

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

PRINCIPAL ACTIVITIES

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

RESULTS AND APPROPRIATIONS

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

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

RESERVES

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

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

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

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

SUBSIDIARIES

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

DIRECTORS

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

Executive Directors

Song Jiacheng (*Chairman*)
Cao Yu
Peng Kaichen
Xu Shaowen

Non-executive Directors

Zeng Jun
Lee Kwan Hung, Eddie

Independent Non-executive Directors

Chang Tso Tung, Stephen
Chan Chi On, Derek
Sun Lun

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

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

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

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

DIRECTORS' SERVICE CONTRACTS

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

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

MAJOR CUSTOMERS AND SUPPLIER

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

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

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

CONNECTED TRANSACTIONS

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

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

1. Construction agreement

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

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

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

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

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

2. Acquisition of office premises

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

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

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

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

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

4. Exempted Connected Transactions

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

CONTRACT OF SIGNIFICANCE

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

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

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

Beneficial interests in the shares of associated corporations

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

Save as disclosed above, neither the Directors nor the chief executive of the Company, nor any of their associates, had interests or short positions in the Shares, underlying shares or debentures of the Company or its associated corporation as at 31 December 2006.

SUBSTANTIAL SHAREHOLDERS

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

a Director or chief executive of the Company, had an interest and/or short position in the Shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name of shareholder	Nature of interest	Capacity	Number of Shares	Approximate shareholding percentage
GST International Management Limited	Corporate interest	Registered and beneficial owner	427,479,369 (L)	53.43%
United Technologies Corporation ("UTC") (Note 1)	Corporate interest	Interest in controlled corporation	150,564,631 (L)	18.82%
Otis Elevator Company ("Otis") (Note 1)	Corporate interest	Interest of controlled corporation	148,580,631 (L)	18.57%
Carrier Corporation ("Carrier") (Note 1)	Corporate interest	Interest of controlled corporation	148,580,631 (L)	18.57%
United Technologies Far East Limited ("UTFE") (Note 1)	Corporate interest	Interest of controlled corporation	148,580,631 (L)	18.57%
JPMorgan Chase & Co. ("JPMorgan Chase") (Note 2)	Corporate interest	Interest of controlled corporation	40,065,000 (L)	5.01%

(L) Indicates a long position.

Note:

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

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

JPAM Asia and JPAM Holdings were deemed to have interest in the 22,236,000 Shares beneficially owned by JFAM.

JPMorgan Chase Bank, N.A. ("JPMCB"), which is a shareholder of the Company, is a company incorporated in United States and beneficially owns 17,829,000 Shares representing approximately 2.23% of the issued share capital of the Company.

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

Save as disclosed above, no other interests or short positions in the Shares or underlying shares of the Company were recorded in the register maintained under Section 336 of the SFO as at 31 December 2006.

SHARE OPTION SCHEME

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

As at 31 December 2006, no option had been granted or agreed to be granted to any person under the Share Option Scheme.

PURCHASES, SALE AND REDEMPTION OF THE SHARES

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

PUBLIC FLOAT

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

PRE-EMPTIVE RIGHTS

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

AUDIT COMMITTEE

The Company has set up an audit committee (the "Committee"), in accordance with the requirements of the Code of Corporate Governance Practices. The consolidated financial statements of the Group for the year ended 31 December 2006 have been reviewed by the Committee.

AUDITOR

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

By order of the Board
Song Jiacheng
Chairman

Hong Kong, 4 April 2007