

GST HOLDINGS LIMITED

海灣控股有限公司

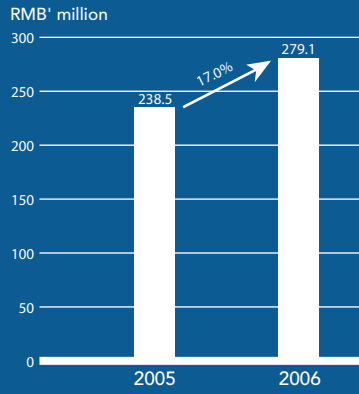
(Incorporated in the Cayman Islands with limited liability)
(Stock Code : 0416)



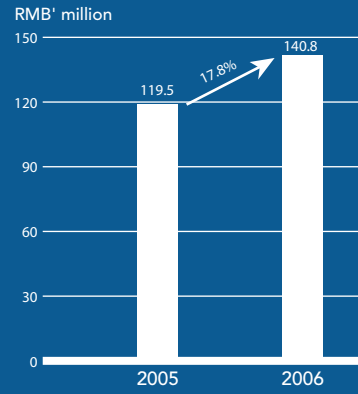
GST 

Six months ended 30 June

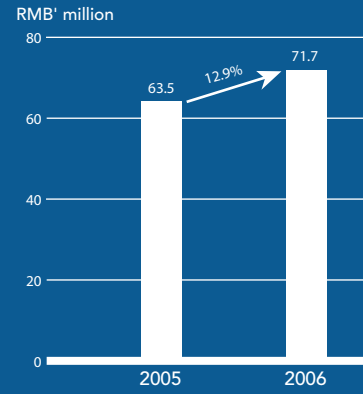
Turnover



Gross Profit



Profit for the Period





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CORPORATE PROFILE

GST Holdings Limited is the leading fire alarm systems and solution provider in China and is primarily engaged in the manufacturing and distribution of fire alarm systems, 119 fire network systems and other products such as video entry systems, electronic power meters and building automation systems. According to industry research, GST has the largest market share by revenue in the fire alarm systems market in China. With its diversified product range, extensive national sales and distribution network, GST endeavours to provide one-stop, timely and comprehensive fire alarm solutions to its customers.



CORPORATE INFORMATION

DIRECTORS*Executive Directors:*Song Jiacheng (*Chairman*)

Cao Yu

Peng Kaichen

Xu Shaowen

Non-executive Directors:

Zeng Jun

Lee Kwan Hung, Eddie

Independent Non-executive Directors:

Chang Tso Tung, Stephen

Chan Chi On, Derek

Sun Lun

AUDIT COMMITTEEChang Tso Tung, Stephen (*Chairman*)

Chan Chi On, Derek

Sun Lun

REMUNERATION COMMITTEEChan Chi On, Derek (*Chairman*)

Lee Kwan Hung, Eddie

Chang Tso Tung, Stephen

SENIOR MANAGEMENTHo Yui Pok, Terry (*Company Secretary*)

Liu Weihua

STOCK CODE

Hong Kong Stock Exchange 416

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PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited

Bank of China (Hong Kong) Limited

China Construction Bank

Industrial and Commercial Bank of China

AUDITORS

PricewaterhouseCoopers

LEGAL ADVISERS*As to Hong Kong law*

Woo, Kwan, Lee & Lo

As to Cayman Islands law

Conyers Dill & Pearman

As to PRC Law

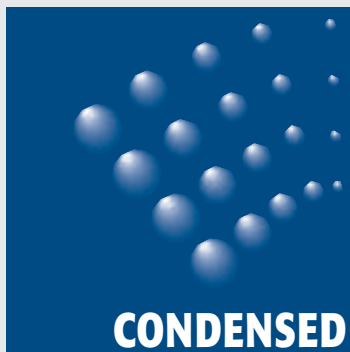
Commerce & Finance Law Offices

COMPLIANCE ADVISER

Platinum Securities Company Limited


CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT (UNAUDITED)

	Notes	Six months ended 30 June	
		2006 RMB'000	2005 RMB'000
Turnover	3	279,071	238,548
Cost of goods sold		(138,290)	(119,082)
Gross profit		140,781	119,466
Other income	4	13,210	13,208
Distribution costs		(35,506)	(30,681)
Administrative and general expenses		(41,289)	(37,607)
Operating profit	5	77,196	64,386
Finance costs		–	(884)
Share of results of			
Jointly controlled entity		447	264
Associates		(276)	–
Profit before taxation		77,367	63,766
Taxation	6	(5,650)	(234)
Profit for the period		71,717	63,532
Attributable to:			
Equity holders of the Company		71,717	63,532
Minority interests		–	–
		71,717	63,532
Earnings per share for profit attributable			
to equity holders of the Company	7		
Basic (RMB cents)		9.0	12.6
Diluted (RMB cents)		9.0	10.6



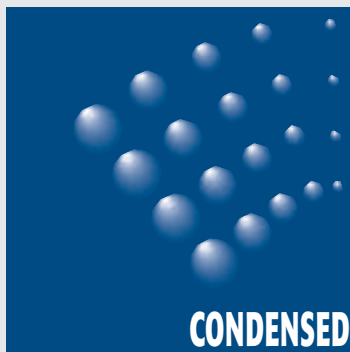
CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)

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	<i>Notes</i>	(Unaudited) As at 30 June 2006 <i>RMB'000</i>	(Audited) As at 31 December 2005 <i>RMB'000</i>
Non-current assets			
Property, plant and equipment	9	143,914	129,831
Prepaid operating lease for land		9,968	10,081
Intangible assets		10,882	8,545
Investment in jointly controlled entity		(1,061)	(1,508)
Investment in associates		2,345	2,621
		166,048	149,570
Current assets			
Inventories	10	78,640	82,717
Trade receivables	11	129,778	127,040
Other receivables, deposits and prepayments		33,335	26,754
Due from a jointly controlled entity	12	15,403	9,607
Due from a related company	13	10,396	–
Restricted bank deposits		8,155	2,149
Cash and bank balances		481,151	530,251
		756,858	778,518
Current liabilities			
Trade payables	14	72,732	87,964
Other payables and accruals		9,685	12,032
Advance from customers		25,440	33,665
Taxation payable		27,147	20,530
		135,004	154,191
Net current assets		621,854	624,327
Total assets less current liabilities		787,902	773,897
Equity:			
Capital and reserves attributable to equity holders of the Company			
Share capital	15	84,800	84,800
Reserves	16	702,403	688,398
		787,203	773,198
Minority interests		699	699
Total equity		787,902	773,897


CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

	Six months ended 30 June	
	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
Net cash from/(used in) operating activities	31,000	(12,865)
Net cash used in investing activities	(22,420)	(10,120)
Net cash from/(used in) financing activities	(57,680)	288,370
Increase/(decrease) in cash and bank balances	(49,100)	265,385
Cash and bank balances at beginning of the period	530,251	162,632
Cash and bank balances at end of the period	481,151	428,017



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

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Six months ended 30 June 2006

	Attributable to equity holders of the Company		Minority interests <i>RMB'000</i>	Total equity <i>RMB'000</i>
	Share capital <i>RMB'000</i>	Reserves <i>RMB'000</i>		
At 1 January 2006	84,800	688,398	699	773,897
Translation of financial statements of a jointly controlled entity recognised in reserve	–	(32)	–	(32)
Profit for the period	–	71,717	–	71,717
Total income recognised for the period	–	71,685	–	71,685
Dividend paid	–	(57,680)	–	(57,680)
At 30 June 2006	84,800	702,403	699	787,902

Six months ended 30 June 2005

	Attributable to equity holders of the Company		Total equity <i>RMB'000</i>
	Share capital <i>RMB'000</i>	Reserves <i>RMB'000</i>	
At 1 January 2005	120	276,655	276,775
Profit for the period	–	63,532	63,532
Capitalization issue	63,480	(63,480)	–
Issue of shares for cash	21,200	343,440	364,640
Share issuance costs	–	(32,153)	(32,153)
At 30 June 2005	84,800	587,994	672,794

NOTES TO CONDENSED CONSOLIDATED ACCOUNTS (UNAUDITED)

1. BASIS OF PREPARATION

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

2. ACCOUNTING POLICIES

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

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

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

3. TURNOVER AND SEGMENT INFORMATION

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

Notes to the Condensed Consolidated Account (Unaudited)

Segment information is presented in respect of the Group's business segments. No geographical segment is presented as the operations of the Group are substantially located in the People's Republic of China ("PRC").

Business segment

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

Notes to the Condensed Consolidated Account (Unaudited)

4. OTHER INCOME

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

5. OPERATING PROFIT

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

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

Notes to the Condensed Consolidated Account (Unaudited)

6. TAXATION

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

No provision for Hong Kong profits tax has been provided as the Group has no assessable profit in Hong Kong. The provision for PRC income tax is calculated based on the statutory income tax rate according to the relevant laws and regulations in the PRC.

With effect from April 2004, the principal operating subsidiary, Gulf Securities Technology Company Limited (“GST”) and certain subsidiaries of the Company, namely Beijing Gulf Electric Meters Company Limited (“Gulf Meters”) and Qinhuangdao Gulf Fire Prevention Network Company Limited (“Gulf Network”) were converted into or established as wholly foreign owned enterprises. In accordance with the relevant tax laws and regulations in the PRC, effective from the date of approval, GST, Gulf Meters and Gulf Network are exempted from taxation for the first two profitable years and a 50% relief from the applicable national PRC income tax rate for the next three years. The applicable PRC income tax rate for Gulf Meters is 24%. In addition, being registered in a designated development zone, the applicable PRC income tax rate for GST and Gulf Network is 15% since April 2004.

7. EARNINGS PER SHARE

Basic

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

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

Notes to the Condensed Consolidated Account (Unaudited)

Diluted

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

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

8. DIVIDEND

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

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

9. PROPERTY, PLANT AND EQUIPMENT

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

Notes to the Condensed Consolidated Account (Unaudited)

10. INVENTORIES

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

11. TRADE RECEIVABLES

The Group's sales to corporate customers are entered into on credit terms ranging from 30 to 180 days. The Group also grants credit terms to certain customers depending on those customers' progress of installation of the Group's products. The ageing analysis of trade receivables at the respective balance sheet dates is as follows:

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

Notes to the Condensed Consolidated Account (Unaudited)

12. DUE FROM A JOINTLY CONTROLLED ENTITY

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

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

13. DUE FROM A RELATED COMPANY

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

BGJP is a subsidiary company of Gulf Technology Group Company Limited ("Gulf Tech"). Gulf Tech is currently owned by the same beneficial shareholders of GST International Management Limited, the controlling shareholder of the Company. For the sole purpose of interpretation of connected transactions under the Listing Rules, the Company considers that Gulf Tech together with its subsidiaries as connected persons of the Company. Amounts are unsecured, interest free and repayable in accordance with the trading terms.

The ageing of balance is within 90 days.

14. TRADE PAYABLES

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

Notes to the Condensed Consolidated Account (Unaudited)

15. SHARE CAPITAL

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

Note:

- (a) Pursuant to a shareholder's written resolution passed on 7 June 2005, the authorised share capital of the Company was increased from HK\$380,000 to HK\$200,000,000 by the creation of 1,996,200,000 common shares, and all the shares in the share capital of the Company would upon conversion of all Series A Preferred shares form a single class of shares ranking *pari passu* in all respects with each other.
- (b) On 30 June 2005, 186,240 Series A Preferred shares were converted, redesignated and re-classified as 186,240 common shares upon the listing of the Company's shares on the HK Stock Exchange.
- (c) On 30 June 2005, the issued share capital of the Company was increased by way of a capitalization issue out of share premium of 598,868,537 common shares on a pro-rata basis to the then shareholders of the Company.
- (d) On 30 June 2005, 200,000,000 common shares were issued at HK\$1.72 per share for cash, resulting in gross proceeds of approximately RMB365 million.

Notes to the Condensed Consolidated Account (Unaudited)

16. RESERVES

Six months ended 30 June 2006

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

Six months ended 30 June 2005

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

Notes to the Condensed Consolidated Account (Unaudited)

17. COMMITMENTS

(a) Capital commitments

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

(b) Operating lease commitments for buildings

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

Notes to the Condensed Consolidated Account (Unaudited)

18. RELATED PARTY TRANSACTIONS

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

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

Notes:

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



MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULTS

The Group achieved satisfactory results in the first half of 2006. Fuelled by rising awareness for fire prevention and safety which led to increased demand for high quality fire alarm products and systems, the Group's consolidated turnover for the six months ended 30 June 2006 rose by 17.0% year-on-year to RMB279.1 million (first half of 2005 ("1H 2005"): RMB238.5 million).

As the market leader, the Group is capable of offering integrated one-stop installation and after-sales services, and therefore enjoys a niche to command a relatively stable price over its peers that mostly focus on product sales. During the period under review, the Group continuously enhanced its product portfolio, improved product quality and lowered production cost which enabled the Group to increase its gross margins to 50.4% (1H2005: 50.1%). During the period, the Group continued to implement stringent cost control. Percentages of distribution cost, administrative and general expenses over total turnover decreased. As such, net profit attributable to equity holders surged by 12.9% to RMB71.7 million (1H2005: RMB63.5 million).

MARKET REVIEW

The austerity measures imposed by the PRC Government to suppress the overheated economy exerted an impact on the overall economic development and investment pace and in particular, resulted in a reduced number of commercial and residential projects. On the other hand, the PRC Government stressed the importance of industrial safety in the 11th Five Year Plan which indicated tighten measures were also implemented to ensure that fire safety is being accorded high priorities at work. This resulted in rising demand for fire alarm system products, installation and maintenance services in the industrial sector.

Although there is rising demand for fire alarm systems in the PRC market, fierce price competition exists within the industry, which leads to the downward trend of selling prices. However, the Group gained customers' confidence by providing good quality products and services and not purely depended on price-cutting strategy. Besides, the Group effectively reduced production cost through enhancement of product's structure by its own research and development team, increasing sales volume through competitive advantages and better economies of scales, the effect of selling price decline was mitigated.

Apart from the China market, the overseas export market also offered ample opportunities to competent industry players who were capable of offering high quality, price competitive products. All these set a favourable operating environment for the Group to propel its growth.

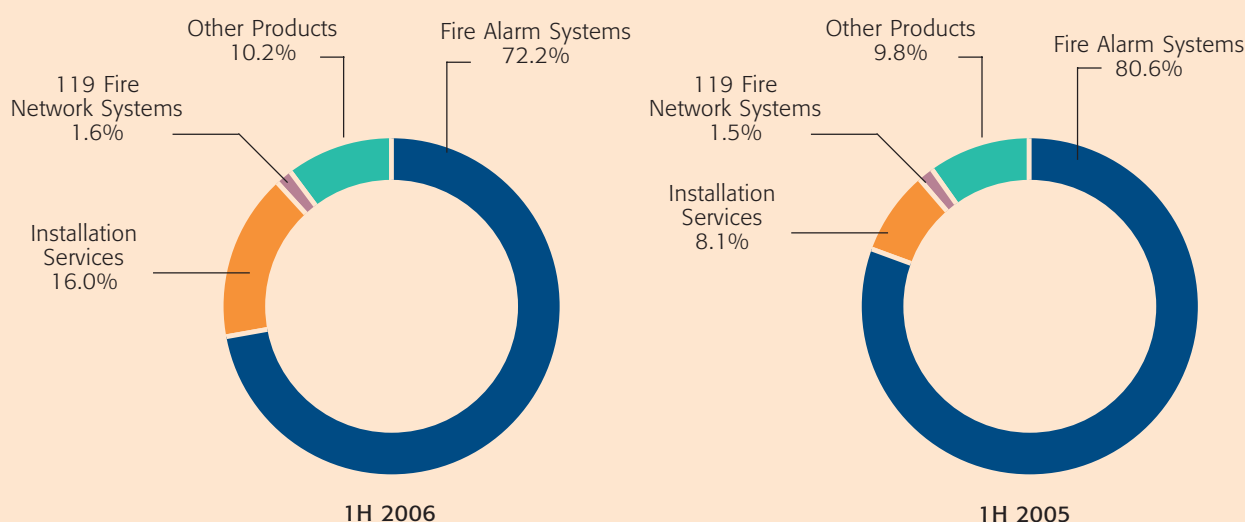
BUSINESS REVIEW

The Group is a provider of fire alarm systems, 119 fire network systems and other system products, providing products and systems with research and development, production, sales and installation, as well as providing installation, repair and maintenance services. The Group is well poised to emerge as a dominant player in the PRC fire industry with an increased market share of over 23% in the field of fire alarm systems.

Turnover Analysis by Business Segments

The following table illustrates the growth of various business segments of the Group:

	Six months ended 30 June		Growth %
	2006 RMB' million	2005 RMB' million	
Fire alarm systems	201.5	192.2	4.8
Installation services	44.7	19.4	130.1
119 fire network systems	4.3	3.5	21.8
Other products	28.6	23.4	22.1
Total	279.1	238.5	17.0



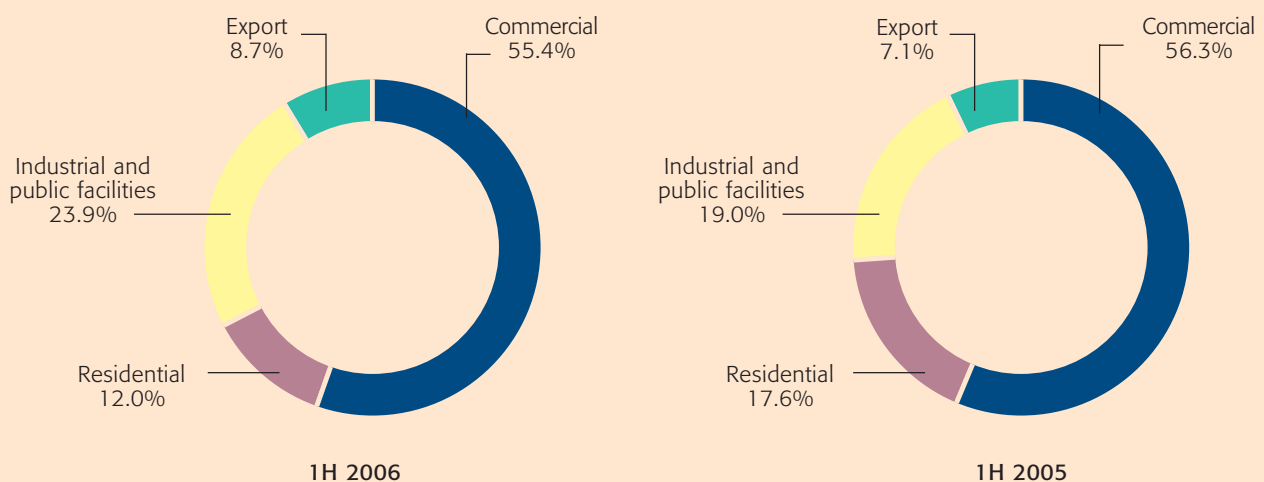
Fire Alarm Systems

For the six months ended 30 June 2006, sales from fire alarm systems increased by 4.8% to approximately RMB201.5 million when compared to the corresponding period last year (1H2005: RMB192.2 million). The Group has a comprehensive systems product portfolio for commercial, residential, as well as professional clientele such as metal refinery, power station, petroleum and gas chemical manufacturing and other industrial customers; banks, governmental organizations, airports, railways and other public facilities also contributed the sales growth. In recent years, the Group also expanded its business in export market. In response to price-driven competition, the Group adopted a prudent sales approach and competed on product and service quality rather than sheer pricing to maintain profitability.

MANAGEMENT DISCUSSION AND ANALYSIS

Average selling prices declined due to market competition, but on a decelerating trend. For example, average selling price of our major product intelligent optical smoke detector (光電感煙探測器) (“G3”) decreased by 16.1% (1H2005: decreased by 18.3%). Meanwhile, average production cost of G3 was substantially reduced by 29.2% (1H2005: reduced by 16.6%) due to improvements in economies of scales, optimisation of production process and product design, through the Group’s research and development with technology upgrade. As such, gross margin of fire alarm systems raised by 1.5 percentage point to 54.7% (1H2005: 53.2%).

Turnover Analysis of Fire Alarm Systems by Customer Types



Strong Growth from Industrial and Public Facilities Sector

With respect to sales composition by customer types, sales to the industrial and public facilities sectors posted the most impressive growth, primarily due to the Group’s ability to satisfy the needs of this group of customers which usually require higher technology standards and industry expertise. Sales from this sector surged 31.0% to approximately RMB48.1 million, representing an increase from 19.0% to 23.8% of income from fire alarm systems.

The Group completed many major industrial and public facilities projects during the period under review, including China Mobile Inner Mongolia Communications Corporation (中國移動內蒙古通信公司), Da Tang Baoding Heat Power Station (大唐保定熱電廠), Nanning Hangyang International Town (南寧航洋國際城), Yantai Sports Center (煙台體育中心), Tianjin Broadcasting TV Station International Center (天津廣播電視台國際中心), Huo Lin He Pithead Power Station (霍林河坑口電廠), Shanghai Gaoqiao Petrification ABS Project (上海高橋石化ABS項目), The Plank Board Factory of Anshan Iron and Steel Group Corporation (鞍鋼集團厚板廠) and Zhuhai International Airport (珠海國際機場).

In addition, the Group completed several large scale projects, including People’s Bank of China Xi’an Branch Office Building (西安人民銀行辦公樓), Luoyang Teacher-training College (洛陽師範學院), Hunan Yunda Plaza (Sheraton Hotel) (湖南運達廣場 (喜來登大酒店)) and Shen Hua Coal-making-Oil Chemical Plant (神華煤制油化工廠). Leveraging on its professional services and high quality product systems, the Group is confident of signing up more new clients and contracts for fire alarm systems and its related services in the second half of this year, and therefore expects to see increased contribution from this business.

MANAGEMENT DISCUSSION AND ANALYSIS

Export Markets Formed the Growth Engine

One of the Group's competitive edges rests in its ability to manufacture high quality products at low costs. These products are highly competitive in overseas markets. The export market is another area of growth.

The Group is one of the pioneers in the PRC amongst its peers to explore the potential of the export market. Internationally accredited, the Group's trademark were registered in 81 countries and regions across continents, whereas sales have reached more than 40 regions including Europe, Middle East, Southeast Asia and other regions. Its strong research and development team and high economies of scale put it in an advantageous position to develop and manufacture products of superb quality at competitive prices.

For the period ended 30 June 2006, export sales surged by 28.7% to approximately RMB17.5 million, representing an increase from 7.1% to 8.7% of fire alarm systems income. The Group completed a number of projects in international cities, including Singapore Changi Airport and Saudi Arabia Ministry of Higher Education Building.

Installation Services

For the six months ended 30 June 2006, turnover from installation services recorded satisfactory growth. It surged 130.1% to approximately RMB44.7 million (1H2005: RMB19.4 million). In addition to selling fire alarm systems, the Group offers installation services for fire systems and other low-voltage integrated systems, including installation of fire alarm systems, fire extinguish systems, building automation systems, CCTV security monitoring systems, carpark self-management systems and integrated line distribution systems (綜合佈綫系統). Its industry expertise and wealth of experience in the fire industry were widely recognized by customers as a partner of choice for installation and one-stop solutions.

During the period under review, we have accomplished a number of projects, such as Beijing Wangjing Technology Development Mansion (北京望京科技發展大廈), Hebei Heng Feng Power Station (河北衡豐發電廠), Inner Mongolia Hulunbeier Library (內蒙古呼倫貝爾圖書館) and Guangxi Qinzhou Power Station (廣西欽洲電廠).

119 Fire Network Systems

For the six months ended 30 June 2006, sales of 119 fire network systems surged 21.8% to approximately RMB4.3 million (1H2005: RMB3.5 million). The penetration of 119 fire network systems increased modestly in the past year. In the first half of 2006, the Group provided system equipment for eight 119 network control centres, including Taiyuan, Liuzhou, Changsha and Langfang. Given the Government's continued effort in advocating the importance of fire safety, the Group anticipates that an increasing number of cities will set up 119 fire network control centres in the coming years, offering promising growth opportunities for the 119 fire network systems business.

Other products

For the six months ended 30 June 2006, sales of other products grew by 22.1% to approximately RMB28.6 million (1H2005: RMB23.4 million). The Group leveraged on its strong brand reputation and nationwide network to distribute other products with high growth potential, including video entry systems, electronic power metres and building automation systems.

MANAGEMENT DISCUSSION AND ANALYSIS

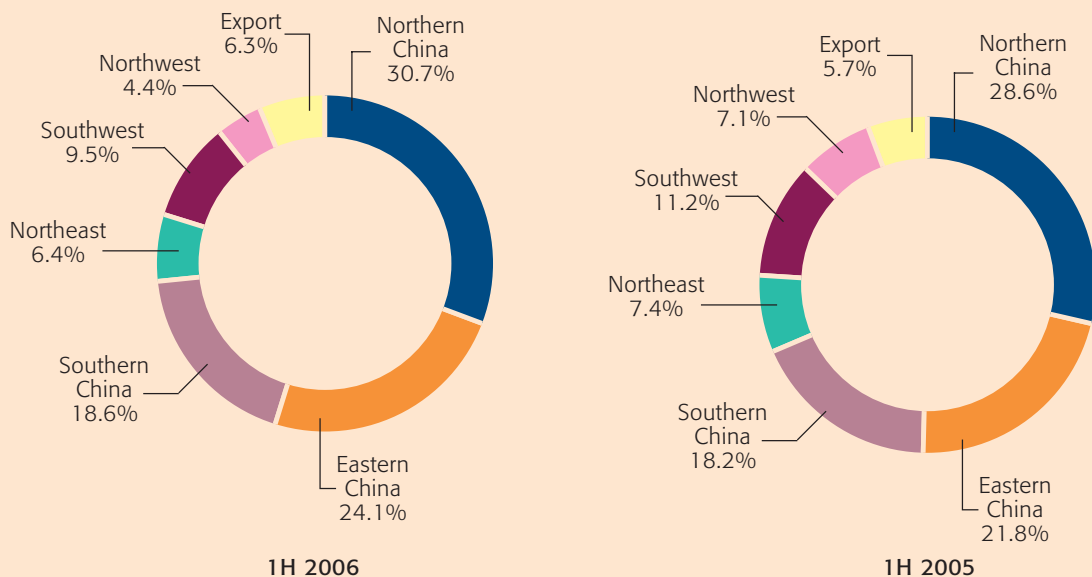
Sales Network Expansion

As the market leader in fire alarm systems and 119 network systems, the Group operates the most extensive sales network amongst its peers in the industry. During the first half of the year, the Group established 14 new representative offices. As at 30 June 2006, our sales network covers 102 cities nationwide, offering comprehensive services to and maintaining close liaison with customers in different regions. It is also this extensive network coverage that attracted Apollo Fire Detectors Ltd (“Apollo”), Europe’s largest fire alarm system provider, to foster cooperation with us in June 2006 for the distribution of Apollo’s high-end products in China.

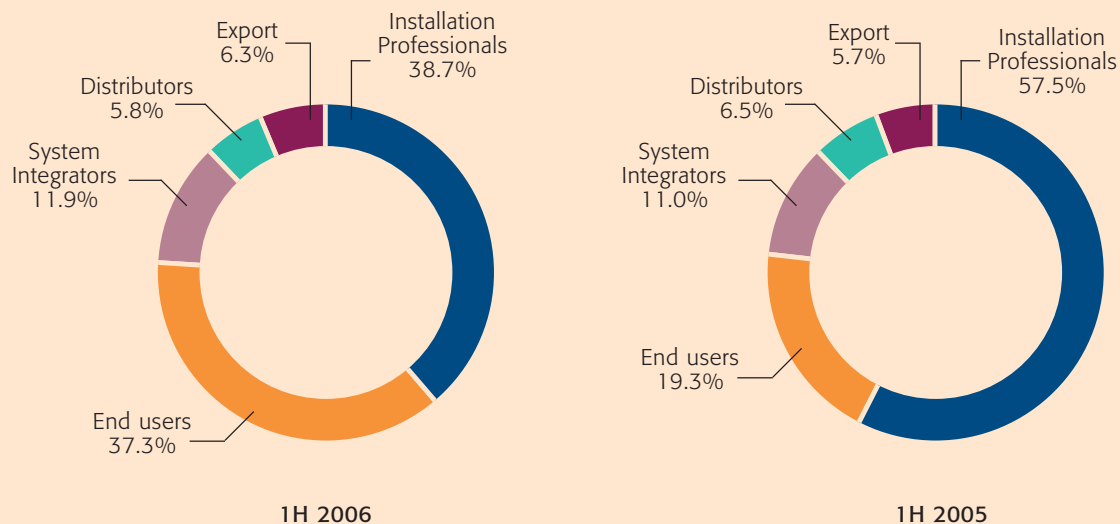
Geographical Coverage of Representative Offices in China



Turnover Analysis by Geographical Regions



Turnover Analysis by Sales Channels



Sales Channels

Installation professionals are the major sales channels for the Group. However, percentage of sales to end users doubled from 19.3% to 37.3% in the first half of 2006, which proved the “GST” brand was well recognized by the public.

Operating Cost, Other income and Taxation

For the six months ended 30 June 2006, the Group continued to implement stringent operating cost control. Distribution cost for the period increased by 15.7% to approximately RMB35.5 million (1H2005: RMB30.7 million), which accounted for 12.7% of turnover, representing a decrease of 0.2 percentage point as compared to the same period last year (1H2005: 12.9%).

MANAGEMENT DISCUSSION AND ANALYSIS

Administrative and general expenses increased by 9.8% over the same period last year to approximately RMB41.3 million. (1H2005: RMB37.6 million), which accounted for 14.8% of turnover, representing a decrease of 1.0 percentage point over the corresponding period last year (1H2005: 15.8%).

Other income mainly include value-added tax refund and interest income received by the Group. Due to the change of policy to the value-added tax refund of certain products, the value-added tax refund was reduced by approximately RMB4.8 million for the period ended 30 June 2006 compared to the same period last year. On the other hand, due to the cash inflow of IPO proceeds in the second half of 2005, the average bank balances during the reporting period in 2006 was higher than that in 2005, interest income increased by approximately RMB5.2 million.

On the other hand, tax provisions were comparatively lower in last period because the major subsidiary of the Group was still in the exemption period of income tax. This is the first year of 50% tax reduction for 3 consecutive profit-making years after the exemption period. Tax provisions for the period was approximately RMB5.7 million (1H2005: RMB0.2 million).

Orders on hand

As at 30 June 2006, the Group's orders on hand amounted to a total value of approximately RMB304.0 million, representing an increase of 7.0% as compared to the same period last year (1H2005: RMB284.0 million).

Seasonality of Business

The business performance of the Group was in line with the general business investment activities and economic situations. Due to the cool weather in the first quarter of a year and there are more holidays in the PRC in the first half of a year, these affect investment and project construction progress. Therefore, the turnover and business situation over the first half of the year are generally lower than that of the second half of the year.

FUTURE OUTLOOK

Mainland's overall economic development and investment pace will be affected by the implementation of austerity measures by the PRC Government which will indirectly affect the demand in fire alarm systems market. While the PRC's fire alarm systems market offers growth potential, it is also characterized by intensifying competition. Currently there are almost 100 players in the PRC fire alarm systems market whereby small players mainly compete in terms of pricing. It is believed that this trend will put selling price under pressure, but thinning margins are expected to drive incompetent players out of the market, and consolidation is anticipated to benefit market leaders such as the Group.

Having developed a broad customer base and a diversified product portfolio, our future growth will be fuelled by the following factors:

Rising Demand in Industrial and Public Facilities Sectors

With respect to frequent occurrence of industrial accidents leading to human and property losses, the PRC Government reinforced its concern over public safety and urged for stringent fire safety standard. New business opportunities and the demand for reliable fire alarm systems will be on the rise. As the technical requirements for the industrial and public facilities sectors are relatively higher as compared to the residential and commercial sectors, the Group is well positioned to offer integrated services to capitalize on market opportunities.

MANAGEMENT DISCUSSION AND ANALYSIS

Lucrative Export Market

At present, the Group's high quality fire alarm systems products have been accredited by many international certification organizations, including Underwriters Laboratories Inc. (UL), Loss Prevention Certification Board (LPCB) and Conformite Europeenne (CE). The GST trademark has been awarded Madrid International Trademark Registration Certificate by World Intellectual Property Organization. Besides, the Group has acquired international trademark registration certificates in other countries and regions such as Hong Kong, Lebanon and Mexico. Therefore, the "GST" trademark has been protected in more than 81 countries and regions.

With highly competitive products, the Group will further expand its sales network in the Middle East, European and South East Asian markets. To expedite the development of the export market, the Group is actively seeking opportunities to join hands with international players.

Fast Growing Installation Services and 119 Fire Alarm Network Systems

With expertise in the fire industry with high quality systems products, we have proven success in gaining customers' faith to provide quality installation services. As a comprehensive products and services provider, we have secured major contracts which are scheduled to complete, such as: Hebei Xuan Hua Business Office Building (河北宣化招商寫字樓), Ba Zhou Power Supply Bureau (霸州供電局), Inner Mongolia Hulunbeier College (內蒙古呼倫貝爾學院) and National Wireless Monitoring Center Beidiahe Inspection Building (國家無線電監測中心北戴河檢測樓). Hence, we expect our installation services will continue to be one of the growth drivers to the Group's performance.

The Group has already established a strong foothold in the 119 fire alarm network systems sector. In the PRC, there are 77 control centres with 119 fire alarm network systems, in which 61 of them are equipped with the network systems provided by the Group, i.e. with a 79% market share. The strong market presence places us in a perfect position to explore further opportunities in this sector. The Group plans to extend its services to the operation of control centers that are equipped with the Group's systems.

Distribution Network Expansions

In order to maintain favourable economies of scale and to secure its market leading position, the Group will further increase the coverage of its sales and distribution network. We are committed to achieving growth in penetration rate and cost saving by extending our business borders. We expect to increase the number of branch offices to 112 by the end of 2006.

Production Capacity Upgrade

The Group's capacity upgrade plan in Qinhuangdao has been completed in August 2006. New production facilities have been in operations, stepping up the Group's overall capacity. Fire detectors production capacity increased 80% to 5.1 million pieces (1H2005: 2.8 million pieces). Module production capacity increased 60% to 3.9 million pieces (1H2005: 2.4 million pieces). The Group will continue to increase the production capacity so as to cope with the market demand and achieve a better economy of scale.

CONCLUSION

The Group aspires to be an integrated one-stop fire alarm product and system manufacturer and solution provider. In July 2006, United Technology Corporation ("UTC"), a Fortune 500 company, became the Group's second largest shareholder. This marked a major milestone for the Group and broadened its shareholder base. The Group believes that it will benefit from the opportunities to cooperate with more international partners to capture opportunities in the top end fire and security products market in the PRC.

MANAGEMENT DISCUSSION AND ANALYSIS

Going forward it is expected market competition will continue which will exert pressure on selling prices. The Group will persist effective cost control and further enhance economies of scale. On the other hand, the Group will continue to seek new development opportunities, which will further consolidate its market leading position, enrich services to customers and create value for customers and shareholders.

The Group is committed to further strengthening its foothold in the fire alarm system industry and expanding its presence to export markets with internationally competitive products and services. The board of Directors and the management team are working towards this long-term goal to reward shareholders with strong financial results and promising outlook.

LIQUIDITY, FINANCIAL RESOURCES AND BANK LOANS

For the six months ended 30 June 2006, we recorded operating cash inflow of approximately RMB31,000,000, compared to the last corresponding figure of outflow of approximately RMB12,865,000. Cash used in investing activities was approximately RMB22,420,000 (1H 2005: RMB10,120,000), which was mainly for the expansion of our factory. Cash used in financing activities was approximately RMB57,680,000 (1H 2005: cash from RMB288,370,000), which was mainly for the payment of 2005 final dividend; whereas the cash from the same period last year was mainly due to the proceeds from the Company's initial public offering on 30 June 2005.

The Group does not have any short-term or long-term bank loan as at 30 June 2006 (31 December 2005: Nil). As such, the Group's gearing ratio (being total debts divided by total shareholders' equity) was zero as at 30 June 2006 (31 December 2005: zero).

USE OF PROCEEDS FROM LISTING

The net proceeds from the Company's initial public offering on 30 June 2005 amounted to about RMB334 million were stated in the prospectus of the Company to be applied for the following purposes:

- approximately a total of RMB285 million for constructing, expanding and upgrading the Group's manufacturing and ancillary facilities; and
- approximately RMB49 million for expanding and improving the Group's sales network.

As at 30 June 2006, approximately RMB47 million from the listing proceeds was used in the following manners:

- approximately RMB42 million for constructing, expanding and upgrading the Group's manufacturing and ancillary facilities; and
- approximately RMB5 million for expanding and improving the Group's sales network.

To the extent that any proceeds was not immediately required for the above purposes, such proceeds has been placed on short-term deposits with licensed banks in Hong Kong.

The Group plans to invest approximately RMB120 million and RMB167 million in the coming periods in 2006 and 2007 to complete those plans as set out in the prospectus of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

FOREIGN CURRENCY EXPOSURES AND TREASURY POLICY

We are exposed to the exchange rate risk between United States dollar and Renminbi. In principle, more than 95% of our sales and our raw material purchases are denominated in Renminbi. However, the purchases of raw materials by our suppliers are usually denominated in United States dollar. Given the appreciation of Renminbi against the United States dollar announced in July 2005, favorable impacts are expected to be brought to the Group's future financial performance in terms of reducing raw material costs. The Group's bank deposits are predominantly denominated in Hong Kong dollar and Renminbi. The Directors are of the opinion that appreciation of Renminbi may not cause any significant adverse effect on the financial position of the Group. However, a foreign exchange loss of approximately RMB2,427,000 was reflected in our 2006 interim financial statements given that the proceeds from listing were dominated in Hong Kong dollar while the Group's accounts were denominated in Renminbi.

It is the Group's treasury policy to manage its foreign currency exposure whenever its financial impact is material to the Group. The Group will continue to monitor its foreign exchange position and, if necessary, will appropriately hedge its foreign currency exposure. For the six months ended 30 June 2006, the Company did not use any financial instruments or enter into any contracts in order to hedge against its foreign currency exchange risk.

HUMAN RESOURCES

As at 30 June 2006, the total number of employees of the Group were 1,861, representing a 25% growth over the number of employees of 1,487 as at 30 June 2005. The Group values its human resources and targets to attract and retain competent personnel. Remuneration packages are structured by reference to individual staff's qualifications and the prevailing market conditions. The Company currently provides sufficient trainings and continuing professional development opportunities to its staff.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

As at 30 June 2006, the interests and/or short positions of the Directors and the chief executive of the Company in the ordinary share of HK\$0.1 of the Company ("Share"), underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO")) which were required to be notified to the Company and the HK Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions of which they were taken or deemed to have taken under such provisions of the SFO), and/or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules, to be notified to the Company and the HK Stock Exchange were as follows:

Beneficial interests in the shares of associated corporations

Name of associated corporation	Name of Director	Number of ordinary shares held in the associated corporation	Approximate shareholding percentage
GST International Management Limited	Song Jiacheng	269,276 ordinary shares	26.93%
GST International Management Limited	Zeng Jun	231,366 ordinary shares	23.14%
GST International Management Limited	Cao Yu	157,781 ordinary shares	15.78%
GST International Management Limited	Peng Kaichen	157,781 ordinary shares	15.78%
GST International Management Limited	Xu Shaowen	52,560 ordinary shares	5.26%

Save as disclosed above, neither the Directors nor the chief executive of the Company, nor any of their associates, had interests or short positions in the Shares, underlying shares or debentures of the Company or its associated corporation as at 30 June 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2006, the following person, not being a Director or chief executive of the Company, had an interest and/or short position in the Shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name of shareholder	Nature of interest	Capacity	Number of Shares	Approximate shareholding percentage
GST International Management Limited	Corporate interest	Registered and beneficial owner	501,239,369 (L)	62.65% (L)
Consolidated Press Holdings Limited ⁽¹⁾	Corporate interest	Interest of controlled corporations	50,348,000 (L) ⁽¹⁾	6.29% (L)
3i Group plc ("3i") ⁽²⁾	Corporate interest	Registered and beneficial owner/Interest of controlled corporations ⁽³⁾	49,380,631 (L) ⁽³⁾	6.17% (L) ⁽⁴⁾
3i Holdings plc ⁽²⁾	Corporate interest	Interest of controlled corporations	49,380,631 (L) ⁽³⁾	6.17% (L) ⁽⁴⁾
3i plc ⁽²⁾	Corporate interest	Interest of controlled corporations	49,380,631 (L) ⁽³⁾	6.17% (L) ⁽⁴⁾
3i Investments plc ⁽²⁾	Corporate interest	Investment manager	49,380,631 (L) ⁽³⁾	6.17% (L) ⁽⁴⁾
JPMorgan Chase & Co ⁽⁵⁾	Corporate interest	Interest of controlled corporations	41,321,000 (L) ⁽⁵⁾	5.17% (L)

(L) Indicates a long position.

Notes:

(1) As at 30 June 2006, Consolidated Press Holdings Limited was deemed to be interested in all the Shares through certain of its subsidiaries – Castthree Pty Limited (which was interested in 26,057,500 Shares, representing approximately 3.26% of the issued share capital of the Company) and Wavemill No.1 Unit Trust (which was interested in 24,290,500 Shares, representing approximately 3.03% of the issued share capital of the Company).

(2) 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 15,431,447 Shares, representing approximately 1.93% of the issued share capital of the Company.

3i Nominees Limited is a shareholder of the Company and acts as nominee of 3i Asia Pacific 2004-06LP ("3i Asia Pacific"), an English limited partnership. 3i Asia Pacific beneficially owns 21,604,026 Shares, representing approximately 2.70% of the issued share capital of the Company.

3i APTEch Nominees Limited is a shareholder of the Company and acts as nominee of 3i Asia Pacific Technology LP ("3i APTEch"), an English limited partnership. 3i APTEch beneficially owns 12,345,158 Shares, representing approximately 1.54% of the issued share capital of the Company.

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 was 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 49,380,631 Shares, representing approximately 6.17% of the issued share capital of the Company. 3i Investments plc is a company incorporated in England.

MANAGEMENT DISCUSSION AND ANALYSIS

3i Investments plc is a wholly-owned subsidiary of 3i plc, which in turn is a wholly-owned subsidiary of 3i Holdings plc. 3i Holdings plc, in turn, is a wholly-owned subsidiary of 3i. Accordingly, by virtue of the SFO, 3i plc and 3i Holdings plc were deemed to be interested in all the Shares in which 3i Investments plc was deemed to be interested.

- (3) In addition to the 15,431,447 Shares legally and beneficially owned by 3i, 3i was deemed to be interested in the Shares beneficially owned by 3i Asia Pacific and 3i APTEch and was interested or deemed to be interested in a total of 49,380,631 Shares. 3i Investments plc, as investment manager, 3i Holdings plc and 3i plc were also deemed to be interested in those Shares.
- (4) The aggregate interests held by this group of companies are long positions in 49,380,631 Shares and represent the same interest and are duplicated.
- (5) JF Asset Management Limited ("JFAM"), is a shareholder of the Company, is a company incorporated in Hong Kong and beneficially owns 29,190,000 Shares, representing approximately 3.65% of the issued share capital of the Company. JFAM is a wholly-owned subsidiary of JPMorgan Asset Management (Asia) Inc. ("JPAM Asia"), is a company incorporated in Delaware. JPAM Asia is a wholly-owned subsidiary of JPMorgan Asset Management Holdings Inc. ("JPAM Holdings"), is a company incorporated in Delaware. Accordingly, by virtue of the SFO, JPAM Asia and JPAM Holdings were deemed to have interest in the 29,190,000 Shares beneficially owned by JFAM.

JPMorgan Chase Bank, N.A. ("JPMCB"), which is a shareholder of the Company, is a company incorporated in United States and beneficially owns 12,131,000 Shares, representing approximately 1.52% of the issued share capital of the Company.

JPAM Holdings and JPMCB are both wholly-owned subsidiary of JPMorgan Chase & Co. ("JPMorgan Chase"), is a company incorporated in Delaware. The capacities of JPMorgan Chase in holding the 41,321,000 Shares were, as to 29,190,000 Shares as investment manager and as to 12,131,000 Shares in the lending pool as custodian corporation.

Save as disclosed above, no other interests, or short position in the Shares or underlying shares of the Company were recorded in the register maintained under Section 336 of the SFO as at 30 June 2006.

SHARE OPTION SCHEME

The Company conditionally adopted a share option scheme (the "Share Option Scheme") on 7 June 2005 which became unconditional on 30 June 2005. The purpose of the Share Option Scheme is to provide incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Share Option Scheme include any employees, directors, substantial shareholders or any of their respective associates of the Company and/or any of its subsidiaries or associated companies.

As at 30 June 2006, no option had been granted or agreed to be granted to any person under the Share Option Scheme.

PURCHASES, SALE AND REDEMPTION OF THE SHARES

The Company's Shares were listed on the Main Board of the HK Stock Exchange on 30 June 2005. Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's Shares for the six months ended 30 June 2006. At 30 June 2006, 800,000,000 shares were in issue.

MANAGEMENT DISCUSSION AND ANALYSIS

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

None of the Directors is aware of any information which would reasonably indicate that the Company is not, or was not, in compliance with the Code of Corporate Governance Practices as set out in Appendix 14 to the Listing Rules for the six months ended 30 June 2006 except that both the roles of chairman and chief executive officer of the Company are performed by Mr Song Jiacheng ("Mr Song"), which constitutes a deviation from the Code Provision A.2.1 which stipulates that the chairman and chief executive officer should be separate and should not be performed by the same individual. However, due to the fact that Mr Song is a founder of the business of the Group and possesses substantial experience that is valuable to the Group's operations, the board of Directors considered that it is in the best interests of the Company and its shareholders currently to have Mr Song to serve these roles. The Company therefore does not currently intend to separate Mr Song's roles as the chairman and the chief executive officer.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules for securities transactions by Directors. Having made specific enquiry of all Directors, all Directors have complied with the required standard set out in the Model Code regarding securities transactions by Directors for the six months ended 30 June 2006.

AUDIT COMMITTEE

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

The 2006 interim financial statements has been reviewed by the audit committee and the Company's auditors in accordance with Hong Kong Statement of Auditing Standards "HKSAS 700" issued by Hong Kong Institute of Certified Public Accountants.

REMUNERATION COMMITTEE

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

By order of the Board

Song Jiacheng
Chairman

Hong Kong, 31 August 2006