma net tangible assets per Share RMB (Note 4)	HK\$
Based on an Offer						
Price of HK\$1.69 per Share	276,775	(5,972)	337,260	608,063	0.76	0.72
Based on an Offer						
Price of HK\$2.06 per Share	276,775	(5,972)	412,955	683,758	0.85	0.81

Notes:

1. The audited consolidated net assets and intangible assets of the Group are extracted from the Accountants’ Report set out in Appendix I to the prospectus.
2. In accordance with the Group’s accounting policies, land use rights and buildings are stated at cost less accumulated depreciation and impairment losses, if any. The Group’s land use rights and buildings as of 31 March, 2005 were revalued by Sallmanns (Far East) Limited, independent property valuer. The valuation surplus arising on the revaluation of the Group’s land use rights and buildings was not incorporated in the accounts of the Group. If the revaluation surplus of approximately RMB6,211,000 was incorporated in the Group’s accounts, the depreciation charge of the Group would be increased by approximately RMB165,000 for the year ending 31 December, 2005.
3. The estimated net proceeds from the Share Offer are based on the Offer Price of HK\$1.69 to HK\$2.06 per Share respectively and takes no account of any Shares which may be issued pursuant to the Over-allotment Option. If the Over-allotment Option is exercised in full, the adjusted net tangible asset value per Share will be increased, while the earnings per Share will be diluted correspondingly.
4. The unaudited pro forma net tangible assets per Share is arrived at after the adjustment referred to in the preceding paragraphs and on the basis that 800,000,000 Shares were in issue (assuming the Shares in issue at the date of this prospectus and Shares to be issued upon the conversion of all Series A Preferred Shares and pursuant to the Capitalization Issue and Global Offering but without taking into account any Shares which may be issued upon exercise of the Over-allotment Option).

(B) UNAUDITED PRO FORMA FORECAST EARNINGS PER SHARE

The following unaudited pro forma forecast earnings per Share has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it taken place on 1 January, 2005. This unaudited pro forma forecast earnings per Share has been prepared for illustrative purposes only and because of its nature, it may not give a true picture of the financial results of the Group following the Global Offering.

Forecast consolidated profit attributable to equity holders of the Company for the year ending 31 December, 2005 (<i>note 1</i>)	not less than RMB159 million (approximately HK\$150 million)
Unaudited pro forma forecast earnings per Share (<i>note 2</i>)	RMB0.20 (approximately HK\$0.19)

Notes:

1. The forecast consolidated profit attributable to equity holders of the Company for the year ending 31 December, 2005 is extracted from the section headed “Financial information — profit forecast” for the year ending 31 December, 2005 in the prospectus. The bases and assumptions on which the above profit forecast for the year ending 31 December, 2005 has been prepared as summarized in Appendix III to this Prospectus. The Directors have prepared the forecast of the consolidated profit attributable to equity holders of the Company for the year ending 31 December, 2005 based on the unaudited consolidated management accounts of the Group for the four month ended 30 April, 2005 and a forecast of the consolidated results of the Group for the remaining eight months ending 31 December, 2005. In addition, the forecast has been prepared on the basis of the accounting policies consistent in all material respect with those currently adopted by the Group as summarized in Appendix III of this prospectus.
2. The calculation of the unaudited pro forma forecast earnings per Share is calculated by dividing the forecast consolidated profit attributable to equity holders of the Company for the year ending 31 December, 2005 by a total of 800,000,000 Shares (including the Shares in issue at the date of this prospectus and assuming the Shares to be issued upon the conversion of all Series A Preferred Shares and pursuant to the Capitalization Issue and Global Offering had been in issue on 1 January, 2005 but without taking into account any Shares which may be issued upon exercise of the Over-allotment Option).

**(C) LETTER FROM THE REPORTING ACCOUNTANTS ON THE UNAUDITED PRO
FORMA FINANCIAL INFORMATION RELATING TO THE UNAUDITED PRO FORMA
NET TANGIBLE ASSETS AND UNAUDITED PRO FORMA FORECAST EARNINGS
PER SHARE**

The following is the text of a report received from the reporting accountants, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong for the purpose of incorporation in this prospectus. As there is no specific guidance on the reporting on pro forma financial information under the Auditing Guidelines issued by the Hong Kong Institute of Certified Public Accountants, this report is prepared in accordance with the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 “Reporting on pro forma financial information pursuant to the Listing Rules” issued by the Auditing Practices Board in the United Kingdom.



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong

20 June, 2005

The Directors
GST Holdings Limited

Dear Sirs,

We report on the unaudited pro forma financial information of GST Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) set out on pages 207 to 208 under the headings of unaudited pro forma net tangible assets and unaudited pro forma forecast earnings per share in Appendix II of the Company’s prospectus dated 20 June, 2005 in connection with the initial listing of the Company’s shares on the Main Board of the Stock Exchange of Hong Kong Limited. The unaudited pro forma financial information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the initial listing of the Company’s shares might have affected the relevant financial information of the Group as at 31 December, 2004.

RESPONSIBILITIES

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 21 of Appendix 1A and paragraph 4.29 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (“the Listing Rules”).

It is our responsibility to form an opinion, as required by paragraph 4.29 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

BASIS OF OPINION

We conducted our work with reference to the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 “Reporting on pro forma financial information pursuant to the Listing Rules” issued by the Auditing Practices Board in the United Kingdom, where applicable. Our work, which involved no independent examination of any the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company.

Our work does not constitute an audit or review in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants, and accordingly, we do not express any such assurance on the unaudited pro forma financial information.

The unaudited pro forma financial information has been prepared on the bases set out on pages 207 to 208 for illustrative purpose only and, because of its nature, it may not be indicative of:

- the financial position of the Group at any future date, or
- the earnings per share of the Group for any future periods.

Our work has not been carried out in accordance with auditing standards generally accepted in the United States of America and accordingly should not be relied upon as if it had been carried out in accordance with those standards.

OPINION

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group, and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

The forecast consolidated profit attributable to equity holders of the Company for the year ending 31 December, 2005 is set out in the paragraph headed “Profit Forecast for the year ending 31 December, 2005” in the section headed “Financial Information” in this prospectus.

BASES AND ASSUMPTIONS

Our Directors have prepared the forecast of the consolidated profit attributable to the equity holders of the Company for the year ending 31 December, 2005 on the basis of our unaudited management accounts for four months ended 30 April 2005 and a forecast of the results of the Group for the eight months ended 31 December, 2005. The forecast has been prepared based on the following principal assumptions:

- (a) there will be no material changes in existing government policies or political, legal (including changes in legislation or regulations or rules), fiscal, market or economic conditions in any of the countries, regions or industries in which the Group operates, where the Group’s customers carry out business, to where the Group exports its products or from which it imports its raw materials;
- (b) there will be no significant fluctuations in currency exchange rates, interest rates and tariffs and duties in the respective countries in which the Group operates as at 31 December, 2004; and
- (c) there will be no material changes in the bases or rates of taxation applicable to the Group in the respective jurisdictions in which they operate.

ACCOUNTING POLICIES

The forecast of the consolidated profit attributable to the equity holders of the Company for the year ending 31 December, 2005 has been prepared on a basis consistent in all material respects with accounting policies adopted by the Group set out below which includes the adoption of various new/revised IFRSs effective in the financial year commencing 1 January, 2005.

Principal accounting policies

Financial statements are 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 recognized directly in the profit and loss account. Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized 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 recognized in the consolidated profit and loss accounts and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the cost of investment.

The Group recognizes 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 recognize 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 realizable value of current assets or an impairment loss, the loss is recognized 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 recognized at cost. The Group's share of the post-acquisition profits or losses of associate is recognized in the consolidated profit and loss accounts and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the cost of the investment.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealized 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 amortization) on acquisition. When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognize 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 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
Plant and machinery	5–10 years
Vehicles and equipment	4–6 years

Subsequent costs are included in the asset’s carrying amount or recognized as a separate assets, 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 amortization 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 for a period of 50 years. Amortization 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 amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized 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 realizable 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 realizable 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 recognized initially at fair value and subsequently measured at amortized 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 recognized 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 realized 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 recognized 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 estimate. The Group recognizes 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 recognized 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 recognized 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 recognized as a provision.

(o) *Share capital*

Ordinary shares are classified as equity. Non-mandatory 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 recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized 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 used to determine deferred taxation.

Deferred tax assets are recognized 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) *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.

(s) ***Revenue recognition***

Revenue from the sale of goods, net of value added taxes, is recognized 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 services is recognized 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 recognized on a time proportion basis using the effective interest method.

(t) ***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 recognized 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.

(u) ***Employee benefits***

(i) ***Employee leave entitlements***

Employee entitlements to annual leave are recognized 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 participated in a number of defined contribution plans in the PRC. The plans are organized 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.

(v) ***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 recognized as a liability at the balance sheet date.

(w) ***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.

LETTER FROM THE REPORTING ACCOUNTANTS

The following is the text of a letter, prepared for inclusion in this prospectus, received by the Directors from PricewaterhouseCoopers in connection with the forecast of the consolidated profit attributable to equity holders of the Company for the year ending 31 December, 2005.



羅兵咸永道會計師事務所	PricewaterhouseCoopers 22nd Floor, Prince's Building Central, Hong Kong

20 June, 2005

The Board of Directors
GST Holdings Limited

Morgan Stanley Dean Witter Asia Limited

Dear Sirs,

We have reviewed the accounting policies and calculations adopted in arriving at the forecast of the consolidated profit attributable to equity holders of GST Holdings Limited (the “Company”) for the year ending 31 December, 2005 (the “Forecast”) as set out in the subsection headed “Profit forecast for the year ending 31 December, 2005” in the section headed “Financial Information” in the prospectus of the Company dated 20 June, 2005 (the “Prospectus”).

We conduct our work in accordance with the Auditing Guideline on “Accountants report on profit forecasts” issued by the Hong Kong Institute of Certified Public Accountants.

The Forecast, for which the Directors of the Company are solely responsible, has been prepared by them based on the unaudited management accounts of the Group for the four months ended 30 April, 2005 and a forecast of the consolidated results of the Group for the remaining eight months ending 31 December, 2005.

In our opinion, the profit forecast, so far as the accounting policies and calculations are concerned, has been properly compiled in accordance with the bases and assumptions adopted by the directors of the Company as set out in Appendix III to the Prospectus, and is presented on a basis consistent in all material respects with the accounting policies presently adopted by the Group as set out in note 2 under Section II of the accountants’ report dated 20 June, 2005, the text of which is set out in Appendix I to the Prospectus.

Yours faithfully,
PricewaterhouseCoopers
Certificated Public Accountants
Hong Kong

LETTER FROM THE SPONSOR

The following is the text of a letter, prepared for inclusion in this prospectus, received by the Directors from Morgan Stanley Dean Witter Asia Limited, the Sponsor in connection with the forecast of the Group's consolidated profit attributable to equity holders of the Company for the year ending 31 December, 2005.

Morgan Stanley

20 June, 2005

The Board of Directors
GST Holdings Limited

Dear Sirs,

We refer to the forecast of the consolidated profit attributable to equity holders of GST Holdings Limited (the "Company") for the year ending 31 December, 2005 (the "Forecast") as set out in the prospectus issued by the Company dated 20 June, 2005.

We have discussed with you the bases upon which the Forecast has been made. We have also considered the letter dated 20 June, 2005 addressed to yourselves and ourselves from PricewaterhouseCoopers regarding the accounting policies and calculations upon which the Forecast has been made.

On the basis of the information comprising the Forecast and on the bases of the accounting policies and calculations adopted by you and reviewed by PricewaterhouseCoopers, we are of the opinion that the Forecast, for which you as directors of the Company are solely responsible, has been made after due and careful enquiry and consideration.

Yours faithfully,
For and on behalf of
Morgan Stanley Dean Witter Asia Limited
Gokul Laroia
Managing Director

The following is the text of a letter, summary of values and valuation certificates, prepared for inclusion in this Prospectus, received by the Directors from Sallmanns (Far East) Limited, an independent valuer, in connection with their valuation as at 31 May, 2005 of our property interests.

**Sallmanns**

Corporate valuation and consultancy

www.sallmanns.com

22nd Floor Siu On Centre
188 Lockhart Road
Wanchai, Hong Kong
Tel: (852) 2169 6000
Fax: (852) 2528 5079

20 June, 2005

The Directors
GST Holdings Limited
Suite 6308, 63rd Floor
Central Plaza
18 Harbour Road
Wanchai, Hong Kong

Dear Sirs,

In accordance with your instructions to value the property interests in which GST Holdings Limited (the “Company”) and its subsidiaries (hereinafter together referred to as the “Group”) have interests, we confirm that we have carried out relevant inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the value of the properties as at 31 May, 2005 (the “date of valuation”).

Our valuations of the property interests represent the market value which we would define as intended to mean “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion”.

We have valued the property nos. 2 to 30 in Groups I and II by the direct comparison approach assuming sale of the property interests in their existing state with the benefit of immediate vacant possession and by making reference to comparable sale transactions as available in the relevant market.

Where, due to the nature of the buildings and structures of the properties in the PRC, there are no market sales comparables readily available. Property no. 1 in Group I has been valued on the basis of their depreciated replacement cost.

Depreciated replacement cost is defined as “an estimate of the Market Value for the existing use of the land, plus the current gross replacement (reproduction) costs of the improvements, less allowances for physical deterioration and all relevant forms of obsolescence and optimization.” This

method has been used due to the lack of an established market upon which to base comparable transactions and is a method of using current replacement costs to arrive at the value to the business in occupation of the property as existing at the valuation date.

We have attributed no commercial value to the property interests in Groups III, IV and V which are leased by the Group, due either to the short-term nature of the leases or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rents.

Our valuations have been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.

No allowance has been made in our report for any charges, mortgages or amounts owing on any of the property interests valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

In valuing the property interests, we have complied with all the requirements contained in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the RICS Appraisal and Valuation Standards (5th Edition May 2003) published by the Royal Institution of Chartered Surveyors; and the HKIS Valuation Standards on Properties (1st Edition January 2005) published by the Hong Kong Institute of Surveyors.

As the Company is in compliance with paragraph 3(b) of Practice Note 16 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited, the Company is exempted from inclusion of the full details of the individual leased properties in the valuation certificates in our valuation report in this prospectus. A summary of all these interests in land and buildings covered by this exemption is included in the Summary of Values and the Certificates for Leased Properties. A full valuation report of all these interests in land and buildings of the Group will be available for public inspection.

We have been shown copies of various title documents including State-owned Land Use Rights Certificates, Building Ownership Certificates, Real Estate Title Certificates and official plans relating to the property interests and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing titles to the property interests in the PRC and any material encumbrances that might be attached to the property interests or any lease amendments. We have relied considerably on the advice given by the Company's PRC legal adviser — Commerce & Finance Law Offices, concerning the validity of the Group's titles to the property interests.

We have not carried out detailed site measurements to verify the correctness of the site areas in respect of the properties but have assumed that the site areas shown on the documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties in the PRC. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defects. No tests were carried out on any of the services.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary figures stated in this report are in Renminbi (RMB).

Our valuations are summarized below and the valuation certificates are attached.

Yours faithfully,
for and on behalf of
Sallmanns (Far East) Limited
Paul L. Brown
B.Sc. FRICS FHKIS
Director

Note: Paul L. Brown is a Chartered Surveyor who has 22 years’ experience in the valuation of properties in the PRC and 25 years of property valuation experience in Hong Kong, the United Kingdom and the Asia-Pacific region.

SUMMARY OF VALUES

Group I — Property interests held and occupied by the Group in the PRC

No.	Property	Capital Value in	Interest	Capital Value
		existing state as at 31 May, 2005 RMB	attributable to the Group	attributable to the Group as at 31 May, 2005 RMB
1.	Land, various buildings and structures located at No. 80 Changjiang Road East Qinhuangdao Economic & Technological Development Zone Qinhuangdao City Hebei Province The PRC	56,490,000	100%	56,490,000
2.	Room 7 Building 23 Taiyangcheng No. 85 Minzu Nan Road Qinhuangdao City Hebei Province The PRC	223,000	100%	223,000
3.	Rooms 241 & 422 Building 52, Room 431 Building 65 and Room 242 Building 67 Xiluyuan Residential Area Tongzhou District Beijing The PRC	750,000	100%	750,000
4.	Room 3-3B03 on the level 3 of Building 1 No. 66 East Minzu Daxue Xi Road Haidian District Beijing The PRC	381,000	100%	381,000
5.	Room 801 on the level 8 of Shijibaoding Apartment Tower A No. 9 Dingcheng Road Chaoyang District Beijing The PRC	1,581,000	100%	1,581,000

No.	Property	Capital value in	Interest	Capital value
		existing state as at 31 May, 2005 RMB	attributable to the Group	attributable to the Group as at 31 May, 2005 RMB
6.	Room 401 on the level 4 of Building 1 Changzhi Plaza Lane 237 Changningzhi Road Huayang Street Changning District Shanghai The PRC	886,000	100%	886,000
7.	Unit D on the level 16 of Building 1 Mingchanghuayuan Plaza Renminzhong Road Kunming City Yunnan Province The PRC	263,000	100%	263,000
8.	Rooms 4 & 5 on the level 15 of Building 28 Xiyawuye Square No. 33 Yuzhou Road Shiqiaopu Jiulongpo District Chongqing The PRC	423,000	100%	423,000
9.	Rooms 803 and 805 Block E of Huada Plaza No. 266 Wuhouchi Street Wuhou District Chengdu City Sichuan Province The PRC	804,000	100%	804,000
10.	Room 10B on the level 10 Chengjian Plaza No. 189 Tiyu Xi Road Tianhe District Guangzhou City Guangdong Province The PRC	3,458,000	100%	3,458,000

No.	Property	Capital value in existing state as at 31 May, 2005 RMB	Interest attributable to the Group	Capital value attributable to the Group as at 31 May, 2005 RMB
11.	Room 1204 on the level 12 No. 327 Yuangang Road Tianhe District Guangzhou City Guangdong Province The PRC	385,000	100%	385,000
12.	Room No 20A10 No. 27 Shuiyinerheng Road Dongshan District Guangzhou City Guangdong Province, The PRC	527,000	100%	527,000
13.	Room No. 1604 No. 624 Yueken Road Tianhe District Guangzhou City Guangdong Province The PRC	460,000	100%	460,000
14.	Room 2 on the level 11 Entrance 1 Daqi Residential Area No. 403 Zhongshan Road Shahekou District Dalian City Liaoning Province The PRC	No commercial value	100%	No commercial value
15.	Room 7–25 Bairinanli Area Taiyuan Street Linghe District Jinzhou City Liaoning Province The PRC	No commercial value	100%	No commercial value
16.	Room 505 Tiancheng Hotel 28 Beiling Street Huanggu District Shenyang City Liaoning Province The PRC	No commercial value	100%	No commercial value

No.	Property	Capital value in existing state as at 31 May, 2005 RMB	Interest attributable to the Group	Capital value attributable to the Group as at 31 May, 2005 RMB
17.	Room 8A on the level 8 of Entrance 2 Meihuage Quanjingsiji Garden No. 93 Yingxiongshan Road Shizhong District Jinan City Shandong Province The PRC	No commercial value	100%	No commercial value
18.	Room 1701 on the level 17 of Jianyin Plaza No. 105 Zhongshan Road Tianshan District Urumqi City Xinjiang Autonomous Region The PRC	957,000	100%	957,000
19.	Room 505 on the level 5 of Building D Dongqingyuan, Dongqing Plaza No. 64 Qingchun Road Xiacheng District Hangzhou City Zhejiang Province The PRC	No commercial value	100%	No commercial value
20.	Room 603 on the level 6 of Phase I of Taiyangcheng Fenglin Plaza No. 60 Suzhou Road Hefei City Anhui Province The PRC	475,000	100%	475,000
21.	Room 705 East Entrance of Building 10 Danfeng Xinyu Dashiqiao Residential Area Xuanwu District Nanjing City Jiangsu Province The PRC	380,000	100%	380,000

No.	Property	Capital value in existing state as at 31 May, 2005 RMB	Interest attributable to the Group	Capital value attributable to the Group as at 31 May, 2005 RMB
22.	Room 902 No. 59 Beiyuan Linxia Road Chengguan District Lanzhou City Gansu Province The PRC	409,000	100%	409,000
23.	Room B on the level 15 of Guomao Plaza No. 258 Qingyang Road Gongyuan Lane Chengguan District Lanzhou City Gansu Province The PRC	252,000	100%	252,000
24.	Room E on the level 10 of Jindu Huayuan B No. 37 Donghai Xi Road Shinan District Qingdao City Shandong Province The PRC	880,000	100%	880,000
25.	Room 1710 on the level 17 of Block 2 Zijinzhuanyuan East of Xiaonanzhuang Suzhou Street Haidian District Beijing The PRC	500,000	100%	500,000
26.	Room 804 on the level 8 of Huayu Plaza No. 15 Yongding Lane Wuxi City Jiangsu Province The PRC	No commercial value	100%	No commercial value

No.	Property	Capital value in existing state as at 31 May, 2005 RMB	Interest attributable to the Group	Capital value attributable to the Group as at 31 May, 2005 RMB
27.	Rooms 1405 and 1406 on the level 14 of Xiangkai Plaza No. 776 Middle of Furong Road Tianxin District Changsha City Hunan Province The PRC	735,000	100%	735,000
28.	Room 4-middle-west of Qinyuan Flat Tower No. 100 west of Park Road Yuquan District Huhhot City Inner Mongolia Autonomous Region The PRC	No commercial value	100%	No commercial value
29.	Unit Nos. 15-4-10, 14-5-10, 14-4-10, 14-5-9, 15-5-10, 15-5-9, 16-3-11 & 16-3-12 located at Hepingli Qinhuangdao Economic & Technological Development Zone Qinhuangdao City Hebei Province The PRC	573,000	100%	573,000
Sub-total:				71,792,000

Group II — Property Interest Contracted to be Acquired by the Group in the PRC

30.	A parcel of land (Lot No. 172-2-1-15-200-211) located at Changjiang Road East Qinhuangdao Economic & Technological Development Zone Qinhuangdao City Hebei Province The PRC	No commercial value

Group III — Property interests rented and occupied by the Group in the PRC

No.	Property	Capital value in existing
		state as at 31 May, 2005 RMB
31.	47 office and industrial properties located in 45 cities in the PRC	No commercial value
Sub-total:		Nil

Group IV — Property interest rented and occupied by the Group in the United Arab Emirates

32.	Unit No. RA08 Premises ZA04 Jebel Ali Free Zone Dubai The United Arab Emirates	No commercial value
Sub-total:		Nil

Group V — Property interest rented and occupied by the Group in Hong Kong

33.	Suite 6308, 63/F Central Plaza No. 18 Harbour Road Wanchai Hong Kong	No commercial value
Sub-total:		Nil
Grand-total:		71,792,000

VALUATION CERTIFICATE

Group I — Property interests held and occupied by the Group in the PRC

Property	Description and tenure	Particulars of occupancy	Capital Value in existing state as at 31 May, 2005 RMB
1. Land, various buildings and structures located at No. 80 Changjiang Road East Qinhuangdao Economic & Technological Development Zone Qinhuangdao City Hebei Province The PRC	The property comprises two parcels of land with a total site area of approximately 33,249.726 sq.m. on which 9 buildings and various structures and ancillary facilities are erected. The total gross floor area of the buildings which were completed in various stages between 1997 and 2002 is approximately 31,692.64 sq.m.. The buildings include a composite building, an industrial building, a dormitory building, a dinning hall, an air-conditioner controller room, etc. The structures and ancillary facilities include temporary buildings, walls, roads, ditches, a bicycle shed, gate etc. The land use rights of the property have been granted for a term of 50 years for industrial uses.	The property is currently occupied by the Group for office and production purposes.	56,490,000 100% interest attributable to the Group: 56,490,000

Notes:

- Pursuant to 2 State-owned Land Use Rights Certificates, Qin Ji Guo Yong (2004) Zi No. Kai 041 (秦籍國用(2004)字第開041號) and Qin Ji Guo Yong (2004) Zi No. Kai 040 (秦籍國用(2004)字第開040號), the land use rights of the land with a total area of approximately 33,249.726 sq.m. have been granted to Gulf Security Technology Company Limited (“GST”), a wholly-owned subsidiary of the Group, for a term of 50 years expiring on 27 January, 2047 and 22 October, 2048 respectively for industrial uses.
- Pursuant to a Building Ownership Certificate, Qin Huang Dao Shi Fang Quan Zheng Qin Kai Zi No. 20004625 (秦開房字第20004625號), 9 buildings with a total gross floor area of approximately 31,692.64 sq.m. are owned by GST.
- We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal adviser, which contains, inter alia, the following:
 - The land use rights and the building ownership rights of the property are legally owned by the Group and the property can be transferred, sublet or mortgaged by the Group.
 - The property title documents do not indicate mortgage information of the property.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital Value in existing state as at 31 May, 2005 RMB
2. Room 7 Building 23 Taiyangcheng No. 85 Minzu Nan Road Qinhuangdao City Hebei Province The PRC	The property comprises an office unit on the level 2 of a 17-storey residential building completed in about 1996. The unit has a gross floor area of approximately 104.97 sq.m..	The property is currently occupied by the Group for office purpose.	223,000 100% interest attributable to the Group: 223,000

Notes:

1. Pursuant to a Building Ownership Certificate, Qin Huang Dao Shi Fang Quan Zheng Zi No. 30037579 (秦皇島市房權證字第30037579號), the unit with a gross floor area of approximately 104.97 sq.m. is owned by Hebei Gulf Electrical Engineering Company Limited (“Hebei Gulf”) 河北海灣電氣工程有限公司, a wholly-owned subsidiary of the Group.
2. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal adviser, which contains, inter alia, the following:

(i) The building ownership rights of the property are legally owned by Hebei Gulf, the property can be transferred, sublet or mortgaged by Hebei Gulf.

(ii) The Building Ownership Certificate does not indicate mortgage information of the property.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital Value in
			existing state as at 31 May, 2005 RMB
3. Rooms 241 & 422 Building 52, Room 431 Building 65 and Room 242 Building 67 Xiluyuan Residential Area Tongzhou District Beijing The PRC.	The property comprises 4 residential units on the level 2 and the level 4 of 3 6-storey residential buildings. Both of the buildings were completed in about 1996. The 4 units have a total gross floor area of approximately 375.53 sq.m..	The property is currently occupied by the Group as staff quarters.	750,000 100% interest attributable to the Group: 750,000

Notes:

- Pursuant to 4 Building Ownership Certificates, Jing Fang Quan Zheng Tong She Zi Di Nos. 0508828, 0508829, 0508830 and 0508831 (京房權證通涉字第0508828, 0508829, 0508830 & 0508831號), 4 units with a total gross floor area of approximately 375.53 sq.m. are owned by Gulf Security Technology Company Limited (“GST”), a wholly-owned subsidiary of the Group.
- We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal adviser, which contains, inter alia, the following:
 - The land use rights and the building ownership rights of the property are legally owned by the Group and the property can be transferred, sublet or mortgaged by the Group.
 - The Building Ownership Certificates do not indicate mortgage information of the property.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital Value in
			existing state as at 31 May, 2005 RMB
4. Room 3-3B03 on the level 3 of Building 1 No. 66 East Minzu Daxue Xi Road Haidian District Beijing The PRC	The property comprises a residential unit on the level 3 of a 20-storey residential building completed in about 2000. The unit has a gross floor area of approximately 126.58 sq.m..	The property is currently occupied by the Group as dormitory.	381,000 100% interest attributable to the Group: 381,000

Notes:

1. Pursuant to a Building Ownership Certificate, Jing Fang Quan Zheng Hai Qi Zi No. 00552 (京房權證海其字第00552號), the unit with a gross floor area of approximately 126.58 sq.m. is owned by Beijing Gulf Security Technology Company Limited (“Beijing GST”) (北京海灣安全技術有限公司), a wholly-owned subsidiary of the Group. The land use rights of the property was granted for a term 65 years expiring on 10 November, 2069.
2. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal adviser, which contains, inter alia, the following:

(i) The building ownership rights of the property are legally owned by Beijing GST and the property can be transferred, sublet or mortgaged by Beijing GST.

(ii) The Building Ownership Certificate does not indicate mortgage information of the property.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital Value in
			existing state as at 31 May, 2005 RMB
5. Room 801 on the level 8 of Shijibaoding Apartment Tower A No. 9 Dingcheng Road Chaoyang District Beijing The PRC	The property comprises a residential unit on the level 8 of a 13-storey composite building completed in about 2001. The unit has a gross floor area of approximately 230.5 sq.m..	The property is currently occupied by the Group as dormitory.	1,581,000 100% interest attributable to the Group: 1,581,000

Notes:

1. Pursuant to a Building Ownership Certificate, Jing Fang Quan Zheng Chao Qi Zi No. 00106 (京房權證朝其字第00106號), the unit with a total gross floor area of approximately 230.5 sq.m. is owned by Beijing Gulf Security Technology Company Limited (“Beijing GST”) (北京海灣安全技術有限公司), a wholly-owned subsidiary of the Group. The land use rights of the property were granted for a term expiring on 10 April 2067.
2. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal adviser, which contains, inter alia, the following:

(i) The land use rights and the building ownership rights of the property are legally owned by Beijing GST and the property can be transferred, sublet or mortgaged by Beijing GST.

(ii) The Building Ownership Certificate does not indicate mortgage information of the property.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital Value in
			existing state as at 31 May, 2005 RMB
6. Room 401 on the level 4 of Building 1 Changzhi Plaza Lane 237 Changningzhi Road Huayang Street Changning District Shanghai The PRC	The property comprises an office unit on the level 4 of a 26-storey commercial building completed in about 1998. The unit has a gross floor area of approximately 134.27 sq.m..	The property is currently occupied by the Group for office purposes.	886,000 100% interest attributable to the Group: 886,000

Notes:

1. According to a Building Ownership Certificate, Hu Fang Di Chang Zi (2000) No. 018151 (滬房地長字(2000)第018151號), the unit with a gross floor area of approximately 134.27 sq.m. is owned by Gulf Security Technology Company Limited (“GST”), a wholly-owned subsidiary of the Group.
2. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal adviser, which contains, inter alia, the following:

(i) The building ownership rights of the property are legally owned by GST and the property can be transferred, sublet or mortgaged by GST.

(ii) The Building Ownership Certificate does not indicate mortgage information of the property.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital Value in
			existing state as at 31 May, 2005 RMB
7. Unit D on the level 16 of Building 1 Mingchanghuayuan Plaza, Renminzhong Road Kunming City Yunnan Province The PRC	The property comprises a warehouse unit on the level 16 of an 28-storey composite building completed in about 1997. The unit has a gross floor area of approximately 72.21 sq.m..	The property is currently occupied by the Group as warehouse.	263,000 100% interest attributable to the Group: 263,000

Notes:

1. Pursuant to a Building Ownership Certificate, Kun Ming Shi Fang Quan Zheng Zhong Zi No. 200034547 (昆明市房權證中字第200034547號), the unit with a gross floor area of approximately 72.21 sq.m. is owned by Gulf Security Technology Company Limited (“GST”), a wholly-owned subsidiary of the Group.
2. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal adviser, which contains, inter alia, the following:

(i) The building ownership rights of the property are legally owned by GST and the property can be transferred, sublet or mortgaged by GST.

(ii) The Building Ownership Certificate does not indicate mortgage information of the property.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital Value in
			existing state as at 31 May, 2005 RMB
8. Rooms 4 & 5 on the level 15 of Building 28 Xiyawuye Square No. 33 Yuzhou Road Shiqiaopu Jiulongpo District Chongqing The PRC	The property comprises two residential units on the level 15 of a 18-storey composite building completed in about 2002. The units have a total gross floor area of approximately 185.74 sq.m..	The property is currently occupied by the Group as dormitory.	423,000 100% interest attributable to the Group: 423,000

Notes:

1. Pursuant to a Building Ownership Certificate, Yu Fang 100 Zi No. 233428 (渝房100字233428號), the units with a total gross floor area of approximately 185.74 sq.m. are owned by Gulf Security Technology Company Limited (“GST”), a wholly-owned subsidiary of the Group.
2. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal adviser, which contains, inter alia, the following:

(i) The building ownership rights of the property are legally owned by GST and the property can be transferred, sublet or mortgaged by GST.

(ii) The Building Ownership Certificate does not indicate mortgage information of the property.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital Value in
			existing state as at 31 May, 2005 RMB
9. Rooms 803 and 805 Block E of Huada Plaza No. 266 Wuhouchi Street Wuhou District Chengdu City Sichuan Province The PRC	The property comprises two office units on the level 8 of an 18-storey commercial building completed in about 1999. The units have a total gross floor area of approximately 323.68 sq.m..	The property is currently occupied by the Group for office purposes.	804,000 100% interest attributable to the Group: 804,000

Notes:

1. Pursuant to two Building Ownership Certificates, Rong Fang Quan Zheng Cheng Fang Jian Zi Nos. 0518146 and 1110509 (蓉房權證成房監字第0518146號 & 1110509號), the units with a total gross floor area of approximately 323.68 sq.m. are owned by Gulf Security Technology Company Limited (“GST”), a wholly-owned subsidiary of the Group.
2. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal adviser, which contains, inter alia, the following:

(i) The building ownership rights of the property are legally owned by GST and the property can be transferred, sublet or mortgaged by GST.

(ii) The Building Ownership Certificates do not indicate mortgage information of the property.

VALUATION CERTIFICATE

		Capital Value in existing state as at 31 May, 2005 RMB	
Property	Description and tenure	Particulars of occupancy	
10. Room 10B on the level 10 Chengjian Plaza No. 189 Tiyu Xi Road Tianhe District Guangzhou City Guangdong Province The PRC	The property comprises an office unit on the level 10 of a 28-storey composite building completed in about 1999. The unit has a gross floor area of approximately 230.54 sq.m..	The property is currently occupied by the Group for office purposes.	3,458,000 100% interest attributable to the Group: 3,458,000

Notes:

1. Pursuant to a Real Estate Title Certificate, Sui Fang Di Zheng Zi No. 0843232 (穗房地證字0843132號), the unit with a gross floor area of approximately 230.54 sq.m. is owned by Gulf Security Technology Limited (“GST”), a wholly-owned subsidiary of the Group.
2. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal adviser, which contains, inter alia, the following:

(i) The land use rights and the building ownership rights of the property are legally owned by GST and the property can be transferred, sublet or mortgaged by GST.

(ii) The Real Estate Title Certificate does not indicate mortgage information of the property.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital Value in
			existing state as at 31 May, 2005 RMB
11. Room 1204 on the level 12 No. 327 Yuangang Road Tianhe District Guangzhou City Guangdong Province The PRC	The property comprises a residential unit on the level 12 of a 12-storey composite building completed in about 1999. The unit has a gross floor area of approximately 97.54 sq.m..	The property is currently occupied by the Group for residential purposes.	385,000 100% interest attributable to the Group: 385,000

Notes:

1. Pursuant to a Real Estate Title Certificate, Yue Fang Di Zheng Zi No. C3098082 (粵房地證字C3098082號), the unit with a gross floor area of approximately 97.54 sq.m. is owned by Gulf Security Technology Limited (“GST”), a wholly-owned subsidiary of the Group
2. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal adviser, which contains, inter alia, the following:

(i) The land use rights and the building ownership rights of the property are legally owned by GST and the property can be transferred, sublet or mortgaged by GST.

(ii) The Building Ownership Certificate does not indicate mortgage information of the property.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital Value in
			existing state as at 31 May, 2005 RMB
12. Room No. 20A10 No. 27 Shuiyinerheng Road Dongshan District Guangzhou City Guangdong Province The PRC	The property comprises a residential unit on the level 20 of a 30-storey composite building completed in about 1999. The unit has a gross floor area of approximately 79.25 sq.m..	The property is currently occupied by the Group for residential purposes.	527,000 100% interest attributable to the Group: 527,000

Notes:

1. Pursuant to a Real Estate Title Certificate, Yue Fang Di Zheng Zi No. C3096354 (粵房地證字C3096354號), the unit with a gross floor area of approximately 79.25 sq.m. is owned by Gulf Security Technology Company Limited (“GST”), a wholly-owned subsidiary of the Group.
2. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal adviser, which contains, inter alia, the following:

(i) The land use rights and the building ownership rights of the property are legally owned by GST and the property can be transferred, sublet or mortgaged by GST.

(ii) The Building Ownership Certificate does not indicate mortgage information of the property.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital Value in
			existing state as at 31 May, 2005 RMB
13. Room 1604 No. 624 Yueken Road Tianhe District Guangzhou City Guangdong Province The PRC	The property comprises a residential unit on the level 16 of a 26-storey composite building completed in about 1999. The unit has a gross floor area of approximately 95.81 sq.m..	The property is currently occupied by the Group for dormitory purposes.	460,000 100% interest attributable to the Group: 460,000

Notes:

1. Pursuant to a Real Estate Title Certificate, Yue Fang Di Zheng Zi No. C3288836 (粵房地證字C3288836號), the unit with a gross floor area of approximately 95.81 sq.m. is owned by Gulf Security Technology Limited (“GST”), a wholly-owned subsidiary of the Group.
2. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal adviser, which contains, inter alia, the following:

(i) The land use rights and the building ownership rights of the property are legally owned by GST and the property can be transferred, sublet or mortgaged by GST.

(ii) The Building Ownership Certificate does not indicate mortgage information of the property.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital Value in
			existing state as at 31 May, 2005 RMB
14. Room 2 on the level 11 Entrance 1 Daqi Residential Area No. 403 Zhongshan Road Shahekou District Dalian City Liaoning Province The PRC	The property comprises an office unit on the level 11 of a 19-storey office building completed in about 1999. The unit has a gross floor area of approximately 187.17 sq.m..	The property is currently occupied by the Group for office purposes.	No commercial value 100% interest attributable to the Group: Nil

Notes:

1. Pursuant to a Building Ownership Certificate, Da Fang Quan Zheng Sha Dan Zi No. 2000141244 (大房權證沙單字2000141244號), the unit with a gross floor area of approximately 187.17 sq.m. is owned by Gulf Security Technology Company Limited (“GST”), a wholly-owned subsidiary of the Group.
2. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal adviser, which contains, inter alia, the following:

(i) The building ownership rights of the property are legally owned by GST. The land use rights of the property were obtained by way of allocation. GST is not required to pay for any land premium at present. The property can be transferred, sublet or mortgaged by GST. However, the land premium for the land use right of the property is required to be paid by the transferee when the property is transferred.

(ii) The Building Ownership Certificate does not indicate mortgage information of the property.
3. According to the opinion given by the Company’s PRC legal adviser, the land premium for the land use rights of the property should be paid when the property is transferred and therefore we have not attributed any commercial value to the property.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital Value in
			existing state as at 31 May, 2005 RMB
15. Room 7-25 Bairinanli Area Taiyuan Street Linghe District Jinzhou City Liaoning Province The PRC	The property comprises a residential unit on the level 12 of a 12-storey residential building completed in about 2000. The unit has a gross floor area of approximately 117.8 sq.m.. The land use rights of the property were obtained by way of allocation with an apportioned area of approximately 62 sq.m.	The property is currently occupied by the Group for residential purposes.	No commercial value 100% interest attributable to the Group: Nil

Notes:

- Pursuant to a Building Ownership Licence, Jin Fang No. 0029221 (錦房0029221號), the unit with a gross floor area of approximately 117.8 sq.m. is owned by Gulf Security Technology Company Limited (“GST”), a wholly-owned subsidiary of the Group.
- Pursuant to a Land Use Rights Certificate, Jin Ling Guo Yong (2004) Zi No. 015472 (錦凌國用(2004)字第015472號), the land use rights with an apportioned area of approximately 62 sq.m. were allocated to GST.
- We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal adviser, which contains, inter alia, the following:
 - The building ownership rights of the property are legally owned by GST. The land use rights of the property were obtained by way of allocation which cannot be transferred, sublet or mortgaged freely by GST. GST is not required to pay for any land premium at present. However, the land premium for the land use rights of the property is required to be paid by the transferee when the property is transferred.
 - The Building Ownership Certificate does not indicate mortgage information of the property.
- According to the opinion given by the Company’s PRC legal adviser, the land premium for the land use rights of the property should be paid when the property is transferred and therefore we have not attributed any commercial value to the property.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital Value in existing state as at
			31 May, 2005
			RMB
16. Room 505 Tiancheng Hotel No. 28 Beiling Street Huanggu District Shenyang City Liaoning Province The PRC	The property comprises an office unit on the level 5 of an 8-storey hotel building completed in about 1995. The unit has a gross floor area of approximately 51.84 sq.m..	The property is currently occupied by the Group for office purposes.	No commercial value 100% interest attributable to the Group: Nil

Notes:

1. Pursuant to an exchange agreement dated 1 June 1998 entered into between Tiancheng Hotel and Gulf Security Technology Company Limited (“GST”), a wholly-owned subsidiary of the Group, Tiancheng Hotel may replace its debt owing to GST with the property.
2. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal adviser, which contains, inter alia, the following:

It cannot be judged whether GST can legally transfer, lease or mortgage the property because no Building Ownership Certificate or Land Use Rights Certificate of the property has been provided by GST.
3. According to the above opinion given by the Company’s PRC legal adviser, we have not attributed any commercial value to the property.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital Value in
			existing state as at 31 May, 2005 RMB
17. Room 8A on the level 8 of Entrance 2 Meihuage Quanjingsiji Garden No. 93 Yingxiongshan Road Shizhong District Jinan City Shandong Province The PRC	The property comprises a residential unit on the level 8 of a 12-storey residential building completed in about 2000. The unit has a gross floor area of approximately 113.14 sq.m..	The property is currently occupied by the Group for as dormitory.	No commercial value 100% interest attributable to the Group: Nil

Notes:

1. Pursuant to a Building Ownership Certificate, Ji Fang Quan Zheng Zhong Zi No. 039041 (濟房權證中字039041號), the unit with a gross floor area of approximately 113.14 sq.m. is owned by Gulf Security Technology Company Limited (“GST”), a wholly-owned subsidiary of the Group. The land use rights of the property were obtained by way of allocation.
2. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal adviser, which contains, inter alia, the following:

(i) The building ownership rights of the property are legally owned by GST, GST is not required to pay for any land premium at present. The property can be transferred, sublet or mortgaged by GST. However, the land premium for the land use right of the property is required to be paid by the transferee when the property is transferred.

(ii) The Building Ownership Certificate does not indicate mortgage information of the property.
3. According to the opinion given by the Company’s PRC legal adviser, the land premium for the land use rights of the property should be paid when the property is transferred and therefore we have not attributed any commercial value to the property.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital Value in existing state as at
			31 May, 2005
			RMB
18. Room 1701 on the level 17 of Jianyin Plaza No. 105 Zhongshan Road Tianshan District Urumqi City Xinjiang Autonomous Region The PRC	The property comprises an office unit on the level 17 of a 22-storey commercial building completed in about 2000. The unit has a gross floor area of approximately 159.52 sq.m..	The property is currently occupied by the Group for office purposes.	957,000 100% interest attributable to the Group: 957,000

Notes:

1. Pursuant to a Building Ownership Certificate, Wu Fang Quan Zheng Wu Shi Tian Shan Qu Zi No. 00138977 (烏房權證烏市天山區字00138977號), the unit with a gross floor area of approximately 159.52 sq.m. is owned by Gulf Security Technology Company Limited (“GST”), a wholly-owned subsidiary of the Group.
2. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal adviser, which contains, inter alia, the following:

(i) The building ownership rights of the property are legally owned by GST and the property can be transferred, sublet or mortgaged by GST.

(ii) The Building Ownership Certificate does not indicate mortgage information of the property.

VALUATION CERTIFICATE

		Particulars of	Capital Value in
Property	Description and tenure	occupancy	existing state as at
			31 May, 2005
			RMB
19.	Room 505 on the level 5 of Building D Dongqingyuan, Dongqing Plaza No. 64 Qingchun Road Xiacheng District Hangzhou City Zhejiang Province The PRC	The property comprises an office unit on the level 5 of an 18-storey commercial building completed in about 1997. The unit has a gross floor area of approximately 160.05 sq.m.. The property was allocated with a divided share of the land use rights with an area of approximately 19.6 sq.m..	The property is currently occupied by the Group for office purposes. No Commercial Value 100% interest attributable to the Group: Nil

Notes:

1. Pursuant to a Building Ownership Certificate, Hang Fang Quan Zheng Xia Yi Zi No. 0078006 (杭房權證下移字0078006號), the unit with a gross floor area of approximately 160.05 sq.m. is owned by Gulf Security Technology Company Limited (“GST”), a wholly-owned subsidiary of the Group.
2. Pursuant to a Land Use Rights Certificate dated 6 June, 2001, the land use rights of the property with an apportioned area of approximately 19.6 sq.m. were allocated to GST.
3. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal adviser, which contains, inter alia, the following:

(i) The building ownership rights of the property are legally owned by GST. The land use rights of the property were obtained by way of allocation which cannot be transferred, sublet or mortgaged freely by GST. GST is not required to pay for any land premium at present. The property can be transferred, sublet or mortgaged by GST. However, the land premium for the land use right of the property is required to be paid by the transferee when the property is transferred.

(ii) The Building Ownership Certificate does not indicate mortgage information of the property.
4. According to the opinion given by the Company’s PRC legal adviser, the land premium for the land use rights of the property should be paid when the property is transferred and therefore we have not attributed any commercial value to the property.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital Value in existing state as at
			31 May, 2005
			RMB
20. Room 603 on the level 6 of Phase I of Taiyangcheng Fenglin Plaza No. 60 Suzhou Road Hefei City Anhui Province The PRC	The property comprises an office unit on the level 6 of a 7-storey commercial building completed in about 2000. The unit has a gross floor area of approximately 135.77 sq.m..	The property is currently occupied by the Group for office purposes.	475,000 100% interest attributable to the Group: 475,000

Notes:

1. Pursuant to a Building Ownership Certificate, Hefei Shi Fang Quan Zheng Chan Zi No. 085448 (合肥市房權證產字085448號), the unit with a gross floor area of approximately 135.77 sq.m. is owned by Gulf Security Technology Company Limited (“GST”), a wholly-owned subsidiary of the Group.
2. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal adviser, which contains, inter alia, the following:

(i) The building ownership rights of the property are legally owned by GST and the property can be transferred, sublet or mortgaged by the GST.

(ii) The Building Ownership Certificate does not indicate mortgage information of the property.

VALUATION CERTIFICATE

		Capital Value in existing state as at 31 May, 2005	
Property	Description and tenure	Particulars of occupancy	RMB
21. Room 705 East Entrance of Building 10 Danfeng Xinyu Dashiqiao Residential Area Xuanwu District Nanjing City Jiangsu Province The PRC	The property comprises a residential unit on the level 7 of a 7-storey residential building completed in about 2000. The unit has a gross floor area of approximately 76.44 sq.m..	The property is currently occupied by the Group as dormitory.	380,000 100% interest attributable to the Group: 380,000

Notes:

1. Pursuant to a Building Ownership Certificate, Ning Fang Quan Zheng Xuan Chu Zi No. 101125 (寧房權證玄初字101125號), the unit with a gross floor area of approximately 76.44 sq.m. is owned by Gulf Security Technology Company Limited (“GST”), a wholly-owned subsidiary of the Group.
2. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal adviser, which contains, inter alia, the following:

(i) The land use rights and the building ownership rights of the property are legally owned by GST and the property can be transferred, sublet or mortgaged by GST.

(ii) The Building Ownership Certificate does not indicate mortgage information of the property.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital Value in
			existing state as at 31 May, 2005 RMB
22. Room 902 No. 59 Beiyuan Linxia Road Chengguan District Lanzhou City Gansu Province The PRC	The property comprises a residential unit on the level 9 of a 9-storey residential building completed in about 2000. The unit has a gross floor area of approximately 130.27 sq.m..	The property is currently occupied by the Group as dormitory.	409,000 100% interest attributable to the Group: 409,000

Notes:

1. Pursuant to a Building Ownership Certificate, Fang Quan Zheng Lan Fang (Cheng Gu) Chan Zi No. 30150 (蘭房(城股)產字30150號), the unit with a gross floor area of approximately 130.27 sq.m. is owned by Gulf Security Technology Company Limited (“GST”), a wholly-owned subsidiary of the Group.
2. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal adviser, which contains, inter alia, the following:

(i) The building ownership rights of the property are legally owned by GST and the property can be transferred, sublet or mortgaged by GST.

(ii) The Building Ownership Certificate does not indicate mortgage information of the property.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital Value in
			existing state as at 31 May, 2005 RMB
23. Room B on the level 15 of Guomao Plaza No. 258 Qingyang Road Gongyuan Lane Chengguan District Lanzhou City Gansu Province The PRC	The property comprises an office unit on the level 15 of a 20-storey commercial building completed in about 2000. The unit has a gross floor area of approximately 117.61 sq.m..	The property is currently occupied by the Group for office purpose.	252,000 100% interest attributable to the Group: 252,000

Notes:

1. Pursuant to a Building Ownership Certificate, Fang Quan Zheng Lan Fang (Cheng Gu) Chan Zi No. 28804 (蘭房(城股)產字28804號), the unit with a gross floor area of approximately 117.61 sq.m. is owned by GST.
2. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal adviser, which contains, inter alia, the following:

(i) The building ownership rights of the property are legally owned by GST and the property can be transferred, sublet or mortgaged by GST.

(ii) The Building Ownership Certificate does not indicate mortgage information of the property.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital Value in
			existing state as at 31 May, 2005 RMB
24. Room E on the level 10 of Jindu Huayuan B No. 37 Donghai Xi Road Shinan District Qingdao City Shandong Province The PRC	The property comprises a residential unit on the level 10 of an 18-storey residential building completed in about 1994. The unit has a gross floor area of approximately 135.35 sq.m..	The property is currently occupied by the Group as dormitory.	880,000 100% interest attributable to the Group: 880,000

Notes:

1. Pursuant to a Building Ownership Certificate, Qing Fang Di Quan Shi Zi No. 21365 (青房地權市字第21365號), the property with a gross floor area of approximately 135.35 sq.m. is owned by Gulf Security Technology Company Limited (“GST”), a wholly-owned subsidiary of the Group.
2. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal adviser, which contains, inter alia, the following:

(i) The building ownership rights of the property are legally owned by GST and the property can be transferred, sublet or mortgaged by GST.

(ii) The Building Ownership Certificate does not indicate mortgage information of the property.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital Value in
			existing state as at 31 May, 2005 RMB
25. Room 1710 on the level 17 of Block 2 Zijinzhuan yuan East of Xiaonanzhuang Suzhou Street Haidian District Beijing The PRC	The property comprises a residential unit on the level 17 of a 22-storey residential building completed in about 2002. The unit has a gross floor area of approximately 68.11 sq.m..	The property is currently occupied by the Group as dormitory.	500,000 100% interest attributable to the Group: 500,000

Notes:

1. Pursuant to a Building Ownership Certificate, Jing Fang Quan Zheng Hai Ju Zi No. 00307 (京房權證海具字第00307號), the property with a gross floor area of approximately 68.11 sq.m. is owned by Beijing Gulf Security Technology Company Limited (“Beijing GST”), a wholly-owned subsidiary of the Group. The property was granted with the land use rights for a term of 70 years expiring on 30 May, 2069.
2. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal adviser, which contains, inter alia, the following:

(i) The building ownership rights of the property are legally owned by Beijing GST and the property can be transferred, sublet or mortgaged by Beijing GST.

(ii) The Building Ownership Certificate does not indicate mortgage information of the property.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital Value in
			existing state as at 31 May, 2005 RMB
26. Room 804 on the level 8 of Huayu Plaza No. 15 Yongding Lane Wuxi City Jiangsu Province The PRC	The property comprises a residential unit on the level 8 of a 26-storey residential building completed in about 1999. The unit has a gross floor area of approximately 90.23 sq.m..	The property is currently occupied by the Group as dormitory.	No commercial value 100% interest attributable to the Group: Nil

Notes:

1. Pursuant to a Building Ownership Certificate, Xi Fang Quan Zheng Chong An Zi No. 10016074 (錫房權證崇安字第10016074號), the unit with a gross floor area of approximately 90.23 sq.m. is owned by Gulf Security Technology Company Limited (“GST”), a wholly-owned subsidiary of the Group.
2. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal adviser, which contains, inter alia, the following:

(i) The building ownership rights of the property are legally owned by GST. The land use rights of the property were obtained by way of allocation which cannot be transferred, sublet or mortgaged freely by GST. GST is not required to pay for any land premium at present. The property can be transferred, sublet or mortgaged by GST. However, the land premium for the land use right of the property is required to be paid by the transferee when the property is transferred.

(ii) The Building Ownership Certificate does not indicate mortgage information of the property.
3. As the land use rights of the property cannot be transferred freely by GST and a land premium has to be paid by the transferee when the property is transferred, we have attributed no commercial value to the property.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital Value in
			existing state as at 31 May, 2005 RMB
27. Rooms 1405 and 1406 on the level 14 of Xiangkai Plaza No. 776 Middle of Furong Road Tianxin District Changsha City Hunan Province The PRC	The property comprises two residential units on the level 14 of a residential building completed in about 1999. The units have a total gross floor area of approximately 333.04 sq.m..	The property is currently occupied by the Group as dormitory.	735,000 100% interest attributable to the Group: 735,000

Notes:

1. Pursuant to two Building Ownership Certificates, Chang Fang Quan Zheng Tian Xin Zi No. 00352695 and 00352696 (長房權證天心字第00352695號 & 長房權證天心字第00352696號), the 2 units with a total gross floor area of approximately 333.04 sq.m. are owned by Gulf Security Technology Company Limited (“GST”), a wholly-owned subsidiary of the Group.
2. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal adviser, which contains, inter alia, the following:

(i) The building ownership rights of the property are legally owned by GST and the property can be transferred, sublet and mortgaged by GST.

(ii) The Building Ownership Certificate do not indicate mortgage information of the property.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital Value in
			existing state as at 31 May, 2005 RMB
28. Room 4-middle-west of Qinyuan Flat Tower No. 100 west of Park Road Yuquan District Huhhot City Inner Mongolia Autonomous Region The PRC	The property comprises a residential unit on the level 6 of a 6-storey residential building completed in about 1998. The unit has a gross floor area of approximately 108.12 sq.m..	The property is currently occupied by the Group as dormitory.	No commercial value 100% interest attributable to the Group: Nil

Notes:

1. Pursuant to a Building Ownership Certificate, Hu Fang Quan Zheng Yu Quan Qu Zi No. 2004021931 (呼房權證玉泉區字第2004021931號), the unit with a gross floor area of approximately 108.12 sq.m. is owned by Gulf Security Technology Company Limited (“GST”), a wholly-owned subsidiary of the Group.
2. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal adviser, which contains, inter alia, the following:

(i) The building ownership rights of the property are legally owned by GST. The land use rights of the property were obtained by way of allocation which cannot be transferred, sublet or mortgaged freely by GST. GST is not required to pay for any land premium at present. The property can be transferred, sublet or mortgaged by GST. However, the land premium for the land use right of the property is required to be paid by the transferee when the property is transferred.

(ii) The Building Ownership Certificate does not indicate mortgage information of the property.
3. As the land use rights of the property cannot be transferred freely by GST and a land premium has to be paid by the transferee when the property is transferred, we have attributed no commercial value to the property.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital Value in
			existing state as at 31 May, 2005 RMB
29. Units Nos. 15-4-10, 14-5-10, 14-4-10, 14-5-9, 15-5-10, 15-5-9, 16-3-11 & 16-3-12 located at Hepingli Qinhuangdao Economic & Technological Development Zone Qinhuangdao City Hebei Province The PRC	The property comprises 8 residential units in 3 6-storey residential buildings completed in about 1997. The units have a total gross floor area of approximately 480.84 sq.m..	The property is currently occupied by the Group as dormitory.	573,000 100% interest attributable to the Group: 573,000

Notes:

1. Pursuant to 5 Building Ownership Certificates, Qinhuangdao Shi Fang Quan Zheng Qin Kai Zi Nos. 20004686, 20004687, 20004688, 20004691 and 20004692 (秦皇島市房權證秦開字第20004686號, 20004687號, 20004688號, 20004691號 & 20004692號), the units with a total gross floor area of approximately 480.84 sq.m. are owned by Gulf Security Technology Company Limited (“GST”), a wholly-owned subsidiary of the Group.
2. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal adviser, which contains, inter alia, the following:

(i) The building ownership rights of the property are legally owned by GST and the property can be transferred, sublet and mortgaged by GST.

(ii) The Building Ownership Certificate do not indicate mortgage information of the property.

VALUATION CERTIFICATE

Group II — Property Interest Contracted to be Acquired by the Group in the PRC

Property	Description and tenure	Particulars of occupancy	Capital Value in existing state as at 31 May, 2005 RMB
30. A parcel of land (Lot No.172-2-1-15-200-211) located at Changjiang Road East Qinhuangdao Economic & Technological Development Zone Qinhuangdao City Hebei Province The PRC	The property comprises a parcel of land with a site area of approximately 26,736.44 sq.m.. As advised by the Company, detailed construction plan has not been devised. The land use rights of the property were granted for a term of 50 years.	The property is vacant.	No commercial value

Notes:

1. Pursuant to a Land Use Rights Grant Contract — Qin Kai Chu Rang He Zi (2005) No. 9 dated 10 May, 2005 entered into between Qinhuangdao Economic and Technological Development Zone Development and Planning Management Bureau and Gulf Security Technology Company Limited (“GST”), the land use rights of the property with an area of approximately 26,736.44 sq.m. were contracted to be granted to GST for a term of 50 years commencing from the date of assigning the land for industrial use. The land use rights premium is RMB4,800,000. In addition, GST has to pay an amount of RMB1 per square metre per year as the land use fee. The land is subject to the following development conditions: (1) The construction plot ratio should be less than or equal to 0.6; (2) construction height should be less than 20 metres; and (3) construction work should be commenced no later than 10 May, 2006.
2. We have not been provided with the Land Use Rights Certificate of the property. In the valuation of this property, we have not attributed any commercial value to the property.
3. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal adviser, which contains, inter alia, the following:

i. All land premium payments have been paid in full by GST.

ii. GST has not obtained the land use rights certificate of the property. However, as GST has already paid up all the required land premium and the Land Use Rights Grant Contract has been signed, there will not be any legal impediment for GST to obtain the land use rights certificate.

VALUATION CERTIFICATE

Group III — Property interests rented and occupied by the Group in the PRC

Property	Description and tenure	Particulars of occupancy	Capital Value in existing state as at 31 May, 2005 RMB
31. 47 office and industrial properties located in 45 cities in The PRC	The property comprises 47 office and industrial units of various buildings completed in various stages between 1975 and 2002 in 45 cities in the PRC. The total gross floor area of the properties is approximately 10,065.71 sq.m.. The properties are subject to various tenancy agreements for terms ranging from one to ten years with the latest expiry date on 18 November, 2014 at a total annual rental of RMB2,226,870.33.	The properties are currently occupied by the Group for office and industrial purposes.	No commercial value

Notes:

1. Among the above 47 leased properties, a property with a gross floor area of approximately 302.78 sq.m. is leased by Gulf Security Technology Company Limited (“GST”), a wholly-owned subsidiary of the Group from Gulf Technology Group Company Limited (the Company from 海灣科技集團有限公司), (“Gulf Group”) whose shareholders are the same beneficial shareholders of GST International Management Limited, the controlling shareholder of the Group, with an annual rental of RMB240,000 for a term expiring on 28 February 2008.
2. The remaining 46 properties with a total gross floor area of approximately 9,762.93 sq.m. are leased by the Company from various independent parties with a total annual rental of RMB1,986,870.33 for various terms.
3. We have been provided with a legal opinion regarding the property interests by the Company’s PRC legal adviser, which contains, inter alia, the following:
 - i. Out of the 47 leased properties, the lessors of 41 properties have provided to the Group with the relevant Building Ownership Certificates. The tenancy agreements for these properties are legally binding and enforceable and the lessors have the right to lease and allow the Group to use the properties.
 - ii For the remaining 6 properties, the Group has not been provided with the building ownership certificates of the properties and the tenancy agreements have not been properly registered in the relevant building management bureaus. As such, the right to lease the properties cannot be ascertained and the Group’s occupation of these properties could not be protected by the PRC laws.

VALUATION CERTIFICATE

Group IV — Property interest rented and occupied by the Group in the United Arab Emirates

Property	Description and tenure	Particulars of occupancy	Capital Value in
			existing state as at 31 May, 2005 RMB
32. Unit No. RA08 Premises ZA04 Jebel Ali Free Zone Dubai The United Arab Emirates	The property comprises an office unit on the ground level of a warehouse building completed in about 1998. The gross floor area of the property is approximately 556.2 sq.m.. The property is leased by Global System Technology plc, a 51% owned subsidiary of the Company, from an independent third party for a term of 1 year expiring on 26 January, 2006 at an annual rental of Dirhams 125,000 exclusive of water and electricity charges and management fees.	The property is currently rented and occupied by the Group for office purpose.	No commercial value

Notes:

- According to a Tenancy Agreement entered into between Jebel Ali Free Zone Authority (“JAFZA”) and Global System Technology Plc (GST Plc), JAFZA has leased the property to GST Plc for a term of one year commencing from 27 January, 2005.
- We have been provided with a legal opinion regarding the property interest by the Company’s legal adviser in the United Arab Emirates, Al Sharif Advocates & Legal Consultants, which contains, inter alia, the following:
 - The Tenancy Agreement is lawful and enforceable;
 - GST plc is entitled to occupy the property during the rental period.

VALUATION CERTIFICATE

Group V — Property interest rented and occupied by the Group in Hong Kong

		Particulars of	Capital Value in
Property	Description and tenure	occupancy	existing state as at
			31 May, 2005
			RMB
33. Suite 6308, 63/F Central Plaza No. 18 Harbour Road Wanchai Hong Kong	The property comprises an office unit on 63rd Floor of a 78-storey office building completed in about 1992. The unit has a lettable area of approximately 1,476.2 sq.ft. The property is leased to the Company from an independent third party for a term of 2 years commencing from 20 January, 2005 and expiring on 19 January, 2007 at monthly rental of HK\$44,280 exclusive of rates, management fee, air-conditioning charges, water and electricity charges.	The property is currently occupied by the Group for office purpose.	No commercial value

Note:

1. The registered owner of the property is Cheer City Properties Limited and Protasan Limited (held as Tenants in Common) each with half share.

APPENDIX V SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 27 April, 2004 under the Cayman Companies Law. The Memorandum and the Articles comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, among others, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Cayman Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on 7 June, 2005 and would come into effect on the Listing Date. The following is a summary of certain provisions of the Articles:

(a) Directors

(i) *Power to allot and issue shares and warrants*

Subject to the provisions of the Cayman Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Cayman Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Cayman Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or

territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) *Power to dispose of the assets of the Company or any subsidiary*

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Cayman Companies Law to be exercised or done by the Company in general meeting.

(iii) *Compensation or payments for loss of office*

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) *Loans and provision of security for loans to Directors*

There are provisions in the Articles prohibiting the making of loans to Directors.

(v) *Disclosure of interests in contracts with the Company or any of its subsidiaries.*

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Cayman Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company;
- (ee) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder or in which the Director and any of his associates are not in aggregate beneficially interested in 5 percent. or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest or that of any of his associates is derived); or
- (ff) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vi) *Remuneration*

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) *Retirement, appointment and removal*

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by a special resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office or director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board;
- (bb) becomes of unsound mind or dies;
- (cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) if he is prohibited from being a director by law;
- (ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(viii) *Borrowing powers*

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Cayman Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of the Company.

(ix) *Proceedings of the Board*

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(x) *Register of Directors and Officers*

The Cayman Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(b) *Alterations to constitutional documents*

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(c) *Alteration of capital*

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Cayman Companies Law:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares.
- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Cayman Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-

division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares.

- (v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Cayman Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(d) Variation of rights of existing shares or classes of shares

Subject to the Cayman Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will mutatis mutandis apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(e) Special resolution — majority required

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than twenty-one (21) clear days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five (95) per cent. in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which less than twenty-one (21) clear days' notice has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

(f) Voting rights (generally and on a poll) and right to demand a poll

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a show of hands, every member who is present in person or by proxy or being a corporation, is present by its duly authorised representative shall have one vote and on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the

share. Notwithstanding anything contained in the Articles, where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided on a show of hands unless voting by way of a poll is required by the listing rules of any Designated Stock Exchange (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by (i) the chairman of the meeting or (ii) at least three members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting or (iii) any member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting or (iv) a member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right or (v) if required by the rules of the Designated Stock Exchange (as defined in the Articles), by any Director or Directors who, individually or collectively, hold proxies in respect of shares representing five per cent. (5%) or more of the total voting rights at such meeting.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than 15 months after the holding of the last preceding annual general meeting or a period of 18 months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Cayman Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), the Company may

send to such persons a summary financial statement derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to a summary financial statement, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by at least twenty-one (21) clear days' notice in writing, and any other extraordinary general meeting shall be called by at least fourteen (14) clear days' notice (in each case exclusive of the day on which the notice is served or deemed to be served and of the day for which it is given). The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five (95) per cent in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers;
- (ee) the fixing of the remuneration of the directors and of the auditors;
- (ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty (20) per cent in nominal value of its existing issued share capital; and
- (gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Cayman Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(k) Power for the Company to purchase its own shares

The Company is empowered by the Cayman Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

(l) Power for any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

(m) Dividends and other methods of distribution

Subject to the Cayman Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealized, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Cayman Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(o) Call on shares and forfeiture of shares

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty (20) per cent. per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty (20) per cent. per annum as the board determines.

(p) Inspection of register of members

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours on every business day by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Cayman Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

(q) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarised in paragraph 3(f) of this Appendix V.

(s) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Cayman Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Cayman Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Cayman Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Cayman Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Cayman Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Cayman Companies Law); (d) writing-off the preliminary expenses of the company; (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course business.

The Cayman Companies Law provides that, subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) Financial assistance to purchase shares of a company or its holding company

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

Subject to the provisions of the Cayman Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner or purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of section 34 of the Cayman Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Cayman Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

(f) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the court shall direct.

Any shareholder of a company may petition the court which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Generally claims against a company by its Shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the Company's memorandum and articles of association.

(g) Management

The Cayman Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the Company's affairs and to explain its transactions.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Council:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 11 May, 2004.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Cayman Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the Company will have no general right under the Cayman Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. There is no requirement under the Cayman Companies Law for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

(n) Winding up

A company may be wound up by either an order of the court or by a special resolution of its members. The court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum expires, or the event occurs on the occurrence of which the memorandum provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval. A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (*pari passu* if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting shall be called by Public Notice (as defined in the Cayman Companies Law) or otherwise as the Registrar of Companies may direct.

(o) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five (75) per cent. in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Courts. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(p) Compulsory acquisition

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than ninety (90) per cent. of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court of the Cayman Island within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(q) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Cayman Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix VII. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

FURTHER INFORMATION ABOUT THE COMPANY**Incorporation of the Company**

The Company was incorporated in the Cayman Islands under the Cayman Companies Law as an exempted company with limited liability on 27 April 2004. It changed its name from “GST Holdings Limited” to “GST Investment Limited” and then to “GST Holdings Limited 海灣控股有限公司” by written resolutions of the shareholders of the Company dated 8 March, 2005. The Company has established a place of business in Hong Kong at Suite 6308, 63rd Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong and was registered on 7 January, 2005 as an oversea company in Hong Kong under Part XI of the Hong Kong Companies Ordinance, with Mr Kong Wai Kit of Room 3407, 34th Floor, Kam Yee House, Kam Ying Court, Shatin, Hong Kong appointed as the agent of the Company for the acceptance of service of process and notices on behalf of the Company in Hong Kong.

As the Company was incorporated in the Cayman Islands, it operates subject to the Cayman Companies Law and to its constitution which comprises the Memorandum and Articles of Association. A summary of certain relevant parts of the Company’s constitution and relevant aspects of Cayman Islands companies law is set out in Appendix V to this prospectus.

Changes in share capital of the Company

As at the date of incorporation of the Company, its authorized share capital was HK\$380,000 divided into 3,800,000 shares of HK\$0.10 each. On 9 September, 2004, one subscriber’s share of HK\$0.10 in the Company, which was issued nil paid, was allotted and issued to the initial subscriber and was transferred to GST International Management on the same day.

On 20 December, 2004, pursuant to the share exchange deed in relation to the sale and purchase of shares in GST Group International referred to in the paragraph headed “Summary of material contracts” in this Appendix, the Company acquired from GST International Management the entire issued share capital of GST Group International and in consideration thereof, (i) 999,999 Shares, credited as fully paid, were allotted and issued to GST International Management and (ii) the 1 Share which was allotted and issued nil paid on 9 September, 2004 was credited as fully paid at par.

On 22 December, 2004, the then 131,463 unissued shares of HK\$0.10 each in the capital of the Company were converted into 131,463 Series A Preferred Shares and the remaining 3,668,537 shares of HK\$0.10 each in the capital of the Company (comprising 1,000,000 Shares registered in the name of GST International Management and 2,668,537 unissued shares) were designated as 3,668,537 common shares of HK\$0.10 each in the Company (“Common Shares”).

On 22 December, 2004, pursuant to an investment agreement in relation to the subscription and sale and purchase of shares in the Company referred to in the paragraph headed “Summary of material contracts” in this Appendix, 3i, 3i Asia Pacific and 3i APTech acquired 17,118 Common Shares, 23,965 Common Shares and 13,694 Common Shares respectively from GST International Management and the Company allotted and issued 41,082 Series A Preferred Shares, 57,515 Series A Preferred Shares and 32,866 Series A Preferred Shares to 3i and the respective nominees of 3i Asia Pacific and 3i APTech. On the same day, all the Common Shares acquired by the Investors were redesignated as Series A Preferred Shares. As a result, GST International Management beneficially

owned 945,223 Common Shares, 3i beneficially owned 58,200 Series A Preferred Shares, 3i Asia Pacific beneficially owned 81,480 Series A Preferred Shares and 3i APTech beneficially owned 46,560 Series A Preferred Shares.

On 7 June, 2005, the authorized share capital of the Company was increased from HK\$380,000 to HK\$200,000,000 by the creation of an additional 1,996,200,000 Common Shares which shall upon conversion of all Series A Preferred Shares form a single class of Shares ranking pari passu in all respects with each other.

Conditional on (i) the Listing Committee granting the listing of, and permission to deal in, the Shares (including any additional Shares to be issued pursuant to the exercise of the Over-allotment Option) and (ii) the respective obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including the waiver of any conditions by the Global Co-ordinator on behalf of the Underwriters) and not being terminated in accordance with the terms of the respective Underwriting Agreements or otherwise, in each case, at or before 8:00 a.m. on 30 June, 2005 (or such other date and time as may be agreed between Morgan Stanley and the Company in writing), the 186,240 Series A Preferred Shares beneficially owned by the Investors as at the date of this prospectus will be converted, re-designated and re-classified as 186,240 Common Shares which shall rank pari passu in all respects with the existing Common Shares in issue so that immediately following such conversion, there will only be one single class of shares in the share capital of the Company and the Company will have an authorized share capital of HK\$200,000,000 divided into 2,000,000,000 Shares. Accordingly, the authorized and issued share capital of the Company immediately following completion of the Global Offering and the Capitalisation Issue will consist of ordinary shares in the share capital of the Company, with a nominal value of HK\$0.10 each.

Assuming that the Global Offering becomes unconditional, the conversion of the Series A Preferred Shares, and the issue of the Offer Shares and the issue of Shares pursuant to the Capitalization Issue mentioned herein are made, but taking no account of any Shares which may be issued upon the exercise of the Over-allotment Option, the authorized share capital of the Company will be HK\$200,000,000 divided into 2,000,000,000 Shares and the issued share capital of the Company will be HK\$80,000,000 divided into 800,000,000 Shares fully paid or credited as fully paid, with 1,200,000,000 Shares remaining unissued. Other than Shares to be issued under the Capitalization Issue and pursuant to any options which may be granted under the Share Option Scheme, pursuant to the exercise of the Over-allotment Option or pursuant to the exercise of the general mandate to issue shares referred to in the paragraph headed “Written Resolutions of the shareholders of the Company passed on 7 June, 2005” in this Appendix, there is no present intention to issue any part of the authorized but unissued share capital of the Company and, without prior approval of the Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of the Company.

Save as disclosed in this prospectus, there has been no alteration in the share capital of the Company since its incorporation.

Written resolutions of the shareholders of the Company passed on 7 June, 2005

On 7 June, 2005, written resolutions of the shareholder and holders of the Series A Preferred Shares of the Company were passed pursuant to which, among other things:

- (1) the authorized share capital of the Company was increased from HK\$380,000 to HK\$200,000,000 by the creation of an additional 1,996,200,000 Common Shares and all the shares in the share capital of the Company shall upon conversion of all Series A Preferred Shares form a single class of Shares ranking *pari passu* in all respects with each other;
- (2) conditional on the share premium account of the Company being credited as a result of the Global Offering, the Directors were authorized to allot and issue a total of 598,868,537 Shares, by way of capitalization of the sum of HK\$59,886,853.70 standing to the credit of the share premium account of the Company, credited as fully paid at par to the shareholder and holders of the Series A Preferred Shares as appearing on the register of members of the Company on the date of this prospectus, i.e. GST International Management as to 500,294,146 Shares, 3i as to 30,804,497 Shares, 3i Nominees Limited (as nominee of 3i Asia Pacific) as to 43,126,296 Shares and 3i APTech Nominees Limited (as nominee of 3i APTech) as to 24,643,598 Shares;
- (3) conditional on (i) the Listing Committee granting approval of the listing of, and permission to deal in, the Shares in issue and the Shares to be issued as mentioned herein (including any Shares which may be issued pursuant to the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme); and (ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) by Morgan Stanley, on behalf of the Underwriters) and not being terminated in accordance with the terms of such agreements or otherwise, in each case at or before 8:00 a.m. on 30 June, 2005 (or such other date and time as may be agreed between Morgan Stanley and the Company in writing):
 - (a) the Global Offering and the Over-allotment Option were approved and the Directors were authorized to allot and issue the Offer Shares and any Shares which may be required to be issued if the Over-allotment Option is exercised; and
 - (b) the rules of the Share Option Scheme were approved and the Directors were authorized, at their absolute discretion, to grant options to subscribe for Shares thereunder and to allot, issue and deal with the Shares issued pursuant to the exercise of subscription rights under any options which may be granted under the Share Option Scheme and to take all such steps as they consider necessary or desirable to implement the Share Option Scheme;
- (4) a general unconditional mandate was given to the Directors to exercise all the powers of the Company to allot, issue and deal with, otherwise than by way of rights or an issue of shares pursuant to the exercise of any options which may be granted under the Share Option Scheme or any other option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries or any other person of shares or rights to acquire shares or any scrip dividend schemes or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles of

Association or a specific authority granted by the Shareholders in general meeting, Shares with a total nominal value not exceeding 20% of the total nominal value of the share capital of the Company in issue immediately following completion of the Capitalization Issue and the Global Offering, such mandate to remain in effect until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association or any other applicable laws of the Cayman Islands to be held; or
 - (iii) the passing of an ordinary resolution of the Shareholders in general meeting revoking, varying or renewing such mandate;
- (5) a general unconditional mandate was given to the Directors authorising them to exercise all powers of the Company to repurchase on the Stock Exchange or on any other stock exchange on which the securities of the Company may be listed and which is recognized by the SFC and the Stock Exchange for this purpose such number of Shares with a total nominal value as will represent up to 10% of the total nominal value of the share capital of the Company in issue immediately following completion of the Capitalization Issue and the Global Offering, such mandate to remain in effect until whichever is the earliest of:
- (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association or any other applicable laws of the Cayman Islands to be held; or
 - (iii) the passing of an ordinary resolution of the Shareholders in general meeting revoking, varying or renewing such mandate;
- (6) the general unconditional mandate mentioned in paragraph (4) above was extended by the addition to the aggregate nominal value of the share capital of the Company which may be allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of the Company repurchased by the Company pursuant to the mandate to repurchase Shares referred to in paragraph (5) above provided that such extended amount shall not exceed 10% the total nominal value of the share capital of the Company in issue immediately following completion of the Capitalization Issue and the Global Offering;
- (7) the share capital of the Company immediately following conversion of the Series A Preferred Shares shall form one single class of Shares ranking *pari passu* in all respects with each other; and
- (8) conditional on (i) the Listing Committee granting the listing of, and permission to deal in, any Shares in issue and the Shares to be issued as mentioned herein (including any Shares which may be issued pursuant to the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme); (ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if

relevant, as a result of the waiver of any condition(s) by Morgan Stanley, on behalf of the Underwriters) and not being terminated in accordance with the terms of such agreements or otherwise, in each case at or before 8:00 a.m. on 30 June 2005 (or such other date and time as may be agreed between Morgan Stanley and the Company in writing); and (iii) the conversion of the Series A Preferred Shares, the Articles of Association be adopted in substitution for and to the exclusion of all the existing articles of association of the Company.

Corporate reorganization

The companies comprising the Group underwent a reorganization to rationalize the Group's structure in preparation for the listing of the Shares on the Stock Exchange. As a result, the Company became the holding company of the Group. The major steps of the reorganization involved the following:

- (a) On 17 March, 2004, GST Group International, a company with limited liability with an authorized share capital of US\$50,000 divided into 5,000,000 shares of US\$0.01 each, was incorporated in the BVI and one share of US\$0.01 in the capital of GST Group International was allotted and issued to GST International Management for cash at par on 25 March, 2004.
- (b) A share transfer agreement dated 19 March, 2004 was entered into between Hebei Gulf as transferor and Beijing Software as transferee whereby Hebei Gulf agreed to transfer its interest in Qinhuangdao Environmental to Beijing Software in cash at a consideration of approximately RMB1,534,416.
- (c) A share transfer agreement dated 19 March, 2004 was entered into between Hebei Gulf as transferor and Beijing Software as transferee whereby Hebei Gulf agreed to transfer its interest in Beijing Environmental to Beijing Software in cash at a consideration of approximately RMB602,531.
- (d) A share transfer agreement dated 19 March, 2004 was entered into between Hebei Gulf as transferor and Beijing Software as transferee whereby Hebei Gulf agreed to transfer its interest in Beijing Gulf to Beijing Software in cash at a consideration of approximately RMB974,776.
- (e) A share transfer agreement dated 19 March, 2004 was entered into between Hebei Gulf as transferor and Beijing Gulf as transferee whereby Hebei Gulf agreed to transfer its interest in Beijing Software to Beijing Gulf in cash at a consideration of RMB2,000,000.
- (f) On 24 March, 2004, the Beijing Municipal Administration for Industry and Commerce issued a business license and approved the establishment of Beijing Gulf Engineering as a limited liability company in the PRC with a total registered capital of RMB10,000,000 and Beijing Gulf Engineering was held as to 50% by Gulf Group and as to 50% by Hebei Gulf.
- (g) A share transfer agreement dated 5 April, 2004 was entered into between Gulf Group, Beijing Software, Beijing Gulf, Beijing Gulf Property and Hebei Gulf as transferors and GST Group International as transferee whereby Gulf Group, Beijing Software, Beijing Gulf, Beijing Gulf Property and Hebei Gulf agreed to transfer the entire interest in GST to GST Group International in cash at a total consideration of RMB110,500,000.

- (h) An assets and business acquisition agreement dated 5 April, 2004 was entered into between Gulf Group as vendor and Gulf Meters as purchaser whereby Gulf Group agreed to sell and Gulf Meters agreed to purchase the assets and business of the electric power meters department of Gulf Group in cash at a total consideration of RMB5,500,000.
- (i) On 12 April, 2004, the Hebei Provincial Department for Commerce (河北省商務廳) approved the transformation of GST from a joint stock company to a wholly foreign owned enterprise in the PRC with a total registered capital of US\$7,860,000 and GST became a wholly owned subsidiary of GST Group International. On 14 April, 2004, the People's Government of Hebei Province (河北省人民政府) issued a certificate of approval for establishment of enterprises with foreign investment in the PRC and the Hebei Provincial Administration for Industry and Commerce (河北省工商行政管理局) issued a business license on 16 April 2004.
- (j) On 12 April, 2004, the Hebei Provincial Department for Commerce (河北省商務廳) approved the establishment of Gulf Network as a wholly foreign owned enterprise in the PRC with a total registered capital of US\$1,000,000 and Gulf Network became a wholly owned subsidiary of GST Group International. On 14 April, 2004, the People's Government of Hebei Province (河北省人民政府) issued a certificate of approval for establishment of enterprises with foreign investment in the PRC and the Hebei Provincial Administration for Industry and Commerce (河北省工商行政管理局) issued a business license on 16 April, 2004.
- (k) An assets and business acquisition agreement dated 16 April 2004 was entered into between Qinhuangdao GST as vendor and Gulf Network as purchaser whereby Qinhuangdao GST agreed to sell and Gulf Network agreed to purchase the assets and business of Qinhuangdao GST in cash at a total consideration of RMB1,750,000.
- (l) A share transfer agreement dated 18 April, 2004 entered into between Hebei Gulf as transferor and Beijing Gulf as transferee whereby Hebei Gulf agreed to transfer the interest in Chongqing Gulf to Beijing Gulf at a consideration of RMB500,000.
- (m) A share transfer agreement dated 19 April, 2004 was entered into between Gulf Group, Beijing Software, Gulf Network and GST whereby (i) Gulf Group agreed to transfer its interest in Hebei Gulf (representing the then 70% of the interest in Hebei Gulf) to GST in consideration of RMB10,592,050 and (ii) Beijing Software agreed to transfer its interest in Hebei Gulf (representing the then remaining 20% and 10% of the interest in Hebei Gulf) to Gulf Network and GST respectively in consideration of RMB3,026,300 and RMB1,513,150 respectively. As a result, Hebei Gulf was held by GST as to 80% and Gulf Network as to 20%.
- (n) A share transfer agreement dated 19 April, 2004 was entered into between Gulf Group as transferor and GST as transferee whereby Gulf Group agreed to transfer the interest in Beijing Gulf Engineering, representing 50% of the interest in Beijing Gulf Engineering, to GST in cash at a consideration of RMB5,000,000. As a result, Beijing Gulf Engineering was held by GST as to 50% and Hebei Gulf as to 50%.

- (o) An assets and business acquisition agreement dated 30 April, 2004 was entered into between Gulf Group as vendor and Beijing Gulf Engineering as purchaser whereby Gulf Group agreed to sell and Beijing Gulf Engineering agreed to purchase the assets and business of the system installation department of Gulf Group in cash at a consideration of RMB1,955,400.
- (p) On 23 April, 2004, the Beijing Municipal Commission of Foreign Trade and Economic Cooperation of Chaoyang District (北京市朝陽區對外經濟貿易委員會) approved the establishment of Gulf Meters as a wholly foreign owned enterprise in the PRC with a total registered capital of US\$1,200,000 and Gulf Meters became a wholly owned subsidiary of GST Group International. On 23 April, 2004, the People's Government of Beijing Municipality (北京市人民政府) issued a certificate of approval for establishment of enterprises with foreign investment in the PRC and the Beijing Municipal Administration of Industry and Commerce issued a business license and approved the establishment of Gulf Meters as a wholly foreign owned enterprise in the PRC on 10 May, 2004.
- (q) On 21 June, 2004, GST transferred 25,500 shares of £1.00 each in GST plc, representing 51% of the issued share capital of GST plc, to GST Group International.
- (r) On 1 July, 2004, the registered capital of Beijing Gulf Engineering was increased from RMB10,000,000 to RMB15,000,000 and the Beijing Municipal Administration for Industry and Commerce (北京市工商行政管理局) issued a new business license on 13 July, 2004. GST and Hebei Gulf contributed RMB4,000,000 and RMB1,000,000 respectively to the registered capital of Beijing Gulf Engineering. As a result, Beijing Gulf Engineering was held by GST as to 60% and Hebei Gulf as to 40%.
- (s) A share exchange deed dated 20 December, 2004 was entered into between, among others, GST International Management and the Company whereby GST International Management agreed to sell to the Company the entire issued share capital of GST Group International in consideration of the Company allotting and issuing to GST International Management a total of 999,999 shares credited as fully paid. The Company also credited as fully paid at par of the 1 share which was allotted and issued as nil paid to GST International Management on 9 September, 2004.
- (t) A share transfer agreement dated 15 January, 2005 was entered into between GST as transferor and Beijing Gulf Engineering as transferee whereby GST agreed to transfer the interest in Shanghai Gulf, representing 90% of the interest in Shanghai Gulf, to Beijing Gulf Engineering at a consideration of RMB4,710,000. As a result, Shanghai Gulf was held by Beijing Gulf Engineering as to 90% and Hebei Gulf as to 10%.
- (u) A share transfer agreement dated 25 January, 2005 was entered into between Xu Weidong as transferor and Hebei Gulf as transferee whereby Xu Weidong agreed to transfer his interest in Beijing GST, representing 2% of the interest in Beijing GST, to Hebei Gulf at a consideration of RMB63,925. As a result, Beijing GST was held by GST as to 80% and Hubei Gulf as to 20%.
- (v) On 4 March, 2005, the Qinhuangdao Municipal Labour Services Cooperation Service Centre (秦皇島市勞務協作服務中心) and Qinhuangdao Municipal Labour and Social Security Bureau (秦皇島市勞動和社會保障局) approved the establishment of Gulf Labour as a labour service company in the PRC. On 9 March, 2005, the Qinhuangdao Municipal Administration of Industry and Commerce (秦皇島市工商行政管理局) issued a business

license. Gulf Labour was established as a limited liability company in the PRC with a total registered capital of RMB500,000 and is held as to 80% by GST and as to 20% by Hebei Gulf.

Changes in the share capital of subsidiaries of the Company

The Company's subsidiaries are referred to in the Accountants' Report for the Company, the text of which is set out in Appendix I to this prospectus.

The following alterations in the share capital of the Company's subsidiaries have taken place within the two years preceding the date of this prospectus:

- (a) On 17 March, 2004, GST Group International, a company with limited liability with an authorized share capital of US\$50,000 divided into 5,000,000 shares of US\$0.01 each, was incorporated in the BVI and one share of US\$0.01 in the capital of GST Group International was allotted and issued to GST International Management for cash at par on 25 March, 2004.
- (b) On 24 March, 2004, Beijing Gulf Engineering was established by Gulf Group and Hebei Gulf as a limited liability company in the PRC with a total registered capital of RMB10,000,000 and Beijing Gulf Engineering is held as to 50% by Gulf Group and as to 50% by Hebei Gulf.
- (c) On 12 April 2004, the registered capital of GST was converted from RMB65,000,000 to US\$7,860,000.
- (d) On 16 April 2004, Gulf Network was established by GST Group International as a wholly foreign owned enterprise in the PRC with a registered capital of US\$1,000,000 and Gulf Network became a wholly owned subsidiary of GST Group International.
- (e) On 10 May, 2004, Gulf Meters was established by GST Group International as a wholly foreign-owned enterprise in the PRC with a registered capital of US\$1,200,000 and Gulf Meters became a wholly owned subsidiary of GST Group International.
- (f) On 1 July, 2004, the registered capital of Beijing Gulf Engineering was increased from RMB10,000,000 to RMB15,000,000 and the Beijing Municipal Administration for Industry and Commerce (北京市工商行政管理局) issued a new business license on 13 July, 2004. GST and Hebei Gulf contributed RMB4,000,000 and RMB1,000,000 respectively to the registered capital of Beijing Gulf Engineering. As a result, Beijing Gulf Engineering was held by GST as to 60% and Hebei Gulf as to 40%.
- (g) On 4 March, 2005, the Qinhuangdao Municipal Labour Services Cooperation Service Centre (秦皇島市勞務協作服務中心) and Qinhuangdao Municipal Labour and Social Security Bureau (秦皇島市勞動和社會保障局) approved the establishment of Gulf Labour as a labour service company in the PRC. On 9 March, 2005, the Qinhuangdao Municipal Administration for Industry and Commerce (秦皇島市工商行政管理局) issued a business license. Gulf Labour was established as a limited liability company in the PRC with a total registered capital for RMB500,000 and is held as to 80% by GST and as to 20% by Hebei Gulf.

Save as aforesaid and as set out in the section headed “Corporate reorganization”, there has been no alteration in the share capital of the subsidiaries of the Company within the two years preceding the date of this prospectus.

Information on the PRC entities within the Group

1.

Name:

海灣安全技術有限公司
(Gulf Security Technology Company Limited*)

Nature:

wholly foreign owned enterprise established in the PRC

Term:

25 April, 2000 to 15 April, 2024

Total investment:

US\$7,860,000

Registered capital:

US\$7,860,000 (fully paid)

Attributable interest of the Group:

100%

Legal representative:

Song Jiacheng

Scope of business:

Research, development, manufacturing and sales of fire alarm systems, video entry systems and building automation systems
2.

Name:

秦皇島海灣消防網絡有限公司
(Qinhuangdao Gulf Fire Prevention Network Company Limited*)

Nature:

wholly foreign owned enterprise established in the PRC

Term:

16 April 2004 to 16 April 2024

Total investment:

US\$1,000,000

Registered capital:

US\$1,000,000 (fully paid)

Attributable interest of the Group:

100%

Legal representative:

Yan Zhiming

Scope of business:

Research, development, manufacturing and sales of fire alarm network systems and 119 network systems

3.	Name:	北京海灣電力儀錶有限公司 (Beijing Gulf Electric Meters Company Limited*)
	Nature:	wholly foreign owned enterprise established in the PRC
	Term:	10 May, 2004 to 9 May, 2024
	Total investment:	US\$1,200,000
	Registered capital:	US\$1,200,000 (fully paid)
	Attributable interest of the Group:	100%
	Legal representative:	Peng Kaichen
	Scope of business:	Research, development, manufacturing and sales of electronic power metres
4.	Name:	北京海灣威爾電子工程有限公司 (Beijing Gulf Wei'er Electrical Engineering Company Limited*)
	Nature:	limited liability company established in the PRC
	Term:	24 March, 2004 to 23 March, 2024
	Registered capital:	RMB15,000,000 (fully paid)
	Attributable interest of the Group:	100%
	Legal representative:	Yu Zhihong
	Scope of business:	Provision of building installation services of low-voltage systems
5.	Name:	河北海灣電氣工程有限公司 (Hebei Gulf Electrical Engineering Company Limited*)
	Nature:	limited liability company established in the PRC
	Term:	24 September, 1996 to 23 September, 2008
	Registered capital:	RMB\$13,000,000 (fully paid)
	Attributable interest of the Group:	100%
	Legal representative:	Zhang Guojun
	Scope of business:	Provision of building installation services of low-voltage systems

6.

Name:

上海海灣自控技術有限公司
(Shanghai Gulf Automation Technology Company Limited*)

Nature:

limited liability company established in the PRC

Term:

20 January, 1999 to 19 January, 2009

Registered capital:

RMB2,000,000 (fully paid)

Attributable interest of the Group:

100%

Legal representative:

Cao Yu

Scope of business:

Sales of fire alarm systems, video entry systems and building automation system, and the company has been dormant since 2003.
7.

Name:

廣州海灣威爾自控技術有限公司
(Guangzhou Gulf Wei'er Automation Technology Company Limited*)

Nature:

limited liability company established in the PRC

Term:

Not defined in the business licence

Registered capital:

RMB2,000,000 (fully paid)

Attributable interest of the Group:

100%

Legal representative:

Cao Yu

Scope of business:

Sales of fire alarm systems, video entry systems and building automation systems, and the company has been dormant since 2003.
8.

Name:

北京海灣安全技術有限公司
(Beijing Gulf Security Technology Company Limited*)

Nature:

limited liability company established in the PRC

Term:

26 July, 1996 to 25 July, 2006

Registered capital:

RMB5,000,000 (fully paid)

Attributable interest of the Group:

100%

Legal representative:

Cao Yu

Scope of business:

Sales of fire alarm systems, video entry systems and building automation systems, and the company has been dormant since 2003.

9.	Name:	秦皇島海灣勞務派遣有限公司 (Qinhuangdao Gulf Labour Services Company Limited*)
	Nature:	limited liability company established in the PRC
	Term:	9 March, 2005 to 8 March, 2025
	Registered capital:	RMB500,000 (fully-paid)
	Attributable interest of the Group:	100%
	Legal representative:	Peng Kaichen
	Scope of business:	Provision of human resources services
10.	Name:	秦皇島市城安消防網絡有限公司 (Qinhuangdao Chengan Fire Prevention Network Company Limited*)
	Nature:	limited liability company established in the PRC
	Term:	9 August, 2001 to 8 August, 2016
	Registered capital:	RMB2,000,000 (fully paid)
	Attributable interest of the Group:	35%
	Legal representative:	Yang Huajun
	Scope of business:	Sales of fire alarm network systems and 119 network systems
11.	Name:	南寧海灣消防網絡技術有限公司 (Nanning Gulf Fire Prevention Network Technology Company Limited*)
	Nature:	limited liability company established in the PRC
	Term:	19 September, 2001 to 19 September, 2011
	Registered capital:	RMB1,000,000 (fully-paid)
	Attributable interest of the Group:	25%
	Legal representative:	Chen Hongyue
	Scope of business:	Sales of fire alarm network systems and 119 network systems

12. Name:	重慶美源方大網絡有限責任公司 (Chongqing Meiyuan Fangda Network Company Limited*)
Nature:	limited liability company established in the PRC
Term:	Since 4 July, 2001
Registered capital:	RMB1,000,000 (fully-paid)
Attributable interest of the Group:	15%
Legal representative:	Peng Fang
Scope of business:	Sales of fire alarm systems and 119 network systems

Repurchase by the Company of its own securities

This section includes the information required by the Stock Exchange to be included in this prospectus concerning the repurchase by the Company of its own securities.

(a) *Regulations of the Listing Rules*

The Listing Rules permit companies whose primary listing is on the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important of which are summarized below:

(i) *Shareholders' approval*

All repurchases of securities on the Stock Exchange by a company with its primary listing on the Stock Exchange must be approved in advance by an ordinary resolution, either by way of general mandate or by specific approval in relation to specific transactions.

Note: Pursuant to the written resolutions of the shareholder and holders of the Series A Preferred Shares of the Company passed on 7 June, 2005, a general unconditional mandate was given to the Directors authorising any repurchase by the Company of Shares on the Stock Exchange or on any other stock exchange on which the securities of the Company may be listed and which is recognized by the SFC and the Stock Exchange of up to 10% of the total nominal value of the share capital of the Company in issue immediately following completion of the Capitalization Issue and the Global Offering, at any time until the conclusion of the next annual general meeting of the Company or the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association or any other applicable laws of the Cayman Islands to be held or the passing of an ordinary resolution of the Shareholders in general meeting revoking, varying or renewing such mandate, whichever occurs first.

(ii) *Source of funds*

Any repurchases must be financed out of funds legally available for the purpose in accordance with the Memorandum and Articles of Association and the applicable laws and regulations of the Cayman Islands.

(iii) Trading restrictions

A company is authorized to repurchase on the Stock Exchange or on any other stock exchange recognized by the SFC and the Stock Exchange the total number of shares which represent up to a maximum of 10% of the aggregate nominal value of the existing issued share capital of that company or warrants to subscribe for or purchase shares in the company representing up to 10% of the amount of warrants then outstanding at the date of the passing of the relevant resolution granting the repurchase mandate. A company may not issue or announce an issue of new securities of the type that have been repurchased for a period of 30 days immediately following a repurchase of securities (except pursuant to the exercise of warrants, share options or similar instruments requiring the company to issue securities which were outstanding prior to the repurchase) without the prior approval of the Stock Exchange. In addition, a company shall not repurchase its shares on the Stock Exchange if the purchase price is higher than 5% or more than the average closing market price for the 5 preceding trading days on which the shares in the company were traded on the Stock Exchange. A company is also prohibited from making securities repurchases on the Stock Exchange if the result of the repurchases would be that the number of the listed securities in public hands would fall below the relevant prescribed minimum percentage as required by the Stock Exchange, which is currently 25% in the case of the Company. A company shall procure that any broker appointed by it to effect the purchase of securities shall disclose to the Stock Exchange such information with respect to purchases made on behalf of the Company as the Stock Exchange may request.

(iv) Status of repurchased securities

The listing of all repurchased securities (whether on the Stock Exchange or otherwise) is automatically cancelled and the relevant certificates must be cancelled and destroyed. Under Cayman Islands law, a company's repurchased shares shall be treated as cancelled and the amount of the company's issued share capital shall be reduced by the aggregate nominal value of the repurchased shares accordingly although the authorized share capital of the company will not be reduced.

(v) Suspension of repurchase

Any securities repurchase programme is required to be suspended after a price-sensitive development has occurred or has been the subject of directors' decision until the price-sensitive information is made publicly available. In particular, during the period of one month immediately preceding the earlier of (i) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of the company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules) and (ii) the deadline for the company to publish an announcement of its results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcement, a company may not purchase its securities on the Stock Exchange unless the circumstances are exceptional. In addition, the Stock Exchange may prohibit repurchases of securities on the Stock Exchange if a company has breached the Listing Rules.

(vi) *Reporting requirements*

Repurchases of securities on the Stock Exchange or otherwise must be reported to the Stock Exchange in the prescribed form not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the business day following any day on which the company makes a repurchase of shares (whether on the Stock Exchange or otherwise). In addition, a company's annual report and accounts are required to disclose a monthly breakdown of securities repurchases made during the financial year under review, showing the number of securities repurchased each month (whether on the Stock Exchange or otherwise), the purchase price per share or the highest and lowest prices paid for all such repurchases and the aggregate prices paid. The directors' report is also required to contain reference to the purchases made during the year and the directors' reasons for making such purchases.

(vii) *Connected persons*

A company is prohibited from knowingly repurchasing securities on the Stock Exchange from a connected person (as defined under the Listing Rules) and a connected person shall not knowingly sell securities in the company to that company on the Stock Exchange.

(b) *Exercise of the Repurchase Mandate*

Exercise in full of the Repurchase Mandate, on the basis of 800,000,000 Shares in issue immediately after completion of the Capitalization Issue and the Global Offering could accordingly result in up to 80,000,000 Shares being repurchased by the Company during the period until (i) the conclusion of the next annual general meeting of the Company; (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association or any other applicable laws of the Cayman Islands to be held; or (iii) the revocation, variation or renewal of the Repurchase Mandate by ordinary resolution of the Shareholders in general meeting of the Company, whichever occurs first.

(c) *Reasons for repurchases*

Repurchases of Shares will only be made when the Directors believe that such a repurchase will benefit the Company and its Shareholders. Such repurchases may, depending on market conditions and funding arrangements at that time, lead to an enhancement of the net asset value of the Company and/or its earnings per Share.

(d) *Funding of repurchases*

In repurchasing Shares, the Company may only apply funds legally available for such purpose in accordance with its Memorandum and Articles of Association and the applicable laws and regulations of the Cayman Islands. The Company may not repurchase securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

(e) *General*

There might be a material adverse impact on the working capital or gearing position of the Company (as compared with the position disclosed in this prospectus) in the event that the Repurchase Mandate is exercised in full. However, the Directors do not propose to exercise the Repurchase Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or on its gearing positions which in the opinion of the Directors are from time to time appropriate for the Company.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate only in accordance with the Listing Rules and the applicable laws and regulations of the Cayman Islands.

None of the Directors nor, to the best of their knowledge, having made all reasonable enquiries, any of their respective associates (as defined in the Listing Rules), has any present intention, if the Repurchase Mandate is approved by the Shareholders, to sell any Shares to the Company or any of its subsidiaries.

No connected person (as defined in Listing Rules) of the Company has notified the Company that he or it has a present intention to sell any Shares to the Company or has undertaken not to do so, if the Repurchase Mandate is exercised.

If, as a result of a repurchase of Shares, a Shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purposes of the Hong Kong Code on Takeovers and Mergers (the "Code"). As a result, a Shareholder, or a group of Shareholders acting in concert (within the meaning of the Code), depending on the level of increase in the interest of the Shareholder(s), could obtain or consolidate control of the Company and become(s) obliged to make a mandatory offer in accordance with Rule 26 of the Code. Save as aforesaid, the Directors are not aware of any other consequence under the Code as a result of a repurchase of Shares made immediately after the listing of the Shares.

FURTHER INFORMATION ABOUT THE BUSINESS OF THE GROUP

Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Group within the two years preceding the date of this prospectus and are or may be material:

- (a) a share transfer agreement dated 19 March, 2004 entered into between Hebei Gulf as transferor and Beijing Software as transferee whereby Hebei Gulf agreed to transfer its interest in Qinhuangdao Environmental to Beijing Software at a consideration of RMB1,534,416.09;
- (b) a share transfer agreement dated 19 March, 2004 entered into between Hebei Gulf as transferor and Beijing Software as transferee whereby Hebei Gulf agreed to transfer its interest in Beijing Environmental to Beijing Software at a consideration of RMB602,531.35;

- (c) a share transfer agreement dated 19 March, 2004 entered into between Hebei Gulf as transferor and Beijing Software as transferee whereby Hebei Gulf agreed to transfer its interest in Beijing Gulf to Beijing Software at a consideration of RMB974,776.72;
- (d) a share transfer agreement dated 19 March, 2004 entered into between Hebei Gulf as transferor and Beijing Gulf as transferee whereby Hebei Gulf agreed to transfer its interest in Beijing Software to Beijing Gulf at a consideration of RMB2,000,000;
- (e) a share transfer agreement dated 5 April, 2004 entered into between Gulf Group, Beijing Software, Beijing Gulf, Beijing Gulf Property and Hebei Gulf as transferors and GST Group International as transferee whereby Gulf Group, Beijing Software, Beijing Gulf, Beijing Gulf Property and Hebei Gulf agreed to transfer the entire interest in 海灣安全技術股份有限公司 (Gulf Security Technology Joint Stock Company Limited*) (now known as GST) to GST Group International at a total consideration of RMB110,500,000;
- (f) an assets and business acquisition agreement dated 5 April, 2004 entered into between Gulf Group as vendor and Gulf Meters as purchaser whereby Gulf Group agreed to sell and Gulf Meters agreed to purchase the assets and business of the electric power meters department of Gulf Group at a total consideration of RMB5,500,000;
- (g) an assets and business acquisition agreement dated 16 April, 2004 entered into between Qinhuangdao GST as vendor and Gulf Network as purchaser whereby Qinhuangdao GST agreed to sell and Gulf Network agreed to purchase the assets and business of Qinhuangdao GST at a total consideration of RMB1,750,000;
- (h) a share transfer agreement dated 19 April, 2004 entered into between Gulf Group, Beijing Software, Gulf Network and GST whereby (i) Gulf Group agreed to transfer its interest in Hebei Gulf to GST in consideration of RMB10,592,050 and (ii) Beijing Software agreed to transfer its interest in Hebei Gulf to Gulf Network and GST respectively in consideration of RMB3,026,300 and RMB1,513,150 respectively;
- (i) a share transfer agreement dated 19 April, 2004 entered into between Gulf Group as transferor and GST as transferee whereby Gulf Group agreed to transfer its interest in Beijing Gulf Engineering to GST at a consideration of RMB5,000,000;
- (j) an assets and business acquisition agreement dated 30 April, 2004 entered into between Gulf Group as vendor and Beijing Gulf Engineering as purchaser whereby Gulf Group agreed to sell and Beijing Gulf Engineering agreed to purchase the assets and business of the system integration department of Gulf Group at a total consideration of RMB1,955,400;
- (k) a share exchange deed dated 20 December, 2004 entered into between, among others, GST International Management and the Company whereby GST International Management agreed to sell and the Company agreed to purchase the entire issued share capital of GST Group International in consideration of the Company allotting and issuing to GST International Management a total of 999,999 Shares credited as fully paid and the crediting as fully paid at par of the 1 Share which was allotted and issued nil paid to GST International Management on 9 September, 2004;

* for identification purpose only

- (l) a deed of novation of shareholders, loan dated 22 December, 2004 entered into between the Company, GST International Management and GST Group International whereby the Company agreed to assume by way of novation all of the liabilities and obligations in respect of a shareholders' loan in an aggregate amount of US\$9,808,550 which was indebted by GST Group International to GST International Management as of 22 December, 2004;
- (m) an investment agreement dated 22 December, 2004 entered into between, among others, the Company, GST International Management and the Investors whereby GST International Management agreed to sell and the Investors agreed to purchase an aggregate of 54,777 Common Shares in consideration of US\$5,500,000 and the Investors agreed to subscribe for an aggregate of 131,463 Series A Preferred Shares in consideration of US\$15,000,000;
- (n) an investor rights agreement dated 22 December, 2004 entered into between, among others, the Company, GST International Management and the Investors whereby the Company agreed to grant certain rights to the Investors in relation to, inter alia, the management of the Company;
- (o) a share transfer agreement dated 15 January, 2005 entered into between GST as transferor and Beijing Gulf Engineering as transferee whereby GST agreed to transfer its interest in Shanghai Gulf at a consideration of RMB4,710,000;
- (p) a share transfer agreement dated 25 January, 2005 entered into between Xu Weidong as transferor and Hebei Gulf as transferee whereby Xu Weidong agreed to transfer his interest in Beijing GST to Hebei Gulf at a consideration of RMB63,925;
- (q) a settlement agreement dated 3 February, 2005 (the "Settlement Agreement") entered into between GST, 秦皇島市輕工紡織工業國有資產經營有限公司 (Qinhuangdao Municipal Light and Textile Industries State-owned Assets Operating Co., Ltd.*) and 秦皇島聯峰紡織集團有限公司 (Qinhuangdao Municipal Lianfeng Textile Group Co., Ltd.*) whereby the parties agreed that, among other things, (i) the liability of GST relating to two loans shall be limited to a maximum amount of RMB800,000; (ii) they shall perform their respective obligations under the Settlement Agreement to repay 中國信達資產管理公司石家莊辦事處 (The Shijiazhuang Office of China Xinda Asset Management Corporation*) ("Xinda") an aggregate amount of approximately RMB4.3 million on or before 31 March, 2005; and (iii) they shall procure Xinda to enter into a mediation agreement with the parties;
- (r) a letter of confirmation dated 21 February, 2005 entered into between Gulf Network as assignor and Qinhuangdao GST as assignee whereby Gulf Network agreed to assign and transfer its shareholdings in four companies, among others, (i) to Qinhuangdao GST at an aggregate consideration of RMB850,000; and (ii) subject to pre-emptive rights, Gulf Network has a right of first refusal to acquire Qinhuangdao GST's interest in these four companies;
- (s) a mediation agreement dated 5 April, 2005 (the "Mediation Agreement") entered into between GST, 秦皇島市輕工紡織工業國有資產經營有限公司 (Qinhuangdao Municipal Light and Textile Industries State-owned Assets Operating Co., Ltd.*) and Xinda whereby GST and 秦皇島市輕工紡織工業國有資產經營有限公司 (Qinhuangdao Municipal Light and

* for identification purpose only

Textile Industries State-owned Assets Operating Co., Ltd.*) shall repay the amount of RMB800,000 and RMB3,500,000 respectively to Xinda on or before 10 April, 2005. Upon such repayments, Xinda shall release GST from any and all claims in connection with the guarantee and withdraw the legal proceedings against GST in relation to its obligations under the two loans;

- (t) a service agreement dated 10 June, 2005 entered into between GST and Gulf Group whereby Gulf Group agreed to provide certain services to GST including, among other things, the provision of food and beverages to the employees and guests of GST served at employee's canteen of GST and the guests' restaurant of GST, transportation services, environmental maintenance services such as green-zone management services, security guards, and property management services and other related or similar services at an annual service fee of approximately RMB909,700 and approximately RMB1,046,000 respectively for each of the two years ending 31 December 2006;
- (u) a construction agreement dated 10 June, 2005 entered into between Beijing Gulf Engineering, Beijing Gulf Property and 北京城建四建设工程有限公司 (Beijing Chengjiansi Construction and Engineering Company Limited*) ("Beijing Chengjiansi") whereby Beijing Chengjiansi has appointed Beijing Gulf Engineering as a sub-contractor in providing building installation and maintenance services, including the supply and installation of water supply system for fire extinguishing purpose and fire alarm system and the design, supply and installation of low voltage building system of a property development of Beijing Gulf Property which is currently under construction in Beijing and the contracted construction fees under the agreement was RMB20,000,000;
- (v) a deed of indemnity dated 15 June, 2005 entered into between the Indemnifiers and the Company for itself and as trustee for its subsidiaries whereby the Indemnifiers have given certain indemnities in favour of the Group containing, among other things, the indemnities referred to in the sub-paragraph headed "Estate duty and tax indemnity" under the paragraph headed "Other Information" in this Appendix;
- (w) a deed of indemnity dated 15 June, 2005 given by GST International Management in favour of the Company whereby GST International Management has agreed to provide an indemnity in favour of the Group (i) from and against all claims, actions, losses, damages, liabilities, payments, costs and expenses (including professional fees) that the Group may suffer or incur arising out of or in connection with the use or occupation of properties of the Group with defective title; (ii) for any costs of relocation suffered by the relevant Group company in the event that it was evicted from the properties with defective title; and (iii) for any costs of relocation suffered by Gulf Meters in the event that Gulf Meters is evicted from certain properties situated at Yanxi Industrial Development Zone, Huairou, Beijing (北京市怀柔雁棲工業開發區) leased by Gulf Meters prior to the expiry of the tenancy agreement;
- (x) a deed of non-disposal undertaking dated 17 June, 2005 entered into between 3i, 3i Asia Pacific, 3i APTech, the Company and Morgan Stanley (for itself and on behalf of the Underwriters) whereby each of 3i, 3i Asia Pacific, 3i APTech severally undertakes with the Company and Morgan Stanley (for itself and on behalf of the Underwriters) not to dispose of the Shares owned by it;

* for identification purpose only

- (y) a deed of non-disposal undertaking dated 17 June, 2005 entered into between GST International Management in favour of the Company, Morgan Stanley and the Underwriters whereby GST International Management undertakes with each of the Company, Morgan Stanley and the Underwriters not to dispose of the Shares beneficially owned by it for a period of twelve months from the Listing Date; and
- (z) the Hong Kong Underwriting Agreement.

Intellectual property

(a) Patents

As at the Latest Practicable Date, the Group had registered the following patents in the PRC:

Patent	Type of Patent	Registrant	Registration number	Period of Validity
火災顯示盤 (Repeater panel)	External design	GST	ZL 99 3 11726.0	10 years commencing on 29 July, 1999
感煙探測器 II (Smoke detector II) . . .	External design	GST	ZL 99 3 11724.4	10 years commencing on 29 July, 1999
感溫探測器 (Heat detector)	External design	GST	ZL 99 3 11722.8	10 years commencing on 29 July, 1999
聲光報警器 (Sounder and strobe) . .	External design	GST	ZL 99 3 11721.X	10 years commencing on 29 July, 1999
紫外火焰探測器 (Ultra-violet flame detector)	External design	GST	ZL 00 3 00336.1	10 years commencing on 14 January, 2000
紅外光束感煙探測器 (Infrared beam smoke detector)	External design	GST	ZL 00 3 00335.3	10 years commencing on 14 January, 2000
手動報警按鈕 (Manual call points) . .	External design	GST	ZL 00 3 00334.5	10 years commencing on 14 January, 2000
家用光電感煙探測器 (Residential optical smoke detector)	External design	GST	ZL 01 3 21571.X	10 years commencing on 31 July, 2001
控制模塊 (Control module)	External design	GST	ZL 01 3 21573.6	10 years commencing on 31 July, 2001
電子巡更器 (Patrol system data collector)	External design	GST	ZL 01 3 21572.8	10 years commencing on 31 July, 2001
火災報警控制器 (GST 200) (Fire alarm control panel (GST200))	External design	GST	ZL 02 3 38184.1	10 years commencing on 21 August, 2002
隔爆紫外火焰探測器 (Explosion-proof ultra- violet flame detector) . .	External design	GST	ZL 02 3 38185.X	10 years commencing on 21 August, 2002

Patent	Type of Patent	Registrant	Registration number	Period of Validity
煙溫複合探測器 (Combined smoke and heat detector)	External design	GST	ZL 02 3 38183.3	10 years commencing on 21 August, 2002
可視對講機 (Video intercom)	External design	GST	ZL 03 3 05381.2	10 years commencing on 21 March, 2003
家用可燃氣體報警器 (Residential combustible gas detector)	Utility model	GST	ZL 98 2 04674.X	10 years commencing on 21 May, 1998
紫外火焰探測器 (Ultra-violet flame detector).	Utility model	GST	ZL 99 2 54358.4	10 years commencing on 22 November, 1999
線型紅外光束感煙探測器 (Linear infrared beam smoke detector)	Utility model	GST	ZL 99 2 57190.1	10 years commencing on 7 December, 1999
立式雙向散射型光電感煙探測器 (Upright backward and forward scattered optical smoke detector)	Utility model	GST	ZL 03 2 36048.7	10 years commencing on 17 January, 2003
電子編碼器 (Electronic programmer)	Invention	GST	ZL 99 1 23763.3	20 years commencing on 22 November, 1999
感煙探測器 (Smoke detector)	External design	GST	ZL 033580537	10 years commencing on 28 August, 2003
電話分機 (Handset)	External design	GST	ZL 03 3 51785.1	10 years commencing on 1 July, 2003
火災報警控制器 (GST100) (Fire alarm control panel (GST100))	External design	GST	ZL 2003 3 0101888.0	10 years commencing on 24 October, 2003
平板式可視對講室內機 (Handfree video handset)	External design	GST	ZL 2003 3 0101889.5	10 years commencing on 24 October, 2003
可視對講一體機 (Audio/video handset) .	External design	GST	ZL 200430050929.2	10 years commencing on 27 May, 2004
純對講機 (Audio handset)	External design	GST	ZL 200430050926.9	10 years commencing on 27 May, 2004
一種對講機組合安裝結構 (An installation structure of audio handset)	Utility model	GST	ZL 03 2 06097.1	10 years commencing on 23 July, 2003
立式後向散射型光電感煙探測器 (Upright backward scattered optical smoke detector).	Utility model	GST	ZL 03236047.9	10 years commencing on 17 January, 2003

Patent	Type of Patent	Registrant	Registration number	Period of Validity
數碼門口機 (IC卡) Digital entry panel (IC card type)	External design	GST	ZL 2004 3 0050932.4	10 years commencing on 27 May, 2004
一種兩線制通訊總線裝置 (Two wire bus communication device)	Invention	GST	ZL 02 1 29002.4	20 years commencing on 23 August, 2002

As at the Latest Practicable Date, the Group had applied for registration of the following patents in the PRC and such applications are still being processed:

Patent	Type of Patent	Applicant	Application number	Application Date
立式後向散射型光電 感煙探測器 (Upright backward scattered optical smoke detector).	Invention	GST	03100625.6	17 January, 2003
立式雙向散射型光電 感煙探測器 (Upright backward and forward scattered optical smoke detector)	Invention	GST	03100624.8	17 January, 2003
台式管理機 (Console-type control center).	External design	GST	200430050930.5	27 May, 2004
電子差定溫感溫探測器 (Rate-of-race and fixed temperature heat detector).	External design	GST	200430079034.1	13 August, 2004
煙溫覆合探測器 (GST 602) (Combined smoke and heat detector GST 602)	External design	GST	200430079033.7	13 August, 2004
光電感煙探測器 (GST 101) (Optical smoke detector GST 101).	External design	GST	200430079032.2	13 August, 2004
手動報警按鈕 II (Manual call points II).	External design	GST	200430088763.3	28 September, 2004

(b) Trademarks

As at the Latest Practicable Date, the Group has registered the following trademarks:

Trademark	Place of registration	Registrant	Class	Registration number	Period of validity
	PRC	GST	9	822495	10 years commencing on 14 March, 1996
	PRC	GST	9	987806	10 years commencing on 21 April 1997
	PRC	GST	37	1091929	10 years commencing on 28 August, 1997
	PRC	GST	42	1141717	10 years commencing on 7 January, 1998
	PRC	GST	1	1146279	10 years commencing on 28 January, 1998
	PRC	GST	38	1147903	10 years commencing on 28 January, 1998
	PRC	GST	9	1153206	10 years commencing on 21 February, 1998
	PRC	GST	1	1380062	10 years commencing on 7 April 2000
	PRC	GST	38	1388949	10 years commencing on 21 April 2000
	PRC	GST	37	1391831	10 years commencing on 28 April 2000
	PRC	GST	9	1393427	10 years commencing on 7 May, 2000
	PRC	GST	42	1394707	10 years commencing on 7 May, 2000
	PRC	GST	1	1425052	10 years commencing on 28 July, 2000
	PRC	GST	9	3377942	10 years commencing on 7 February, 2004
	PRC	GST	9	3377934	10 years commencing on 7 February, 2004
	PRC	GST	42	3377939	10 years commencing on 28 August, 2004
	PRC	GST	1	3377940	10 years commencing on 21 September, 2004

Trademark	Place of registration	Registrant	Class	Registration number	Period of validity
	PRC	GST	38	3377941	10 years commencing on 7 June, 2004
	PRC	GST	45	3377944	10 years commencing on 28 August, 2004
	PRC	GST	42	3377935	10 years commencing on 28 August, 2004
	PRC	GST	1	3377933	10 years commencing on 21 September, 2004
	PRC	GST	38	3377938	10 years commencing on 28 September, 2004
	PRC	GST	45	3377937	10 years commencing on 28 August, 2004
	UK	GST	9	2267436	10 years commencing on 17 April 2001
	United Arab Emirates	GST	9	33592	10 years commencing on 30 June, 2001

As at the Latest Practicable Date, the Group had applied for registration of the following trademarks and such applications are still being processed:

Trademark	Place of application	Applicant	Class	Application number	Application date
	PRC	GST	9	4236981	25 August, 2004
	PRC	GST	9	4236980	25 August, 2004
	PRC	GST	9	4236979	25 August, 2004

The following is a brief description of the classes referred to in the paragraph headed “Trademarks” above:

Class 1

Chemicals used in industry, science and photography, as well as in agriculture, horticulture and forestry; unprocessed artificial resins, unprocessed plastics; manures; fire extinguishing compositions; tempering and soldering preparations; chemical substances for preserving foodstuffs; tanning substances; adhesives used in industry.

Class 9

Scientific, nautical, surveying, photographic, cinematographic, optical, weighing, measuring, signalling, checking (supervision), life-saving and teaching apparatus and instruments; apparatus and instruments for conducting, switching, transforming, accumulating, regulating or controlling electricity; apparatus for recording, transmission or reproduction of

sound or images; magnetic data carriers, recording discs; automatic vending machines and mechanisms for coin operated apparatus; cash registers; calculating machines, data processing equipment and computers; fire-extinguishing apparatus.

Class 37

Building construction; repair; installation services.

Class 38

Telecommunications.

Class 42

Scientific and technological services and research and design relating thereto; industrial analysis and research services; design and development of computer hardware and software; legal services.

Class 45

Personal and social services rendered by others to meet the needs of individuals; security services for the protection of property and individuals.

(c) *Copyright for Computer Software*

As at the Latest Practicable Date, the Group has registered the following copyright for computer software in the PRC:

Software Product	Registrant	Registration number	Period of Validity
H6000家庭智能控制系統V1.0 (H6000 intelligent home automation system V1.0)	GST	2004SR05796	50 years commencing on 30 December, 2002
GST-119NET城市火災自動報警 監控管理網絡系統軟件V1.0 (GST-119NET fire alarm network supervision and management system software V1.0)	Gulf Network	2004SR10004	50 years commencing on 26 April, 2000
JK-TX-GST2000火災報警網絡 監控器程序軟件V1.0 (JK-TX-GST2000 fire alarm network supervision software V1.0)	Gulf Network	2004SR10003	50 years commencing on 26 April, 2000
GST110/119/120接警調度 指揮系統軟件V1.0 (GST 110/119/120 alarm receiving and disposing software V1.0).	Gulf Network	2004SR10005	50 years commencing on 7 May, 1998
樓宇自控系統V1.0 (Building automation systems V1.0).	GST	2004SR05798	50 years commencing on 15 November, 2002
可視對講系統V1.0 (Video entry systems V1.0).	GST	2004SR05797	50 years commencing on 30 December, 2002

Software Product	Registrant	Registration number	Period of Validity
門禁控制系統V1.0 (Access control systems V1.0) Institute of Software of China’s Academy of Science	GST	2004SR05799	50 years commencing on 10 March, 2003
智能建築集成管理 系統軟件V2.2 (iiBS software V2.2).	GST	2004SR05800	50 years commencing on 21 October, 2002
GSTnet 火災自動報警聯網 監控管理系統V1.0 (GSTNet fire alarm network supervision and management system V1.0).	Gulf Network	2004SR10000	50 years commencing on 22 August, 2001
GSTnet 光電模擬沙盤控制 管理系統V1.0 (GSTNet optical sand table simulation control system V1.0)	Gulf Network	2004SR09999	50 years commencing on 28 February, 2002
GST-119 消防調度指揮中心 系統V1.0 (GST-119 fire protection disposing center system V1.0)	Gulf Network	2004SR10002	50 years commencing on 6 April, 2000
GST-110/119/122 三台合一調度 指揮系統軟件V1.0 (GST-110/119/122 three-in-one alarm disposing system software V1.0).	Gulf Network	2004SR10001	50 years commencing on 30 March, 2004
單相電子式預付費電能錶 單片機程序V1.0 (Single-phase pre-paid power meter MCU program V1.0)	Gulf Meters	2005SR02974	50 years commencing on 13 October, 2001
單相電子式複費率電能錶 單片機程序V1.0 (Single-phase multi-tariff power meter MCU program V1.0)	Gulf Meters	2005SR02972	50 years commencing on 10 September, 2002
單相電子式載波電能錶 單片機程序V1.0 (Single-phase carrier wave power meter MCU program V1.0)	Gulf Meters	2005SR02973	50 years commencing on 8 June, 2001

(d) *Domain name*

As at the Latest Practicable Date, the Group has registered the following domain name:

Domain Name	Registrant
www.gst.com.cn.	GST

FURTHER INFORMATION ABOUT DIRECTORS, SENIOR MANAGEMENT AND STAFF

Directors

Immediately following completion of the Capitalization Issue and the Global Offering and taking no account of Shares which may be taken up pursuant to the Global Offering and the Shares to be issued pursuant to the exercise of the Over-allotment Option, the interests and short positions of the Directors and chief executives of the Company in the share capital, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7

and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have taken under such provisions) once the Shares are listed, or will be required, pursuant to section 352 of the SFO, to be entered in the register required to be kept therein once the Shares are listed, or will be required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules to be notified to the Company and the Stock Exchange once the Shares are listed, will be as follows:

Beneficial interests in the shares of associated corporations

<u>Name of associated corporation</u>	<u>Name of Director</u>	<u>Class and number of shares held in the associated corporation</u>	<u>Approximate shareholding percentage</u>
GST International Management	Mr Song Jiacheng	269,276 shares	26.9276%
GST International Management	Mr Zeng Jun	231,366 shares	23.1366%
GST International Management	Mr Cao Yu	157,781 shares	15.7781%
GST International Management	Mr Peng Kaichen	157,781 shares	15.7781%
GST International Management	Mr Xu Shaowen	52,560 shares	5.256%

Substantial Shareholders

Immediately following completion of the Capitalization Issue and the Global Offering, in addition to the interests disclosed under the paragraph headed “Directors” above, so far as the Directors are aware and taking no account of Shares which may be taken up pursuant to the Global Offering and the Shares to be issued pursuant to the exercise of the Over-allotment Option, the persons who have interests or short positions in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, will be as follows:

<u>Name of Substantial Shareholder</u>	<u>Capacity</u>	<u>Class and number of Shares</u>	<u>Approximate shareholding percentage</u>
GST International Management	Registered and beneficial owner	501,239,369	62.65%
3i Investments plc ⁽¹⁾	N/A	98,760,631 ⁽²⁾	12.35% ⁽³⁾
3i ⁽¹⁾	Registered and beneficial owner	98,760,631 ⁽²⁾	12.35% ⁽³⁾
3i Asia Pacific ⁽¹⁾	Beneficial owner	43,207,776	5.40%

Notes:

(1) 3i, which is a shareholder of the Company, is a company incorporated in England and having its shares listed on the London Stock Exchange. 3i legally and beneficially owns 30,862,697 Shares, representing approximately 3.86% of the issued share capital of the Company immediately following completion of the Global Offering and the Capitalization Issue.

3i Nominees Limited is a shareholder of the Company and acts as nominee of 3i Asia Pacific, an English limited partnership. 3i Asia Pacific beneficially owns 43,207,776 Shares, representing approximately 5.40% of the issued share capital of the Company immediately following completion of the Global Offering and the Capitalization Issue.

3i APTech Nominees Limited is a shareholder of the Company and acts as nominee of 3i APTech, an English limited partnership. 3i APTech beneficially owns 24,690,158 Shares, representing approximately 3.09% of the issued share capital of the Company immediately following completion of the Global Offering and the Capitalization Issue.

3i Investments plc, as the manager of these funds, has the discretionary power to control the exercise of the voting rights to the shares beneficially owned by 3i, 3i Asia Pacific and 3i APTech. Accordingly, 3i Investments plc is deemed to be interested in all the Shares held by 3i, 3i APTech Nominees Limited (as nominee of 3i APTech) and 3i Nominees Limited (as nominee of 3i Asia Pacific), being a total of 98,760,631 Shares, representing approximately 12.35% of the issued share capital of the Company immediately following completion of the Global Offering and the Capitalization Issue. 3i Investments plc is a company incorporated in England and is an indirect wholly owned subsidiary of 3i.

3i is a leading international venture capital group, with operations in Europe, Asia Pacific and US.

- (2) On the Listing Date, in addition to the 30,862,697 Shares beneficially owned by 3i, 3i will also be deemed to be interested in the Shares beneficially owned by 3i Asia Pacific and 3i APTech and will be interested or deemed to be interested in a total of 98,760,631 Shares. 3i Investments plc, as investment manager, will also be deemed to be interested in those Shares.
- (3) The 98,760,631 Shares represent the same interests and are therefore duplicated among 3i, 3i Investments plc and 3i Asia Pacific.

Immediately following completion of the Capitalization Issue and the Global Offering, so far as the Directors are aware and taking no account of Shares which may be taken up pursuant to the Global Offering and the Shares to be issued pursuant to the exercise of the Over-allotment Option, the persons who are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group (other than the Company) will be as follows:

<u>Name of subsidiary of the Company</u>	<u>Name of shareholder</u>	<u>Class and number of shares held in the subsidiary of the Company</u>	<u>Approximate shareholding percentage</u>
GST plc	Dominic Hugh Findlow	24,500 ordinary shares	49%

Save as disclosed herein and taking no account of Shares which may be taken up pursuant to the Global Offering and the Shares to be issued pursuant to the exercise of the Over-allotment Option, the Directors are not aware of any persons who will immediately following completion of the Capitalization Issue and the Global Offering be directly or indirectly interested in 10% or more of the Shares then in issue, or equity interest in any member of the Group representing 10% or more of the equity interest in such company, or who will have any interests or short positions in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Particulars of service agreements

Each of the executive Directors has entered into a service agreement with the Company. Particulars of these agreements, except as indicated, are in all material respects identical and are summarized below:

- (i) each service agreement is of an initial term of 3 years commencing on 1 June, 2005 and shall continue thereafter until terminated in accordance with the terms of the agreement. Under the agreement, either party may terminate the agreement at any time by giving to the other not less than 3 months' prior written notice;
- (ii) from 1 June, 2005 to 31 December, 2005, the annual salary for each of Mr Song Jiacheng, Mr Cao Yu, Mr Peng Kaichen and Mr Xu Shaowen shall be HK\$600,000, HK\$500,000, HK\$500,000 and HK\$400,000 respectively and accrued on a day to day basis. As from 1 January, 2006, the annual salary of each executive Director shall be as determined by the remuneration committee of the Board, provided that any increment of which shall not be more than 110% of the annual salary received by the executive Director for the immediate preceding year;
- (iii) each of Mr Song Jiacheng and Mr Xu Shaowen is entitled to occupy as licensee only a premise as the Company may specify from time to time during the continuance of his service as an executive Director;
- (iv) each of the executive Directors is entitled to a management bonus by reference to the audited consolidated net profits of the Group after taxation and minority interests but before extraordinary items (the "Net Profits") as the remuneration committee of the Board may, at its absolute discretion, approve provided that the aggregate amount of the management bonuses payable to all executive Directors in respect of any financial year of the Group shall not exceed 1% of the Net Profits for the relevant financial year; and
- (v) each of the executive Directors shall abstain from voting and not be counted in the quorum in respect of any resolution of the Board regarding the amount of annual salary and management bonus payable to himself.

Save as disclosed above, none of the Directors has entered or has proposed to enter into any service agreement with the Company or any other member of the Group (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

Directors' remuneration

The Company's policies concerning remuneration of the executive Directors are:

- (i) the amount of remuneration is determined on the basis of the relevant executive Director's experience, responsibility, workload and the time devoted to the Group;
- (ii) non-cash benefits may be provided to the executive Directors under their remuneration package; and
- (iii) the executive Directors may be granted, at the discretion of the Board, options pursuant to the Share Option Scheme, as part of their remuneration package.

An aggregate of approximately RMB679,000, RMB1,029,000 and RMB1,255,000, respectively were paid to the Directors as remuneration for the three financial years ended 31 December, 2002, 2003 and 2004. Further information in respect of the Directors' remuneration is set out in Appendix I to this prospectus.

It is expected that an aggregate of approximately HK\$2,874,500 (excluding any management bonus which may be paid) will be paid as remuneration to the Directors by the Group in respect of the financial year ending 31 December, 2005.

None of the Directors or any past directors of any member of the Group has been paid any sum of money for each of the three financial years ended 31 December, 2004 (i) as an inducement to join or upon joining the Company or (ii) for loss of office as a director of any member of the Group or of any other notice in connection with the management of the affairs of any member of the Group.

There has been no arrangement under which a Director has waived or agreed to waive any emoluments for the three financial years ended 31 December, 2004.

Mr Zeng Jun and Mr Lee Kwan Hung, Eddie, both being non-executive Directors, have been appointed for a term of 3 years, commencing on 9 September, 2004 and 22 December, 2004 respectively. Mr Zeng is entitled to occupy as licensee only a premise as the Company may specify from time to time during the continuance of his appointment as a non-executive Director. Mr Lee shall be entitled to receive an annual fee of HK\$60,000 in respect of his appointment as the alternate authorized representative of the Company for the purpose of Rule 3.05 of the Listing Rules. Save as aforesaid and save for the annual director's fee of HK\$120,000, none of the non-executive Directors is expected to receive any other remuneration for holding their office as a non-executive Director.

Mr Lee Kwan Hung, Eddie, a non-executive Director, is a partner of Woo, Kwan, Lee & Lo, the legal advisers to the Company on Hong Kong law in relation to the Listing and certain other transactions previously carried out by the Company, which firm has received and will receive normal remuneration in respect of professional services rendered.

Each of the independent non-executive Directors has been appointed for a term of 3 years, all commencing from 21 February, 2005, and will receive an annual director's fee of HK\$120,000. In addition to the director's fees, as from the Listing Date, Mr Chan Chi On shall be entitled to receive an annual fee of HK\$30,000 in respect of his appointment as the chairman of the remuneration committee and Mr Chang Tso Tung, Stephen shall be entitled to receive an annual fee of HK\$60,000 in respect of his appointment as the chairman of the audit committee. Save as disclosed above, none of the independent non-executive Directors is expected to receive any other remuneration for holding their office as an independent non-executive Director.

Mr. Chan Chi On, an independent non-executive Director, is an executive director of the holding company of Tai Fook Securities Company Limited, one of the co-managers under the Hong Kong Public Offering, which company is expected to receive an underwriting commission in connection with its underwriting of part of the Hong Kong Public Offer Shares which is of an insignificant amount.

Save as disclosed in Appendix I to this prospectus, no Director received any remuneration or benefits in kind from the Group for the three financial years ended 31 December, 2004. Particulars of emoluments paid to the five persons who received the highest emoluments from the Group for the three financial years ended 31 December, 2004 are set out in Note 12 to the Accountants' Report set out in Appendix I to this prospectus.

Each of Mr Song Jiacheng, Mr Zeng Jun, Mr Cao Yu, Mr Peng Kaichen and Mr Xu Shaowen, by virtue of his directorship (or then directorship) of Gulf Group, GST International Management and/or other companies in Gulf Group and its subsidiaries involved in the Reorganization, is or may be considered to be interested in the steps of Reorganization and in related transactions and arrangements.

Each of Mr Song Jiacheng, Mr Zeng Jun, Mr Cao Yu, Mr Peng Kaichen and Mr Xu Shaowen, by virtue of his interests in the shares in Gulf Group and/or his indirect interest in other companies in Gulf Group and its subsidiaries involved in the Reorganization, is or may be considered to be interested in the steps of Reorganization and in related transactions and arrangements.

Disclaimers

Save as disclosed herein:

- (1) none of the Directors or chief executive of the Company is aware of any other Director or chief executive of the Company who has any interests or short positions in any shares and underlying shares in, and debentures of, the Company or any associated corporation (within the meaning of the SFO) which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 & 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or which will be required pursuant to section 352 of the SFO to be entered in the register referred to in that section, or which will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules to be notified to the Company and the Stock Exchange once the Shares are listed;
- (2) none of the Directors nor any of the persons whose names are listed in the paragraph headed “Consents of experts” under the section headed “Other Information” in this Appendix is interested in the promotion of the Company or in any assets which have within the two years immediately preceding the issue of this prospectus been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;
- (3) none of the Directors is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Group;
- (4) none of the persons whose names are listed in the paragraph headed “Consents of experts” under the section headed “Other Information” in this Appendix has any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group;
- (5) none of the Directors has entered or has proposed to enter into any service agreements with the Company or any members of the Group (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation);

- (6) no cash, securities or other benefit has been paid, allotted or given within the two years preceding the date of this prospectus to the promoter of the Company nor, save as disclosed in this prospectus, is any such cash, securities or benefit intended to be paid, allotted or given on the basis of the Global Offering or related transaction as mentioned in this prospectus; and
- (7) so far as is known to the Directors, none of the Directors, their respective associates (as defined in the Listing Rules) or Shareholders who are interested in 5% or more of the issued share capital of the Company have any interests in the five largest customers or the five largest suppliers of the Group.

SHARE OPTION SCHEME

The following is a summary of the principal terms of the Share Option Scheme approved by the written resolutions of the shareholder and holders of the Series A Preferred Shares of the Company passed on 7 June, 2005:

(1) Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to provide the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to the Participants (as defined in paragraph (2) below) and for such other purposes as the Board may approve from time to time.

(2) Who may join

The Board may, at its absolute discretion, invite (i) any executive or non-executive directors including independent non-executive directors or any employees (whether full-time or part-time) of each member of the Group; (ii) any discretionary objects of a discretionary trust established by any employees, executive or non-executive directors of each member of the Group; (iii) any consultants, professional and other advisers to each member of the Group (or persons, firms or companies proposed to be appointed for providing such services); (iv) any chief executives or substantial shareholders of the Company; (v) any associates of director, chief executive or substantial shareholder of the Company; and (vi) any employees (whether full-time or part-time) of substantial shareholder of the Company (together, the “Participants” and each a “Participant”), to take up options (“Options”) to subscribe for Shares at a price calculated in accordance with paragraph (5) below. No performance target is required to be achieved before an Option can be exercised.

In determining the basis of eligibility of each Participant, the Board would take into account such factors as the Board may at its discretion consider appropriate.

(3) Grant of Options

Any grant of Options must not be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision, until such price sensitive information has been published pursuant to the requirements of the Listing Rules. In particular, during the period commencing one month immediately preceding the earlier of: (i) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of the Company’s results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and (ii) the deadline for the

Company to publish an announcement of its results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the relevant results announcement, no Option may be granted.

(4) Payment on acceptance of option offer

HK\$1.00 is payable by the Participant to the Company on acceptance of the option offer as consideration for the grant.

(5) Subscription price of Shares

Subject to any adjustments made as described in paragraph (12) below, the subscription price in respect of each Share issued under the Share Option Scheme will be a price solely determined by the Board and notified to a Participant and will be at least the highest of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of offer to the Participant, which must be a day on which licensed banks are open for business in Hong Kong and the Stock Exchange is open for the business of dealing in securities (a "Trading Day"); (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five consecutive Trading Days immediately preceding the date of offer to the Participant (provided that the new issue price for the listing of the Shares shall be used as the closing price for any Trading Day falling within the period before listing of the Shares if the Shares have been listed for less than 5 Trading Days before the date of offer to the Participant); and (iii) the nominal value of a Share.

(6) Maximum number of Shares available for subscription

- (i) At the time of adoption of the Share Option Scheme, the Company may seek approval of its Shareholders in a general meeting to authorize the Directors to grant options under the Share Option Scheme and any other share option schemes of the Company in issue entitling the grantees to exercise up to an aggregate of 80,000,000 Shares, representing 10% (the "Scheme Mandate Limit") of the total number of Shares in issue immediately following completion of the Global Offering (excluding (i) any Shares issued pursuant to the Share Option Scheme and any other share option schemes of the Company; and (ii) any pro rata entitlements to further Shares issued in respect of those Shares mentioned in (i)) unless the Company obtains a fresh approval from the Shareholders pursuant to sub-paragraph (2) below. Options lapsed in accordance with paragraph (17) below shall not be counted for the purpose of calculating the Scheme Mandate Limit.
- (ii) The Company may seek approval of the Shareholders in general meeting to refresh the Scheme Mandate Limit such that the total number of Shares in respect of which options may be granted under the Share Option Scheme and any other share option schemes of the Company in issue shall not exceed 10% (the "Refreshed Limit") of the issued share capital of the Company at the date of approval to refresh such limit (excluding (i) any Shares issued pursuant to the Share Option Scheme and any other share option schemes of the Company; and (ii) any pro rata entitlements to further Shares issued in respect of those Shares mentioned in (i)). Options previously granted under the Share Option Scheme (including those outstanding, cancelled, lapsed in accordance with the Share Option Scheme or exercised Options) shall not

be counted for the purpose of calculating the Refreshed Limit. In such a case, the Company shall send a circular to its Shareholders containing the information required under the Listing Rules.

- (iii) The Company may grant Options to specified Participant(s) beyond the Scheme Mandate Limit or Refreshed Limit if the grant of such Options is specifically approved by the Shareholders in general meeting. In such a case, the Company shall send a circular to its Shareholders containing the information required under the Listing Rules.

Notwithstanding the above and subject to paragraph (12) below, the maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company shall not exceed 30% of the total number of Shares in issue from time to time. No option may be granted under the Share Option Scheme and any share option schemes of the Company if this will result in the aforesaid 30% limit being exceeded.

The maximum number of Shares issued and to be issued upon exercise of the options granted and to be granted pursuant to the Share Option Scheme and any other share option schemes of the Company to each Participant (including both exercised and outstanding options) in any 12-month period up to and including the date of grant of the options shall not exceed 1% of the total number of Shares in issue.

Any further grant of Options to a Participant which would result in the Shares issued and to be issued upon exercise of all options granted and to be granted to such Participant under the Share Option Scheme and any other share option schemes of the Company (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the Shares in issue shall be subject to the Shareholders' approval in general meeting with such participant and his associates (as defined in the Listing Rules) abstaining from voting. The number of Shares subject to the Options to be granted and the terms of the Options to be granted to such Participants shall be fixed before the Shareholders' approval and the date of the meeting of the Board for proposing such further grant should be taken as the date of grant for the purpose of calculating the subscription price. In such a case, the Company shall send a circular to its Shareholders containing the information required under the Listing Rules.

(7) Requirements on granting options to connected persons

Any grant of Options to a Participant who is a director, chief executive or substantial shareholder (each as defined in the Listing Rules) of the Company or any of their respective associates (as defined in the Listing Rules) must be approved by the independent non-executive Directors (excluding an independent non-executive Director who is the relevant grantee). Where the Board proposes to grant any Option to a Participant who is a substantial shareholder or an independent non-executive Director or any of their respective associates and such Option which, if exercised in full, would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted pursuant to the Share Option Scheme and other share option schemes of the Company (including options exercised and outstanding) to such

Participant in the 12-month period up to and including the date of grant being proposed by the Board (the “Relevant Date”):

- (i) representing in aggregate more than 0.1% of the total number of Shares in issue at the Relevant Date; and
- (ii) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK\$5,000,000.

Such proposed grant of Options must be approved by the Shareholders on a poll in general meeting with the Participant concerned and all other connected persons (as defined in the Listing Rules) of the Company abstaining from voting in favour at such general meeting.

(8) Time of exercise of option

An Option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period of not more than 10 years to be notified by the Board to each grantee, which period shall commence on the date of grant of an option, and expire on the last day of such period as determined by the Board of grant of an option, but in any event not more than 10 years from the date of grant of the Option.

Unless otherwise determined by the Board and specified in the offer letter to be given to the Participant at the time of the offer of the Option, there is neither any performance target that needs to be achieved by the grantee before an Option can be exercised nor any minimum period for which an Option must be held before it can be exercised.

(9) Rights are personal to grantee

An Option may not be transferred or assigned and is personal to the grantee.

(10) Rights on ceasing employment or engagement

If the grantee of an option ceases to be a Participant for any reason other than on his death or termination of his employment, directorship office or appointment on one or more of the grounds specified in paragraph (17) below, the grantee may exercise the Option up to his entitlement on the date of such cessation (to the extent that it has not already been exercised) within the period of 3 months (or such longer period as the Board may determine) following the date of such cessation.

(11) Rights on death

If the grantee of an Option dies before exercising the Option in full and none of the events which would be a ground for termination of his employment, directorship office or appointment under paragraph (17) below arises, his personal representative(s) shall be entitled within a period of 6 months or such longer period as the Board may determine from the date of death to exercise the Option up to the entitlement of such grantee as at the date of death (to the extent that the Option has become exercisable and not already exercised).

(12) Reorganization of capital structure

In the event of a capitalization issue, rights issue, sub-division or consolidation of the Shares or reduction of capital in the Company (excluding any alteration in the capital structure of the Company as a result of an issue of Shares as consideration in respect of a transaction to which the Company is a party), such corresponding alterations (if any) certified in writing by an independent financial adviser appointed by the Company or the auditors for the time being of the Company as fair and reasonable in his or their opinion either generally or as regards any particular grantee will be made to the subscription price at which the offeror gives notice to acquire the remaining Shares and/or the number or nominal amount of Shares subject to the Option so far as unexercised, provided that any such alterations shall give a grantee the same proportion of the issued share capital of the Company as that to the Option he was previously entitled, but so that no such alterations shall be made to the effect that any Share would be issued at less than its nominal value.

(13) Rights on take-over

If a general offer by way of take-over (other than by way of scheme of arrangement pursuant to paragraph (14) below) is made to all the Shareholders (or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror) and if such offer becomes or is declared unconditioned prior to the expiry of the relevant Option period pursuant to paragraph (8) above, the grantee (or his personal representative(s)) may by notice in writing to the Company within 21 days of such notice of the offeror exercise the Option (to the extent that the Option has become exercisable on the date of the notice of the offeror and not already been exercised) to its full extent or to the extent specified in such notice.

(14) Rights on scheme of arrangement

If a general offer by way of scheme of arrangement is made to all Shareholders and has been approved by the necessary number of Shareholders at the requisite meetings, the Company shall give notice thereof to the grantee. The grantee (or his personal representative(s)) may, by notice in writing to the Company within such time as shall be specified in the notice, exercise the Option (to the extent the Option has become exercisable and not already been exercised) to its full extent or to the extent specified in such notice.

(15) Rights on a compromise or arrangement

If a compromise or arrangement between the Company and its Shareholders or creditors is proposed for the purposes of or in connection with a scheme for the reconstruction of the Company or its amalgamation with any other company or companies, the Company shall give notice thereof to the grantee on the same date as it despatches the notice to each Shareholder or creditor of the Company summoning the meeting to consider such a compromise or arrangement, and thereupon the grantee (or his personal representative(s)) may forthwith and until the expiry of the period commencing on such date and ending on the earlier of the date two calendar months thereafter and the date on which such compromise or arrangement is sanctioned by the court, exercise any of his Options whether in full or in part, but the exercise of an Option as aforesaid shall be conditional upon such compromise or arrangement being sanctioned by the court and becoming effective. Upon such compromise or arrangement becoming effective, all Options shall lapse except insofar as previously exercised under the Share Option Scheme. The Company may require the grantee (or his personal representative(s))

to transfer or otherwise deal with the Shares issued as a result of the exercise of Options in these circumstances so as to place the grantee in the same position as nearly as would have been the case had such Shares been subject to such compromise or arrangement.

(16) Voluntary wind-up

If a notice is given by the Company to its Shareholders to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up the Company, other than for the purpose of a reconstruction, amalgamation or scheme of arrangement, the Company shall on the same date as or soon after it despatches such notice give notice thereof to all grantees and thereupon, the grantees (or their respective legal personal representative(s)) may, by notice in writing to the Company not later than two Trading Days prior to the proposed general meeting of the Company, exercise the Option (to the extent the Option has become exercisable and not already been exercised) in accordance with the Share Option Scheme whereupon the Company shall as soon as possible and, in any event, no later than the Trading Day immediately prior to the date of the proposed general meeting allot the relevant Shares to the grantee credited as fully paid.

(17) Lapse of Options

An Option shall lapse automatically and not be exercisable (to the extent not already been exercised) on the earliest of:

- (i) the expiry of the option period;
- (ii) the expiry of the periods referred to in paragraphs (10), (11) or (13) respectively;
- (iii) subject to the scheme of arrangement becoming effective, the expiry of the period referred to in paragraph (14);
- (iv) subject to the compromise or arrangement becoming effective, the expiry of the period referred to in paragraph (15);
- (v) subject to the expiry of the period of extension (if any) referred to in paragraph (10), the date on which the grantee ceases to be a Participant for any reason other than on his death or the termination of his employment, directorship office or appointment on one or more grounds specified in sub-paragraph (vi) below;
- (vi) the date on which the grantee ceases to be a Participant by reason of the termination of his employment, directorship office or appointment on grounds including, but not limited to, misconduct, breach of material terms of employment contract, service contract, supply contract or engagement contract, bankruptcy, insolvency and conviction of any criminal offence;
- (vii) the date of commencement of the winding-up of the Company referred in paragraph (16);
- (viii) the date on which the grantee sells, transfers, charges, mortgages, encumbers or creates any interest in favour of any third party over or in relation to any Option in breach of the Share Option Scheme; or

- (ix) the date on which the Option is cancelled by the Board as set forth in paragraph (19).

(18) Ranking of Shares

The Shares to be allotted upon the exercise of an Option will be subject to the Memorandum and Articles of Association for the time being in force and will rank *pari passu* in all respects with the fully paid Shares in issue on the date of their allotment and issue, and accordingly will entitle the holders to participate in all dividends or other distributions paid or made on or after the date of allotment and issue other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the date of allotment and issue. References to “Shares” in the Share Option Scheme include references to shares in the Company of any such other nominal amount as shall result from a sub-division, consolidation, reclassification or reconstruction of the share capital of the Company from time to time.

(19) Cancellation of Options granted

With the consent of the relevant grantee, the Board may at any time at its absolute discretion cancel any Option granted but not exercised. Where the Company cancels Options and offers to holders of such Options new Options, the offer of such new Options may only be made under the Share Option Scheme with available unissued Options (to the extent not yet granted and excluding the cancelled Options) within the limit approved by the Shareholders as mentioned in paragraph (6).

(20) Period of Share Option Scheme

The Share Option Scheme will remain valid for a period of 10 years commencing on the date on which the Share Option Scheme is conditionally adopted by written resolution of the shareholders of the Company, after which period no further Options will be granted but in respect of all Options which remain exercisable at the end of such period, the provisions of the Share Option Scheme shall remain in full force and effect.

(21) Alteration to Share Option Scheme

The Share Option Scheme may be altered in any respect by resolution of the Board except that the provisions relating to matters contained in Rule 17.03 of the Listing Rules shall not be altered to extend the class of persons eligible for the grant of Options or to the advantage of grantees or Participants except with the prior approval of the Shareholders in general meeting (with grantees and their associates abstaining from voting). No such alteration shall operate to affect adversely the terms of issue of any Option granted or agreed to be granted prior to such alteration except with the consent or sanction of such majority of the grantees as would be required of the Shareholders under the Articles of Association for the time being in force for a variation of the rights attached to the Shares.

Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature or change to the authority of the Board shall be approved by the Shareholders, except where the alterations take effect automatically under the existing terms of the Share Option Scheme. The terms of the Share Option Scheme, as it may from time to time be amended, must comply with the relevant requirements of Chapter 17 of the Listing Rules.

(22) Termination

The Company by resolution in general meeting or the Board may at any time terminate the operation of the Share Option Scheme and in such event no further Options shall be granted but the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any options granted prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme. Options granted prior to such termination but not yet exercised at the time of termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

(23) Conditions of the Share Option Scheme

The Share Option Scheme is conditional upon (i) the passing of an ordinary resolution approving the adoption of the Share Option Scheme by the shareholders of the Company and authorising the Directors to grant rights to subscribe for Shares pursuant to the terms of the Share Option Scheme; (ii) the Listing Committee granting approval for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and the granting of the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and any Shares which may be issued pursuant to the exercise of Options granted under the Share Option Scheme; (iii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as a result of the waiver of any such condition(s) by the Underwriters) and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise; and (iv) the commencement of dealings in the Shares on the Stock Exchange.

Application has been made to the Listing Committee for the listing of and permission to deal in the Shares which may be issued pursuant to the exercise of the Options granted under the Share Option Scheme.

As at the date of this prospectus, no Option has been granted or agreed to be granted by the Company under the Share Option Scheme.

OTHER INFORMATION**Estate duty and tax indemnity**

Each of the Indemnifiers has entered into a deed of indemnity with and in favour of the Company (for itself and as trustee for its present subsidiaries) (being the material contract referred to in paragraph (v) in the section headed “Summary of material contracts” under the section headed “Further Information about the Business of the Group” of this Appendix) to provide indemnities on a joint and several basis in respect of, among other matters, any liability for Hong Kong estate duty and other taxation which might be incurred by any member of the Group by reason of any transfer of property (within the meaning of section 35 of the Estate Duty Ordinance, Chapter 111 of the Laws of Hong Kong) to any member of the Group on or before the date on which the Global Offering becomes unconditional. An undertaking on estate duty and tax indemnity from GST International Management, Mr Song Jiacheng, Mr Cao Yu, Mr Peng Kaichen and Mr Xu Shaowen has been obtained.

The Indemnifiers will however not be liable under the deed of indemnity for taxation where (i) provision or allowance has been made for such taxation in the audited consolidated accounts of the Group for the three years ended 31 December, 2004 (the “Accounts”); (ii) the taxation arises or is

incurred as a result of a retrospective change in law or an increase in tax rates coming into force after the date of the deed of indemnity; (iii) the taxation or liability arising or falling on or after 31 December, 2004 would not have arisen but for any act, transaction or omission by any Indemnifiers or the Group (whether alone or in conjunction with some other act, transaction or omission, whenever occurring) otherwise than in the ordinary course of business (other than pursuant to a binding commitment existing at the date of the deed of indemnity) without the prior knowledge of the Indemnifiers on or before the date on which the deed of indemnity becomes unconditional; (iv) provision or reserve made for such taxation in the Accounts is established to be an over-provision or an excessive reserve; and (v) a penalty is imposed on any member of the Group defaulting on any obligation to give information under section 42(1) of the Estate Duty Ordinance after the date of the deed of indemnity.

The Directors have been advised that no material liability for estate duty is likely to fall on the Company or any of its subsidiaries in Cayman Islands, BVI or the PRC, being the jurisdictions in which one or more of the companies comprising the Group are incorporated.

Litigation

Save as discussed in the section headed “Business — Legal Proceedings”, no member of the Group is engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened against any member of the Group.

Sponsor

Morgan Stanley has made an application on behalf of the Company to the Listing Committee for listing of, and permission to deal in, the Shares in issue and Shares to be issued pursuant to the Capitalization Issue and Shares to be issued as mentioned herein (including any Shares falling to be issued pursuant to the exercise of the Over-allotment Option and pursuant to the exercise of any options granted under the Share Option Scheme).

Preliminary expenses

The preliminary expenses of the Company are estimated to be approximately US\$3,000 and are payable by the Company.

Promoter

The promoter of the Company is Mr Song Jiacheng.

Save as disclosed in the paragraph headed “Directors’ remuneration” in the section headed “Further information about Directors, senior management and staff” in this Appendix, no cash, securities or other benefit has been paid, allotted or given, or proposed to be paid, allotted or given, to the promoter in connection with the Global Offering or related transactions described in this prospectus within the two years preceding the date of this prospectus.

Qualifications of experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:

Name	Qualification
Morgan Stanley	Registered investment adviser and securities dealer
PricewaterhouseCoopers	Certified public accountants
Sallmanns (Far East) Ltd..	Property valuer
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
Commerce and Finance Law Offices .	PRC lawyers
Al Sharif Advocates and Legal Consultants	United Arab Emirates lawyers

Consents of experts

Each of Morgan Stanley, PricewaterhouseCoopers, Sallmanns (Far East) Ltd., Conyers Dill & Pearman, Commerce and Finance Law Offices and Al Sharif Advocates and Legal Consultants has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its report and/or letter and/or valuation certificate and/or opinion and/or the references to its name included herein in the form and context in which they are respectively included.

Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Hong Kong Companies Ordinance insofar as applicable.

Advisory fees or commissions received

The Underwriters will receive an underwriting commission and advisory fee as referred to in the paragraph “Underwriting Commission” under the section headed “Underwriting” in this prospectus.

Miscellaneous

Save as disclosed in this prospectus:

- (i) within the two years preceding the date of this prospectus, no share or loan capital of the Company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
- (ii) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

- (iii) no founders, management or deferred shares of the Company or any of its subsidiaries have been issued or agreed to be issued; and
- (iv) within the two years preceding the date of this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital of the Company or any of its subsidiaries.

None of Morgan Stanley, PricewaterhouseCoopers, Sallmanns (Far East) Ltd., Conyers Dill & Pearman, Commerce and Finance Law Offices and Al Sharif Advocates and Legal Consultants:

- (v) is interested beneficially or non-beneficially in any shares in any member of the Group; or
- (vi) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any shares in any member of the Group.

No company within the Group is presently listed on any stock exchange or traded on any trading system.

All necessary arrangements have been made to enable the Shares to be admitted into CCASS for clearing and settlement.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to the copy of this prospectus registered by the Registrar of Companies in Hong Kong were copies of the Application Forms, the written consents referred to under the heading “Consents of experts” in Appendix VI, the statement of adjustments made by PricewaterhouseCoopers in arriving at the figures set out in their Accountants’ Report and giving their reasons therefor, and copies of the material contracts referred to in the paragraph headed “Summary of material contracts” in Appendix VI to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Woo, Kwan, Lee & Lo, 27th Floor, Jardine House, 1 Connaught Place, Central, Hong Kong during normal business hours up to and including 4 July, 2005:

- (a) the Memorandum and Articles of Association;
- (b) the Accountants’ Report on the Group prepared by PricewaterhouseCoopers, the text of which is set out in Appendix I to this prospectus and the related statement of adjustments;
- (c) the letter relating to pro forma financial information, the text of which is set forth in Appendix II to this prospectus;
- (d) where applicable, the audited financial statements of the companies comprising the Group for the three year ended 31 December, 2004 (or for the period since their respective date of incorporation where it is shorter);
- (e) the letters relating to the profit forecast for the financial year ending 31 December, 2005, the text of which are set forth in Appendix III to this prospectus;
- (f) the letter and valuation certificate prepared by Sallmanns (Far East) Ltd., the text of which are set out in Appendix IV to this prospectus and the full valuation report prepared by Sallmanns (Far East) Ltd. referred to in Appendix IV to this prospectus;
- (g) the letter prepared by Conyers Dill & Pearman summarising certain aspects of Cayman Islands company law referred to in Appendix V to this prospectus;
- (h) the material contracts referred to in the section headed “Summary of material contracts” in Appendix VI to this prospectus;
- (i) the written consents referred to in the section headed “Consents of experts” in Appendix VI to this prospectus;
- (j) the rules of the Share Option Scheme;
- (k) the service agreements referred to under “Particulars of Service agreements” in Appendix VI to this prospectus; and
- (l) the Cayman Companies Law.