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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 COMMITTEE

Chang Tso Tung, Stephen (*Chairman*)

Chan Chi On, Derek

Sun Lun

**REMUNERATION
COMMITTEE**

Chan Chi On, Derek (*Chairman*)

Lee Kwan Hung, Eddie

Chang Tso Tung, Stephen

SENIOR MANAGEMENT

Ho Yui Pok, Terry

(*Company Secretary and
Qualified Accountant*)

Liu Weihua

STOCK CODE

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HONG KONG BRANCH REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
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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

AUDITOR

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

4 CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of GST Holdings Limited ("GST Holdings" or "the Company", together with its subsidiaries, the "Group"), I am pleased to present the Group's annual results for the year ended 31 December 2006.

INDUSTRY REVIEW

During the year under review, the increased safety awareness among domestic citizens, the central government's policies in enhancing public and industrial safety and the accelerated pace of urbanization process, resulted in an increasing market demand for fire alarm products. Though the average selling price for fire alarm products was declining due to fierce domestic price competition, substantial growth potential of the fire alarm products in the PRC market remained and the overall market demand was still strong. The Group enjoyed a sustained increase in total sales and a continued uptrend of business growth during the year under review.

RESULTS HIGHLIGHTS

Fuelled by the strong demand for fire alarm products, the Group achieved a turnover growth of 15.0% year-on-year to approximately RMB645,771,000 in 2006. Net profit attributable to shareholders increased by 1.6% to approximately RMB164,993,000.

The board of directors (the "Board") recommended the payment of a final dividend of HK7.33 cents (equivalent to approximately RMB7.33 cents) per share for the year ended 31 December 2006.

OPERATIONAL STRATEGY

Products

Supported by a one-stop-shop business model, the Group provides customers with comprehensive fire alarm products and related services. During the year under review, the Group maintained its solid leading position in the PRC fire alarm industry with a market share of over 30% in terms of sales volume of fire alarm system. Ever since, the Group's products and services have accommodated the needs of both domestic and industrial markets. The Group moved to develop high margin customers during the year and its sales growth in the industrial and public facilities sector, as well as the export market, were encouraging, increasing their share in the total revenue. The management believes industrial and public facilities sector and export market will continue to be the strong growth driver for 2007.

For production capacity, as Qianhuangdao Phase III expansion has been completed in August 2006 and is in operations, the production capacity of the Group on fire alarm detectors and modules surged 82% and 63% respectively to 5,100,000 pieces and 3,900,000 pieces. The utilization rate after new facilities commenced was approximately 60%-70% and the increased production capacity will be sufficient for the next two years' demand.

Services

Installation services were another growth engine for the Group's performance in 2006, with satisfactory increase in sales revenue and gross profit margin. Apart from that, the Group actively expanded its repair and maintenance services to further reinforce its market presence as a one-stop provider of fire alarm system products and solutions.

The Group continued to establish additional sales offices in the extensive distribution network in the PRC and proactively explore opportunities for cooperation with international market players. In June 2006, the Group signed a distribution agreement with Apollo, the largest European fire detector manufacturer, to distribute fire and security products supplied by Apollo in the PRC in order to boost both parties' market shares. In addition, the Group further expanded its sales network in the PRC by increasing sales offices to a total of 115 at the end of 2006, which was 27 more than the previous year. Apart from the domestic market initiatives, the Group seized opportunities to tap into the international market as well. Last year, the Group successfully developed 5 emerging markets, including Chile, Paraguay, Nicaragua, Sri Lanka and Hong Kong. At present, the Group's products are sold to more than 50 regions, such as Europe, the Middle East and Southeast Asia, and its product trademark was registered over 84 countries and regions.

Achievement

In July 2006, the Group's controlling shareholder, GST International Management Limited, entered into a Sale and Purchase agreement with United Technologies Corporation (UTC), a Fortune 500 company, to dispose of 9.9% of the Group's stakes to UTC, which then became the Group's second largest shareholder. Later in October 2006, UTC further increased its stakes in the Group to 18.82% by signing another sale and purchase agreement with other major shareholders of the Group. This not only strengthened the Group's shareholder base, but also reflected UTC's strong confidence in long term investment for the Group.

Leveraging on the leading market position and high quality fire alarm system products and services, the Group has been awarded for the consecutive second year as one of the top 100 potential PRC enterprises in 2007 by Forbes China, with the ranking of 21st, which further recognized GST's business success and growth potentials.

FUTURE DEVELOPMENT

Looking forward, the Group is prudently optimistic about the market outlook. More stringent fire safety standards and regulations will be implemented by the government and local fire bureaus. Hence, it will increase the demand for reliable and quality fire alarm systems products. Following the success in fire alarm systems in the PRC, the Group will expand into fire extinguish systems sector and it is expected to introduce to the market in 2007. It is the Group's strategy to move into higher margins customer groups. Therefore, the Group will continue to develop new products to expand customer base. It is expected to further increase the client mix in industrial and public facilities customers and export markets to account for approximately 40% of fire alarm systems sales. On the other hand, the Group will continue to increase its extensive sales network by adding another 15 sales offices in the PRC.

The Group's position is now moving to a comprehensive total solution provider. Installation services will continue to be a promising business and growth driver of the Group. To support the maintenance services provided to customers, and to increase the maintenance income, the Group targets to set up about 20 services centres in the PRC in 2007.

One of the key development direction of the Group in 2007 is to move towards Security Industry. The Group will fully utilise the extensive sales network to increase the sale of security systems products. Hence, the Group will turn into a Fire and Security products and services provider.

As the Group has adequate funding, the Group will continue to search for suitable merger and acquisition target in the Fire and Security Industry to enhance the business scope and profit returns.

Capitalizing on its competitive edges, the Group is fully confident in its future development. Lastly, I would like to express my sincere gratitude to all staff members for their dedicated efforts and to our shareholders for their continued support and trust in us.

Song Jiacheng

Chairman

Hong Kong, 4 April 2007

FINANCIAL HIGHLIGHTS

The PRC government strengthened the promotion of fire safety to the public and implemented tighter measures to monitor public and industrial safety. This stimulated market demand for high quality and reliable fire alarm products and systems and contributed to growth in product sales and services revenue for the Group. For the year ended 31 December 2006, the Group's consolidated turnover grew by 15.0% to approximately RMB645,771,000 (2005: RMB561,716,000) and gross profit increased by 9.8% to approximately RMB316,730,000 (2005: RMB288,480,000).

Due to decline in the gross profit margin of fire alarm systems and the expansion of installation business, the Group's overall gross profit margin decreased by 2.4 percentage points to 49.0%. With tight control, operating cost was reduced by 1.9 percentage points. The operating profit before value-added tax ("VAT") refund and income tax increased by 17.2% to RMB156,269,000 (2005: RMB133,303,000). Since certain products did not entitle to VAT refund, the VAT refund received in 2006 decreased by 43.4% to RMB16,859,000 as compared to the previous year (2005: RMB29,810,000). Profit before taxation increased by 6.1% to approximately RMB173,128,000 (2005: RMB163,113,000). Tax expenses, however, increased to RMB8,001,000 (2005: RMB694,000) after the expiry of certain income tax exemption benefits of the Group. Net profit attributable to shareholders increased by 1.6% to RMB164,993,000 (2005: RMB162,427,000). As new shares were issued in June 2005 during the listing exercise, the average number of shares increased to 800,000,000 shares (2005: 652,665,990 shares), and therefore basic earnings per share was RMB20.6 cents (2005: RMB24.9 cents).

The Board recommended the payment of a final dividend of HK7.33 cents per share, equivalent to approximately RMB7.33 cents, representing an increase of 1.6% over previous year.

MARKET REVIEW

The steady growth of China's economy fuelled a sustained growth in the fire alarm systems industry as a whole which led to a growing utilization and market penetration of fire alarm systems. Under the 11th Five Year Plan implemented by the PRC Government in 2006, almost every province, municipality and district incorporated fire safety projects into the planning of their general economic and social development and special programs for fire safety development have been strongly advocated on every level. Relevant government policies are also in place to further enhance the awareness of the importance of industrial safety among different industries. Tightened measures were also implemented to ensure that fire safety is being accorded a high priority in the workplace. Thus, the demand for fire prevention related equipment from different industries, was fostering, in particular, there was an increase in the demand for fire alarm systems products, installation and maintenance services from the industrial and public facilities sector which presents a potential for future business development.

Market competition exists in the fire alarm system industry with over 100 players in the PRC and drives selling price to adjustments. Nevertheless, the Group has successfully achieved the largest share in the PRC fire alarm systems market for many years with its primary task on the provision of diversified product and excellent service to customers not solely depending on price-cutting strategy. The Group has always pursued technological advances, greater brand recognition and better quality service in order to boost its core competitiveness. Effective efforts have also been made to reduce costs, so as to consolidate the Group's competitiveness and to alleviate the impact of prices adjustments.

As the PRC market grows at a rapid pace, there is a rising demand for one-stop solutions for the installation and maintenance services of fire alarm systems and such kind of market demand has become the norm. Consequently, providers who offer one-stop service solutions will become even more competitive and will benefit from such market opportunities. In addition, overseas export markets also provide good opportunities for those enterprises who offer superb products and services at competitive prices.

Furthermore, international fire safety systems manufacturers have also stepped up their penetration into the PRC market. They bring not only new challenges but also opportunities for local players to cooperate with them to explore the domestic market.

All these factors provided a favourable operating environment with good opportunities for the Group to propel its future growth.

BUSINESS REVIEW

The Group is a provider of fire alarm systems, 119 fire network systems and other security systems products with research and development capabilities 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 about 30% in the field of fire alarm systems.

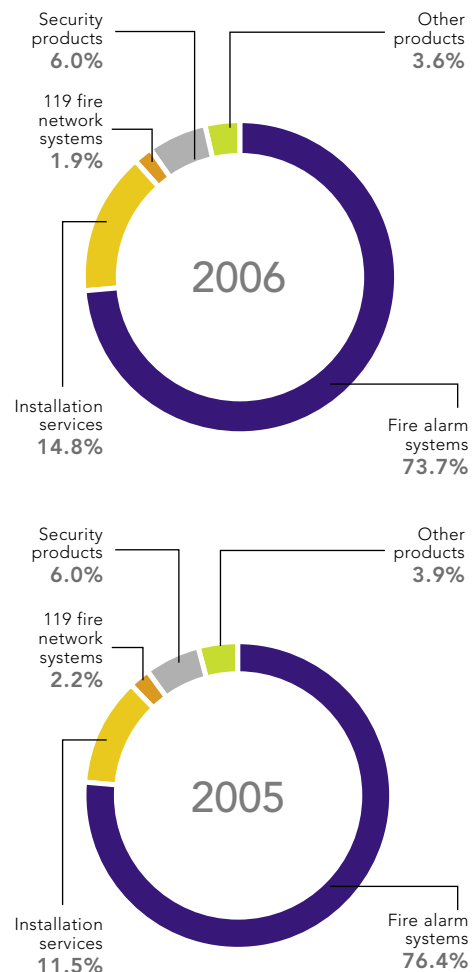
During the year under review, the Group focused on the manufacturing and sales of fire alarm systems products. This, in turn, contributed to driving the demand for product installation, repair and maintenance services, and ultimately further broadened the Group's revenue base from services business. In addition, the Group has always regarded the domestic market as its primary target for business development. On top of expanding its commercial and residential customer base, the Group took a great step in actively exploring the industrial and public facilities and export sectors to expand its market coverage in view of their great potential. The Group deployed more resources, such as establishing a designated team, in order to seize market opportunities and provide new driving forces to the Group's sales.

TURNOVER ANALYSIS BY BUSINESS SEGMENTS

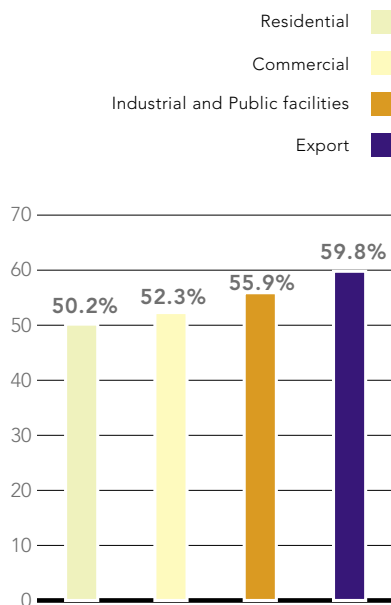
	2006 RMB' million	2005 RMB' million	Growth (%)
Fire alarm systems	476.1	429.0	11.0
Installation services	95.9	64.4	48.8
119 fire network systems	12.2	12.4	-1.3
Security products	38.3	33.8	13.2
Other products	23.3	22.1	5.4
Total	645.8	561.7	15.0

In order to expand its production capacity to achieve a better economies of scale, during the year, the Group completed the third phase of Qinhuangdao expansion project and new production facilities commenced operation in August 2006. The Group's production capacity increased by 82% and the overall utilization rate stands at approximately 60%-70%. The increased capacity will satisfy the rising demand in the next two years. The Group will continue to expand its production capacity to meet market demand as well as achieve better revenue growth.

In January, 2007, the Group was named by Forbes as the 21st highest growth potential PRC enterprises, for the second consecutive time included amongst the top 100 since 2006.



GROSS PROFIT MARGIN ANALYSIS BY CUSTOMER TYPE



FIRE ALARM SYSTEMS

Sales of fire alarm systems, the Group's core business, increased by 11.0% to RMB476,138,000 (2005: RMB429,003,000) and accounted for 73.7% of the total turnover. Of this total, sales from fire alarm systems and maintenance services were RMB466,856,000 and RMB9,282,000, respectively, representing a growth of 10.7% and 28.5% respectively. Despite the competition in the PRC fire alarm systems market with about 100 players, the Group successfully solidified its leading position in the industry. In terms of sales from domestic fire alarm system, the Group enjoyed a market share of about 30%, doubling the market shares held by the second and third largest players.

Leveraging its comprehensive product portfolio, the Group successfully established a diversified customer base, including commercial, residential as well as professional clientele such as metal refinery, electrical and chemical industrial customers, banks, government organizations, airports, railways and other public facilities. In recent years, the Group also proactively explored the export market and regards it as one of the driving engines for future business growth.

The Group's gross profit margin in the fire alarm system in 2006 was 53.5%, which was 3.4 percentage points lower than 2005 (2005: 56.9%) mainly due to normal business competition, but it was still at a satisfactory level. However, to enhance its overall profitability, the Group shifted its customer mix into higher margin customers such as industrial and public facilities clients (gross margin of 55.9%) and export clients (gross margin of 59.8%) from the domestic commercial clients (gross margin of 52.3%) and residential clients (gross margin of 50.2%). In particular, the sales growth in the industrial and public facilities sector and the export market is approximately 48.2% and 91.2%, respectively.

Meanwhile, the Group enhanced its bargaining power and reduced raw material cost by leveraging on its economies of scale on the one hand and improved its production process and product design through its research and development with technology upgrade on the other, thereby making the average production cost more competitive in order to attain its production cost control target.

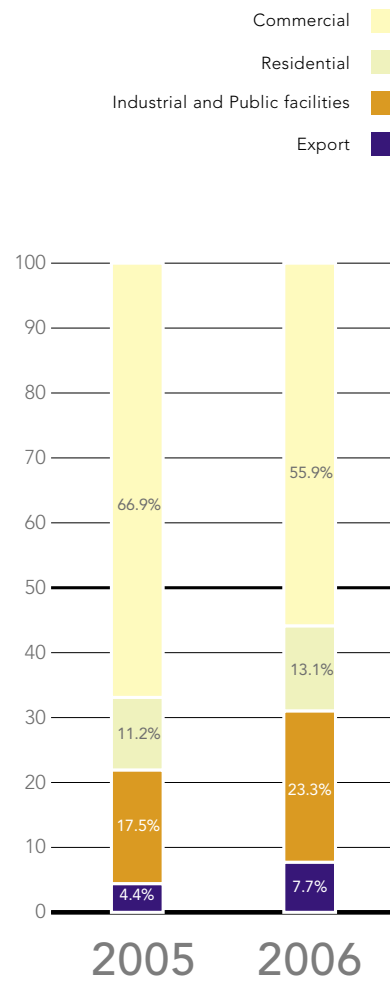
During the year under review, the Group took part in a number of major projects, namely the People's Bank of China Xi'an Branch Office Building (西安人民銀行辦公樓), Luoyang Teacher-training College (洛陽師範學院), the Hunan Yunda Plaza (Sheraton Hotel) (湖南運達廣場《喜來登大酒店》), the Shen Hua Coal-making Oil Chemical Plant (神華煤制油化工廠), the Dabei Junction Station (Passenger Transportation Station of Guangzhou) (大北樞紐站《廣州客運站》), the Huantai Culture & Sports Centre (桓台文體中心), the Yunda International Plaza (運達國際廣場) and Datang Huaibei Power Station (大唐淮北發電廠).

INDUSTRIAL AND PUBLIC FACILITIES SECTOR

Fuelled by the PRC's rapid industrialization and the increased infrastructure development in major cities, more customers from industrial and public facilities sector adopted fire alarm systems for the fire precaution safety measures, which in turn boosted the demand from the industrial market. During the year under review, the industrial and public facilities sector achieved a significant increase of 48.2% over last year to approximately RMB111,163,000 which accounted for 23.3% (2005: 17.5%) of income from fire alarm systems.

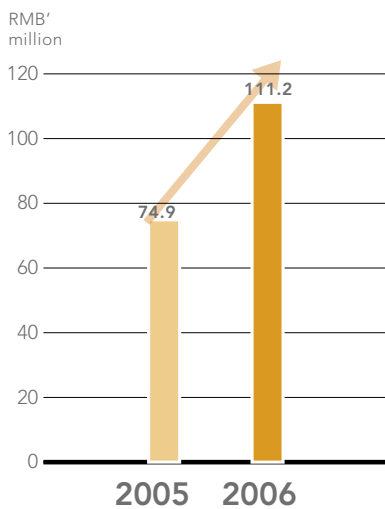
Leveraging on its diversified quality products and professional services, the Group offered products and services to customers from different kinds of industries during the year under review. Projects completed in the

TURNOVER ANALYSIS OF FIRE ALARM SYSTEMS BY CUSTOMER TYPES



TURNOVER OF INDUSTRIAL AND PUBLIC FACILITIES CLIENTS

+48.2%

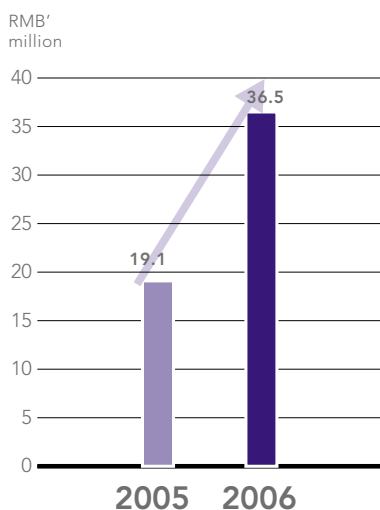


industrial and public facilities sector in 2006 included the China Mobile (中國移動), the Da Tang Baoding Heat Power Station(大唐保定熱電廠), the Plank Board Factory of Anshan Iron and Steel Group Corporation (鞍鋼集團厚板廠), the Zhuhai International Airport (珠海國際機場), the 3rd Affiliated Hospital of Chongqing Medical University (重慶醫科大學附屬第三醫院), the PA Factory of Jilin Petrochemical Company (吉林化工雙苯廠), China Construction Bank Anshan Branch (建設銀行鞍山分行), Beijing International Airport Expressway (首都國際機場快線), Yanshan Petrochemical 10 Million Ton Refinery Project (燕山石化1000萬噸/年煉油裝置) and Beijing Olympic Village (北京奧運村).

The Group plans to strengthen its business development in the industrial and public facilities sector to boost product profitability and stimulate the growth of product installation and repair services by increasing its percentage of sales in the total turnover of fire alarm systems. The Group believes industrial and public facilities customers will become the driving force behind business growth in 2007.

TURNOVER OF EXPORT CLIENTS

+91.2%



EXPORT MARKET

Since it was founded, the Group has been strengthening its product, research and development technologies, as well as brand promotion. Now it has successfully established GST® as the No. 1 brand in China's fire alarm industry. While the PRC market was growing, the Group also had its eye on the international horizon and made great efforts to expand the overseas market. For the year under review, impressive growth was seen in both sales revenue and the gross profit margin generated by exported products. For the year ended 31 December 2006, export sales surged by 91.2% to RMB36,489,000 which accounted for 7.7% (2005: 4.4%) of fire alarm systems income. By leveraging on its advanced technology and high quality products at low cost and through successful managerial export strategies, the Group expanded into 5 new emerging markets, namely Chile, Paraguay, Nicaragua, Sri Lanka and Hong Kong, with an additional of 15 new customers.

To cope with the pace of its international initiatives, the Group has endeavoured to gain broader worldwide recognition for its GST® brand. The Group's quality fire alarm systems were certified and accredited by a number of international institutions, including Underwriters Laboratories Inc. (UL), Loss Prevention Certification Board (LPCB) and Conformance Europeenne (CE). In addition, the Group has secured local certifications from countries like Ukraine, Israel, Turkey and Uruguay. All these product certifications have been archived in Hong Kong. The Group's GST® trademark was granted the "Madrid International Trademark Registration Certificate" by the World Intellectual Property Organization in 2006. As such, we have obtained recognition and protection in Madrid Alliance member countries, including 24 countries from the Europe, Australia, Japan, United States and Singapore. Furthermore, the Group gained international trademark registration certification in Hong Kong, Lebanon and Mexico. To date, the GST® trademark is protected in over 84 countries and territories.

The Group completed a number of projects in international cities, including the Horizon Tower (high class residential property in the Dubai Waterfront) and the Majestic Hotel (in Dubai downtown) (迪拜海濱高尚住宅Horizon Tower及市區的Majestic Hotel), the Mausoleum of Mustafa Kemal Ataturk in Ankara of Turkey (土耳其安卡拉Mustafa Kemal Ataturk博物館), the Embassy of the People's Public of China in the Kingdom of Thailand (中國駐泰國大使館), the office building of the Ministry of Foreign Affairs of Mozambique (莫桑比克外交部大樓), the Consulate of Barcelona (巴塞羅那領事館), the Al-doha Building in Dubai (阿聯酋迪拜阿爾多哈大廈), the Sri Lanka Ravich Children's Hospital (斯里蘭卡里維奇兒童醫院), the Macedonia Kozjak Hydropower Plant (馬其頓科佳水電站) and Laos Vientiane Hotel (老撾萬象大酒店).

INSTALLATION SERVICES

The Group mainly offers installation services for fire alarm 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. Backed by its superior product performance and comprehensive after-sales services, together with strong capability and excellent project operational experience, the Group is capable of providing its customers with a one-stop shop fire alarm systems products and solutions. During the year under review, turnover from installation services was satisfactory and reached RMB95,844,000 (2005: RMB64,408,000), representing an increase of 48.8% over last year and accounting for 14.8% of the total turnover. Income from installation services has been one of the Group's major growth drivers. The gross profit margin from installation services reached 30.5%, up 5.8 percentage points over last year.

During the year under review, the Group involved in several projects, including the Huadian Ningxia Lingwu Power Generation Co., Ltd. (華電寧夏靈武發電有限公司), the 3rd phase of the Industrial Park of Great Wall Motor Co., Ltd. (長城汽車股份有限公司工業園三期), the Qinhuangdao Hua Rui Coke Chemical Engineering Co., Ltd. (秦皇島華瑞煤焦化有限公司), the ward building of the First People's Hospital of Qinhuangdao (秦皇島市第一醫院病房樓), the Dongda City Plaza (東達城市廣場), Time Square, Dalian (大連時代廣場), Beijing Benz-Daimler Chrysler Automotive Company Manufactory (北京奔馳－戴姆勒克萊斯勒汽車有限公司廠房), China Shenhua Coal Oil Ltd.-Coal Liquefaction Project Fire Fighting System, Inner Mongolia (內蒙古·中國神華煤制油有限公司－煤直接液化專案消防工程) and Tonghua Iron and Steel Co. Ltd-Manufactory Fire Fighting System, Liaoning (遼寧·通化鋼鐵股份有限公司－生產廠房消防工程).

119 FIRE NETWORK SYSTEMS

The 119 fire network systems gained in popularity and were widely installed in 90 cities in the PRC, of which, 70 were provided and installed by the Group. The Group enjoys a leading position with a market share of 78%. Capitalizing on the Group's leading position, it is expected that this business will offer a steady growth under a flourishing economy across the country and high demand for fire safety.

Apart from selling 119 fire network systems, the Group has enhanced its competitive edge by also providing additional value-added auxiliary services to customers by virtue of its value-added network maintenance. During the year under review, the Group installed 119 fire network systems in 17 cities, including Taiyuan, Liuzhou, Changsha, Langfang, Haerbin, Foshan, Wenzhou and Suzhou. The sales income from 119 fire network systems was slightly decreased by 1.3% to approximately RMB12,197,000 (2005: RMB12,360,000) and the gross margin was at high level of 71.8% (2005: 79.5%).

The Group believes that the increasing weight of such high gross margin business will contribute positively to the gross profit margin of the Group and will bring a potential growth opportunity in the 119 fire network systems sector.

SECURITY PRODUCTS

Our "GST" brand has been recognized as the No. 1 brand in the PRC's fire safety industry and supported by its nationwide sales network and the Group has started to expand the safety security business. For the year ended 31 December 2006, sales of security products grew by 13.2% to RMB38,259,000 (2005: RMB33,811,000). The security products include video entry systems and building automation systems. As the volume growth which led to better economy of scale, the gross profit margin improved 6.6 percentage points to 35.2% (2005: 28.6%).

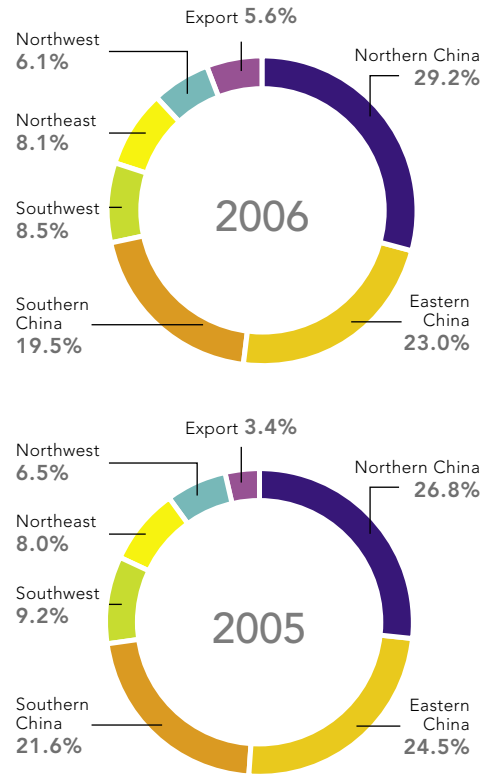
OTHER PRODUCTS

Other products mainly include electric power meters. Sales of electric power meters increased by 5.4% to RMB23,333,000 (2005: RMB22,134,000) with gross margin up to 45.9% (2005: 40.4%) due to the better economies of scale.

NATIONWIDE SALES NETWORK

As the market leader in fire alarm and 119 fire network systems, one of the Group's competitive edges lies in its extensive sales network. During the year under review, the Group adds 27 new offices and it has a total of 115 offices nationwide, far ahead of its competitors. The Group has a team of approximately 1,114 employees specializing in sales, marketing and technical support. This professional team enables the Group to provide comprehensive services to, and maintain close connection with, customers across different regions. Such an extensive sales and distribution network coverage creates the opportunity for the Group to successfully enter into a Distribution Agreement with Apollo Fire Detectors Ltd. ("Apollo"), the largest fire detector manufacturer in Europe, in June 2006. Under this agreement, the Group distributes high-end fire safety and security products for Apollo to jointly expand both companies' market shares in the PRC. Management believes such an international partnership will not only create fruitful results for its business in the PRC, but will also contribute to its expansion in the export markets.

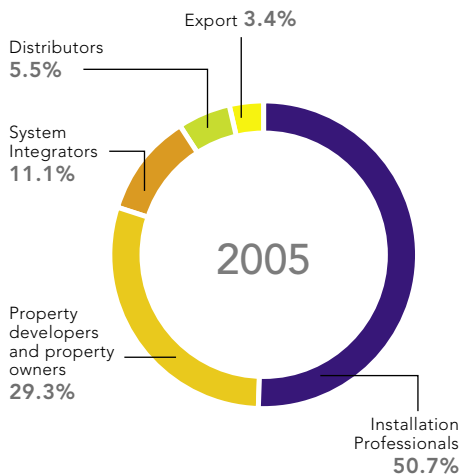
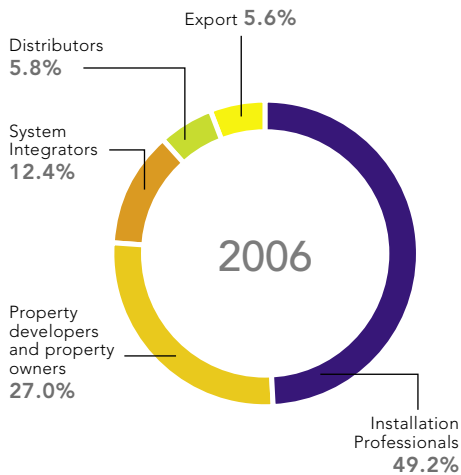
TURNOVER ANALYSIS BY GEOGRAPHICAL REGIONS



GEOGRAPHICAL COVERAGE OF REPRESENTATIVE OFFICES IN CHINA



TURNOVER ANALYSIS BY SALES CHANNELS



SALES CHANNELS

For the past year, stable performance was recorded as installation professional served as the major sales channel for the Group.

ABUNDANT ORDERS ON-HAND

The Group accustomed to enter into contracts with its customer before the delivery of goods due to its business nature. As at 31 December 2006, orders on-hand reached a total value of approximately RMB325,113,000 representing an increase of 25.0% as compared to the previous year (2005: RMB260,000,000).

OPERATING COSTS

During the year under review, the Group's overall operating costs was lower by 1.9 percentage points. Though distribution costs and administrative and general expenses increased as the Group expanded its business, the Group continued to implement stringent operating cost control. For the year ended 31 December 2006, as a result of the increase in the number of sales offices, as well as sales, marketing and technical staff, distribution costs increased by 4.9% to approximately RMB81,583,000 (2005: RMB77,785,000), which accounted for 12.6% of the turnover, down by 1.2 percentage points as compared to last year.

Administrative and general expenses was approximately RMB90,875,000 (2005: RMB83,011,000), representing an increase of 9.5% over last year, due to the strengthening of the management team. This amount accounted for 14.1% of the turnover, representing a decrease of 0.7 percentage points as compared with last year.

OTHER INCOME AND INCOME TAX

Due to the policy adjustment by the government which disallowed the valued-added tax refund of certain products, for the year ended 31 December 2006, the VAT refund was approximately RMB16,859,000 (2005: RMB29,810,000) decreased by RMB12,951,000 compared

with last year. In addition, the Group's major subsidiaries were operating under the income tax exemption period in 2005, thus the Group enjoyed a relatively lower tax expenses. The year 2006 was the first of three consecutive profitable years in which a tax relief of 50% was granted, after the 2 years' tax exemption period expired. The taxation for 2006 was approximately RMB8,001,000 (2005: RMB694,000).

WORKING CAPITAL, FINANCIAL RESOURCES AND BANK LOANS

For the year ended 31 December 2006, the Group recorded operating cash inflow of approximately RMB125,201,000, representing a drop of 12.8% over last year's RMB143,564,000 which is mainly related to increase of inventory. Cash used in investment activities amounted to approximately RMB90,003,000, (2005: RMB37,744,000) which was mainly for the expansion of our factory. Cash used in financing activities amounted to approximately RMB73,083,000 which was mainly for payout of dividend declared in 2006. In 2005, cash generated from financing activities amounted to approximately RMB261,799,000 which was due to cash proceeds from listing of shares of the Company in The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

During the year under review, the Group did not have any short-term or long-term bank loan. As such, the gearing ratio (being total debt divided by total shareholders equity) was zero.

USE OF PROCEEDS FROM LISTING

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

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

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

As at 31 December 2006, approximately RMB86,469,000 from the listing proceeds was used in the following manner:

- Approximately RMB71,852,000 for constructing, expanding and upgrading the Group's manufacturing and related auxiliary facilities; and
- Approximately RMB14,617,000 for expanding and improving the Group's sales and distribution network.

FOREIGN CURRENCY EXPOSURES AND TREASURY POLICY

We are exposed to a risk of the exchange rate change between the United States dollar and Renminbi. In principle, more than 95% of our sales and raw material purchasing amounts are denominated in Renminbi. However, the purchases of raw materials by our suppliers are usually transacted in United States dollar. Given the appreciation of the Renminbi against the United States dollar, announced in July 2005, favorable impacts are expected to be brought to the Group's future financial performance in terms of reducing raw material costs. The Group's bank deposits are predominately in

Renminbi, Hong Kong dollar and United States dollar. The Directors are of the opinion that the appreciation of Renminbi may not cause any significant adverse effects on the financial position of the Group's operation. However, a foreign exchange loss of approximately RMB5,688,000 (2005: RMB7,554,000) was reflected in our financial statements given that the proceeds from the listing were denominated in Hong Kong dollar while the Group's accounts were calculated 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 year ended 31 December 2006, the Company did not use any financial instruments or enter into any contract in order to hedge against its foreign currency exchange risk.

HUMAN RESOURCES

As at 31 December 2006, the Group's total number of employees was 2,418, representing a 40.7% growth in the number of employees 1,718 as at 31 December 2005. The Group values its human resources and attempts to attract and retain competent personnel. Remuneration packages are structured with regard to individual employee's qualification

and the prevailing market conditions. The Company also currently provides sufficient training and continuing professional development opportunities to its staff.

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

FUTURE PROSPECT

The PRC government is expected to continue its proactive macroeconomic control policies in the coming year, which certainly will further influence the overall development and investment activities in mainland China and indirectly affect the market demand for fire alarm systems. But great potential still exists in the market of fire alarm market in the PRC. Under normal industry competition, it is anticipated that the average selling price of fire alarm system products will continue to see adjustments in 2007 but to a lower extent after 2008.

Today's fire alarm systems industry is a conglomeration of enterprises with disparate qualifications. Some smaller players are anticipated to be phased out due to diminishing profit margins caused by price wars. A better integrated market is expected to be formed, together with improved industry standards and rational competition. The expected healthier market environment will benefit the Group's development and further consolidate its leading position. Looking forward, the Group plans to make use of its advantageous market position to diversify its revenue sources. The Group will continue to generate income from a number of revenue stream with fire alarm systems product sales as the core, and will drive income growth in installation services, repair and maintenance and other product sales.

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

1. Fire Safety Rules and Regulations

In recent years, the PRC's economy have grown steadily and the central government has placed a strong emphasis on fire safety. More and more rigorous fire safety standards and policies are being stipulated. Such as Fire Regulation on Construction Design (建築設計防火規範) and Automatic Fire Alarm System Design Regulation (火災自動報警系統設計規範). Great attention has been paid to fire safety in the workplace by both regulatory bodies and the media. As a result of the PRC's strengthened regulatory supervision and higher requirements for fire systems, the market demand for reliable fire alarm systems will continue to rise.

2. Fire Extinguish Systems Product

Following to the leading position in fire alarm systems, the Group will commence to manufacture and sell fire extinguish systems products to become a comprehensive fire systems provider. Some of the fire extinguish systems has commenced the certification inspection and testing. It is likely to be introduced to the market in this year.

3. Industrial and Public Facilities customers and Export market

In view of market potential, the Group will continue to develop new products to expand customer base, in particular of those from industrial and public facilities and export sectors which generate higher margins. The Group aims to increase the sales from these two businesses to 40% of turnover of fire alarm systems.

4. Sales Network

The Group also targets to add 15 sales offices in the PRC in 2007 to further enhance its penetration in the domestic market.

5. Installation Services

As a highly qualified expert in fire safety systems, the Group creates great value for its customers and wins their trust through the professional services provided. In the past, the profit margin and business growth in installation services have been satisfactory. Management believes that the future of this business is promising based on the Group's absolute advantage in the PRC's market. The services business of the Group will not only increase income, but will also assist the Group in turning into an all-around solution provider of fire systems where both services and products are equal in excellence.

6. Service Centres

In order to increase the income of maintenance services, the Group plans to set up maintenance service centres in about 20 cities across the PRC to expand the services coverage of its customers.

7. Expansion into Security Industry

Leverage on the Group's extensive sales network in the PRC, the Group is expanding its business scope into security industry. More effort will be put into producing new security products to serve the high growth demand in this sector.

8. Merger and Acquisition

As the Group has adequate funding, the Group will seek merger and acquisition opportunities for suitable candidates in the fire industry and security industry, so as to expand the business scope and increase earning level and returns.

CONCLUSION

The Group is determined to become the PRC's one-stop solutions provider of fire alarm systems and to serve customers with fire alarm systems and

peripheral equipment. Year 2006 was a fruitful year for the Group. During the year, the Group successfully introduced a U.S. Fortune 500 company, the United Technologies Corporation (UTC), as the second largest shareholder of the Group. This not only enhanced the Group's shareholder base, but also marked a historical milestone in the Group's development. In addition, the Group was awarded as one of the top 100 highest growth potential PRC enterprises by Forbes for two consecutive years since 2006. Management believes that the Group will benefit from more international collaborations and will seize opportunities in the high-end fire safety and security market in the PRC. Strengthening its existing leading position, the Group will also explore the promising market to achieve faster business growth and maximize returns for our shareholders.

DIRECTORS

Executive Directors

Mr Song Jiacheng (宋佳城), aged 46, is the chairman of the Board, an executive Director, the chief executive officer of the Company and one of the founding shareholders of the Group. Mr Song graduated from Southwest University of Science and Technology (formerly known as Sichuan College of Construction Materials Industry (四川建築材料工業學院)) with a bachelor's degree in engineering in 1983. Mr Song gained management expertise by consecutively serving as the chairman of the Board and the chief executive officer of the Group since 1993. He has over 14 years of experience in the PRC fire alarm systems industry. From 1985 to 1993, Mr Song was a lecturer at the Management Cadre School Qinhuangdao Branch under the State Administration of Buildings Materials Industry (國家建材局管理幹部學院秦皇島分院講師). Mr Song was awarded one of the "Top Ten Excellent Entrepreneurs of Privately-owned Science and Technology Companies in Hebei Province" (河北省十佳民營科技實業家) in 1997 and 1998 and is a member of the standing committee of the Hebei Provincial Committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議河北省委員會常務委員會常委). He was also given the award of one of the "Year 2002 Excellent Entrepreneurs of China's Privately-owned Science and Technology Companies" (中國優秀民營科技企業家) by All-China Federation of Industry and Commerce (中華全國工商業聯合會) in 2002. In April 2002, he became an executive member of the All-China Federation of Industry & Commerce. In April 2004, Mr Song was awarded the title of "Staff Caring Outstanding Entrepreneur" (全國關愛員工優秀民營企業家) by All-China Federation of Industry & Commerce (中華全國工商業聯合會) and All-China Federation of Trade Unions (中華全國總工會). In December 2004, he was awarded the title of "Outstanding Builder of Socialism with Chinese Characteristics" (優秀中國特色社會主義事業建設者) by United Front Work Department of the CPC Central Committee (中共中央統戰部), National Development and

Reform Commission (國家發展和改革委員會), Ministry of Personnel of the People's Republic of China (人事部), State Administration for Industry & Commerce (國家工商總局), and All-China Federation of Industry & Commerce (全國工商聯). He currently serves as a vice president of Hebei Provincial Association of Industry and Commerce (河北省工商業聯合會) and an executive member of the All-China Federation of Industry & Commerce (全國工商聯執行委員).

Mr Cao Yu (曹榆), aged 44, is an executive Director and president of the Company and one of the founding shareholders of the Group. Mr Cao graduated from Tianjin University (天津大學) with a master's degree in communications and electronic systems in 1987 and a bachelor's degree in electronic engineering in 1982. Mr Cao has been a director of Gulf Security Technology Company Limited ("GST") and has served in various management positions in the Group since 1993. He has over 14 years of experience in the PRC fire alarm systems industry. He is currently a member of the Qinhuangdao Municipal Committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議秦皇島市委員會) and serves as a vice president of the Committee on Fire Security Electronic Products of CFPA (中國消防協會電子行業分會) and is a member of China's National Committee on Fire Security

Technology Standardization (全國消防標準化技術委員會). Mr Cao is a director of the Research Committee on Fire Prevention Comprehensive Technology of China Construction Association (中國建築學會建築防火綜合技術分會), a member of the Expert Committee on Intelligent Building Technology of the Ministry of Construction of the PRC (建設部建築智能化技術專家委員會), a member of the Expert Committee of the China's Security Prevention Products Industry Association (中國安全防範產品行業協會專家委員會) and a member of the US National Fire Protection Association. Mr Cao is also a vice director of Hebei Province Quality Management Association (河北省質量協會).

Mr Peng Kaichen (彭開臣), aged 44, is an executive Director and senior vice president of the Company and one of the founding shareholders of the Group. Mr Peng graduated from Southwest University of Science and Technology (formerly known as Sichuan College of Construction Materials Industry (四川建築材料工業學院)) with a bachelor's degree in building materials industrial automation in 1984. Since 1993, Mr Peng has been a director of the GST and has served in various management positions, including the manager for the research and development department, chief engineer, vice general manager in charge of production of GST.

Mr Xu Shaowen (徐紹文), aged 39, is an executive Director of the Company and one of the founding shareholders of the Group. Mr Xu graduated from Shanghai Jiaotong University (上海交通大學) with a bachelor's degree in radio engineering in 1990. Mr Xu has been a director of GST and has served in various management positions in the Group since 1993.

Non-executive Directors

Mr Zeng Jun (曾軍), aged 39, is a non-executive Director, a vice chairman of the Board and one of the founding shareholders of the Group. Mr Zeng graduated from Fudan University (復旦大學) with a bachelor's degree in genetic engineering in 1989 and from Sino-Europe International Business School (中歐國際工商學院) with an EMBA degree in 2002. Mr Zeng has been the vice chairman of GST since 1993 and was the executive vice general manager of GST from 1993 to 2000.

Mr Lee Kwan Hung, Eddie (李均雄), aged 41, is a non-executive Director. Mr Lee graduated from the University of Hong Kong with a bachelor's degree in law in 1988 and a Postgraduate Certificate in Laws in 1989. He was qualified as a solicitor in Hong Kong in 1991 and in England and Wales in 1997. He was a senior manager of the Stock Exchange and is a partner of Woo, Kwan, Lee & Lo. Mr Lee is also a non-executive director of Mirabell International Holdings Limited and an independent non-executive director of GZI REIT Asset Management Limited and Embry Holdings Limited, all of which are listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Mr Lee joined the Company in December 2004.

Independent Non-executive Directors

Mr Chang Tso Tung, Stephen (張祖同), aged 58, is an independent non-executive Director. He joined the Company in February 2005. Mr Chang was the former deputy chairman and a member of the management committee of Ernst & Young, Hong Kong. Mr Chang graduated from London University with a bachelor's degree in science in 1973. Mr Chang has been a fellow member of the Hong Kong Institute of Certified Public Accountants and is a fellow member of the Institute of Chartered Accountants in England and Wales. Mr Chang previously served as the chairman of the audit department and also as the managing partner for professional services of Ernst & Young, Hong Kong. Mr Chang has over 30 years of experience in auditing and advisory services.

Mr Chan Chi On, Derek (陳志安), aged 43, is an independent non-executive Director. He joined the Company in February 2005. Mr Chan is an executive director of Tai Fook Securities Group Limited, a company listed on the Stock Exchange, and is in charge of its corporate finance division. Mr Chan is also an independent non-executive director of GZI REIT Asset Management Limited. He also holds directorship in certain companies in hotel investment. He graduated from the Hong Kong University of Science & Technology with a master's degree in business administration in 1994 and graduated from the University of Hong Kong with a bachelor's degree of social sciences majoring in economics in 1985. Between 1989 and 1996, he has worked for the Stock Exchange. He is an adjunct professor in the School of Accounting and Finance of the Hong Kong Polytechnic University. Mr Chan has over 17 years of experience in the financial services industry.

Mr Sun Lun (孫倫), aged 66, is an independent non-executive Director. He joined the Company in February 2005. Mr Sun graduated from Zhongbei University (中北大學) (formerly known as Taiyuan College of Mechanics (太原機械學院)) with a bachelor's degree in chemical engineering

in 1965. He is the chairman of the China's Fire Security Association. From 1991 to 2001, Mr Sun was a director, vice president and president of the Fire Security Bureau of the Ministry of Public Security of the PRC (中華人民共和國公安部消防局), and from 1993 to 2001, he was the chairman of China's National Committee on Fire Security Technology Standardization (全國消防標準化技術委員會). From 1994 to 2000, he was a vice president of China Fire Products Quality Certification Committee (中國消防產品質量認證委員會). Mr Sun has over 26 years of experience in the fire security industry. In 1997, Mr Sun was awarded the Medal of the International Civil Defence Organization by the International Civil Defence Organization in honor of his contributions to the development of the fire security industry in China. In September 2003, Mr Sun was awarded the Gold Award of the first "Ozonosphere Protection Award" (保護臭氧層貢獻獎) by the State Environmental Protection Administration of China (國家環保局授予國家) in recognition of his contribution in the China fire industry to protect the ozonosphere. In June 2005, he was appointed the vice-president of the Confederation of Fire Protection Association-Asia & Australia (國際消防協會聯盟亞澳分會).

SENIOR MANAGEMENT

Mr Ho Yui Pok, Eleutherius (何睿博), aged 41, is the chief financial officer of the Company. Pursuant to Rules 3.24 and 8.17, he is also the qualified accountant and company secretary of the Company. Mr Ho graduated from the University of Kent at Canterbury, England with a bachelor's degree in accounting in 1987 and a master's degree in management science in 1989. Mr Ho joined the Company in April 2005. Prior to joining the Company, Mr Ho was a manager of an international accounting firm. In addition, he was the group financial controller of EC-Founder (Holdings) Company Limited, a company listed on the Main Board of the Stock Exchange. He is an associate member of both the Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants. Mr Ho has over 17 years' experience in finance and accounting.

Ms Liu Weihua (劉衛華), aged 40, is a vice president of the Company. Ms Liu graduated from Shenyang Automation Institute of China's Academy of Sciences (中國科學院沈陽自動化研究所) with a master's degree in pattern recognition and intelligent control in 1995 and from Beijing University of Aeronautics and Astronautics (北京航空學院) with a bachelor's degree in electric technology in 1987. Ms Liu joined GST in 1995 and has since served as manager of the research and development department, vice chief engineer, chief engineer, and vice president in charge of technology.

The Directors are pleased to present their report for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The Group is engaged in the development, manufacturing, sales and installation of intelligent fire detection and control systems, automatic and intelligent security systems for residential, commercial and industrial uses.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2006 are set out in the consolidated income statement on page 37.

The Directors recommend the payment of a final dividend of HK7.33 cents per share (equivalent to approximately RMB7.33 cents) to shareholders whose names appear on the register of members on 18 May 2007.

RESERVES

The distributable reserves of the Company as at 31 December 2006 amounted to approximately RMB434 million (2005: RMB515million).

Movements in reserves of the Group and the Company during the year are set out in note 26 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment of the Group and the Company during the year are set out in note 14 to the financial statements.

SHARE CAPITAL

Details of the movements in the share capital during the year are set out in note 25 to the financial statements.

SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2006 are set out in note 33 to the financial statements.

DIRECTORS

The Directors of the Company during the year and up to the date of this annual report were:

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

According to the Articles of Association of the Company, at each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at least once every three years. The Directors to retire in every year will be those who have been longest in

office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. A retiring Director is eligible for re-appointment. There are no provisions relating to retirement of Directors upon reaching any age limit.

As Mr Song Jiacheng, Mr Xu Shaowen and Mr Lee Kwan Hung, Eddie have been longest in office who were appointed on 9 September 2004, 9 September 2004 and 22 December 2004, respectively, they shall retire at the conclusion of the 2006 annual general meeting, and Mr Song Jiacheng and Mr Lee Kwan Hung, Eddie, being eligible, offer themselves for re-election.

The Company has received from each of its Independent Non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") and considers the Independent Non-executive Directors to be independent.

DIRECTORS' SERVICE CONTRACTS

No Director has any existing or proposed service contract with any member of the Group that

is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

MAJOR CUSTOMERS AND SUPPLIER

For the year ended 31 December 2006, aggregate sales to the five largest customers and aggregate purchases from the five largest suppliers accounted for less than 30% of our total sales and purchases, respectively.

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

During the year, Qinhuangdao Gulf Plastic & Metal Products Company Limited and Qinhuangdao Gulf Software Technology Company Limited were incorporated in the PRC to be wholly-owned subsidiaries of GST Group International Limited ("GGIL"), a wholly-owned subsidiary of the Company. Details of these two subsidiaries are set out in note 33 to the financial statements.

CONNECTED TRANSACTIONS

Prior to a corporate reorganization in preparation of the listing of the Shares of the Company, Gulf Security Technology Company Limited ("GST"), a major wholly owned subsidiary of the Company, was owned directly or indirectly by Gulf Technology Group Company Limited ("Gulf Group") as to approximately 99.93%. Gulf Group is currently owned by 22 shareholders who are the same beneficial shareholders of GST International Management Limited ("GST Management"), the controlling shareholder of the Company. For the sole purpose of interpretation of connected transactions under the Listing Rules, the Company considers that Gulf Group together with its subsidiaries as connected persons of the Company.

For the year ended 31 December 2006, the Group had the following connected transactions:

1. Construction agreement

On 10 June 2005, Beijing Gulf Wei'er Electrical Engineering Company Limited ("Beijing Gulf Engineering") a wholly owned subsidiary of the Group, entered into an agreement with Beijing Gulf Jingcheng Property Development Company Limited ("Beijing Gulf Property"), a limited liability company established in the PRC and is a subsidiary of the Gulf Group, and a third party of the Group, Beijing Chengjiansi Construction and Engineering Company Limited ("Beijing Chengjiansi") relating to the construction and development of the Property Development (as hereinafter defined) (the "Construction Agreement"). Beijing Gulf Property is principally engaged in sale and development of real properties and Beijing Chengjiansi is principally engaged in sub-contracting of construction projects.

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

The fees payable by Beijing Gulf Property are on terms no less favourable than that available to other customers of the Group. The contracted construction fees under the Construction Agreement

is RMB20 million and shall be payable in stages by Beijing Gulf Property to Beijing Gulf Engineering within 25 days upon application to be made by Beijing Gulf Engineering after completing the prescribed work schedule. The work under the Construction Agreement is expected to complete in 2007.

The amount of services rendered under the Construction Agreement recorded by the Group for the year ended 31 December 2006 and 31 December 2005 are set out in note 32(iii) to the financial statements.

2. Acquisition of office premises

On 13 November 2006, GST entered into a framework agreement ("Framework Agreement") with Beijing Gulf Property, pursuant to which Beijing Gulf Property has conditionally agreed to sell and GST has conditionally agreed to acquire office premises situated at Units 1701-1703, 1705-1711, 1801-1803, 1805-1811, 1901-1903 and 1905, Block B, The Gate, Zhongguancun, Beijing, PRC (the "Acquisition"). The consideration of the acquisition is approximately RMB81,696,000 (the "Consideration").

The Acquisition was approved by independent shareholders by way of poll at the extraordinary general meeting held on 29 December 2006. As all the conditions were satisfied, the Consideration was subsequently paid on 13 March 2007.

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

Pursuant to a confirmation dated 21 February 2005 entered into between Qinhuangdao Gulf Fire Prevention Network Company Limited ("Gulf Network") and Qinhuangdao Development Zone Gulf Security Network Company Limited, a subsidiary of the Gulf Group, subject to pre-emptive right, Gulf Network has a first right of refusal to acquire interests in four associated companies of the Gulf Group established in the PRC, individually or collectively.

The Directors are of the opinion that the Company has complied with the applicable disclosure and approval requirements in accordance with Chapter 14A of the Listing Rules in respect of the above connected transactions.

4. Exempted Connected Transactions

Certain exempted continuing connected transactions of the Group for the year ended 31 December 2006 are set out in note 32(ii), (iv) and (v) to the financial statements.

CONTRACT OF SIGNIFICANCE

Except for the Construction Agreement and the Acquisition as disclosed under the section headed Connected Transactions above, there is no contract of significance in relation to the Group's business to which the Company, its fellow subsidiaries or its holding company was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or any time during the year.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

As at 31 December 2006, the interests and/or short positions of the Directors and the chief executive of the Company in the Shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions of which they were taken or deemed to have taken under such provisions of the SFO), and/or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Beneficial interests in the shares of associated corporations

Name of associated corporation	Name of Director	Number of ordinary shares held in the associated corporation	Approximate shareholding percentage
GST International Management Limited	Song Jiacheng	269,276 ordinary shares	26.93%
GST International Management Limited	Zeng Jun	231,366 ordinary shares	23.14%
GST International Management Limited	Cao Yu	157,781 ordinary shares	15.78%
GST International Management Limited	Peng Kaichen	157,781 ordinary shares	15.78%
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 31 December 2006.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 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	427,479,369 (L)	53.43%
United Technologies Corporation ("UTC") (Note 1)	Corporate interest	Interest in controlled corporation	150,564,631 (L)	18.82%
Otis Elevator Company ("Otis") (Note 1)	Corporate interest	Interest of controlled corporation	148,580,631 (L)	18.57%
Carrier Corporation ("Carrier") (Note 1)	Corporate interest	Interest of controlled corporation	148,580,631 (L)	18.57%
United Technologies Far East Limited ("UTFE") (Note 1)	Corporate interest	Interest of controlled corporation	148,580,631 (L)	18.57%
JPMorgan Chase & Co. ("JPMorgan Chase") (Note 2)	Corporate interest	Interest of controlled corporation	40,065,000 (L)	5.01%

(L) Indicates a long position.

Note:

- As at 31 December 2006, UTC holds 100% of the equity interests in each of Otis and Carrier. Otis and Carrier hold an aggregate of 100% equity interests in UTFE, which owns 148,580,631 Shares. In addition, UTC owns 1,984,000 Shares through another wholly-owned subsidiary.
- JF Asset Management Limited ("JFAM"), a shareholder of the Company, is a company incorporated in Hong Kong

and beneficially owns 22,236,000 Shares, representing approximately 2.78% of the issued share capital of the Company. JFAM is a wholly-owned subsidiary of JPMorgan Asset Management (Asia) Inc. ("JPAM Asia"), which is a company incorporated in Delaware. JPAM Asia, a wholly-owned subsidiary of JPMorgan Asset Management Holding 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 22,236,000 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 17,829,000 Shares representing approximately 2.23% of the issued share capital of the Company.

JPAM Holdings and JPMCB are both wholly-owned subsidiary of JPMorgan Chase, which is a company incorporated in Delaware. The capacities of JPMorgan Chase in holding the 40,065,000 Shares were, as to 22,236,000 Shares as investment manager and as to 17,829,000 Shares in the lending pool as custodian corporation.

Save as disclosed above, no other interests or short positions in the Shares or underlying shares of the Company were recorded in the register maintained under Section 336 of the SFO as at 31 December 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 31 December 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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's Shares for the year ended 31 December 2006. As at 31 December 2006, 800,000,000 Shares were in issue.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the latest practicable date prior to the issue of this annual report, the Company has maintained sufficient public float.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association, or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

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 2006 have been reviewed by the Committee.

AUDITOR

The accounts have been audited by PricewaterhouseCoopers who will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

By order of the Board
Song Jiacheng
Chairman

Hong Kong, 4 April 2007

The Company has made continuous effort to ensuring high standards of corporate governance. The principles of corporate governance adopted by the Company emphasizes a quality board, sound internal controls and accountability to shareholders and these are based upon an established ethical corporate culture.

CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, the Company has applied the principles and complied with all the code provisions as set out in the Code on Corporate Governance Practices (the "CG Code") contained in the Appendix 14 of the Listing Rules during the year ended 31 December 2006, with an exception of the code provision A.2.1 of the CG Code that stipulates the roles of Chairperson and Chief Executive Officer should be separate and should not be performed by the same individual.

THE BOARD OF DIRECTORS

The overall management of the Group's business is vested in the Board. Key responsibilities include formulation of the Group's overall strategies and policies, setting of performance targets, evaluation of business performance and oversight of management.

As at 31 December 2006, the Board comprised nine Directors, including four Executive Directors, two Non-executive Directors and three Independent Non-executive Directors. Non-executive Directors and Independent Non-executive Directors are appointed for a term of three years from their respective dates of appointment. For a Director to be considered independent, the Board must determine the Director does not have any direct or indirect material relationship which the Group. In determining the independence of the Directors, the Board follows the requirements set out in the Listing Rules. Biographical details of the Directors are set out on pages 21 to 24.

The Board meets regularly and at least four times a year. Between scheduled meetings, senior management of the Group provides to the Directors information on a timely basis on the activities and development in the businesses of the Group and when required, additional Board meetings are held. In addition, Directors have full access to information on the Group and independent professional advice whenever deemed necessary by the Directors.

The Chairman is responsible for providing leadership to, and overseeing, the functioning of the Board to ensure that the Board acts in the best interests of the Group and Board meetings are planned and conducted effectively. The Chairman is primarily responsible for approving the agenda for each Board meeting, taking into account, where appropriate, matters proposed by other Directors for inclusion in the agenda. With the support of the Company Secretary and other senior management, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and receive adequate and reliable information in a timely manner. The Chairman also actively encourages Directors to fully engage in the Board's affairs and make contribution to the Board's functions.

The Board held five meetings in 2006 and two meetings to date in 2007. The attendance record of each member of the Board in 2006 is set out below:

Directors	Attendance of Board meetings in 2006
<i>Executive Directors</i>	
Song Jiacheng (<i>Chairman</i>)	5/5
Cao Yu	5/5
Peng Kaichen	5/5
Xu Shaowen	5/5
<i>Non-executive Directors</i>	
Zeng Jun	4/5
Lee Kwan Hung, Eddie	5/5
<i>Independent Non-executive Directors</i>	
Chang Tso Tung, Stephen	5/5
Chan Chi On, Derek	5/5
Sun Lun	4/5

BOARD COMMITTEES

As an integral part of good corporate governance practices, the Board established the following Board committees in 2006 to oversee particular aspects of the Group's affairs. Each of these committees comprises entirely Non-executive Directors who have been invited to serve as members. These committees are governed by the respective terms of reference approved by the Board.

AUDIT COMMITTEE

The Audit Committee consists of three Independent Non-executive Directors with Mr Chang Tso Tung, Stephen as the chairman. Other members are Mr Chan Chi On, Derek and Mr Sun Lun. At the discretion of the Audit Committee, Executive Directors and/or senior management personnel overseeing the Group's finance or internal audit functions may be invited to attend meetings. The Audit Committee normally meets four times a year.

The duties of the Audit Committee include, among other things, reviewing and monitoring the financial and internal control aspects of the Group. The Audit Committee reviews the truth and fairness of the Group's interim and annual financial statements, discusses with the external auditors the nature and scope of audit before the audit commences as well as the findings and recommendations raised by the auditors during and after completion of the audit. The Audit Committee conducts an assessment, at least annually, of the effectiveness of the Group's internal controls. This allows the Board to monitor the Group's overall financial position and to protect its assets. In addition, the Audit Committee supervises the internal audit function. The chairman of the Audit Committee summaries activities of the Audit Committee, highlights issues arising therefrom, and provides recommendations for reporting to the Board after each meeting.

The Audit Committee held four meetings in 2006 and three meetings to date in 2007. The attendance record of each member of the Audit Committee in 2006 is set out below:

Directors	Attendance of Audit Committee Directors meetings in 2006
Chang Tso Tung, Stephen (<i>Chairman</i>)	4/4
Chan Chi On, Derek	4/4
Sun Lun	4/4

REMUNERATION COMMITTEE

The Remuneration Committee consists of one Non-executive Director and two Independent Non-executive Directors with Mr Chan Chi On, Derek, an Independent Non-executive Director, as the chairman. Other members are Mr Chang Tso Tung, Stephen and Mr Lee Kwan Hung, Eddie. At the discretion of the Remuneration Committee, Executive Directors and/or senior management personnel overseeing the Group's human resource function may be invited to attend meetings.

The duties of the Remuneration Committee include, among other things, review the remuneration packages of Directors and senior management of the Group to assist the Board in attracting, retaining and motivating the right people to manage the business of the Group. In addition, the Remuneration Committee assesses the performance of the Executive Directors and senior management. The chairman of the Remuneration Committee summarises activities of the Remuneration Committee and provides recommendations for reporting to the Board after each meeting.

The Remuneration Committee held two meetings in 2006 and one meeting to date in 2007. The attendance record of each member of the Remuneration Committee in 2006 is set out below:

Directors	Attendance of Remuneration Committee Directors meeting in 2006
Chan Chi On, Derek (<i>Chairman</i>)	2/2
Chang Tso Tung, Stephen	2/2
Lee Kwan Hung, Eddie	2/2

NOMINATION OF DIRECTORS

Having considered the scale and composition of the Board, the Company does not set up a nomination committee. The function of appointment and removal of Directors is undertaken by the Board. When considering candidates for directorship, the Board assesses, among others, experience level, qualifications and independence of candidates, if appropriate.

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 Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") throughout the year ended 31 December 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 throughout the year ended 31 December 2006.

The Company has received from each of its Independent Non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and considers the Independent Non-executive Directors to be independent.

INTERNAL CONTROL

The Board has overall responsibility for the internal control system of the Company. The Board has developed its systems of internal control and risk management and is also responsible for reviewing and maintaining an adequate internal control system to safeguard the interests of the shareholders and the assets of the Company. During the year under review, the Board has conducted reviews of the internal control system of the Company and considered the internal control system of the Company has implemented effectively.

COMMUNICATION WITH SHAREHOLDERS

The annual general meeting and extraordinary general meeting provide useful forum for shareholders to exchange views with the Board. At the 2005 Annual General Meeting and the Extraordinary General Meeting held in 2006, the Chairman of the Board as well as the Chairman of the Audit Committee and the Remuneration Committee were present to answer shareholders' questions.

Separate resolutions are proposed at general meetings on each substantially separate issue, including the election of individual Directors.

Details of the poll voting procedures and the rights of shareholders to demand a poll were included in the circulars to shareholders. The said circulars also contained relevant details of the proposed resolutions, including biography of each Directors standing for re-election.

At the 2005 Annual General Meeting and the Extraordinary General Meeting held in 2006, all the resolutions were dealt with on a show of hands and were passed by shareholders.

DIRECTORS' RESPONSIBILITY FOR FINANCIAL STATEMENTS

The following statement, which sets out the responsibilities of the Directors in relation to the financial statements, should be read in conjunction with, but distinguished from, the Auditor's Report on pages 36 to 37 which acknowledges the reporting responsibilities of the Group's auditor.

Accounts

The Directors acknowledge their responsibility to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group.

Going Concern

The Directors, having made appropriate enquiries, are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern.

AUDITOR

The Audit Committee has received a letter from PricewaterhouseCoopers confirming their independence and objectivity. Details of fees paid or payable to PricewaterhouseCoopers for the year ended 31 December 2006 are as follows:

	RMB'000
2006 interim review	429
2006 annual audit	1,680
Total	2,109



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor Prince's Building
Central Hong Kong

**INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF GST HOLDINGS LIMITED**
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of GST Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 38 to 89, which comprise the consolidated and Company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 4 April 2007

	Notes	As at 31 December	
		2006 RMB'000	2005 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	14	182,495	129,831
Prepaid operating lease for land	15	9,856	10,081
Intangible assets	16	14,540	8,545
Investment in a jointly controlled entity	17	(204)	(1,508)
Investment in associates	18	2,335	2,621
Deferred income tax assets	19	1,474	–
		<u>210,496</u>	<u>149,570</u>
Current assets			
Inventories	21	118,478	82,717
Trade receivables	22	144,413	127,040
Other receivables, deposits and prepayments		33,485	26,754
Due from a jointly controlled entity	17	14,844	9,607
Available-for-sale financial assets	23	30,000	–
Restricted bank deposits	24	17,552	2,149
Cash and cash equivalents	24	492,333	530,251
		<u>851,105</u>	<u>778,518</u>
Total assets		<u>1,061,601</u>	<u>928,088</u>
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	25	84,800	84,800
Reserves	26	795,678	688,398
		<u>880,478</u>	<u>773,198</u>
Minority interests		833	699
Total equity		<u>881,311</u>	<u>773,897</u>
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	19	720	–
Current liabilities			
Trade payables	27	109,680	87,964
Other payables and accruals		16,347	12,032
Advance from customers	28	32,547	33,665
Advance from a related company	29	1,998	–
Tax payable		18,998	20,530
		<u>179,570</u>	<u>154,191</u>
Total liabilities		<u>180,290</u>	<u>154,191</u>
Total equity and liabilities		<u>1,061,601</u>	<u>928,088</u>
Net current assets		<u>671,535</u>	<u>624,327</u>
Total assets less current liabilities		<u>882,031</u>	<u>773,897</u>

Approved and authorised for issue by the Board of Directors on 4 April 2007 and signed on its behalf by

Song Jiacheng
Director

Cao Yu
Director

The accompanying notes on pages 43 to 89 are an integral part of these consolidated financial statements.

