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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

Hong Kong Stock Exchange 416

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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Hong Kong

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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

Convers Dill & Pearman

As to PRC Law

Commerce & Finance Law Offices

COMPLIANCE ADVISER

Platinum Securities Company Limited

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

MANAGEMENT DISCUSSION & ANALYSIS

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

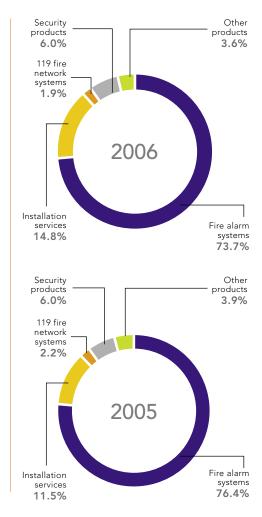
The Group is a provider of fire alarm systems, 119 fire network systems and other security systems products with research and development capabilities as well as providing installation, repair and maintenance services. The Group is well poised to emerge as a dominant player in the PRC fire industry with 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.

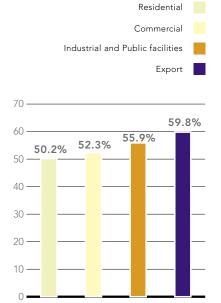
TURNOVER ANALYSIS BY BUSINESS SE	EGMENTS		
	2006 RMB' million	2005 RMB' million	Growth (%)
Fire alarm systems	476.1	429.0	11.0
Installation services	95.9	64.4	48.8
119 fire network systems	12.2	12.4	-1.3
Security products	38.3	33.8	13.2
Other products	23.3	22.1	5.4
Total	645.8	561.7	15.0

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).

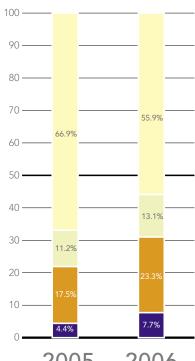
INDUSTRIAL AND PUBLIC FACILITIES **SECTOR**

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

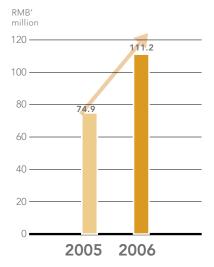
TURNOVER ANALYSIS OF FIRE ALARM SYSTEMS BY **CUSTOMER TYPES**





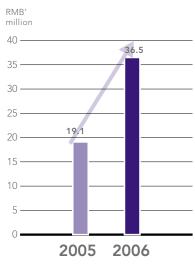
TURNOVER OF INDUSTRIAL AND PUBLIC FACILITIES CLIENTS





TURNOVER OF EXPORT CLIENTS

+91.2%



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.

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 Conformite 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 (巴賽羅那領事館), 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 京奔馳一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%).

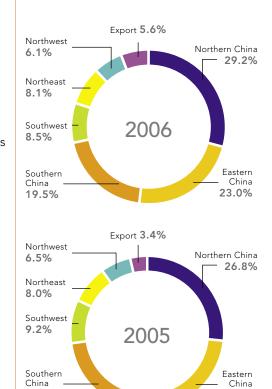
OTHER PRODUCTS

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



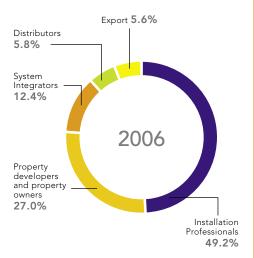
GEOGRAPHICAL COVERAGE OF REPRESENTATIVE OFFICES IN CHINA

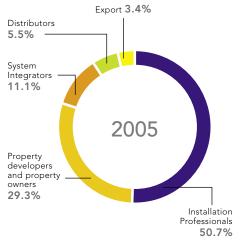
21.6%



24.5%

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 bought 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 allaround 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 nonexecutive 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 國消防產品質量認証委員會). 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.

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:

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2006, the following person, not being

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") (No	Corporate interest te 2)	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.
- 2. 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 whollyowned 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:

Attendance of Directors Board meetings in 2006

Executive Directors	
Song Jiacheng (Chairman)	5/5
Cao Yu	5/5
Peng Kaichen	5/5
Xu Shaowen	5/5
Non-executive Directors	
Zeng Jun	4/5
Lee Kwan Hung, Eddie	5/5
Independent Non-executive Direct	ors
Chang Tso Tung, Stephen	5/5
Chan Chi On, Derek	5/5

4/5

BOARD COMMITTEES

Sun Lun

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:

Attendance of Audit Committee Directors meetings

Directors in 2006

Chang Tso Tung,
Stephen (Chairman)

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:

	Attendance of
	Remuneration
	Committee
	Directors meeting
Directors	in 2006

Chan Chi On, Derek
(Chairman) 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

		Year ended 31 Decembe	
	Notes	2006 RMB'000	2005 RMB'000
	Notes	KIVID 000	KIVID 000
Turnover		645,771	561,716
Cost of goods sold		(329,041)	(273,236)
Gross profit		316,730	288,480
Other income		27,838	36,944
Distribution costs		(81,583)	(77,785)
Administrative and general expenses		(90,875)	(83,011)
Operating profit	6	172,110	164,628
Finance costs			(1,167)
Share of results of			
Jointly controlled entity		1,304	(24)
Associates		(286)	(324)
Profit before income tax		173,128	163,113
Income tax expenses	8	(8,001)	(694)
Profit for the year		165,127	162,419
Attributable to:			
Equity holders of the Company		164,993	162,427
Minority interests		134	(8)
		165,127	162,419
Earnings per share	9		
for profit attributable to equity holders			
of the Company			
– Basic (RMB cents)		20.6	24.9
– Diluted (RMB cents)		20.6	23.2
Dividends	10	58,640	57,680

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

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

Song Jiacheng

Cao Yu Director

		As at 31 E	December
		2006	2005
	Notes	RMB'000	RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		297	550
Investment in subsidiaries	20	436,744	388,022
		437,041	388,572
Current assets			
Other receivables, deposits and prepayments		1,291	3,398
Cash and cash equivalents	24	86,241 	210,024
		87,532	213,422
Total assets		524,573	601,994
EQUITY			
Capital and reserves attributable to			
equity holders of the Company			
Share capital	25	84,800	84,800
Reserves	26	434,259	515,326
Total equity		519,059	600,126
LIABILITIES			
Current liabilities			
Other payables and accruals		5,514	1,868
Total liabilities		5,514	1,868
Total equity and liabilities		524,573	601,994
Net current assets		82,018	211,554
Total assets less current liabilities		519,059	600,126

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

Song Jiacheng Cao Yu
Director Director

	Attributable holders of th			
	Share		Minority	Total
	capital RMB'000	Reserves	interests	equity
	RIVIB UUU	RMB'000	RMB'000	RMB'000
At 1 January 2005	120	276,655		276,775
Currency translation differences				
– jointly controlled entity		48		48
Profit for the year		162,427	(8)	162,419
Total recognised income and				
expense for the year		162,475	(8)	162,467
Capitalization issue	63,480	(63,480)		
Issue of shares for cash	21,200	343,440		364,640
Share issuance costs		(30,692)		(30,692)
Acquisition of a subsidiary			707	707
At 31 December 2005	84,800	688,398	699	773,897
	Attributabl holders of tl	e to equity ne Company		
	Share		Minority	Total
	capital	Reserves	interests	equity
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2006	84,800	688,398	699	773,897
Currency translation differences				
– jointly controlled entity		(33)		(33)
Profit for the year		164,993	134	165,127
Total recognised income for the year		164,960	134	165,094
Dividend paid		(57,680)		(57,680)
At 31 December 2006	84,800	795,678	833	881,311

		Year ended 3	1 December
		2006	2005
	Notes	RMB'000	RMB'000
Cash flows from operating activities			
Cash generated from operations	30	132,390	146,384
Interest paid			(1,167)
PRC Income tax paid		(7,189)	(1,653)
Net cash generated from operating activities		125,201	143,564
Cash flows from investing activities			
Purchase of property, plant and equipment		(70,625)	(40,295)
Proceeds from sale of property, plant and equipment		6,431	4,977
Prepaid operating lease for land			(4,993)
Increase in intangible assets		(6,596)	(2,482)
Interest received		10,787	6,560
Purchase of available-for-sale financial assets		(30,000)	
Repayment from related companies			1,153
Disposal of trading investments			433
Purchase of an associate			(2,500)
Purchase of additional interest in subsidiaries			(597)
Net cash used in investing activities		(90,003)	(37,744)
Cash flows from financing activities			
Issue of shares			333,948
Dividend paid		(57,680)	
Repayments of bank loans			(85,000)
New bank loans raised			15,000
Increase in restricted bank deposits		(15,403)	(2,149)
Net cash (used in)/from financing activities		(73,083)	261,799
Net (decrease)/increase in cash and cash equivalents		(37,885)	367,619
Exchange translation		(33)	
Cash and cash equivalents at beginning of the year		530,251	162,632
Cash and cash equivalents at end of the year		492,333	530,251

annual report 2006 | GST Holdings Limited

1. CORPORATE INFORMATION

GST Holdings Limited (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability on 27 April 2004.

The principal activity of the Company is investment holding. The Company and its subsidiaries (together, the "Group") are engaged in the development, manufacturing, sales and installation of intelligent fire detection and control systems, automatic and intelligent securities systems for residential, commercial and industrial uses. The principal activities of the Company's subsidiaries are set out in note 33 to the financial statements.

The registered office of the Company is located at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681GT, George Town, Grand Cayman, Cayman Islands, British West Indies. The head office and principal place of business of the Company in Hong Kong is located at Suite 6308, 63rd Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong and the principal place of business of the Company in Beijing is located in 17th – 19th Floor, Tower B, The Gate, 19 Zhongquancun Avenue, Beijing 100080, The People's Republic of China (the "PRC").

The Company has its primary listing on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

These consolidated financial statements are presented in thousands of units of Renminbi, unless otherwise stated. These consolidated financial statements have been approved for issue by the Board on 4 April 2007.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

2.1 Basis of Preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board ("IASB"). The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of available-for-sale financial assets.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 35 to the financial statements

2.2 Principal Accounting Policies

The accounting policies adopted are consistent with those as described in the Group's 2005 financial statements. In 2006, the Group adopted the following new standards and amendments to International Accounting Standards ("IAS") and IFRS, as well as interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC-Int"):

- a) Standards, amendments and interpretations effective for annual periods beginning on or after 1 January 2006 and are not relevant to the Group:
 - IAS 19 Amendment Employee benefits;
 - IAS 39 Amendment The fair value option;
 - IAS 39 Amendment Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
 - IAS 39 and IFRS 4 Amendment Financial Guarantee Contracts:
 - IFRS 6 Exploration for and Evaluation of Mineral Resources:
 - IFRS 1 Amendment First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment) – Exploration for and Evaluation of Mineral Resources;
 - IFRIC-Int 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and
 - IFRIC-Int 6 Liabilities arising from Participating in a Specific Market –
 Waste Electrical and Electronic Equipment.
- Standards, amendments and interpretations effective for annual periods beginning on or after 1 January 2006 and has no material impact on the Group:
 - IAS 21 Amendment Net Investment in a foreign operation; and
 - IFRIC-Int 4 Determining whether an arrangement contains a lease.

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

- IAS 1 Amendment Presentation of Financial Statements: Capital Disclosures;
- IFRS 7 Financial Instruments: Disclosures;
- IFRS 8 Operating Segments;
- IFRIC-Int 7 Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies;
- IFRIC-Int 8 Scope of IFRS 2:
- IFRIC-Int 9 Reassessment of Embedded Derivatives:
- IFRIC-Int 10 Interim Financial Reporting and Impairment,
- IFRIC-Int 11 IFRS 2 Group and Treasury Share Transactions; and
- IFRIC-Int 12 Service Concession Arrangements

(i) Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December.

(a) Subsidiaries

which the Group has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies, are consolidated. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of those subsidiaries from third parties. The cost of an acquisition is measured as the fair value of the assets given up, equity instruments issued or liabilities incurred or undertaken at the date of acquisition plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investment in subsidiaries is stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(b) Transactions and minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the consolidated income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

(c) Jointly controlled entity

A jointly controlled entity is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity. Investment in a jointly controlled entity is accounted for by the equity method of accounting. Under this method the Group's share of the post-acquisition profits or losses of jointly controlled entity is

recognised in the consolidated income statement and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of investment

The Group recognises the portion of gains or losses on the sale of assets by the Group to the jointly controlled entity that is attributable to the other venturers. The Group does not recognise its share of profits or losses from the jointly controlled entity that results from the purchase of assets by the Group from the jointly controlled entity until it resells the assets to an independent party. However, if a loss on the transaction provides evidence of a reduction in the net realisable value of current assets or an impairment loss, the loss is recognised immediately.

(d) Associates

An associate is an entity over which the Group generally has between 20% and 50% of the voting rights, or over which the Group has significant influence, but which it does not control. Investment in associates is accounted for by the equity method of accounting and is initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) on acquisition.

The Group's share of the post-acquisition profits or losses of associates is recognised in the consolidated income statement and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group has incurred obligations or made payments on behalf of the associates.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(ii) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investment in associates and is tested annually for impairment as part of the overall balance. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The Group allocates goodwill to each business segment.

(iii) Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and are depreciated at rates sufficient to write off their cost over their estimated useful lives, after taking into account their estimated residual values, on a straight-line basis. The principal estimated useful lives are as follows:

Buildings	20 – 35 years
Plant and machinery	10 years
Vehicles	6 years
Equipment furniture and fixtures	2 – 8 vears

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated income statement during the financial period in which they are incurred.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are recognised in the consolidated income statement.

(iv) Construction-in-progress

Construction-in-progress represents plants and properties under construction and is stated at cost. This includes the costs of construction, plant and machinery, prepayments for the equipment and other direct costs. Construction-in-progress is not depreciated until such time as the relevant assets are completed and ready for its intended use when they are transferred to the relevant asset category.

(v) Prepaid operating lease for land

Land use rights are stated at cost less accumulated amortisation and impairment losses. Cost represents consideration paid for the rights to use the land in the PRC on which various plants and buildings are situated. Amortisation of prepaid operating lease for land is calculated on a straight line basis over the period of the land use rights.

(vi) Impairment of investments in subsidiaries, associates and non-financial assets

Assets that have an indefinite useful life or have not yet available for use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(vii) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expense.

(viii) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy of financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the consolidated income statement. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited in the income statement.

(ix) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and bank deposits with original maturities of three months or less.

(x) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a market interest rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(xi) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts, if any. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

(xii) Share capital

Ordinary shares are classified as equity. Non-mandatorily redeemable preference shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

(xiii) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

(xiv) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for lncome tax rates enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled are used to determine deferred income tax

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(xv) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight-line basis over the period of the lease.

(xvi) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added taxes, rebates and discounts and after eliminated sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

- (a) Revenue for sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods or all critical components of the goods are delivered to customers and title has passed.
- (b) Revenue for installation service is recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided as measured by the contract sum
- (c) Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

(xvii) Government grants

Government grants are assistance by local municipal government to encourage business development in the local municipality. Such grants are discretionary in nature. Government grants are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate

(xviii) Research and development costs

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

- (a) it is technically feasible to complete the intangible asset so that it will be available for use or sale;
- (b) management intends to complete the intangible asset and use or sell it;
- (c) there is an ability to use or sell the intangible asset
- (d) it can be demonstrated how the intangible asset will generate probable future economic benefits:
- (e) adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- (f) the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding five years.

Development assets are tested for impairment annually, in accordance with IAS 36.

(xix) Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Renminbi, which is the Company's

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(xx) Employee benefits

Pension obligations

- (1) The Group participates in a number of defined contribution plans in the PRC. The plans are organised by relevant municipal governments in the PRC. Contributions to the above schemes by the Group are calculated as a percentage of employees' basic salaries. The Group's contributions to the defined contribution retirement scheme are expensed as incurred. Once the contributions have been paid, the Company has no further payment obligations.
- (2) The Group also operates a mandatory provident fund scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5 per cent. of the employees' relevant income. The Group's contributions to the defined contribution retirement scheme are expensed as incurred. Once the contributions have been paid, the Company has no further payment obligations.

(xxi) Dividends

Dividends are recorded in the consolidated financial statements in the period in which they are approved by the shareholders or directors where appropriate. Dividends proposed or declared after the balance sheet date are disclosed as an event after post balance sheet date (note 36 to financial statements) and are not recognised as a liability at the balance sheet date.

(xxii) Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(xxiii) Financial assets

The Group classifies its financial assets in the following categories: available-for-sale and loans and receivable. The classification depends on the purposes for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. Available-for-sale financial assets are subsequently carried at fair value. Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in equity. When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities. Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement as part of other income.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the balance sheet (Note 2.2(viii)). Loans and receivables are carried at amortised cost using the effective interest method.

Regular purchases and sales of above financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

evidence that a financial asset or a group of financial assets is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss-measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement.

(xxiv) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment, which are subject to risks and returns that are different from those of segments operating in other economic environments. In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format.

3. TURNOVER

	Year ended 31 December		
	2006	2005	
	RMB'000	RMB'000	
Sale of goods			
Fire alarm systems	476,138	429,003	
Fire alarm network systems	12,197	12,360	
Video entry systems	33,059	28,122	
Building automation systems	5,200	5,689	
Electric power meters	23,333	22,134	
Provision of services			
Installation services	95,844	64,408	
	645,771	561,716	

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4. SEGMENT INFORMATION

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

Business segment

		Sale o	of goods		Provision of services		
Year ended 31 December 2006	Fire alarm systems RMB'000	Fire alarm network systems RMB'000	Video entry systems and building automation systems RMB'000	Electric power meters RMB'000	Installation services RMB'000	Corporate RMB'000	Group RMB'000
	476,138	12,197	38,259	23,333	95,844		645,771
Segment results Interest income	152,338	3,356	8,137	2,137	14,458	(19,103)	161,323 10,787
Operating profit Finance costs Share of results of							172,110 -
	1,304 -	– (286)					1,304 (286)
Profit before income tax Income tax expenses							173,128 (8,001)
							165,127
Segment assets Investment in a jointly	666,736	54,256	35,376	55,496	135,351	112,255	1,059,470
	(204) -	- 2,335					(204)
							1,061,601
Segment liabilities Tax payable	124,299	2,009	6,595	2,389	20,485	5,515	161,292 18,998
Total liabilities							180,290
Capital expenditure Depreciation Amortisation of prepaid	61,674 9,096	1,165 167	3,272 483	334 367	4,180 1,143	- 247	70,625 11,503
operating lease for land Development costs	225						225
amortisation Provision for doubtful debts	601 (487)	- 102		- 765	- 1,910		601 2,290

		Sale o	f goods		Provision of services		
Year ended 31 December 2005	Fire alarm systems RMB'000	Fire alarm network systems RMB'000	Video entry systems and building automation systems RMB'000	Electric power meters RMB'000	Installation services RMB'000	Corporate RMB'000	Group RMB'000
	429,003	12,360			64,408		
Segment results Interest income	153,782		6,096				158,068 6,560
Operating profit Finance costs Share of results of							164,628 (1,167)
		(324)					(24)
Profit before income tax Income tax expenses							
Segment assets Investment in a jointly	524,136				73,854		926,975
	(1,508) –	- 2,621					(1,508) 2,621
							928,088
Segment liabilities Tax payable			4,428		12,829		
Total liabilities							
Capital expenditure Depreciation Amortisation of prepaid	35,169 8,840		1,098 350				
operating lease for land Development costs	192						
amortisation Provision for doubtful debts	478 2,584			- 228			478 2,847

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

Segment liabilities comprise operating liabilities. They exclude items such as income tax.

Capital expenditure comprises mainly additions to property, plant and equipment.

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5. OTHER INCOME

	Year ended 31 December		
	2006		
	RMB'000	RMB'000	
Government grant	162		
Value-added tax refund	16,859	29,810	
Interest income	10,787	6,560	
Sales of raw material, net of cost	30	263	
	27,838	36,944	

6. OPERATING PROFIT

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

	Year ended 3	31 December
	2006	2005
	RMB'000	RMB'000
Charging:		
Staff costs (excluding directors' emoluments) (Note 11)	61,258	55,477
Research costs	8,345	14,747
Rental expenses	5,336	4,380
Development costs amortisation	601	478
Depreciation	11,503	10,079
Provision for doubtful debts	2,290	2,847
Provision for obsolete inventories	803	59
Net loss on disposal of property, plant and equipment	437	
Amortisation of prepaid operating lease for land	225	192
Loss on disposal of trading investments		
Net exchange loss	5,688	7,554
Auditors' remuneration	2,109	1,474
Crediting:		
Net gain on disposal of property, plant and equipment	410	636
Write back of provision for litigation loss		3,500

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

7. FINANCE COSTS

		RMB'000	RMB'000
	Interest on bank loans wholly repayable within one year		1,167
8.	INCOME TAX EXPENSES		
		Year ended 3	1 December
		2006	2005
		RMB'000	RMB'000
	Current	8,755	694
	Deferred	(754)	

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

With effect from April 2004, Gulf Security Technology Company Limited ("GST"), Beijing Gulf Electric Meters Company Limited ("Gulf Meters") and Qinhuangdao Gulf Fire Prevention Network Company Limited ("Gulf Network") were converted into or being established as wholly owned foreign enterprises. In accordance with the relevant tax laws and regulations in the PRC, effective from the date of approval, GST, Gulf Meters and Gulf Network are exempted from taxation for the first two profitable years and a 50% relief from the applicable national PRC income tax rate for the next three years. In 2006, the applicable PRC income tax rate for Gulf Meters is 24% (2005:24%). GST and Gulf Network being registered in a designated development zone, the applicable PRC income tax rate for 2006 is 15% (2005: 15%).

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

	Year ended 3	31 December
	2006	2005
	RMB'000	RMB'000
Profit before income tax	173,128	163,113
PRC income tax calculated at statutory rate of 33%	57,132	53,827
Tax loss not recognised	4,321	2,918
Non-deductible expenses	6,915	7,479
Effect of different income tax assessment rate and tax exemption	(50,262)	(49,368)
Additional allowances	(4,598)	(4,380)
Income not subject to tax	(5,609)	(9,838)
Others	102	56
Income tax expense	8,001	694

9. EARNINGS PER SHARE

Basic

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

	Year ended	Year ended 31 December		
	2006	2005		
Profit attributable to equity holders				
of the Company (RMB'000)	164,993	162,427		
Weighted average number of ordinary shares				
in issue (thousands)	800,000	652,666		
Basic earnings per share (RMB cents per share)	20.6	24.9		

Diluted

There was no dilutive potential ordinary share outstanding for the year ended 31 December 2006. For the year ended 31 December 2005, the diluted earnings per share was calculated adjusting the weighted number of ordinary shares outstanding to assume conversion of all Series A Preferred shares.

	Year ended 31 Decemb		
	2006	2005	
Profit attributable to equity holders of the Company (RMB'000)	164,993	162,427	
Weighted average number of ordinary shares			
in issue (thousands)	800,000	652,666	
Assumed conversion of Series A Preferred shares (thousands)		48,704	
Weighted average number of ordinary shares for			
diluted earnings per share (thousands)	800,000	701,370	
Diluted earnings per share (RMB cents per share)	20.6	23.2	

10. DIVIDENDS

A final dividend of HK7.33 cents per share (approximately RMB7.33 cents) for the year ended 31 December 2006, amounting to a total dividend of HKD58,640,000 (approximately RMB58,640,000) representing a payout ratio of 35.5% (2005: 35.5%) to those shareholders whose names appear on the register of members of the Company on 18 May 2007, has been approved by the Board of Directors on 30 March 2007 and is to be proposed at the forthcoming annual general meeting of the Company (the "Meeting") on or about 18 May 2007. These financial statements do not reflect this proposed dividend.

A final dividend of HK7.00 cents per share (approximately RMB7.21 cents) for the year ended 31 December 2005, amount to total dividend of HKD56,000,000 (approximately RMB57,680,000) was approved at the annual general meeting of the Company on 18 May 2006 and it was paid on 23 May 2006.

11. STAFF COSTS - EXCLUDING DIRECTORS' EMOLUMENTS

	Year ended	31 December
	2006	2005
	RMB'000	RMB'000
Wages and salaries	49,082	44,628
Retirement benefit contributions	3,053	2,465
Staff welfare and allowances	9,123	8,384
	61,258	55,477

The number of employees (excluding directors) as at 31 December 2006 was 2,418 (2005: 1,718).

12. EMOLUMENTS FOR DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' emoluments

The aggregate amounts of emoluments paid and payable to the directors of the Company are as follows:

		Year ended 31 December 2006			r ended 31 Dece	mber 2005
	Salaries,					
	bonus,					
	allowances	Retirement		allowances		
	and benefits	benefit				
	in kind	contributions	Total		contributions	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Song Jiacheng	1,181		1,192			
	982		993			
Peng Kaichen	880		887			
Xu Shaowen	401		412	450		457
Zeng Jun	120		120			
Lee Kwan Hung, Eddie	180		180			
Chang Tso Tung, Stephen	180		180			
Chan Chi On, Derek	150		150			
	120		120			
	4,194	40	4,234	3,008	28	3,036

(b) Five highest paid individuals

The five highest paid individuals of the Group included 3 directors (2005: 3 directors) whose emoluments are included in the above disclosures. The emoluments of the remaining individuals are as follows:

	Year ended 31 December		
	2006	2005	
	RMB'000	RMB'000	
Salaries, bonus, allowance and benefits in kind	1,376	1,308	
Retirement benefit contribution	98	46	
	1,474	1,354	

The emoluments of the above individuals fell within the following band

	Number of individual		
	Year ended 31 December 2006 200		
Emolument band Nil to HK\$1,000,000 (equivalent to RMB1,000,000)			
HK\$1,000,000 to HK\$1,500,000 (equivalent to			
RMB1,000,000 to RMB1,500,000)	1		

(c) During 2005 and 2006, no emoluments were paid to the directors of the Company or the five highest paid individuals of the Group as an inducement to join or upon joining the Group or as compensation for loss of office.

13. RETIREMENT BENEFITS

	Year ended	31 December
	2006	2005
	RMB'000	RMB'000
Obligations on defined contribution plans		
charged for the year	3,093	2,493

Employees in the Group are required to participate in defined contribution retirement plans operated by the local municipal government in the PRC or third parties in Hong Kong Contributions by the Group are calculated based on a percentage of the employees' basic salary or a fixed sum as stipulated under the relevant requirements. Under the current plans no forfeited contribution can be used by the Group to reduce the existing level of contributions or future contributions.

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14. PROPERTY, PLANT AND EQUIPMENT

			Gro	nb		
				Equipment,		
		Plant and			Construction	
	Buildings	machinery	Vehicles	and fixture	In-progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2005	69,062	37,856				
Additions	2,436		2,419			
Acquisition of a subsidiary			105			
					(5,745)	
Disposals -	(2,993)	(926)				
At 31 December 2005		42,657	18,350	24,423	18,182	
Additions	2,256					70,625
					(53,245)	
Disposals	(1,352)	(4,899)				
At 31 December 2006						
Accumulated depreciation						
At 1 January 2005			9,229			
Depreciation – charge for the year	1,304	3,053	2,992			
Depreciation – acquisition of a subsidiary				32		
Depreciation written off – disposal		(182)	(152)			(829)
At 31 December 2005			12,095			
Depreciation – charge for the year	2,805					
Depreciation written off – disposal	(105)					
At 31 December 2006				15,424		
Net book value						
At 31 December 2005	64,422				18,182	129,831
At 31 December 2006		52,643				182,495

Company - Equipment, furniture and fixture

	2006 RMB'000	2005 RMB'000
Cost		
Beginning of the year	640	
Additions	14	640
End of the year	654 	640
Accumulated depreciation		
Beginning of the year	90	
Charge for the year	267	90
End of the year	357 	90
Net book value		
Beginning of the year	550	
End of the year	297	550

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15. PREPAID OPERATING LEASE FOR LAND

	Group		
	2006	2005	
	RMB'000	RMB'000	
Cost			
Beginning of the year	11,345	6,352	
Additions		4,993	
End of the year	11,345	11,345	
Accumulated amortization			
Beginning of the year	1,264	1,072	
Charge for the year	225	192	
End of the year	1,489	1,264	
Net book value			
Beginning of the year	10,081	5,280	
End of the year	9,856	10,081	

The land is held under medium term leases in the PRC.

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16. INTANGIBLE ASSETS

	Group						
		2006			2005		
		evelopment (D	evelopment		
	Goodwill	costs	Total	Goodwill			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Beginning of the year	6,541	2,482	9,023				
Additions		6,596	6,596		2,482	2,482	
Acquisition of subsidiary				569		569	
End of the year	6,541	9,078	15,619		2,482	9,023	
Accumulated amortization							
Beginning of the year		478	478				
Charge for the year		601	601				
End of the year		1,079	1,079				
Net book value							
Beginning of the year	6,541	2,004	8,545	5,972		5,972	
End of the year	6,541	7,999	14,540	6,541	2,004	8,545	

Amortisation of intangible assets is included in administrative and general expenses.

Goodwill is allocated to the Group's cash-generating units ("CGU") identified according to business segment. The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a one-year period. Key assumptions used by the management to calculate value-in-use include gross margin of the products to be sold and growth rate of the business.

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A segment-level summary of the goodwill allocation is presented below.

	As at	As at 31 December 2006 Fire alarm			As at 31 December 2005 Fire alarm		
	Fire alarm	network			network		
	systems	systems	Total			Total	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Goodwill	5,972	569	6,541	5,972	569	6,541	

17. JOINTLY CONTROLLED ENTITY

	Group	
	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Investment in a jointly controlled entity:		
Share of net liabilities	(204)	(1,508)
Due from a jointly controlled entity (note):		
0 to 90 days	4,886	1,550
91 to 180 days	8,727	3,908
181 to 365 days	8	4,149
Over 365 days	1,223	
	14,844	9,607

Note: The balance is unsecured, interest-free and repayable in accordance with the trading terms.

18. INVESTMENT IN ASSOCIATES

	Gro	oup
	2006	2005
	RMB'000	RMB'000
Beginning of the year	2,621	950
Additions		1,995
Share of loss	(286)	(324)
End of the year	2,335	2,621
Representing:		
Share of net assets, unlisted	2,335	2,621

Details of the associates are set out in note 33 to the financial statements

19. DEFERRED INCOME TAX

a) Deferred tax assets

	Group	
	As at 31 December	
	2006	2005
	RMB'000	RMB'000
– Deferred tax asset to be recovered after		
more than 12 months	923	
– Deferred tax asset to be recovered within 12 months	<u>551</u>	
	1,474	
	1,474	

The movement in deferred tax assets during the year is as follows:

	Provision for doubtful debts RMB'000	Provision for inventory obsolescence RMB'000	Temporary differences for property, plant and equipments RMB'000	Temporary differences for unrealised profit RMB'000	Total RMB'000
At 1 January 2005 and 31 December 2005					
Credited to income statement			(36)	(152)	(1,474)
At 31 December 2006	(1,174)	(112)	(36)	(152)	(1,474)

b) Deferred tax liabilities

	Group	
	As at 31	December
	2006	2005
	RMB'000	RMB'000
– Deferred tax liabilities to be settled after		
more than 12 months	600	
– Deferred tax liabilities to be settled within 12 months	120	
	720	

The movement in deferred tax liabilities during the year is as follows:

	Development costs
	capitalisation
	RMB'000
At 1 January 2005	
and 31 December 2005	
Charged to income statement	
At 31 December 2006	720

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

The deferred income tax charge/(credit) to the income statement is as follows

	Group	
	Year ended 31 December	
	2006 2	
	RMB'000	RMB'000
Deferred tax assets credited	(1,474)	
Deferred tax liabilities charged	720	
Deferred income tax credited to the income statement	(754)	

There was no material unprovided deferred income tax

20. SUBSIDIARIES

	Cor	Company	
	As at 31	As at 31 December	
	2006	2005	
	RMB'000	RMB'000	
Investment in subsidiaries			
– Unlisted shares, at cost	159,678	159,678	
Due from a subsidiary (note)	277,066	228,344	
	436,744	388,022	

Note: The balance is unsecured and interest-free. It is in equity nature and has no settlement plan in the near future. Details of the subsidiaries are set out in note 33 to the financial statements.

21. INVENTORIES

	Group	
	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Raw materials	33,715	21,829
Work-in-progress	18,014	9,824
Finished goods	41,482	29,375
	93,211	61,028
Components delivered to customers in respect of		
contracts not yet completed at year end	25,267	21,689
At cost, less provision for obsolete inventories	118,478	82,717

22. TRADE RECEIVABLES

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

	Group	
	As at 31 December	
	2006	2005
	RMB'000	RMB'000
0 to 90 days	74,614	64,580
91 to 180 days	22,717	25,377
181 to 365 days	24,749	26,157
Over 365 days	39,300	28,828
	161,380	144,942
Less: Provision for doubtful debts	(16,967)	(17,902)
	144,413	127,040

The carrying amounts of the Group's trade receivables approximated its fair value as at 31 December 2006 because of the short maturities of these receivables.

23. AVAILABLE-FOR-SALE FINANCIAL ASSETS

G	roup
As at 31	December
2006	2005
RMB'000	RMB'000
30,000	

The fair value of unlisted funds are based on cash flows discounted using a rate based on the

Available-for-sale financial assets are all denominated in Renminbi. None of the financial assets are either part due or impaired.

24. CASH AND CASH EQUIVALENTS

	Group	
	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Cash at bank and in hand	257,614	190,120
Short-term bank deposits	234,719	340,131
	492,333	530,251

The effective interest rate on short-term bank deposits of the Group was 2.31% per annum (2005: 3.39% per annum). Short-term bank deposits have a weighted average remaining maturity of 29 days (2005: 29 days).

		Company	
	As at 31 [December	
	2006	2005	
	RMB'000	RMB'000	
Cash at bank and in hand	1,132	893	
Short-term bank deposits	<u>85,109</u>	209,131	
	86,241	210,024	

The effective interest rate on short-term bank deposits of the Company was 3.54% per annum (2005: 3.93% per annum). Short-term bank deposits have a weighted average remaining maturity of 18 days (2005: 29 days).

	Group As at 31 December		Company As at 31 December	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Cash at bank and in hand				
RMB	234,385	171,248		
HKD denominated	6,786	1,583	1,112	893
USD denominated	16,423	17,289		
Others				
	257,614	190,120	1,132	893
Short-term bank deposits				
RMB	126,520	79,000		
HKD denominated	96,871	261,131	85,109	209,131
USD denominated	11,328			
	234,719	340,131	85,109	209,131
Total cash and cash equivalents	492,333	530,251	86,241	210,024

The conversion of Renminbi denominated balance into foreign currencies and the remittance of bank balances and cash out of the PRC are subject to the rules and regulation of foreign exchange control promulgated by the PRC Government.

	G	Group	
	As at 31 December		
	2006	2005	
	RMB'000	RMB'000	
Restricted bank deposits	17,552	2,149	

As at 31 December 2006, the Group had restricted bank deposits of RMB17,552,000 (2005: RMB2,149,000) in relation to its banking facilities amounting to RMB17,552,000 (2005: RMB3 766,000)

25. SHARE CAPITAL

Group	and	Company
	utho	rised

	Common sh	nares of	Series A Preferre	d shares of	
	HK\$0.1	each	HK\$0.1 e	ach	Total
		RMB'000		RMB'000	RMB'000
At 1 January 2005	3,613,760	383			403
Increase in authorized					
share capital (note (a))	1,996,200,000				211,597
Preferred shares (note (b))			(186,240)	(20)	
At 31 December 2005	2,000,000,000	212,000			212,000
At 1 January 2006 and					
at 31 December 2006	2,000,000,000	212,000			212,000
			Issued		
	Common sh	nares of	Series A Preferre	ed shares of	
	HK\$0.1		HK\$0.1 e		Total
		RMB'000		RMB'000	RMB'000
At 1 January 2005	945,223	100			
Conversion of Series A Preferred					
shares (note (b))			(186,240)	(20)	
Capitalisation issue (note (c))	598,868,537	63,480			63,480
Issue of shares (note (d))	200,000,000	21,200			21,200
At 31 December 2005	800,000,000	84,800			84,800
At 1 January 2006 and					
at 31 December 2006	800,000,000	84,800			84,800

Note.

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

26. RESERVES

	Group					
	Share	Merger	General	Exchange	Retained	
	premium	reserves	reserves	translation	earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2005	117,083	102,902	52,748		3,922	276,655
Capitalisation issue	(63,480)					(63,480)
	343,440					343,440
					162,427	162,427
Share issuance costs	(30,692)					(30,692)
Currency translation differences						
– jointly controlled entity				48		48
			<u>25,754</u>		(25,754)	
At 31 December 2005	366,351	102,902	78,502		140,595	688,398
Dividend paid	(57,680)					(57,680)
					164,993	164,993
Currency translation differences						
– jointly controlled entity				(33)		(33)
			13,308		(13,308)	
At 31 December 2006	308,671	102,902	91,810	15	292,280	795,678

	Share premium RMB′000	Company Accumulated deficits RMB'000	Total RMB'000
At 1 January 2005	276,655		276,655
Capitalisation issue	(63,480)		(63,480)
Issue of shares for cash	343,440		343,440
Loss for the year		(10,597)	(10,597)
Share issuance costs	(30,692)		(30,692)
At 31 December 2005	525,923	(10,597)	515,326
Dividend paid	(57,680)		(57,680)
Loss for the year		(23,387)	(23,387)
At 31 December 2006	468,243	(33,984)	434,259

- (a) Merger reserve of the Group represents the difference between the value of the paid-up capital of the subsidiaries acquired and the value of the Company's shares issued in exchange therefore pursuant to the group reorganisation completed in December 2004
- (b) General reserves represent statutory reserve which is composed of appropriation at 10% of the net profit of certain subsidiaries of the Group according to their respective Articles of Association, and the statutory public welfare reserve transferred in. During the year, in accordance with the Company Law of PRC, which is revised on 27 October 2005 and effective since 1 January 2006, the statutory public welfare reserve will not be appropriated in 2006. According to the Circular on accounting treatment following the implementation of Company Law issued by the Ministry of Finance on 15 March 2006, the balance of the statutory public welfare reserve at 31 December 2005 will be converted all into the statutory reserve.
- (c) Pursuant to Section 31 of the Cayman Islands Companies Law (2003 Revision) and the Articles of Association of the Company, share premium of the Company is available for distribution to shareholders subject to a solvency test on the Company and the provisions in the Articles of Association of the Company.
- (d) The reserves available for distribution to the shareholders of the Company amount to approximately RMB434 million as at 31 December 2006 (2005: RMB515 million).

27. TRADE PAYABLES

	Gr	Group		
	As at 31	December		
	2006	2005		
	RMB'000	RMB'000		
0 to 90 days	98,050	75,060		
91 to 180 days	8,188	9,559		
181 to 365 days	1,782	2,043		
Over 365 days	1,660	1,302		
	109,680	87,964		

28. ADVANCE FROM CUSTOMERS

Advance from customers represents cash received from customers in respect of contracts not yet completed at year end.

29. ADVANCE FROM A RELATED COMPANY

	Group As at 31 December	
	2006 2 RMB'000 RMB	
Beijing Gulf Jingcheng Property Development Company Limited ("Beijing Gulf Property")	1,998	

Beijing Gulf Property is a subsidiary company of Gulf Technology Group Company Limited ("Gulf Group"). Gulf Group is currently owned by the same beneficial shareholders of GST International Management Limited, the controlling shareholder of the Company.

The advance from Beijing Gulf Property represents cash received in respect of contracts not vet completed at year end

30. NOTE TO CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of operating profit to cash generated from operations

	Group	
	Year ended 31	December
	2006	2005
	RMB'000	RMB'000
Operating profit	172,110	164,628
Operating profit		
Depreciation	11,503	10,079
Amortisation of prepaid operating lease for land	225	192
Development costs amortisation	601	478
Provision for doubtful debts	2,290	2,847
Provision for obsolete inventories	803	59
Net loss/(gain) on disposals of fixed assets	27	(636)
Interest income	(10,787)	(6,560)
Loss on disposals of trading investments		
Operating profit before working capital changes	176,772	171,110
(Increase)/decrease in inventories	(36,564)	30,862
Increase in trade receivables	(19,663)	(45,707)
(Increase)/decrease in other receivables, deposits		
and prepayments	(6,731)	
Increase in due from a jointly controlled entity	(5,237)	(4,554)
Increase in trade payables	21,716	5,250
Increase/(decrease) in other payables and accruals	4,315	(7,821)
Increase in advance from a related company	1,998	
Decrease in advance from customers	(1,118)	(4,669)
(Decrease)/increase in other taxes payable	(3,098)	156
Cash generated from operations	132,390	146,384

31. COMMITMENTS

(a) Capital commitments

	Gro	oup
	As at 31 l	December
	2006	
	RMB'000	RMB'000
Property, plant and equipment (note)	98,662	8,698

Note: The amount for the year ended 31 December 2006 includes the commitment for the acquisition of office premises in Zhongguancun after the balance sheet date and details are set out in note 36 to financial statements.

(b) Operating lease commitments for buildings

	Gr	Group	
	As at 31	December	
	2006	2005	
	RMB'000	RMB'000	
First year	3,143		
Second to fifth year	2,730	1,881	
After the fifth year	1,479	1,000	
	7,352	8,032	

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32. RELATED PARTY TRANSACTIONS

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

	Year ended 31 Decem		
		2006	2005
	Notes	RMB'000	RMB'000
Sales to jointly controlled entity		27,915	16,892
Repair cost paid to a related company		105	169
Services rendered to a related company		17,984	1,420
Rental paid to a related company		240	200
Service fee paid to a related company		1,046	910
Sales of property, plant and equipment to			
a related company			2,803
The compensation and remuneration for			
key management personnel		4,234	3,036

Notes:

- (i) Sales of finished goods to a jointly controlled entity, Global System Technology PLC ("GST PLC") were conducted in the normal course of business at prices and terms mutually agreed by the parties involved.
- (ii) Repair cost paid to Qinhuangdao Development Zone Junhui Car Repair and Decoration Company Limited, a subsidiary of Gulf Group, were conducted at prices and terms mutually agreed by the parties involved.
- (iii) Services rendered to Beijing Gulf Property, a subsidiary of Gulf Group, represented installation services provided by the Group at terms mutually agreed by the parties involved.
- (iv) Rental paid to Gulf Group was determined based on market rent.
- (v) Service fee paid to Gulf Group covered the provision of catering, transportation, environmental maintenance, security guards, property management services and other related or similar services to the Group at prices and terms mutually agreed by the parties involved.
- (vi) The consideration for the sale of fixed assets to Gulf Group was based on valuation performed by an independent accounting firm as at the date of sale.
- (vii) The key management personnel are the Directors of the Company. Their compensations and remunerations are set in the note 12 to the financial statements.

33. PARTICULARS OF SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITY

As at 31 December 2006, the Company has direct and indirect interests in the following subsidiaries, associates and a jointly controlled entity which are all limited liability companies or have substantially the same characteristics as a limited liability company:

	Place and date of incorporation/	registered and fully paid	Attributable equity	Principal activities and
Company	establishment	share capital		place of operation
Subsidiaries Interests held directly:				
	The British Virgin Islands (the "BVI") 17 March 2004	USD 0.01	100%	
Interests held indirectly:				
Gulf Security Technology Company Limited	The PRC 25 April 2004	USD22,860,000	100%	Manufacturing and sales of intelligent fire detection and control systems in the PRC
Qinhuangdao Gulf Fire Prevention Network Company Limited	The PRC 16 April 2004	USD1,000,000	100%	Development and sales of fire alarm network products in the PRC
Beijing Gulf Electric Meters Company Limited	The PRC 10 May 2004	USD6,500,000	100%	Development and sales of power meter in the PRC
Hebei Gulf Electrical Engineering Company Limited	The PRC 24 September 1996	RMB50,000,000	100%	Provision of system integration and installation services in the PRC
Beijing Gulf Wei'er Electrical Engineering Company Limited	The PRC 24 March 2004	RMB15,000,000	100%	Provision of system integration and installation services in the PRC

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Company	Place and date of incorporation/ establishment	Issued/ registered and fully paid share capital	Attributable equity interests	Principal activities and place of operation
Qinhuangdao Gulf Labour Services Company Limited	The PRC 9 March 2005	RMB500,000	100%	Provision of human resources services
Qinhuangdao Gulf Plastic & Metal Products Company Limited	The PRC 5 June 2006	USD2,000,000	100%	Manufacturing and sales of plastic and metal products, metal components and mould in the PRC
Qinhuangdao Gulf Software Technology Company Limited	The PRC 5 June 2006	USD2,000,000	100%	Development and sales of software product, computer system integration and corresponding computing technology
Qinhuangdao City Chengan Fire Prevention Network Company Limited		RMB2,000,000		Sales of fire alarm network products and provision of related installation, maintenance and technical services in the PRC
Associates				
Interests held indirectly: Nanning Gulf Fire Prevention Network Technology Company Limited	The PRC 19 September 2001	RMB1,000,000	25%	Sales of fire alarm network products and provision of related installation, maintenance and technical services in the PRC
Henan Province Hongda Gulf Chengan Firefighting Network Company Limited Jointly controlled entity	The PRC 21 November 2005	RMB10,000,000		Sales of fire alarm network products and provision of related installation, maintenance and technical services in the PRC
Interests held indirectly: Global System Technology PLC	United Kingdom 23 November 2000	£50,000		Sales of fire alarm systems, power meters and other electronic equipment in Dubai

34. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks, including the effects on changes in foreign currency exchange rates risk, interest rates, credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the Group.

(i) Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions settled in Renminbi and did not have significant exposure to foreign exchange risk except for certain deposits placed with banks in Hong Kong and denominated in Hong Kong dollars arising from issuance of shares in 2006. As at 31 December 2006, the Group had cash and bank balances of approximately RMB378,457,000, RMB103,657,000 and RMB27,751,000 denominated in Renminbi, Hong Kong dollars and United States dollars, respectively (2005: RMB252,397,000, RMB262,714,000 and RMB17,289,000). In Hong Kong, companies are not allowed to open Renminbi bank accounts and conversion of foreign currencies to Renminbi is therefore restricted. In addition, there is no hedge against appreciation of Renminbi against Hong Kong dollars or United States dollars which is considered cost effective. On the other hand, the conversion of Renminbi into foreign currencies in the PRC is subject to the rules and regulations of foreign exchange control promulgated by the PRC Government.

(ii) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates and the Group has no significant interest-bearing assets except for the bank deposits as disclosed in note 24. The Group had no bank borrowings as at 31 December 2006 and 31 December 2005. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

(iii) Credit risk

The Group has no significant concentrations of credit risk. The carrying amount of trade receivables included in the consolidated balance sheet represent the Group's maximum exposure to credit risk in relation to its financial assets. The Group has policies in place to ensure that sales of products are made to customers with an appropriate credit history and the Group performs credit evaluations of its customers.

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The Group's historical experience in collection of trade and other receivables falls within the recorded allowances and the directors are of the opinion that adequate provision for uncollectible trade receivables has been made in the consolidated financial statements.

(iv) Liquidity risk

The Group ensures that it maintains sufficient cash, which is available to meet its liquidity requirements.

(b) Fair value estimate

The carrying amounts of the Group's financial assets including cash and cash equivalents, trade receivables and other receivables, availabe-for-sale financial assets and financial liabilities including trade payables, short-term borrowings and other payables, approximate their fair values due to their short maturities.

The face values less any estimated credit adjustments for principal assets and liabilities with a maturity of less than one year, if any, are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

35. CRITICAL ACCOUNTING ESTIMATES

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Impairment of non-current assets

At each balance sheet date, the Group considers both internal and external sources of information to assess whether there is any indication that non-current assets, including property, plant and equipment, development costs and goodwill are impaired. If any such indication exists, the recoverable amount of the assets is estimated and an impairment loss is recognised to reduce the carrying amount of the assets to its recoverable amount. Estimated recoverable amounts are determined based on estimated discounted future cash flows of the cash generating unit at the lowest level to which the assets belongs. The recoverable amount is the higher of value in use or net selling price. Such impairment losses are recognised in the income statement. Accordingly, there will be an impact to the future results if there is a significant change in the recoverable amounts of the pon-current assets.

(b) Provision for doubtful debts

The Group maintains an allowance for doubtful debts for estimated losses resulting from the inability of its customers to make the required payments. The Group makes its estimates based on the aging of its trade receivable balances, customers creditworthiness, and historical write-off experience. If the financial condition of its customers deteriorates, actual write-offs might be higher than expected, and the Group will be required to revise the basis of making the allowance and its future results will be affected

(c) Income tax

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(d) Percentage of completion of installation contracts

The Group's management estimates the percentage of completion of installation contracts. These estimates are based on the engineers' knowledge and historical experience, and by reference to the contract costs incurred up to the balance sheet date as a percentage of total estimated costs for each contract. Management assesses the completion progress at each balance sheet date.

36. EVENTS AFTER BALANCE SHEET DATE

a) On 13 November 2006, GST (the "Purchaser"), a wholly-owned subsidiary of the Company, entered into the Framework Agreement with Beijing Gulf Property (the "Vendor"), a wholly-owned subsidiary of Gulf Group, pursuant to which the Vendor has conditionally agreed to sell and the Purchaser 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 "Property"). The consideration of the acquisition is approximately RMB81,696,000 (the "Consideration") and shall be satisfied in cash by the internal resources of the Group (the "Acquisition").

The Acquisition constitutes a connected transaction of the Company under Rule 14A.17 of the Listing Rules and is subject to the approval of the independent shareholders at the extraordinary general meeting by poll. Since one of the relevant ratios in respect of the Acquisition exceeds 5% but all the relevant ratios are less than 25%, the Acquisition also constitutes a discloseable transaction for the Company under Rule 14.06(2) of the Listing Rules.

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.

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

- b) A final dividend of HK7.33 cents per share (equivalent to approximately RMB7.33 cents) for the year ended 31 December 2006, amounting to a total dividend of HKD58,640,000 (equivalent to approximately RMB58,640,000) to those shareholders whose names appear on the register of members of the Company on 18 May 2007, has been approved by the Board of Directors on 30 March 2007 and is to be proposed at the forthcoming annual general meeting of the Company on or about 18 May 2007 (note 10 to the financial statements).
- c) Pursuant to the PRC enterprise income tax law passed by the Tenth National People's Congress on 16 March 2007, the new enterprise income tax rates for domestic and foreign enterprises are unified at 25% and will be effective from 1 January 2008. The impact of such change of enterprise income tax rate on the Group's consolidated financial statements will depend on detailed pronouncements that are subsequently issued. Since implementation measure on transitional policy of preferential tax rate granted according to current tax law and administrative regulations was not yet announced, the Group cannot reasonably estimate the financial impact of the new tax law to the Group at this stage.

Other than those disclosed elsewhere in this report, no significant events took place subsequent to 31 December 2006.

37. ULTIMATE HOLDING COMPANY

As at 31 December 2006, the directors of the Company regarded GST International Management Limited, a company incorporated in the BVI, as being the ultimate holding company.

38. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current years' presentation.

Published results and assets and liabilities of the Group are as followed

RESULTS

	For the year ended 31 December				
(RMB' million)	2006	2005	2004	2003	2002
Turnover	646	562	424	316	298
Gross profit	317	288			176
Operating profit	172	165	130	99	107
Profit attributable to equity holders	165	162	123	79	71

ASSETS AND LIABILITIES

	As at 31 December				
(RMB' million)	2006	2005	2004	2003	2002
Total non-current assets	211	150			132
Total current assets	851	778	396	268	283
Total current liabilities	180	154	232	228	205
Net current assets	671	624	164	40	78
Net assets	882	774	277	163	210