海灣控股有限公司

GST HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

(Stock code: 0416)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2005

The board of directors (the "Board of Directors") of GST Holdings Limited (the "Company") is pleased to present the first audited consolidated annual results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2005.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Year ended 31 December	
		2005	2004
	Notes	***RMB'000***	*RMB'000*
Turnover	*3*	**561,716**	424,109
Cost of goods sold		**(273,236)**	(209,642)
Gross profit		**288,480**	214,467
Other income	*5*	**36,944**	26,649
Distribution costs		**(77,785)**	(52,993)
Administrative and general expenses		**(83,011)**	(58,492)
Operating profit	*6*	**164,628**	129,631
Finance costs		**(1,167)**	(3,237)
Share of results of			
Jointly controlled entity		**(24)**	92
Associates		**(324)**	–
Profit before taxation		**163,113**	126,486
Taxation	*7*	**(694)**	(3,627)
Profit for the year		**162,419**	122,859
Attributable to:			
Equity holders of the Company		**162,427**	122,849
Minority interests		**(8)**	10
		162,419	122,859
Dividends	*9*	**58,240**	126,300
Earnings per share for profit attributable to equity holders of the Company	*8*		
– Basic (RMB cents)		**25 cents**	23 cents
– Diluted (RMB cents)		**23 cents**	23 cents

CONSOLIDATED BALANCE SHEET

		As at 31 December	
		2005	2004
	Notes	***RMB'000***	*RMB'000*
Non-current assets			
Property, plant and equipment		**129,831**	102,776
Prepaid operating lease for land		**10,081**	5,280
Intangible assets		**8,545**	5,972
Jointly controlled entity		**(1,508)**	(1,532)
Associates		**2,621**	950
		149,570	113,446
Current assets			
Inventories		**82,717**	113,638
Trade receivables	*10*	**127,040**	84,082
Other receivables, deposits and prepayments		**26,754**	28,510
Trading investments		**–**	456
Due from a jointly controlled entity		**9,607**	5,053
Due from related companies		**–**	1,153
Restricted bank deposits		**2,149**	–
Cash and bank balances		**530,251**	162,632
		778,518	395,524
Current liabilities			
Trade payables	*11*	**87,964**	82,714
Other payables and accruals		**12,032**	19,816
Advance from customers		**33,665**	38,334
Short-term bank loans		**–**	70,000
Taxation payable		**20,530**	21,331
		154,191	232,195
Net current assets		**624,327**	163,329
Net assets		**773,897**	276,775
Equity:			
Capital and reserves attributable to equity holders of the Company			
Share capital	*12*	**84,800**	120
Reserves	*13*	**688,398**	276,655
		773,198	276,775
Minority interests		**699**	–
Total equity		**773,897**	276,775

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 electric 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 statements prepared as if the Company had been in existence 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 periods presented were accounted for as minority interests.

2. Principal accounting policies

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board ("IASB"). The financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and the disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of financial assets and financial liabilities at fair value through profit and loss.

In preparing these consolidated financial statements, the directors of the Company (the "Directors") have adopted accounting policies consistent with those adopted in the prior year, except for those changes in accounting policies as a result of the adoption of new or revised IFRS effective for the financial period beginning 1 January 2005 which, in the opinion of the Directors, do not have significant financial impact to the Group.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

Changes in accounting policies

In 2005, the Group adopted certain new or revised IFRSs which are relevant to its operations. However, the adoption of these new or revised IFRSs did not have significant impact on the results of operations and financial position of the Group except for the adoption of IFRS 3 – Business Combinations as set out below.

In prior years, goodwill arising from acquisitions on or after 1 January 2001 was amortised to the consolidated profit and loss account on a straight-line basis over 20 years. Goodwill was stated in the consolidated balance sheet at cost less accumulated amortisation and any impairment losses.

With effect from 1 January 2005, the Group adopted a new accounting policy in order to comply with IFRS 3. The Group no longer amortises goodwill. Such goodwill is tested annually for impairment, including in the year of its initial recognition, as well as when there are indications of impairment. Impairment losses are recognised when the carrying amount of the cash generating unit to which the goodwill has been allocated exceeds its recoverable amount.

The adoption of IFRS 3 resulted in:

	Year ended 31 December 2005 *RMB'000*
Decrease in amortisation expense	717

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2006 or later periods but which the Group has not early adopted. In the opinion of the Directors, these new standards, amendments and interpretations will not have significant financial impact to its result of operations and financial position.

3. Turnover

	Year ended 31 December	
	2005	2004
	RMB'000	*RMB'000*
Sale of goods		
Fire alarm systems	**429,003**	354,072
Fire alarm network systems	**12,360**	8,701
Video entry systems	**28,122**	14,131
Building automation systems	**5,689**	4,779
Electric power meters	**22,134**	10,681
Provision of services		
Installation services	**64,408**	31,745
	561,716	424,109

4. Segment information

Segment information is presented in respect of the Group's business segments. No geographical segment is presented as the operations of the Group are substantially located in the PRC.

Business segment

	Sale of goods				Provision of services		
Year ended 31 December 2005	Fire alarm systems *RMB'000*	Fire alarm network systems *RMB'000*	Video entry systems and building automation systems *RMB'000*	Electric power meters *RMB'000*	Installation services *RMB'000*	Corporate *RMB'000*	Group *RMB'000*
Turnover	429,003	12,360	33,811	22,134	64,408	–	561,716
Segment results	153,782	6,294	6,096	1,166	5,501	(14,771)	158,068
Interest income							6,560
Operating profit							164,628
Finance costs							(1,167)
Share of results of							
Jointly controlled entity	(24)	–	–	–	–	–	(24)
Associates	–	(324)	–	–	–	–	(324)
Profit before taxation							163,113
Taxation							(694)
Profit for the year							162,419
Segment assets	524,136	15,948	20,540	10,867	73,854	281,630	926,975
Jointly controlled entity	(1,508)	–	–	–	–	–	(1,508)
Associates	–	2,621	–	–	–	–	2,621
Total assets							928,088
Segment liabilities	111,716	888	4,428	1,933	12,829	1,867	133,661
Taxation payable							20,530
Total liabilities							154,191
Capital expenditure	35,169	259	1,098	1,570	9,034	640	47,770
Depreciation	8,840	165	350	217	415	92	10,079
Amortisation of prepaid operating lease for land	192	–	–	–	–	–	192
Development costs amortisation	478	–	–	–	–	–	478
Provision for doubtful debts	2,584	(23)	–	228	58	–	2,847

Year ended 31 December 2004	Sale of goods				Provision of services		
	Fire alarm systems *RMB'000*	Fire alarm network systems *RMB'000*	Video entry systems and building automation systems *RMB'000*	Electric power meters *RMB'000*	Installation services *RMB'000*	Corporate *RMB'000*	Group *RMB'000*
Turnover	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
Profit before taxation							126,486
Taxation							(3,627)
Profit for the year							122,859
Segment assets	319,500	24,685	37,270	21,557	61,394	45,146	509,552
Jointly controlled entity	(1,532)	–	–	–	–	–	(1,532)
Associates	–	950	–	–	–	–	950
Total assets							508,970
Segment liabilities	148,735	1,581	36,795	3,601	13,254	6,898	210,864
Taxation payable							21,331
Total liabilities							232,195
Capital expenditure	10,550	385	–	–	1,023	–	11,958
Depreciation	9,282	34	–	–	419	–	9,735
Amortisation of prepaid operating lease for land	125	–	–	–	–	–	125
Goodwill amortisation	717	–	–	–	–	–	717
Provision for doubtful debts	7,662	23	–	–	142	–	7,827

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

Segment liabilities comprise operating liabilities. They exclude items such as taxation.

Capital expenditure comprises additions to property, plant and equipment, prepaid operating lease for land and intangible assets.

5. Other Income

	Year ended 31 December	
	2005	2004
	RMB'000	*RMB'000*
Government grant	**311**	2,832
Value-added tax refund	**29,810**	21,189
Interest income	**6,560**	843
Sales of raw materials, net of cost	**263**	705
Gain on disposals of associates	**–**	1,080
	36,944	26,649

6. Operating profit

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

	Year ended 31 December	
	2005	2004
	RMB'000	*RMB'000*
Charging:		
Research costs	**29,579**	21,240
Development costs amortisation	**478**	–
Depreciation	**10,079**	9,735
Provision for doubtful debts	**2,847**	7,827
Write off of obsolete inventories	**59**	–
Net loss on disposals of fixed assets	**–**	101
Amortisation of prepaid operating lease for land	**192**	125
Goodwill amortisation	**–**	717
Loss on disposals of trading investments	**23**	177
Provision for litigation loss	**–**	4,300
Net exchange loss	**7,554**	20
Auditors' remuneration	**1,474**	41
Crediting:		
Write back of provision for inventories	**–**	(80)
Net gain on disposals of fixed assets	**(636)**	–
Write back of provision for litigation loss	**(3,500)**	–

Note:

These items are included in cost of goods sold, distribution costs and administrative and general expenses.

7. Taxation

	Year ended 31 December	
	2005	2004
	RMB'000	*RMB'000*
PRC enterprise income tax		
Current	**694**	1,469
Deferred	**–**	2,158
	694	3,627

No provision for Hong Kong profits tax has been provided as the Group has no assessable profit in Hong Kong. The provision for PRC income tax is calculated based on the statutory income tax rate according to the relevant laws and regulations in the PRC except for certain subsidiaries set out below. The principal operating subsidiary, 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 2004 to 31 March 2004.

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

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

	Year ended 31 December	
	2005	2004
	RMB'000	*RMB'000*
Profit before taxation	**163,113**	126,486
PRC income calculated at statutory rate of 33%	**53,827**	41,740
Tax loss not recognised	**2,918**	1,330
Non-deductible expenses	**7,479**	1,231
Effect of different income tax assessment rate and tax exemption	**(49,368)**	(35,445)
Additional allowances	**(4,380)**	(129)
Income not subject to tax	**(9,838)**	(7,927)
Effect on deferred taxation brought forward due to the reduction of enacted tax rate	**–**	2,158
Others	**56**	669
Taxation charge	**694**	3,627

8. Earnings per share

The calculation of basic and diluted earnings per share for the year ended 31 December 2005 was based on the consolidated profit attributable to equity holders of the Company of approximately RMB162,427,000 (2004: RMB122,849,000). The calculation of basic earnings per share for the year ended 31 December 2005 was based on the weighted average number of 652,665,990 shares (2004: 529,491,071 shares) deemed to be in issue during the period. The calculation of diluted earnings per share for the year ended 31 December 2005 was based on the weighted average number of 701,369,863 shares (2004: 532,196,842 shares). A reconciliation of the weighted average number of shares for calculation of basic and diluted earnings per share is as follows:

	Year ended 31 December	
	2005	2004
	RMB'000	*RMB'000*
Weighted average number of shares (Basic)	**652,665,990**	529,491,071
Assumed conversion of preferred A shares	**48,703,873**	2,705,771
Weighted average number of shares (Diluted)	**701,369,863**	532,196,842

9. Dividends

A final dividend of HK$0.07 per share (RMB0.07) for the year ended 31 December 2005, amounting to a total dividend of HK$56,000,000 (RMB58,240,000), to those shareholders whose names appear on the register of members of the Company on 18 May 2006 is to be proposed at the annual general meeting of the Company to be held on or about 18 May 2006. These financial statements do not reflect this proposed dividend.

The dividends paid in 2004 were RMB126,300,000 representing dividends paid by GST to its then shareholders prior to the Reorganisation. The rates of dividend and the number of shares ranking for dividends are not presented as such information is not meaningful.

10. 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:

	As at 31 December	
	2005	2004
	RMB'000	*RMB'000*
0 to 90 days	**64,580**	37,356
91 to 180 days	**25,377**	16,029
181 to 365 days	**26,157**	16,869
Over 365 days	**28,828**	30,707
	144,942	100,961
Less: Provisions for doubtful debts	**(17,902)**	(16,879)
	127,040	84,082

11. Trade payables

	As at 31 December	
	2005	2004
	RMB'000	*RMB'000*
0 to 90 days	**75,060**	73,883
91 to 180 days	**9,559**	2,230
181 to 365 days	**2,043**	4,399
Over 365 days	**1,302**	2,202
	87,964	82,714

12. Share capital

	Authorised				
	Common shares of HK$0.1 each		**Preferred A shares of HK$0.1 each**		**Total**
	No. of shares	*RMB'000*	*No. of shares*	*RMB'000*	*RMB'000*
Upon incorporation on 27 April 2004 *(note(a))*	3,800,000	403	–	–	403
Redesignation of shares *(note(d))*	(186,240)	(20)	186,240	20	–
At 31 December 2004	3,613,760	383	186,240	20	403
Conversion of preferred A shares *(note(f))*	186,240	20	(186,240)	(20)	–
Increase in authorised share capital *(note(e))*	1,996,200,000	211,597	–	–	211,597
At 31 December 2005	2,000,000,000	212,000	–	–	212,000

	Issued				
	Common shares of HK$0.1 each		**Preferred A shares of HK$0.1 each**		**Total**
	No. of shares	*RMB'000*	*No. of shares*	*RMB'000*	*RMB'000*
Issue of share to the initial subscriber *(note(b))*	1	–	–	–	–
Issue of shares *(note(c))*	999,999	106	–	–	106
Issue of preferred A shares *(note (d))*	–	–	131,463	14	14
Redesignation of shares *(note(d))*	(54,777)	(6)	54,777	6	–
At 31 December 2004	945,223	100	186,240	20	120
Conversion of preferred A shares *(note(f))*	186,240	20	(186,240)	(20)	–
Capitalization issue *(note(g))*	598,868,537	63,480	–	–	63,480
Issue of shares *(note(h))*	200,000,000	21,200	–	–	21,200
At 31 December 2005	800,000,000	84,800	–	–	84,800

(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 taken place on 20 December 2004, the Company acquired the entire issued share capital of GGIL by (i) the issuance of 999,999 shares to GST Management 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 for approximately RMB124 million. 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. Each Series A Preferred share is convertible, at the option of the holder, into one fully paid common share or upon attainment of certain conditions.

(e) Pursuant to a shareholders' 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.

(f) On 30 June 2005, 186,240 Series A Preferred shares were converted, redesignated and re-classified as 186,240 common shares upon the listing of the Company's shares on The Stock Exchange of Hong Kong Limited.

(g) 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.

(h) On 30 June 2005, 200,000,000 common shares were issued at HK$1.72 per share for cash, resulting in a gross proceed of approximately RMB365 million.

13. Reserves

	Group					
	Share premium *RMB'000*	**Merger reserve** *RMB'000*	**General reserves** *RMB'000*	**Currency translation adjustments** *RMB'000*	**Retained earnings** *RMB'000*	**Total** *RMB'000*
At 1 January 2004	–	102,766	34,472	–	25,649	162,887
Issue of shares for cash	123,981	–	–	–	–	123,981
Share issuance costs	(6,898)	–	–	–	–	(6,898)
Contribution from Gulf Group for additional interest in a subsidiary	–	136	–	–	–	136
Profit for the year	–	–	–	–	122,849	122,849
Dividends paid to the then shareholders of GST	–	–	–	–	(126,300)	(126,300)
Transfer	–	–	18,276	–	(18,276)	–
At 31 December 2004	117,083	102,902	52,748	–	3,922	276,655
Capitalization issue	(63,480)	–	–	–	–	(63,480)
Issue of shares for cash	343,440	–	–	–	–	343,440
Share issuance costs	(30,692)	–	–	–	–	(30,692)
Profit for the year	–	–	–	–	162,427	162,427
Translation of financial statements of a jointly controlled entity	–	–	–	48	–	48
Transfer	–	–	25,754	–	(25,754)	–
At 31 December 2005	366,351	102,902	78,502	48	140,595	688,398

(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% to 10%, respectively, of the net profit of subsidiaries of the Group according to their respective Articles of Association. Such appropriation is subject to approval of the boards of the subsidiaries on an annual basis.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULTS

For the year ended 31 December 2005, the turnover of the Group grew by 32.4% to RMB561,716,000. Such turnover growth was mainly attributable to an impressive growth in sales deriving from each of the Group's business segment due to a surging market demand for the Group's services and products driven by an increasing awareness of fire prevention and safety amongst the China government and its citizens.

As a token of effective cost controls by the Group, the gross profit for the year under review reported a 34.5% increase, amounting to RMB288,480,000, with an 0.8% increase in the gross profit margin to 51.4%. Net profit attributable to shareholders grew by 32.2% over the last corresponding figure to RMB162,427,000. During the year under review, the Company achieved a marked business growth by exceeding our targeted net profit.

The Board of Directors recommended the payment of a final dividend of HK7 cents per share in order to return shareholders of the Company with promising results and performance.

MARKET REVIEW

In 2005, China's economy boomed stably, with an increasing income per capita. According to statistics revealed by the State Statistics Bureau of the People's Republic of China, GDP in 2005 rose by 9.5% to approximately RMB18.2321 billion. With increased income and rising living standards, people are increasingly aware of the importance of fire prevention and in pursuits of higher living environment safety. In addition, the rapidly developing property sector in China together with the persistently increasing infrastructure and construction projects added further growing momentum for luring a greater demand for the fire alarm equipment from the industrial and commercial sectors.

In view of tightened safety regulations for both the community and various industries coupled with reinforced enforcement of those regulations under the Eleventh Five Year Plan of the PRC Central Government, the demand for fire prevention related equipment from different industries was fostered.

Given a growing market demand for the installation and maintenance services of fire alarm systems in addition to sales of such products, a flurry of emerging market opportunities were brought to the one-stop bundled solution providers.

As there are more and more cities having installed the fire alarm network systems (collectively known as "119 fire network systems" in the PRC), this product type will be embedded with tremendous market potentials while it gains its popularity.

All the above factors provided a good opportunity for the Group's future development.

BUSINESS REVIEW

The Company and its subsidiaries (the Group) is a products 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, and providing installation, repair and maintenance services for professional fire systems. The Group is well poised to emerge as a dominant player in the PRC fire industry with an increased market share of about 23% in the field of fire alarm systems.

Since our establishment in 1993, our "" brand has now become one of the most widely recognized brands in the fire alarm system industry in China. In 2004, our "" brand was awarded as the only "well-known trademark" in the PRC fire alarm system industry by the State Administration for Industry and Commerce.

In January 2006, Gulf Security Technology Company Limited, a subsidiary of the Group, was ranked top 17th most competive PRC enterprise entrepreneur in the PRC with the most potentials by "Forbes".

Core Business:

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

	For the year ended 31 December		
	2005	**2004**	**Growth**
	RMB'million	*RMB'million*	*%*
Fire alarm systems	429.0	354.1	21%
Installation services	64.4	31.7	103%
119 fire network systems	12.4	8.7	42%
Other products	55.9	29.6	89%
Total	561.7	424.1	32%

Fire Alarm Systems

During the year under review, the Group continued to be the market leader in the PRC fire alarm system industry, as income of fire alarm systems increased approximately 21.2% to approximately RMB429,003,000, which was the Group's core business accounting for 76.4% of the total turnover. The above income included income from sales of fire alarm systems and maintenance services of RMB421,781,000 and RMB7,222,000, respectively, which represented a growth of 20.7% and 52.3%. In terms of sales revenue, the Group enjoyed a market share of about 23%, nearly doubling the market shares of the second and third largest players.

There are over 100 competitors in the competitive PRC fire alarm system industry. Currently, imminent market consolidation is expected in view that the top 20 players accounted for up to 80% of the market shares whereas the top three players shared over 40% of the market according to market estimates. Market consolidation is expected to flourish a more healthy market sentiment whereby creating a great pool of valuable opportunities for the Group as a market leader.

Major direct stimulus driving a significant growth in sales of fire alarm systems were mainly attributable to a growing demand for such products in association with the enhanced requirements in industrial and commercial fire prevention systems by the China government through strengthened regulations, and the desires for higher quality and more reliable products due to an increasing safety awareness amongst the citizens in China. The Group will be well positioned to benefit from the prevailing conditions as a key industry player. In addition, a huge demand for fire alarm products will be lured from projects under construction and newly constructed projects under a prosperous property market in China. On top of that, there are more industrial customers adopting fire alarm system for the fire precaution safety measures.

Despite of the rising market demand of fire alarm systems, the average selling price were falling caused by price reduct of those small scaled system manufacturers. However, such price reduction has driven these small scaled system manufacturers out of the market as they suffered from profit erosion on the same token. As a results, the fall in average selling prices diminished from 18% in 2004 to 15% in 2005. In terms of cost control, the production cost was effectively reduced as the production efficiency was raised through the Group's research and development with technology upgrade. On the other side, the Group enjoyed more preferential material purchase prices with suppliers as we had stronger bargaining power by leveraging on its scale of economies and bulk raw material purchases, thereby attaining our cost controls target . The average cost of sales continued to decline from 15% in 2004 to 20% in 2005. In addition, there are significant growth in the Group's turnover of industrial and public utilities sector and export sector, where both sectors are in the higher gross profit margin areas. Through a combination of various synergies, the Group's gross profit margin of fire alarm system business grew to 56.8% from 53.8% in 2004 accordingly. In response to the prevailing market trends, during the year under review, by increasing additional sales offices and sales technicians, as well as by exerting greater promotional efforts, the number of sales offices was increased, to 88 as at 31 December 2005, while sales and technical staff were increased from 579 to 913 as at 31 December 2005. On top of expanding commercial and residential customer bases, the Group took a great step in actively exploring into the sectors of industrial and public utilities and the export markets by setting up a designated team. This product segment was fuelled with new driving forces through the provision of sales services to large industrial projects and the expanded market coverage of such products.

During the year under review, the Group took part in a number of major projects, namely Beijing World Trade Commercial Centre (北京世貿商業中心), Shanghai Inspection and Testing Centre (上海檢測中心), Hainan Chemical Refinery (海南煉化廠), Daqing Oil Field Production Commanding Centre (大慶油田生產指揮中心), Dalian Jinchuan Garden (大連金川花園) and the Comprehensive Administrative Building in Hefei new zone (合肥政務新區綜合政務樓).

Strong Growth in the Industrial and Public Utilities
During the year under review, turnover of fire alarm systems generated from the industrial and public utility sectors delivered a marked increase of 36.1% to approximately RMB74,987,000, accounting for 17.8% of the total turnover from fire alarm systems. As the research capability of the Group can offer industrial customers diversified professional products, the Group successfully gained customers from different areas, including many famous enterprises such as the PetroChina Southwest Liuzhou Oil Field (中石油西南公司柳州油庫), Datang Huaibei Power Station (大唐淮北發電廠), Maoming Petroleum Company(茂名石化公司), Haier Industrial Park (海爾工業園區), Anshan Steel Group (鞍山鋼鐵公司), Shanghai General Motors (上海通用汽車公司).

The Group plans to make more endeavoured efforts in developing its business in the industrial and public utility sectors in response to the future market trends.

Export Markets
In addition to our active business pursuit in the PRC market, the Group also entered into the international market. Quality fire alarm systems of the Group were accredited with the certification standards by a number of international institutions, including Underwriters Laboratories Inc.(UL), Loss Prevention Certification Board (LPCB) and Conformite Europeenne(CE). The product trademark was registered over 40 countries and regions across Europe, Asia, Africa and Middle East. For the twelve months ended 31 December 2005, sales of export products delivered a remarkable 92.1% increase to RMB19,082,000. This segment accounted for 4.5% of the turnover of fire alarm systems.

As the cost of material and labour are relatively low in the PRC, together with the Group's optimal economies of scale, it can therefore deliver very price competitive products for export sales. Despite the present proportion of the export business is low, the export markets are expected to become major growth drivers of the Group in the imminent future through a perfect combination of the Group's advantages in technological research and development, production technologies, costs and prices.

Installation Services
The Group started installation business in 1996. The experience accumulated in the past years enabled the Group to obtain Grade 1 qualification, being the highest qualification for building installation business. Hence, we can participate in nationwide building installation contracts. The Group is dedicated to providing a total solution for various types of building's low-voltage systems installation services, including major fire alarm systems and other relevant systems, we aim to position as a one-stop solution supplier providing diversified products, technology consulting, system designs, equipment selection, equipment installation, adjustments and testings, as well as maintenance services.

During the year under review, income from installation services increased by 102.9% to approximately RMB64,408,000, which was the second major income generator accounting for 11.5% of the total turnover. The Group involved in several projects, including Jizhong Oil Field (冀中油田), Beijing University of Science and Technology (北京科技大學), Bazhou Electricity Supply Deployment Building (霸州供電局電力調度樓) and Dalian Heping Modern Town (大連和平現代城).

119 Fire Network Systems
Though 119 fire network systems in China were only at a start-up stage, with an increasing number of cities installing such systems, the Group believes the development of such business will be promising.

Apart from engaging in sales of 119 fire network systems, the Group strengthened customer connections by providing value-added ancillary maintenance services to customers. During the year under review, The Group installed 119 fire network systems for 19 cities, including Zhengzhou, Xiamen, Yinchuan, Baotou and Huhehaote. Income from sales of 119 fire network systems posted an encouraging growth of 42.1% to approximately RMB12,360,000.

As at 31 December 2005, 119 fire network systems were installed in about 63 cities in China, of which the systems in 53 cities were purchased from the Group, including Tianjin, Chongqing, Wuhan, Chengdu and Guizhou. On this basis, the Group secured a lion share of 84% of the market.

Average selling prices remained stable under a relatively mild market competition. Gross profit from 119 fire network systems increased to 79.5% from 73.7% in 2004. The increasing weight of such high gross margin business will contribute positively to the gross margin of the Group. The prospect of the business will be promising in the future given our leading position in the market.

Other Products
The Group made great efforts in further broadening our product portfolio, including sales of building automation systems, video entry systems and electronic power meters, by taking advantage of our reputation and widely recognized brand name.

During the year under review, sales of video entry systems, electronic power meters and building automation systems grew by 99.0%, 107.2% and 19.0% respectively. A total revenue of RMB55,946,000, being 10.0% of the total turnover, was generated for the Group, which was a stable income source of the Group.

Nationwide Coverage of Sales Network
One of the Group's competitive edges lies upon its far-reaching and comprehensive sales network. As at 31 December 2005, the Company had approximately 913 persons specializing in sales, marketing and technical support based in 88 offices in major cities across the PRC. As a service provider with the strongest and the most extensive network in the fire alarm industry, the Group is capable of providing total after-sales services to customers in different regions. With a nationwide network of sales branch offices, the Group is capable of maintaining close connections with our clients across different regions.

The sales and distribution network of the Group was a crucial factor for maintaining a close relationship with our customers. Constantly expanding sales network resulted in the Group's increasing direct connections with our customers, and consequently reduced reliance on the Group's distributors.

Abundant Orders On-hand
The Company accustomed to enter into contracts with our customers prior to good deliveries due to its business nature. As at 31 December 2005, orders on-hand aggregated a total value of approximately RMB260,000,000.

Distribution costs, administrative and general expenses
For the year ended 31 December 2005, distribution costs and administrative and general expenses, increased as the Group expanded its business continually. Distribution costs increased by 46.8% from RMB53.0 million in 2004 to RMB77.8 million in 2005 as a result of the increase in number of sales offices to 88 as at 31 December 2005 and increase in sales, marketing and technical staff from 579 as at 31 December 2004 to 913 as at 31 December 2005.

Administrative and general expenses increased by 41.9% from RMB58.5 million in 2004 to RMB83.0 million in 2005. This is mainly attributable to increase in research costs and as we strengthened the management team.

Taxation
Taxation decreased by 80.9% from RMB3.6 million in 2004 to RMB0.7 million in 2005 and effective tax rate dropped from 2.9% to 0.4%. This is 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. In addition, being registered in a designated development zone, these three PRC subsidiaries are subject to PRC income tax at a preferential tax rate of 15% or 24%.

Starting 2006, two of the above three PRC subsidiaries, including the major operating subsidiary GST, enter their third profitable year and are subject to a 50% relief from the preferential tax rate of 15%.

Liquidity, Financial Resources and Bank Loans

Following the Company's initial public offering on 30 June 2005, we raised net proceeds of approximately RMB334 million which will be used to finance the Group's future expansion. For the twelve months ended 31 December 2005, we recorded operating cash inflow of approximately RMB143,564,000, representing a 44.8% increase over the last corresponding figure of RMB99,165,000. During the year under review, cash used in investing activities amounted to approximately RMB37,744,000, which was mainly for the expansion of our factory.

During the year under review, the Group repaid all short-term bank loans with cash from operations. Without any existing bank liabilities, the Group's gearing ratio (being total debts divided by total shareholders' equity) dropped to zero as at 31 December 2005 from 0.25 as at 31 December 2004.

To cope with the growth in 119 fire network systems, the Group increased its shareholding in Qinhuangdao City Chengan Fire Prevention Network Co., Ltd. ("Chengan"), one of the Group's associates, from 35% to 51% in September 2005, whereby Chengan became the Group's subsidiary. The amount involving in such acquisition was RMB800,000 and was fully settled in cash.

USE OF PROCEEDS FROM LISTING

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

– approximately RMB75 million for expanding and upgrading the Group's existing primary manufacturing facilities in Qinhuangdao and construction of ancillary facilities;

– approximately RMB210 million for developing and constructing a new factory; and

– approximately RMB49 million for expanding and improving the Group's sales network.

As at 31 December 2005, approximately RMB24,838,000 from the listing proceeds was used in the following manner:

– approximately RMB23,056,000 for expanding and upgrading the Group's existing primary manufacturing facilities in Qinhuangdao and construction of ancillary facilities; and

– approximately RMB1,782,000 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 will be placed on short-term deposits with licensed banks in Hong Kong.

The Group plans to invest approximately RMB142,000,000 and RMB167,000,000 in the coming two years (2006 and 2007) to complete those projects as set out in the prospectus of the Company.

FOREIGN CURRENCY EXPOSURES AND TREASURY POLICY

We are exposed to the exchange rate risk between United States dollar and Renminbi. In principal, 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 predominately 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 RMB7,554,000 was reflected in our financial statements given that the proceeds from listing were dominated in Hong Kong dollar while the Group's accounts were measured 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 twelve months ended 31 December 2005, 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 31 December 2005, the total number of employees of the Group were 1,718, representing a 34.6% growth over the number of employees of 1,276 as at 31 December 2004. 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.

The Company has set up a remuneration committee for the purpose of reviewing the remuneration packages of the executive Directors and senior management. The committee comprises two independent non-executive Directors and a non-executive Director with Mr Chan Chi On, Derek, an independent non-executive Director, as the chairman.

FUTURE PROSPECTS

The Group is committed to become a total solution supplier of fire alarm systems by providing a full range of quality services from fire alarm systems to peripheral systems in China. Given that the penetration rate of the fire alarm systems in the domestic market is currently far lagging behind other economically prosperous countries, the domestic market is set to be embedded with tremendous growing potentials.

In light of ever rising customers' requirements for products and systems under a rapidly growing market, the prevailing market is characterized with faded outs of certain small-scaled players by increasingly competent competitors. Leveraging on a larger pool of merger and acquisition opportunities, and synergies arising from the market consolidation of the fire alarm systems and its peripheral systems, the market is expected to gain promising growth prospects. To the Company's belief, the Company will take advantage of the market consolidation to further strengthen its leading position. Looking forward, by capitalizing on the existing solid basis, the Group will make concerted efforts in gradually upgrading itself from a revenue model based mainly on product sales to a product and system solution supplier engaging in product sales providing installation and ancillary equipment as well as maintenance services by further exploring into wider scopes of services. The followings are the major growth drivers of the Group in the future:

1. **Inspiring growth in PRC market driven by China's policy**

   Given that the penetration rate of the fire alarm systems in the domestic market is currently far lagging behind other economically prosperous countries, the domestic market is set to be embedded with tremendous growth potentials. With the importance of industrial safety being highlighted in the Eleventh Five-Year Plan, reinforced enforcement of the fire regulations by the government and increasing awareness of safety amongst the domestic citizens, the applications of the fire alarm systems are expected to be widened to various industries. In particular, the most significant growth potentials for the industrial and public utilities sectors will bring a flurry of rapid growth opportunities for the Group.

   To capture each and every market opportunity, the distribution network and research and development capabilities will be further enhanced by the Group. Over 30 offices are expected to be added in 2006, increasing the number of sales offices to approximately 120 by late 2006. The Group is devoted to deliver highly competitive products and services at all times and approximately 5% of its sales is delegated to research and development activities.

2. **Tremendous Potential in Industrial Sector**
   In recent years, China's industry sectors grow vigorously, as evidenced from a continuous annual increase in industrial customers and an enormous demand for the industrial fire equipment. In comparison with the specifications of civil and residential fire equipment, the industrial fire equipment are more demanding in terms of specifications and professional technologies while they enjoy relatively higher gross margin. The future development trend will be the provision of one-stop bundled services ranging from sales, installation to maintenance to the industrial sector.

3. **Exploration into Export Market**
   The Group's competent research and development capacities in providing quality products at highly competitive prices represented our favourable condition in expanding into the export market. The Group's fire alarm system products are currently registered in numerous countries. Coupled with the passing of 4 LPCB product certifications during the year, the Group enjoys apparent advantages in exploring into the European markets. Moreover, in January 2006, the Group was granted the "Madrid International Trademark Registration Certificate" by the "World Intellectual Property Organization". As such, we have obtained recognition and protection in 24 countries under the European Union, Australia, Japan, America and Singapore. Based upon the existing sales network, the Group will enhance its developments in the Middle East, European and South East Asia markets, and in opening up the North American and other European markets.

   In view of stepping up our business development, the Group is actively seeking opporturnities for a partnership with international players. With the quality offerings of the Group complemented by the experience in global sales of such international partners, the Group and our partners can jointly explore market opportunities.

4. **119 Fire Network Systems and Installation Services**
   As noted from recent development trend and by referring to overseas market paths, the Group believes that substantial room for development will be lured given the increasing applications of the 119 fire network systems.

   In addition, the Group plans to establish a foothold in developing one-stop solution services by cooperating with the control centres which are equipped and installed with the Company's 119 fire network systems and by involving in the operations of those control centers. More efforts will be made in developing repair and maintenance services by establishing additional repair and maintenance centres in the coming year. Leveraging on the Group's leading position and widespread customer connections in 119 fire network systems, the management is confident of positioning cutting competitive edges in the development of such business, and expects to explore additional sources of service income in the future.

The Group's factory currently under construction in Qinhuangdao is expected to be put into operation in July 2006. To enhance production capacity in line with our future development needs, additional new factories will be actively planned and constructed, which will be financed by the listing proceeds.

As to our future development plans, the Group is devoted to a dual-mission commitment of consolidating our leading position and creating fruitful shareholders' values. To the Board of Director's belief, GST Holdings is prepared to meet the forthcoming market challenges ahead and to grasp each and every growth opportunity.

DIVIDEND

The Board of Directors recommended the payment of a final dividend of HK$0.07 per share (RMB0.07) to shareholders whose names appear on the register of members of the Company on 18 May 2006.

PURCHASES, SALE AND REDEMPTION OF THE SHARES

The Company's Shares were listed on the Main Board of the Stock Exchange on 30 June 2005. Save for the above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's Shares for the year ended 31 December 2005. As at 31 December 2005, 800,000,000 Shares were in issue.

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 since the listing of the Shares on the Main Board of the Stock Exchange on 30 June 2005 except that both the roles of chairman and chief executive officer of the Company are performed by Mr Song Jiacheng, 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 since the listing of the Company's Shares on the Main Board of the Stock Exchange on 30 June 2005.

AUDIT COMMITTEE

The Company has set up an audit committee (the "Committee"), in accordance with the requirements of the Code of Corporate Governance Practices. The consolidated financial statements of the Group for the year ended 31 December 2005 have been reviewed by the Committee.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 11 May 2006 to Thursday, 18 May 2006 (both days inclusive) during which period no transfer of Shares will be registered. In order to qualify for the proposed final dividend and the entitlement to attend and vote at the forthcoming annual general meeting, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar and transfer office of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on Wednesday, 10 May 2006.

PUBLICATION OF FURTHER INFORMATION ON THE STOCK EXCHANGE'S WEBSITE

The 2005 annual report containing all the information required by the Listing Rules will be published on the Stock Exchange's website in due course.

The Board would like to express our gratitude to our investors and employees for their support in the past.

By order of the Board
Song Jiacheng
Chairman

Hong Kong, 30 March 2006

As at the date of this announcement, the executive Directors are Mr Song Jiacheng, Mr Cao Yu, Mr Peng Kaichen and Mr Xu Shaowen, the non-executive Directors are Mr Zeng Jun and Mr Lee Kwan Hung, Eddie and the independent non-executive Directors are Mr Chang Tso Tung, Stephen, Mr Chan Chi On, Derek and Mr. Sun Lun.

Please also refer to the published version of this announcement in SCMP-Classified.