

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 a 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 rising income and 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 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 further development.

BUSINESS REVIEW

The Company and its subsidiaries (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 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 "GST" brand has now become one of the most widely recognized brands in the fire alarm system industry in China. In 2004, our "GST" 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 the top 17th most competitive PRC enterprise by "Forbes".

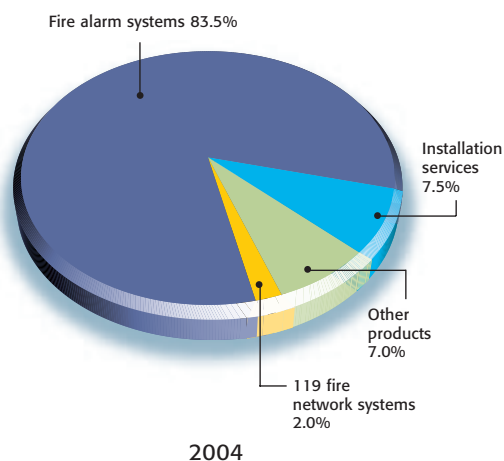
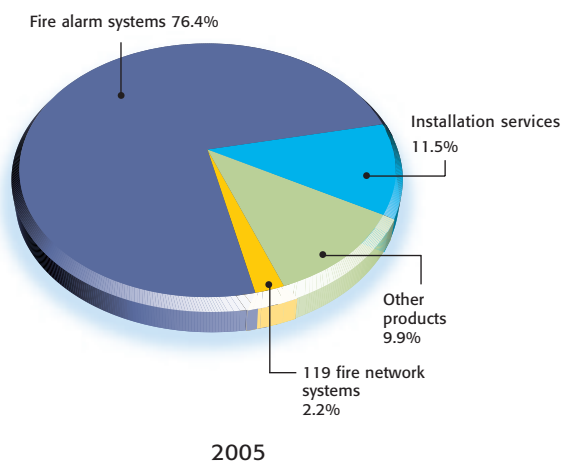


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Turnover Analysis by Business Segment

The following table 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 by 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 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.

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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 tightened 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 the rising market demand of fire alarm systems, the average selling prices were falling caused by price reduction 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 result, 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 hand, the Group enjoyed more preferential material purchase prices from suppliers as we had stronger bargaining power by leveraging on our scale of economies and bulk raw material purchases, thereby attaining our cost control target. The average cost of sales continued to decline with a drop of 15% in 2004 which was increased 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 strategies, 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, by increasing additional sales offices and sales technicians during the year ended review, 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. These product segments were 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 Sector

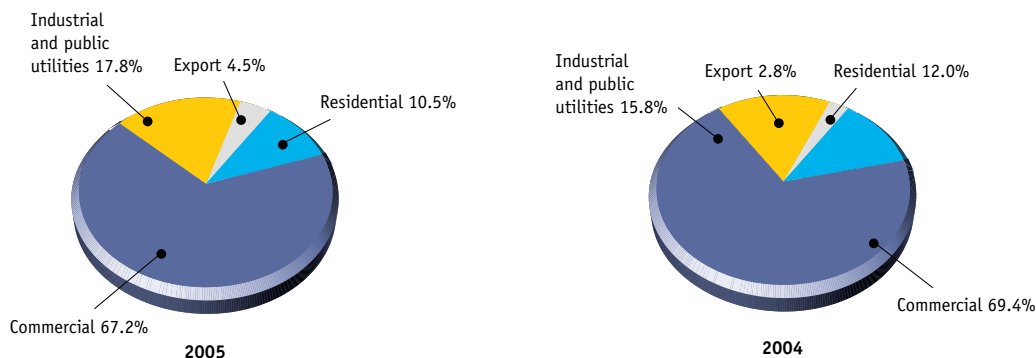
During the year under review, turnover of fire alarm systems generated from the industrial and public utility sector delivered a marked increase of 36.1% to approximately RMB74,987,000, accounting for 17.8% of the total turnover from fire alarm systems. As the research capability of the Group can offer 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) and 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 sector in response to the future market trend.



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Turnover Analysis by Business Sector of Fire Alarm System



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 Conformance Européenne (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, export sales of 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 proportion of present 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, competitive 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 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).

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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 RMB55,945,000, 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

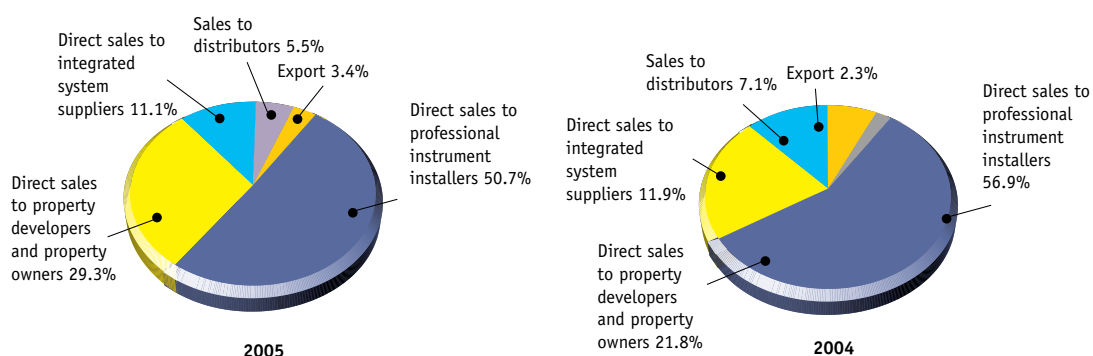
One of the Group's competitive edges lies upon its far-reaching and comprehensive sales network. As at 31 December 2005, the Company had approximately 913 employees specializing in sales, marketing and technical support based in 88 offices in major cities across the PRC. As a service provider with the strongest and the most extensive network in the fire alarm industry, the Group is capable of providing comprehensive 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.



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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 reducing reliance on the Group's distributors.

Turnover Analysis by Distribution Channel



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 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 designated development zones, 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



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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 (see Note 37 to the accounts). 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,



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the Group will make concerted efforts in gradually upgrading itself from an 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 the 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 over 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 the Industrial Sector

In recent years, China's industry sectors grow vigorously, as evidenced from a continuous increase in industrial customers and an enormous demand for industrial fire equipment. In comparison with the specifications of civil and residential fire equipment, 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 Markets

The Group's competent research and development capacities in providing quality products at highly competitive prices represents our favourable condition in expanding into the export markets. 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 opportunities for a partnership with international players. With the quality offerings of the Group complemented by the experience in global sales network of such international partners, the Group and our partners can jointly explore international 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 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 in putting competitive edges in the development of such business, and expects to explore additional sources of service income in the future.

The Group's factory expansion 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, an additional new factory 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.

