ANNUAL REPORT 2007

GST

GST HOLDINGS LIMITED
海 灣 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

Stock code: 0416

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive Directors:
Song Jiacheng *(Chairman)*
Cao Yu
Peng Kaichen

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

Jiang Zhengyu
Hung Lap Kay, Ernie
(Company Secretary and Qualified Accountant)

STOCK CODE

Hong Kong Stock Exchange 416

INVESTOR RELATIONS CONTACT

Liu Guangdian, Gary
Suite 1612, 16/F,
Shun Tak Center, West Tower,
168-200 Connaught Road C.
Sheung Wan,
Hong Kong E-mail: ir@gsthk.com

WEBSITE ADDRESS

www.gst.com.cn

REGISTERED OFFICE

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681GT
George Town
Grand Cayman
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 1612, 16/F,
Shun Tak Center, West Tower,
168-200 Connaught Road C.
Sheung Wan,
Hong Kong

PRINCIPAL PLACE OF BUSINESS IN BEIJING

17th-19th Floor, Tower B
The Gate
19 Zhongguancun Avenue
Hai Dian
Beijing 100080
The People's Republic of China

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Bermuda (Cayman) Limited
P.O. Box 513 GT
Strathvale House
North Church Street
George Town
Grand Cayman
Cayman Islands
British West Indies

HONG KONG BRANCH REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716 17th Floor Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
China Construction Bank
China Merchants Bank
The Hongkong and Shanghai Banking Corporation Limited

AUDITORS

PricewaterhouseCoopers

LEGAL ADVISERS

As to Hong Kong law
Woo, Kwan, Lee & Lo

As to Cayman Islands law
Conyers Dill & Pearman

As to PRC Law
Commerce & Finance Law Offices

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 2007.

INDUSTRY REVIEW

Driven by the continuously thriving economy and construction market in the PRC, the country's fire alarm and security products market is gaining headway with a burgeoning market capacity. The Beijing Olympics and the World Expo Shanghai 2010 have also stimulated growth in the PRC's fire alarm industry. Given the booming construction market and improvement of fire safety ordinance, it is estimated that the compound annual growth rate of the PRC's fire alarm market will attain a 14.4% growth in the coming five years, which strikes higher than the 8% growth in the country's annual GDP.

Various large-scale energy construction projects, infrastructure construction projects, industrial renovation, and the Olympics facilities construction projects have all given impetus to the Group's public and industrial installation services.

Meanwhile, the size of the PRC's security products market has also reached a record high of RMB 95.8 billion in 2007 representing a year-on-year increase of 30%. This is mainly attributable to the expeditious growth in investment in security products utilization and the rising social demand for safety fuelled by accelerating urbanization.

With the nation's aim to building a safe and harmonious society, Ministry of Public Security has commenced developing the "Safe City projects" to enhance cities' safety. This includes installing a regional alarm network system, a city security surveillance system, and alarm and surveillance systems in major institutions and communities. These developments have largely driven the Group's business.

RESULTS HIGHLIGHTS

Benefiting from positive factors such as mounting fire safety awareness, increasing stringent implementation of fire safety regulations, and continuously strong market demand for fire alarm products, the Group's turnover for 2007 has achieved a year-on-year increase of 30.1% to approximately RMB840,151,000. Net profit attributable to shareholders increased by 9.7% to approximately RMB181,016,000. The board of directors (the "Board") recommended the payment of a final dividend for the year ended 31 December 2007 of RMB8.04 cents per share, equivalent to approximately HK8.56 cents.

Our strategy to position the Group as a total fire and security solution provider has been successful. This not only brings steady growth to the current fire alarm system business, but is also a breakthrough for the Group's new businesses. The market share for the fire alarm systems has climbed to 33%, with an increase of 21.5% in turnover. For installation services, turnover rose 42.3% and the amount of contracts on hand increased by 65.2%. Turnover for security products has surged for the year under review, almost doubling the turnover as compared to previous year. Being the Group's core competence, the nationwide sales network is expanding steadily. The number of sales offices across the nation has increased to 182.

Since the re-promulgation of the software value-added tax ("VAT") refund policy by the National Development and Reform Commission, State Administration of Taxation in 2006, state-recognized major software corporations, which manufacture and sell embedded software (complied with relevant requirements), could still enjoy a VAT refund. As a state-accredited key software enterprise, the Group benefited from the VAT refund policy. The VAT refund increased to RMB30,144,000.

GROWTH STRATEGIES

The Group's growth is driven by three strategies: fuller range of product offering, total solution provider and internationalization.

Fuller Range of Product Offering

The Group is the number one brand in the country's fire alarm industry, with a foundation laid on its high quality, technologically innovative and diversified products. The Group emphasizes on product research and development that results in more new products to meet the increasing demands of the market.

In order to increase the Group's geographic reach and market shares, it is taking steps to develop and innovate a comprehensive range of fire alarm systems and security products to satisfy customers' demands. The needs of our clients will be effectively considered in the R&D process; the key needs will be derived through careful assessments and then passed on to the R&D department for new product development and product improvement in order to enhance the products' appeal and application.

To further enhance our position as a total fire and security solution provider we have executed flexible and comprehensive strategies to integrate our different business segments. Capitalizing on business diversification to stimulate corporate growth, the overall operation mode, sales and marketing plans have been strategically adjusted to transform the Group from a sole product manufacturer to a total fire and security solution provider.

Total Solution Provider

Installation services have become the Group's crucial growth driver for the year under review. We are the first and only total fire and security solution provider in the market that provides professional installation services and manufacturing products on our own. Our rate in successfully bidding for projects is hence raised by familiarity with our products. We believe that strong technical support and quality services are pivotal in securing our foothold in the industry. We will therefore provide timely before-sales, during-sales and after-sales services to fully accommodate our clients' needs. Our brilliant technical engineering team with its technology expertise, rich installation experience and knowledge in products and systems builds a confidence with our clients. In the past year, the Group engaged in major projects such as the Beijing Olympics. With view to the enormous installation market, we will continue to enhance investment in this segment in the coming year.

Internationalization

As collaboration with international corporations is becoming increasingly active among industry players, customers now take the initiative to look for a high quality and economical product provider. This trend has opened the door for the Group to enter international markets. We succeed in the market with competitive prices, quality products and comprehensive after-sales services. Our coverage of overseas sales networks has been expanding consequently and the achievement in the export market is encouraging.

Since the Group's products have been widely certified and accredited internationally, our good reputation and rising brand recognition has placed us on a favorable position within the competitive international market. The Group's GST® trademark has now obtained recognition and protection in 87 countries and regions around the globe. The Group entered into 11 new overseas markets including Macau, South Africa, France, Italy and Croatia in 2007. The Group worked with 33 overseas agents scattered across Hong Kong, Singapore, Thailand, Australia, United Kingdom, Middle East, etc in the past year.

The Group has also carried out marketing strategies such as establishing distribution points for exports and actively seeking collaboration with large overseas manufacturers and distributors to increase sales channels and build brand awareness. We anticipate that a larger portion of market share could be taken up by us in the future.

ACHIEVEMENTS

Investors and analysts have always acknowledged the Group's outstanding achievements. Asia Money Magazine has awarded us "Overall Best Managed Medium Cap Company In China" in 2007, reflecting the competency of the Group's management team. Forbes Magazine has named the Group as one of the "Top 100 Highest Growth Potential China Enterprises" for three consecutive years since 2005. The Group's growth potential and solid business foundation have been widely recognized and validated.

During the year under review, our products have received various awards, including the "China Famous Brand Product" (中國名牌產品) for the video entry system; "Excellent China Security Project Enterprise" (中國安防優秀工程企業) for Beijing Gulf Wei'er Electrical Engineering Company Limited to become a recommended enterprise of "3111" project; and "2007 Top 10 ACS & Intercom Brands" (十大智能建築門禁對講品牌) for our security products.

FUTURE DEVELOPMENT

The development in the PRC's fire alarm industry has vital significance in the nation's economic development, and it bears close relation to the nation's development and the people's livelihood, social stability and the peoples' blessings.

As the leader in the fire alarm and security products industry, we will unceasingly promote our R&D capability to consolidate our core competitiveness when facing the fire alarm and security technology environment ahead.

In the coming year, we will strive to further develop our business. The achievements from the past year have relied on the enlightened leadership of the Board and the unremitting diligence of all staff members. I extend my sincere gratitude to all staff members and to our shareholders for their support.

Song Jiacheng
Chairman

Hong Kong, 14 April 2008

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS

Sales of fire alarm systems and installation services achieved satisfactory performance as a result of the successful implementation of the Group's business strategy of product portfolio enhancement. The PRC government implemented comprehensive public and industrial safety policies in which fire safety topped the social improvement's agenda. This stimulated the demand for fire alarm and security products, giving impetus to the Group's business growth. For the year ended 31 December 2007, the Group's turnover grew by 30.1% to approximately RMB840,151,000 (2006: RMB645,771,000) and gross profit increased by 16.3% to approximately RMB368,327,000 (2006: RMB316,730,000). Due to a significant increase in turnover of two new business segments, security products and installation services, which are of relatively low gross profit margin, (95.3% and 42.3% respectively), the Group's overall gross profit margin decreased to 43.8% (2006: 49.0%).

Profit before income tax increased by 7.3% to approximately RMB185,824,000 (2006: RMB173,128,000). The construction of the 3rd-phase factory (the "Factory") of The Gulf Security Technology Limited, the Group's wholly owned subsidiary, was completed in August 2006 and the Factory has commenced operation. Since the additional investment in the Factory is exempt from taxation for the first two profitable years and is entitled to a 50% relief in income tax for the next three years after the two-year tax exemption period expires, income tax expenses are reduced to RMB4,769,000 (2006: RMB8,001,000). Growth in the overall business and increase in tax refunds led to an increase of 9.7% in net profit attributable to shareholders to RMB181,016,000 (2006: RMB164,993,000). The Group's basic earnings per share was RMB22.6 cents. (2006: RMB20.6 cents).

Remuneration expenses rose as a result of a 40% increase in number of employees and an increase in average salary. Although soaring raw material cost and expanded in production capacity drove up the cost of sales by 43.4%, it is only 5.2 percentage points higher than the turnover last year. Overall operating cost is only 0.2 percentage point higher as compared to last year despite rapid business expansion during the year under review.

The Board recommended the payment of a final dividend of RMB8.04 cents per share, equivalent to approximately HK8.56 cents, representing an increase of 9.7% over previous year.

MARKET REVIEW

The PRC's booming economy has stimulated growth in the construction and property market, bringing tremendous business opportunities to the Group. China adopted measures to prevent property prices from rising too fast without posing limit on gross floor area. The Group's business development was hence not hindered. Benefiting from the strong promotion of social construction, huge investment in infrastructural construction and the improvement of fire safety systems, sales in industrial and public facilities sector were significantly boosted.

People's awareness of fire safety was enhanced along with increased government attention to the issue. The implementation of fire safety ordinances created pressing demand for fire alarm and security products, in particular among industrial customers. With the gradual improvement of laws and regulations, and the promotion of industry standards by the PRC government, penetration rate of the Group's fire network systems continued to rise.

As the concept of intelligent building became increasingly prevalent, demand for security products from newly built residential buildings and the general public continued to increase. This led to a significant growth in the Group's security products business.

The Group's products were recognized globally and brand recognition increased substantially, generating a considerable growth in export business.

BUSINESS REVIEW

The Group is a total fire and security solution provider engaged in R&D, production, sales and distribution, installation, and after-sales services of fire alarm products, fire extinguishing products, intelligent security products, safety and protection products, and energy saving and environmental control products for our customers in a wide spectrum of sectors, including construction, public facilities, industrial facilities and special venues.

China implemented new mandatory certification standards for fire alarm systems in 2007. The Group's 25 products were accredited and certified in compliance with the new standard of the industry. The Group became the enterprise that held most product certifications under the new standards in the PRC.

The Group sustained a market share of 33% in fire alarm systems market and continues to lead the industry. The Group, during the year under review, grasped the opportunities opened up by the fast-growing infrastructure and construction market by focusing on developing high margin markets of the industrial and public facilities sector. Engagement in a multitude of world-renowned Olympic projects and infrastructural projects contributed to favourable growth in the Group's business.

TURNOVER ANALYSIS BY BUSINESS SEGMENTS

	2007		2006		Growth
	RMB'000	**% of Turnover**	RMB'000	% of Turnover	(%)
Fire Alarm Systems	**578,319**	**68.8%**	476,138	73.7%	21.5%
Installation Services	**136,426**	**16.2%**	95,844	14.8%	42.3%
Security Products	**74,718**	**9.0%**	38,259	6.0%	95.3%
Electric Power Meters & 119 Fire Network Systems	**50,688**	**6.0%**	35,530	5.5%	42.7%
	840,151	**100.0%**	645,771	100.0%	30.1%

FIRE ALARM SYSTEMS

Sales of fire alarm systems, the Group's core business, increased by 21.5% to RMB578,319,000 (2006: RMB476,138,000) which accounted for 68.8% of the total turnover. The PRC government has implemented strict standards and regulations on fire alarm systems. There were only 58 mainland corporations and 21 overseas corporations obtained the new CCC certification in 2007, whereas 112 mainland corporations and 21 overseas corporations obtained the certification in 2005. The decreasing number of mainland corporations that could obtain the CCC certification revealed that the fire alarm systems market has become increasingly consolidated. Leveraging on the Group's strong capability, it continued to maintain a leading position in the industry with a market share of 33%. The Group successfully established a diversified customer base, including commercial, residential as well as professional clientele such as metallurgy, electrical and chemical industrial customers, banks, government organizations, airports, railways and other public facilities. In particular, the industrial and public facilities sector and the export market brought about attractive revenue and were the Group's growth drivers.

The Group's gross profit margin in the fire alarm systems in 2007 was 48.3%. Due to rising production cost and composite expenses as well as intense industry competition, gross profit margin decreased by 5.2 percentage points as compared to 2006 (2006: 53.5%) and yet remains at a satisfactory level. The Group invested resources in expanding high margin sectors such as industrial and public facilities clients (gross profit margin: 48.7%) and overseas clients (gross profit margin: 56.2%). In particular, the sales growth in the industrial and public facilities sector and the export market was approximately 40.8% and 38.7% respectively, contributing largely to the revenue increase. The Group continued to develop the domestic commercial clients and residential clients (gross profit margin: 47.1%) to maintain a diversified customer mix.

GROSS PROFIT MARGIN ANALYSIS BY CUSTOMER TYPE

	Gross Profit Margin	
	2007	2006
Commercial & Residential	**47.1%**	50.8%
Industrial & Public Facilities	**48.7%**	55.9%
Export	**56.2%**	59.8%
Overall	**48.3%**	53.5%

During the year under review, the Group took part in a number of major projects and the Olympic projects in Beijing and Qingdao, namely Olympic Village (奧運村), Olympic Media Village (奧運媒體村), Olympic Park (奧林匹克中心公園), Yingdong Natatorium of National Olympics Sports Centre (英東游泳館) and Capital Indoor Stadium (首都體育館).

Other landmark projects included Credit Card Centre of Bank of Communications (交通銀行信用卡中心), residential building of State Administration of Radio, Film and Television (廣電總局住宅樓), Zhujiang International City (珠江國際城) and Banjingwan Apartment (伴景灣公寓), etc. In 2007, newly signed contracts of fire alarm systems amounted to approximately RMB980 million (2006: RMB750 million).

FIRE EXTINGUISHING PRODUCTS

The fire extinguishing products business is still at a development stage and this business segment is anticipated to contribute remarkable growth in the future. In the first half of 2007, the Group succeeded in developing "GST" fire extinguishing systems, including Heptafluoropropane Fire Extinguishing System (七氟丙烷滅火系統), IG541 Fire Extinguishing System (IG541滅火系統) and Water Mist Fire Extinguishing System (細水霧滅火系統). Newly signed contract sum of fire extinguishing products in the second half of 2007 totaled approximately RMB7,372,000.

TURNOVER ANALYSIS OF FIRE ALARM SYSTEMS BY CUSTOMER TYPES

	2007	2006
Commercial & Residential	**64.1%**	69.0%
Industrial & Public Facilities	**27.1%**	23.3%
Export	**8.8%**	7.7%
Total	**100.0%**	100.0%

INDUSTRIAL AND PUBLIC FACILITIES SECTOR

Thriving industrial renovation drove continuous expansion of the fire alarm and security products market. State investment in fire alarm systems increased every year owing to rapid urbanization. Therefore, the industrial and public facilities sector was the fastest-growing market among all clientele. During the year under review, sales of fire alarm systems in the industrial and public facilities sector achieved a significant increase of 40.8% over last year to approximately RMB156,542,000 (2006: RMB111,163,000) which accounted for 27.1% (2006: 23.3%) of income from fire alarm systems.

During the year under review, the Group succeeded in expanding into the steel market. Many contracts were secured and various project collaborations were under discussion. In addition, the Group completed the supply of fire alarm systems to Beijing Capital Airport Express. Fruitful performance in both the electricity industry and chemical industry was maintained as well. As rising oil prices exerted a pressure on energy supply in China, there was a pressing need for developing a substitute energy source for oil. The coal-chemical industry and coal-liquid industry will bring in enormous business opportunities in fire alarm systems to the Group, and therefore will become a focused industries in the coming year.

Projects completed in 2007 included Shougang Jingtang Iron and Steel Factory (首鋼京唐鋼鐵廠), Hubei Wuhan Iron and Steel (Group) Corporation (湖北武鋼), Tongling Fuxin Iron and Steel Corporation (銅陵富鑫鋼鐵), Jingtang Harbour Mine Dock (京唐港礦石碼頭), China Resources CaoFeiDian Electric Power Factory (華潤曹妃甸電廠), Erdaojiang Electric Power Factory (二道江電廠), Du Shan Zi Petrochemical Coal Corporation (獨山子石化) and Jintang Harbour Liquid Chemical Wharf Area (京唐港液體化工碼頭), etc.

TURNOVER OF INDUSTRIAL AND PUBLIC FACILITIES CLIENTS

	2007 RMB'000	2006 RMB'000	Growth
Industrial & Public Facilities	156,542	111,163	40.8%

EXPORT MARKET

Extensive customer recognition justified the growing brand influence in overseas market as a result of the proactive establishment of sales channels and increase in product certifications. Therefore, an outstanding performance was seen in the export market. For the year ended 31 December 2007, export sales increased by 38.7% to RMB50,618,000 (2006: RMB36,489,000) which accounted for 8.8% (2006: 7.7%) of fire alarm systems income.

Offering high quality products at competitive prices as well as comprehensive after-sales services helped establish the Group's presence in the low-end market and win clients from competitors. With increasing trust from clients, the Group has started stepping into the middle-end and high-end markets. The Group's brand recognition was magnified as a number of international institutions had certified and accredited the Group's fire alarm system products. In 2007, 5 products obtained LPCB certification and 3 products received UL certification. Quality-wise, the Group is capable of contending with any competitors in the industry.

The international department of the Group is responsible for co-ordinating international sales. A R&D team, which takes charge of international products development, and a professional team, which oversees international certifications work, are formed under the international department to fulfill the needs of different markets and ensure rapid product sales growth.

During the year under review, an impressive growth in the self-explored export markets was recorded. Contracts, goods delivery and cash collection increased by 96%, 96% and 95% respectively as compared to 2006. The Group has been active in establishing sales and distribution channels and has expanded into 11 emerging markets, namely Macau, South Africa, France, Italy and Croatia, etc. There were 33 new agents located in Hong Kong, Singapore, Thailand, Australia, England and Middle East, etc. Currently, the Group's international sales network covered 79 countries and regions and GST® brand is registered and protected in 87 countries and regions.

TURNOVER OF EXPORT CLIENTS

	2007 RMB'000	2006 RMB'000	Growth
Export Clients	50,618	36,489	38.7%

INSTALLATION SERVICES

Installation services are mainly categorized into industrial fire safety, residential fire safety and system integration. Services include installation of fire alarm systems, water extinguishing systems, gas extinguishing systems, building automation systems, CCTV security monitoring systems, carpark self-management systems and premises integrated cabling.

During the year under review, turnover from installation services was satisfactory and reached RMB136,426,000 (2006: RMB95,844,000), increased by 42.3% over last year and accounted for 16.2% of the total turnover. The gross profit margin slipped to 24.8%, representing a decrease of 5.7 percentage points over last year. Backed by its extensive distribution network, the Group is able to demonstrate its competitive advantages in face of the huge and fragmented installation market. The Group's installation services were focused on northern China, with remarkable performance in Inner Mongolia, northeast region and Beijing. The Group is currently the only total fire and security solution provider in China, which provides both comprehensive self-manufactured products and installation services. This exceptional edge enabled the Group to achieve a business growth of 42.3% in spite of cut-throat competition from construction, fire alarm systems installation and security products installation companies.

During the year under review, the Group participated in a number of projects including Yuncheng Electric Power Factory of Shanxi Guanlu Co. Ltd. (山西鋁運城熱電廠), Xinjiang Du Shan Zi Petrochemical Coal Transportation System (新疆獨山子石化輸煤系統), the 400,000-tone Polyvinyl Chloride Project of China National Salt Industry Group Co., Ltd. (中鹽集團有限公司40萬噸聚氯乙稀工程), the 3X300MW Power House Project of Lanzhou Aluminum Co., Ltd. (蘭州鋁業股份有限公司3X300MW自備電廠工程), the Fire Network Systems Project of Beijing Benz – Daimlererchrysler Automotive Co., Ltd. (北京賓士—戴姆勒 • 克萊斯勒汽車有限公司消防聯網系統工程), and the 2X330MW Thermal Power Generating Unit of Guodian Chengde Corporation(國電承德熱電有限公司2X330MW供熱機組). Newly signed contracts for the year amounted to RMB216,727,000 (2006: RMB172,228,000).

The Group is equipped with an excellent engineering team to provide professional installation services and technical support. The low-voltage power and intelligent systems industry is still developing in the PRC. Therefore, providing intelligent building products with a network function as well as self-manufactured fire alarm and security products will become the key to success. The Group's superior before-sales and after-sales services also outperform other industry players.

REPAIR AND MAINTENANCE

The Group's repair and maintenance include the repair and maintenance of fire alarm and security products, fire network systems, installation services and network operation. During the year under review, remarkable growth was attained in the repair services business. Turnover of repair and maintenance generated from installation services increased largely by 1.5 times to RMB6,786,000 (2006: RMB2,721,000) and it brought a satisfactory recurrent income to the Group.

Under the business direction of integration, the Group adopted a joint operation model for repair and maintenance, and fire network systems. This model enables systematic cooperation between subsidiaries of individual business. The Group has set up maintenance service centres in Qinhuangdao, Anshan and Luoyang.

SECURITY PRODUCTS

Security products achieved a remarkable result for the year ended 31 December 2007. Sales of security products grew by 95.3% to RMB74,718,000 (2006: RMB38,259,000) accounting for 9.0% of the total turnover. The substantial sales volume pushed up the gross profit margin by 1.8 percentage points to 37.0% (2006: 35.2%). In 2007, the Group focused on selling self-manufactured security products and providing supporting services for various products. The Group's video entry system was awarded "China Famous Brand Product" (中國名牌產品).

119 FIRE NETWORK SYSTEMS

The 119 fire network systems were installed in 115 cities in the PRC, of which, 93 were provided and installed by the Group. The Group enjoys an unrivalled competitive edge with a market share of 80.9%. During the year under review, the Group installed 119 fire network systems in 23 cities, including Taiyuan, Liuzhou, Changsha, Langfang, Harbin, Foshan, Wenzhou and Suzhou, etc. Sales increased by 58.1% to approximately RMB19,286,000 (2006: RMB12,197,000) and the gross profit margin reached a high level of 73.3% (2006: 71.8%).

The 119 fire network system is characterized with a high gross profit margin and stable recurrent income. More importantly, the Group maintains a large market share in the market. Nevertheless, the market is still immature. Fire safety legislation is the only way to further enlarge the market and to boost the Group's business scale. The Group will penetrate into every potential city in the PRC once the market becomes mature as it is well-equipped in technology level, services support and product quality.

"The Technical Code for Remote Monitoring System of Urban Fire Protection" (《城市消防遠端監控系統技術規範》), in which the Group's subsidiary Gulf Fire Prevention Network Company Limited had involvement in drafting, was approved by the Ministry of Construction. It encourages healthy and orderly development of the fire network industry by promoting urban fire safety, and further consolidates the Group's fire network systems business.

The Group, in compliance with the new standard, developed a third generation far-end monitoring and control system (第三代遠端監控系統). The new system was not only the key promotion system by the China Fire Protection Association, but was also listed in the State Torch Plan (國家級火炬計劃) and considered as a significant achievement in technological innovation. Currently, the system is widely used in more than a hundred cities, including Beijing, Tianjin, Chongqing, Hangzhou, Taiyuan, Zhuhai, Foshan, etc and will be adopted in all Beijing Olympics' stadiums.

OTHER PRODUCTS

Other products mainly include electric power meters and intelligent water meters. Sales of the two types of products increased by 34.6% to RMB31,402,000 (2006: RMB23,333,000). The gross profit increased by 22.7% to RMB13,148,000 (2006: RMB10,717,000).

NATIONWIDE SALES NETWORK

There were a total of 182 sales offices throughout the PRC during the year under review. Among which, 130 are responsible for handling fire alarm systems and security products business; 20 take charge of industrial fire safety projects and system integration projects; 11 oversee building control products business; the remaining 21 manage the fire network business. The Group has a team of approximately 1,555 employees specialized in sales, marketing and technical support. This professional team enables the Group to provide comprehensive services for customers in different regions.

The Group's nationwide sales network serves as an important platform for international brands to enter the China market successfully. In 2007, the Group was the distribution agent of Stratos's fire alarm system products, D-Tec's visible smoke alarm system products, Apollo's fire alarm system products, and Primion's access control products in the PRC. Turnover of the above products totaled RMB38,022,000 in 2007.

TURNOVER ANALYSIS BY GEOGRAPHICAL REGIONS

	2007	2006
Northern China	**29.4%**	29.2%
Eastern China	**23.0%**	23.0%
Southern China	**20.0%**	19.5%
Northeast	**9.0%**	8.1%
Southwest	**8.1%**	8.5%
Northwest	**4.5%**	6.1%
Export	**6.0%**	5.6%
Total	**100.0%**	100.0%

MARKETING

The Group organized product promotion campaigns in 12 large cities in the PRC in 2007. The appeal of GST brand among property developers, integrators and design institutes was boosted and the establishment of more sales offices was facilitated. In an attempt to further develop overseas market, the Group participated in the "NFPA World Safety" (NFPA消防展) in Boston, the USA, the "Intersec" (國際消防展) in Dubai, United Arab Emirates, and the "IFSEC" (國際消防展) in Birmingham, Britain. Training workshops for clients, as part of the comprehensive after-sales services, were also organized to demonstrate the use of new products. A total of seven training workshops on fire alarm products installation were organized in 2007, in which 484 engineers were trained and accredited by the Group.

SALES CHANNELS

Performance of the Group's major distribution channels remained stable in the past year and specialised installers dominated. The Group actively promoted direct sales in the industrial sector, engineering sector and special venues sector.

TURNOVER ANALYSIS BY SALES CHANNEL

	2007	2006
Specialised Installers	43.8%	49.2%
End-users	27.2%	27.0%
System Integrators	17.8%	12.4%
Distributors	5.2%	5.8%
Export	6.0%	5.6%
Total	100.0%	100.0%

PRODUCT R&D AND IMPROVEMENT

Keeping an eye on the industry moves enabled the Group to constantly refine the quality and advance the function of products so as to stay ahead in the industry. All of the Group's fire alarm products underwent technological enhancement in compliance with the 2007 new standard. R&D and certification work of both premium fire extinguishing products and electric fire alarm products were also completed. The Group developed and introduced to the market the internationally leading VFD Video Fire Detection Technology for special and industrial venues. Another remarkable result was the Group's successful development of a video entry system, which tailors to various demands of customers.

ABUNDANT CONTRACTS ON-HAND

Owing to the business nature, the Group is accustomed to entering into contracts with clients before delivery of goods. As at 31 December 2007, contracts on-hand totaled approximately RMB537,279,000, representing an increase of 65.3% as compared to the previous year (2006: RMB325,113,000).

OPERATING COSTS

During the year under review, the Group kept a tight control on rising distribution costs and administrative and general expenses as a result of the Group's business expansion. As a result, the share of turnover taken up by overall operating cost was only 0.2 percentage points up from last year. For the year ended 31 December 2007, distribution costs increased by 20.9% to approximately RMB98,688,000 (2006: RMB81,583,000) as the expenditure on business travel increased along with the Group's spread of overseas market. Increasing numbers of sales offices, marketing staff and technicians also exerted pressure on distribution costs by lifting remuneration expenses. These costs, only took up 11.7% of the turnover, which is 0.9 percentage point down from last year. Due to growing corporate scale and strengthening of the management team, administrative and general expenses were approximately RMB127,032,000

(2006: RMB90,875,000), representing an increase of 39.8% over last year and a 15.1% share of turnover, which is only 1.0 percentage point up when compared with last year.

OTHER INCOME AND INCOME TAX EXPENSES

Since the re-promulgation of the software VAT refund policy in 2006, state-recognized key software corporations, which manufacture and sell embedded software (complied with relevant requirements), could still enjoy VAT refund. As a state-accredited key software enterprise, a number of the Group's products are entitled to the preferential tax refund. For the year ended 31 December 2007, the VAT refund was approximately RMB30,144,000 (2006: RMB16,859,000), representing an increase of 78.8% compared with last year.

WORKING CAPITAL, FINANCIAL RESOURCES AND BANK LOANS

For the year ended 31 December 2007, the Group recorded operating cash inflow of approximately RMB28,248,000, representing a drop of 77.4% over last year's RMB125,201,000, due largely to an increase in trade receivables and inventory for the Group's business expansion. Cash used in investment activities amounted to approximately RMB115,377,000 (2006: RMB90,003,000), which was for the purchase of the Group's factory. Cash used in financing activities of approximately RMB52,599,000 (2006: RMB73,083,000) was for the payout of dividend declared in 2007. During the year under review, the Group did not have any short-term or long-term bank loans. 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 employed 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.

For the year ended 31 December 2007, approximately RMB256,587,000 from the listing proceeds was used in the following manner:

– Approximately RMB217,282,000 for constructing, expanding and upgrading the Group's manufacturing and related auxiliary facilities; and

– Approximately RMB39,305,000 for expanding and improving the Group's sales and distribution network.

FOREIGN CURRENCY EXPOSURES AND TREASURY POLICY

The Group has to bear the risk of exchange rate change between the United States dollar and Renminbi. More than 94% of the Group's sales and raw material purchase are denominated in Renminbi. Though purchases of raw materials by some of the Group's suppliers are usually transacted in United States dollar, the appreciation of Renminbi against United States dollar favors the raw material buy-in price for the Group. Given the appreciation of Renminbi against the United States dollar announced in July 2005, favorable impacts are expected to manifest on 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 the United States dollar. The Board is of the opinion that the appreciation of Renminbi may not generate any significant effect on the financial position of the Group's operation. However, a foreign exchange loss of approximately RMB5,395,000 (2006: RMB5,688,000) was reflected in the Group's financial statements given that the proceeds from the listing was denominated in Hong Kong dollar while the Group's accounts were calculated in Renminbi. The Group's treasury policy stipulates management of foreign currency exposure to minimize unfavorable financial impact on the Group. The Group will continue to monitor its foreign exchange position. For the year ended 31 December 2007, the Group did not employ any financial instruments or enter into any contract in order to hedge against its foreign currency exchange risk.

HUMAN RESOURCES

The number of Group's employees increased 43.1% from 2,418 in year 2006 to 3,460 as at 31 December 2007. The Group made its best attempt to attract and retain capable personnel as it highly values human resources. Remuneration packages are structured with regard to individual employee's qualification and the prevailing market conditions. The Group also provides sufficient training and continuing professional development opportunities for employees. The Group has set up a remuneration committee to review 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. The post of Chairman is held by Mr. Chan Chi On, Derek, an Independent Non-executive Director.

FUTURE PROSPECTS

The development focus towards central west region under the national economic policy entails rapid development in the region. Speedy development in the construction market and industrial sector as well as increasing investment in infrastructure construction in the northeast and central west regions would speed up the growth of fire alarm market significantly.

Numerous manufacturers, both inside and outside the PRC, increased investment in system exploration. Lots of them are studying the technology of the Group's products, proving the ever-growing intensity of market competition. Rising cost and fierce competition leads to continuous drop of product price and a shrinking average industry profitability. Yet another plunge of price is unlikely. The Group will focus on product quality and function enhancement to counter the price war.

The Chinese government deepens social development by further regulating and unifying the technological standards of fire alarm products. This move will not only weed out the weak by lifting the entry barriers but also accelerate the installation of fire network systems to cover a wider range of industries. In addition, higher fire safety standards push forward the renewal of products in finished projects, facilitating the development of the industry.

Management Discussion and Analysis (cont')

The Group will put forth the following development plans in the coming year:

1. **Fire Alarm Systems**
Aiming at a higher market share, the Group will produce fire alarm system products with better functions and higher competitiveness to resonate with a more aggressive approach to expand into the high-end and international markets.

2. **Fire Extinguishing Products**
The Group will invest substantially in developing new fire extinguishing products and step up efforts on certification to enhance the product portfolio. The Group will also further develop markets with higher profitability.

3. **Industrial and Public Facilities Sector**
The Group will focus on the industrial and public facilities sector, which renders a higher gross profit margin and thus higher profit returns. The Group will capitalize on existing favorable edges in the electric power industry and greatly lift the overall operation abilities in petro-chemical industry and relevant sectors, especially the coal chemical industry.

4. **Export Market**
Russia, Europe, Thailand, India and Pakistan will become the main export markets. The Group is actively exploring potential markets and devising proactive international development strategies. On the basis of achieving export volume growth, the Group will set up more overseas sales offices to take charge of sales channels expansion, local technology support and brand promotion. Meanwhile, the Group will continue to expand the international business team by raising its capability to forge bonds with more local companies.

5. **Nationwide Sales Network**
The Group aims to set up 18 sales offices in the PRC in 2008 to acquire larger market coverage. The Group will integrate offices in the same region while developing independent offices and sales network for each business. Through encouraging better inter-office communication and outlining the job-dividing principle, operation efficiency could be enhanced and the synergy effect of the sales network could be brought into full play.

6. **Installation Services**
Adhering to the growth strategy of becoming an engineering solution provider, the Group will buttress the businesses of its two installation companies in Hebei, Beijing and northeast region. Plans to spread out to provinces with strong economic growth across the nation are under way. The Group will also further expand the service scope to residential fire safety and intelligent household development. Besides, the Group will closely oversee the working process, establish purchase channels and strictly control project cost to nullify the drop in gross profit margin.

7. **Maintenance Service Centers**
The Group will reinforce management of the maintenance service, particularly the 33 maintenance service centers set up in 2007 that formed the first GST maintenance service team. Apart from getting prepared

for customers' imminent entry into the service period, the Group will strengthen supervision on the execution of maintenance work to help customers eliminate risks.

8. **Security Products**

The Group will on one hand center energy on establishing a comprehensive sales network, on another hand enhance product portfolio and auxiliary services. The Group will leverage the extensive sales network coverage to maintain the sales momentum.

9. **Attraction and Retention of High-Caliber Talents**

The Group will increase efforts on the recruitment of high-caliber talent since the addition of competent personnel with professional skills will enhance the strengths of the Group. The Group will also reinforce staff training to increase business operation and project management capabilities with raised working ability and efficiency.

CONCLUSION

The Group is dedicated to consolidating its market position as a total fire and security solution provider and leading the industry in various aspects such as technology level, product variety and service quality. To ensure the Group lives up to international standard in terms of product and service quality, corporate governance and project management, it will equip itself well by building up strategic alliance with more multinational companies and getting more products internationally certified and accredited to progress along the road towards internationalization. The Group reaped a great deal in 2007. In the coming year, it will continue to maintain steady growth of each of the core business, including fire alarm systems, fire extinguishing products, security products, installation services and fire network systems in order to strive for the highest returns for shareholders.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr Song Jiacheng (宋佳城), aged 47, 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 15 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 member of the national committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議全國委員會) and a vice president of Hebei Provincial Association of Business (河北省總商會).

Mr Cao Yu (曹榆), aged 45, 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 15 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 45, 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.

Non-executive Directors

Mr Zeng Jun (曾軍), aged 40, 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 42, 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 of Hong Kong Limited (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 and NetDragon Websoft Inc., which is listed on the GEM Board of the Stock Exchange. Mr Lee joined the Company in December 2004.

Independent Non-executive Directors

Mr Chang Tso Tung, Stephen (張祖同), aged 59, 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 44, 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 capital markets 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 18 years of experience in the financial services industry.

Mr Sun Lun (孫倫), aged 67, is an independent non-executive Director. He joined the Company in February 2005. Mr Sun graduated from Zhongbei University (中北大學) (formerly known as Taiyuan College of Mechanics (太原機械學院) with a bachelor's degree in chemical engineering in 1965. He is the chairman of the China's Fire Security Association. From 1991 to 2001, Mr Sun was a director, vice president and president of the Fire Security Bureau of the Ministry of Public Security of the PRC (中華人民共和國公安部消防局), and from 1993 to 2001, he was the chairman of China's National Committee on Fire Security Technology Standardization (全國消防標準化技術委員會). From 1994 to 2000, he was a vice president of China Fire Products Quality Certification Committee (中國消防產品質量認証委員會). Mr Sun has over 27 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 Jiang Zhengyu (蔣正宇), aged 37, is the financial controller of the Group. Mr Jiang graduated from Anhui University of Finance & Economics (安徽財經大學)with a bachelor's degree in finance and economics in 1993. Mr Jiang qualified as Chinese certified public accountant in 1996 and he is a member of The Chinese Institute of Certified Public Accountants. Mr Jiang joined the Group in 2006 and has over 15 years experience working in auditing and finance.

Mr Hung Lap Kay (孔立基), aged 38, is the company secretary and finance manager of the Company. Pursuant to Listing Rules 3.24 and 8.17, he is also the qualified accountant and company secretary of the Company. Mr Hung holds a Bachelor of Business Administration (Hons) degree in Accounting from Hong Kong Baptist University and a master degree in accounting from Curtin University of Technology in Australia. Mr Hung joined the Company in January 2007. Prior joining the Company, Mr Hung was a group financial controller of China Photar Electronics Group Limited, a listed company on the Growth Enterprise Market Board of the Stock Exchange. Mr Hung is also a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Mr Hung has over 14 years experience working in accounting and auditing.

REPORT OF THE DIRECTORS

The Directors are pleased to present their reports together with the audited financial statements for the year ended 31 December 2007.

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. Particulars of the Company's subsidiaries as at 31 December 2007 are set out in note 35 to the financial statements.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 6 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2007 are set out in the consolidated income statement on page 38.

The Directors recommend the payment of a final dividend of RMB8.04 cents per share (equivalent to approximately HK8.56 cents) to shareholders whose names appear on the register of members on 21 May 2008.

RESERVES

Movements in reserves of the Group and the Company during the year are set out in note 29 to the financial statements.

The distributable reserves of the Company as at 31 December 2007 amounted to approximately RMB364 million (2006: RMB434 million) representing the net of share premium by RMB410 million, other reserve by RMB1 million and accumulated deficits by RMB47 million (2006: share premium by RMB468 million and accumulated deficits by RMB34 million).

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 28 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 (resigned on 18 May 2007)

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 Chang Tso Tung, Stephen, Mr Chan Chi On, Derek and Mr Sun Lun have been longest in office, they shall retire at the conclusion of the 2007 annual general meeting, and all, 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 2007, 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.

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 2007, 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 Beijing Chengjiansi Construction and Engineering

Company Limited ("Beijing Chengjiansi"), a third party of the Group, 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 fee 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 2007 and 31 December 2006 are set out in note 34(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 and is set out in note 34(vii) to the financial statements..

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"), a subsidiary of the Group, 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 2007 are set out in note 34(ii) and (iv) 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 2007, 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%

Share options granted to Directors

On 23 May 2007, the Company granted share options to all Directors under the share option scheme (the "Share Option Scheme") that was adopted on 7 June 2005 conditionally and became unconditional on 30 June 2005. Details of the share options granted to Directors as at 31 December 2007 are set out in the heading "Share Option Scheme" under Report of Directors.

Saved as disclosed above, at no time during the year, the Directors and chief executives (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for shares of the Company and its associated corporations required to be disclosed pursuant to the SFO.

At no time during the year was the Company, its subsidiaries, its jointly controlled entity, its associated companies, or its holding company a party to any arrangement to enable the Directors and chief executives of the Company (including their spouse and children under 18 years of age) to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporation.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2007, 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)*	Corporate interest	Interest in controlled corporation	232,208,631 (L)	29.03%
Otis Elevator Company ("Otis") *(Note)*	Corporate interest	Interest in controlled corporation	230,224,631(L)	28.78%
Carrier Corporation ("Carrier") *(Note)*	Corporate interest	Interest in controlled corporation	230,224,631(L)	28.78%
United Technologies Far East Limited ("UTFE") *(Note)*	Corporate interest	Interest in controlled corporation	230,224,631(L)	28.78%

(L) Indicates a long position.

Note:

As at 31 December 2007, 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 230,224,631 Shares. In addition, UTC owns 1,984,000 Shares through another wholly-owned subsidiary.

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 2007.

SHARE OPTION SCHEME

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 2007, share options had been granted under the Share Option Scheme and the following table discloses the movement of the Company's share options during the year ended 31 December 2007:

	Date of grant	Exercisable period	Exercise price per share HK$	Number of share options: Balance as at 1 January 2007	Granted during the year	Lapsed upon resignation	Balance as at 31 December 2007
Category 1:							
Directors	23 May 2007	23 May 2008 – 22 May 2017	2.80	–	1,350,000	–	1,350,000
Directors	23 May 2007	23 May 2009 – 22 May 2017	2.80	–	1,350,000	–	1,350,000
Directors	23 May 2007	23 May 2010 – 22 May 2017	2.80	–	1,350,000	–	1,350,000
				–	4,050,000	–	4,050,000
Category 2:							
Employees	23 May 2007	23 May 2008 – 22 May 2017	2.80	–	300,000	(150,000)	150,000
Employees	23 May 2007	23 May 2009 – 22 May 2017	2.80	–	300,000	(150,000)	150,000
Employees	23 May 2007	23 May 2010 – 22 May 2017	2.80	–	300,000	(150,000)	150,000
				–	900,000	(450,000)	450,000
				–	4,950,000	(450,000)	4,500,000

The closing price of the Company's share on 22 May 2007, the date immediately before the date of grant of the share options (23 May 2007), was HK$2.80 per share.

The fair value of the 4,950,000 share options granted determined by a third party was approximately HK$3,560,733 (approximately RMB3,482,397). On 31 August 2007, 450,000 share options granted were lapsed upon resignation of an employee. As such, the fair value of remaining 4,500,000 share options granted was approximately HK$3,237,033 (approximately RMB3,165,818) and HK$1,252,000 (approximately RMB1,224,000) of the fair value of the share options granted was recognized for the year ended 31 December 2007 (2006: Nil). The following significant assumptions were used to derive the fair value using the Black-Scholes option pricing model:

Expected life of options	2-4 years
Expected volatility based on historical volatility of share price	34%
Expected annual dividend yield	2.61%
Risk Free Interest rate	4.002% – 4.099%

Due to the subjectivity and uncertainty of the values of options, such values are subject to a number of assumptions and with regard to the limitation of the model.

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 2007. As at 31 December 2007, 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 public float of 17.54% which has fallen below 25% of the entire issued share capital of the Company, the minimum prescribed percentage as required by Rule 8.08 of the Listing Rules (the "Minimum Prescribed Percentage"). The shortfall in the Minimum Prescribed Percentage arose from increased shareholdings of the Company by UTC, who is a connected person of the Company only because it is a substantial shareholder of the Company. The Company is taking steps to restore the public float of the Company as soon as practicable. The Company is also monitoring the share price and turnover of the shares of the Company. Announcement will be made in due course once there is concrete progress of restoration of the public float of the Company. Details of the shareholdings of the Company and substantial shareholders as at 31 December 2007 are set out in the heading "Substantial Shareholders" under Report of Directors.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association, and there was no restriction against such rights under 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 2007 have been reviewed by the Committee.

AUDITOR

The financial statements 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, 14 April 2008

CORPORATE GOVERNANCE REPORT

The Company has made continuous effort to ensure 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 2007, 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 2007, the Board comprised eight Directors, including three 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 with 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 20 to 22.

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 full Board meetings in 2007 and three full Board meetings to date in 2008. The attendance record of each member of the Board in 2007 is set out below:

Directors:	**Attendance of Board meetings in 2007**
Executive Directors	
Song Jiacheng *(Chairman)*	5/5
Cao Yu	5/5
Peng Kaichen	4/5
Non-executive Directors	
Zeng Jun	5/5
Lee Kwan Hung, Eddie	5/5
Independent Non-executive Directors	
Chang Tso Tung, Stephen	5/5
Chan Chi On, Derek	5/5
Sun Lun	5/5

BOARD COMMITTEES

As an integral part of good corporate governance practices, the Board established the following Board committees 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 five meetings in 2007 and three meetings to date in 2008. The attendance record of each member of the Audit Committee in 2007 is set out below:

Directors:	Attendance of Audit Committee Directors meetings in 2007
Chang Tso Tung, Stephen *(Chairman)*	5/5
Chan Chi On, Derek	5/5
Sun Lun	5/5

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 one meeting in 2007 and two meetings to date in 2008. The attendance record of each member of the Remuneration Committee in 2007 is set out below:

Directors:	Attendance of Remuneration Committee Directors meetings in 2007
Chan Chi On, Derek *(Chairman)*	1/1
Chang Tso Tung, Stephen	1/1
Lee Kwan Hung, Eddie	1/1

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 2007 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 2007.

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 2006 Annual General Meeting held in 2007, 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 2006 Annual General Meeting held in 2007, 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 Independent 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 in accordance with the requirement of Hong Kong Institute of Certified Public Accountants ("HKICPA"). Details of fees paid or payable to PricewaterhouseCoopers for the year ended 31 December 2007 are as follows:

	RMB'000
2007 interim review	490
2007 annual audit	1,933
Total	2,423

INDEPENDENT AUDITOR'S REPORT

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

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 103, which comprise the consolidated and company balance sheets as at 31 December 2007, 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 2007 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, 14 April 2008

CONSOLIDATED INCOME STATEMENT

	Notes	Year ended 31 December 2007 RMB'000	2006 RMB'000
Turnover	5	**840,151**	645,771
Cost of goods sold		**(471,824)**	(329,041)
Gross profit		**368,327**	316,730
Other income	7	**45,089**	27,838
Distribution costs		**(98,688)**	(81,583)
Administrative and general expenses		**(127,032)**	(90,875)
Operating profit	8	**187,696**	172,110
Share of results of			
Jointly controlled entity	17	**392**	1,304
Associates	18	**(2,264)**	(286)
Profit before income tax		**185,824**	173,128
Income tax expenses	9	**(4,769)**	(8,001)
Profit for the year		**181,055**	165,127
Attributable to:			
Equity holders of the Company		**181,016**	164,993
Minority interests		**39**	134
		181,055	165,127
Earnings per share for profit attributable to equity holders of the Company	10		
– Basic (RMB cents)		**22.6 cents**	20.6 cents
– Diluted (RMB cents)		**N/A**	N/A
Dividends	11	**64,320**	58,640

The accompanying notes on pages 44 to 103 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

		As at 31 December	
		2007	2006
	Notes	**RMB'000**	RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	14	**310,568**	182,495
Prepaid operating lease for land	15	**9,631**	9,856
Intangible assets	16	**16,024**	14,540
Investment in a jointly controlled entity	17	**188**	(204)
Investment in associates	18	**71**	2,335
Deferred income tax assets	21	**3,257**	754
		339,739	209,776
Current assets			
Inventories	22	**153,711**	118,478
Trade receivables	23	**253,385**	144,413
Other receivables, deposits and prepayments		**73,061**	33,485
Amount due from a jointly controlled entity	17	**24,373**	14,844
Amount due from a related company	24	**3,534**	–
Available-for-sale financial assets	25	**–**	30,000
Restricted bank deposits	27	**11,511**	17,552
Cash and cash equivalents	26	**352,605**	492,333
		872,180	851,105
Total assets		**1,211,919**	1,060,881
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	28	**84,800**	84,800
Reserves	29	**919,278**	795,678
		1,004,078	880,478
Minority interests		**872**	833
Total equity		**1,004,950**	881,311

Consolidated Balance Sheet (cont')

	Notes	As at 31 December 2007 RMB'000	2006 RMB'000
LIABILITIES			
Current liabilities			
Trade payables	30	**95,330**	109,680
Other payables and accruals		**17,062**	16,347
Advance from customers	31	**70,272**	32,547
Advance from a related company	24	**–**	1,998
Tax payable		**24,305**	18,998
		206,969	179,570
Total liabilities		**206,969**	179,570
Total equity and liabilities		**1,211,919**	1,060,881
Net current assets		**665,211**	671,535
Total assets less current liabilities		**1,004,950**	881,311

Approved and authorised for issue by the Board of Directors on 14 April 2008 and signed on its behalf by

Song Jiacheng
Director

Cao Yu
Director

The accompanying notes on pages 44 to 103 are an integral part of these consolidated financial statements.

BALANCE SHEET

	Notes	2007 RMB'000	2006 RMB'000
		As at 31 December	
ASSETS			
Non-current assets			
Property, plant and equipment	14	**141**	297
Investment in and loans to subsidiaries	19	**446,361**	436,744
		446,502	437,041
Current assets			
Other receivables, deposits and prepayments		**223**	1,291
Amount due from a jointly controlled entity	17	**5,306**	–
Cash and cash equivalents	26	**214**	86,241
		5,743	87,532
Total assets		**452,245**	524,573
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	28	**84,800**	84,800
Reserves	29	**363,503**	434,259
Total equity		**448,303**	519,059
LIABILITIES			
Current liabilities			
Other payables and accruals		**3,942**	5,514
Total liabilities		**3,942**	5,514
Total equity and liabilities		**452,245**	524,573
Net current assets		**1,801**	82,018
Total assets less current liabilities		**448,303**	519,059

Approved and authorised for issue by the Board of Directors on 14 April 2008 and signed on its behalf by

Song Jiacheng	**Cao Yu**
Director	*Director*

The accompanying notes on pages 44 to 103 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company			
	Share capital RMB'000	Reserves RMB'000	Minority interests RMB'000	Total equity 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 income recognised 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

	Attributable to equity holders of the Company			
	Share capital RMB'000	**Reserves RMB'000**	**Minority interests RMB'000**	**Total equity RMB'000**
At 1 January 2007	**84,800**	**795,678**	**833**	**881,311**
Profit for the year	**–**	**181,016**	**39**	**181,055**
Employee share options scheme				
– value of services provided	**–**	**1,224**	**–**	**1,224**
Dividend paid	**–**	**(58,640)**	**–**	**(58,640)**
At 31 December 2007	**84,800**	**919,278**	**872**	**1,004,950**

The accompanying notes on pages 44 to 103 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

	Notes	Year ended 31 December 2007 RMB'000	2006 RMB'000
Cash flows from operating activities			
Cash generated from operations	32	**35,612**	132,390
PRC income tax paid		**(7,364)**	(7,189)
Net cash generated from operating activities		**28,248**	125,201
Cash flows from investing activities			
Purchase of property, plant and equipment		**(150,752)**	(70,625)
Proceeds from sale of property, plant and equipment		**2,294**	6,431
Increase in intangible assets		**(3,875)**	(6,596)
Interest received		**6,956**	10,787
Sales of available-for-sale financial assets		**90,000**	–
Purchase of available-for-sale financial assets		**(60,000)**	(30,000)
Net cash used in investing activities		**(115,377)**	(90,003)
Cash flows from financing activities			
Dividend paid		**(58,640)**	(57,680)
Decrease/ (increase) in restricted bank deposits		**6,041**	(15,403)
Net cash used in financing activities		**(52,599)**	(73,083)
Net decrease in cash and cash equivalents		**(139,728)**	(37,885)
Exchange translation		**–**	(33)
Cash and cash equivalents at beginning of the year		**492,333**	530,251
Cash and cash equivalents at end of the year		**352,605**	492,333

The accompanying notes on pages 44 to 103 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 35 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 1612, 16/F, Shun Tak Center, West Tower, 168-200 Connaught Road C. Sheung Wan, Hong Kong and the principal place of business of the Company in Beijing is located in 17th –19th Floor, Tower B, The Gate, 19 Zhongguancun 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 Renminbi ("RMB"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 14 April 2008.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"). 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 4.

(a) ***Standards, amendment and interpretations effective in 2007***

IFRS 7, 'Financial instruments: Disclosures', and the complementary amendment to International Accounting Standards ("IAS") 1, 'Presentation of financial statements – Capital disclosures', introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Group's financial instruments, or the disclosures relating to taxation and trade and other payables.

International Financial Reporting Interpretation Committee ("IFRIC") – Int 8, 'Scope of IFRS 2', requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of IFRS 2. This standard does not have any impact on the Group's financial statements.

IFRIC – Int 10, 'Interim financial reporting and impairment', prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This standard does not have any impact on the Group's financial statements.

(b) ***Standards, amendments and interpretations effective in 2007 but not relevant***

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but they are not relevant to the Group's operations:

- IFRIC – Int 7, 'Applying the restatement approach under IAS 29, Financial reporting in hyper-inflationary economies'; and

- IFRIC – Int 9, 'Re-assessment of embedded derivatives'.

Notes to the Consolidated Financial Statements (cont')

(c) ***Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group***

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods, but the Group has not early adopted them:

- IAS 1 (Revised), "Presentation of Financial Statements" (effective from 1 January 2009). IAS 1 (Revised) requires all owner changes in equity to be presented in a statement of changes in equity. All comprehensive income is presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). It requires presenting a statement of financial position as at the beginning of the earliest comparative period in a complete set of financial statements when there are retrospective adjustments or reclassification adjustments. However, it does not change the recognition, measurement or disclosure of specific transactions and other events required by other IFRSs. The Group will apply IAS 1 (Revised) from 1 January 2009.

- IAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply IAS 23 (Amended) from 1 January 2009 but is currently not applicable to the Group as there are no qualifying assets.

- IFRS 8, 'Operating segments ' (effective from 1 January 2009). IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply IFRS 8 from 1 January 2009. The expected impact is still being assessed in detail by the management, but it appears likely that the number of reportable segments, as well as the manner in which the segments are reported, will change in a manner that is consistent with the internal reporting provided to the chief operating decision-maker. As goodwill is allocated to groups of cash-generating units based on segment level, the change will also require the management to reallocate goodwill to the newly identified operating segments. The management does not anticipate that this will result in any material impairment to the goodwill balance.

- IFRIC – Int 11, 'IFRS 2 – Group and treasury share transactions' (effective from 31 March 2007). IFRIC – Int 11 provides guidance on whether share-based transactions involving treasury shares or involving Group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and Group companies. This interpretation does not have an impact on the Group's financial statements.

- IAS 32 and IAS 1 Amendments, 'Puttable Financial Instruments and Obligations Arising on Liquidation' (effective from 1 January 2009). The amendment requires some puttable financial instruments and some financial instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation to be classified as equity. The Group will apply IAS 32 and IAS 1 Amendments from 1 January 2009, but it is not expected to have any impact on the Group's financial statements.

- IAS 27 (Revised), 'Consolidated and Separate Financial Statements' (effective from annual period beginning on or after 1 July 2009). The amendment requires non-controlling interests (i.e. minority interests) to be presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. Total comprehensive income must be attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Changes in a parent's ownership interest in a subsidiary that do not result in the loss of control are accounted for within equity. When control of a subsidiary is lost, the assets and liabilities and related equity components of the former subsidiary are derecognised. Any gain or loss is recognised in profit or loss. Any investment retained in the former subsidiary is measured at its fair value at the date when control is lost. The Group will apply IAS 27 (Revised) from 1 January 2010.

- IFRS 3 (Revised), 'Business Combination' (effective for business combinations with acquisition date on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The amendment may bring more transactions into acquisition accounting as combinations by contract alone and combinations of mutual entities are brought into the scope of the standard and the definition of a business has been amended slightly. It now states that the elements are 'capable of being conducted' rather than 'are conducted and

Notes to the Consolidated Financial Statements (cont')

managed'. It requires considerations (including contingent consideration), each identifiable asset and liability to be measured at its acquisition-date fair value, except leases and insurance contracts, reacquired right, indemnification assets as well as some assets and liabilities required to be measured in accordance with other IFRSs. They are income taxes, employee benefits, share-based payment and non current assets held for sale and discontinued operations. Any non-controlling interest in an acquiree is measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. The Group will apply IFRS 3 (Revised) from 1 January 2010.

(d) Interpretations to existing standards that are not yet effective and not relevant for the Group's operations

The following interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods but are not relevant for the Group's operations:

- IFRIC – Int 12, 'Service concession arrangements' (effective from 1 January 2008). IFRIC – Int 12 applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. IFRIC –Int 12 is not relevant to the Group's operations because none of the Group's companies provide for public sector services.

- IFRIC – Int 13, 'Customer loyalty programmes' (effective from 1 July 2008). IFRIC – Int 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC – Int 13 is not relevant to the Group's operations because none of the Group's companies operate any loyalty programmes.

- IFRIC – Int 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction' (effective from 1 January 2008). IFRIC – Int 14 provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The Group will apply IFRIC – Int 14 from 1 January 2008, but it is not expected to have any impact on the Group's financial statements.

2.2 Consolidation

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

(a) *Subsidiaries*

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, 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 (Note 2.6).

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 investments in subsidiaries are stated at cost less provision for impairment losses (Note 2.9). The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(b) *Transactions with 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*

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost.

The Group's share of its associates' post-acquisition profits or losses is recognised in the 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, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

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.

In the Company's balance sheet the investments in associated companies are stated at cost less provision for impairment losses (Note 2.9). The results of associated companies are accounted for by the Company on the basis of dividend received and receivable.

2.3 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 that 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.

2.4 Foreign currency translation

(a) Functional and presentation currency

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 RMB, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount are recognised in equity.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation difference on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available for sale are included in the available-for-sale reserve in equity.

(c) ***Group companies***

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

– assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

– income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

– all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

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.

2.5 Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the income statement during the financial period in which they are incurred.

Depreciation on other assets is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

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

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 (Note 2.9). Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the income statements.

2.6 Intangible assets

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 at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. 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 (Note 2.9).

Notes to the Consolidated Financial Statements (cont')

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 as described in Note 2.9.

2.7 Construction-in-progress

Construction-in-progress represents capital assets under construction, and is stated at cost less accumulated impairment losses. Cost comprises all expenditures and other direct costs, prepayments and deposits attributable to the construction. No depreciation is provided in respect of construction-inprogress.

2.8 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.

2.9 Impairment of investments in subsidiaries, jointly controlled entity, 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 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). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.10 Financial Assets

The Group classifies its financial assets in the following categories: loans and receivable and available-for-sale. 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) 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' and 'cash and cash equivalents' in the balance sheet (Notes 2.12 and 2.13).

(b) 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 the management intends to dispose of the investment within 12 months of the balance sheet date.

Regular purchases and sales of 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 for all financial assets not carried at fair value through profit or loss. 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. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in profit or loss; translation differences on non-monetary securities are recognised in equity. 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.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement as part of other income.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are 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. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of trade receivables is described in Note 2.12.

2.11 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 (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.12 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 the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, 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 original effective interest rate. 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.

2.13 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, bank deposits with original maturities of three months or less.

2.14 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.15 Trade payables

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

2.16 Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries, jointly controlled entities and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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, the deferred income tax is not accounted for if it 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. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates, jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.17 Employee benefits

(a) Defined Contribution plans

(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 contribution to the defined contribution retirement scheme is expensed as incurred. Once the contributions have been paid, the Company has no further payment obligations.

(b) Share-based compensation

The Group operates an equity settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

2.18 Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax 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.

2.19 Revenue recognition

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

2.20 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.

2.21 Leases (as the lessee for operating 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 income statement on a straight-line basis over the period of the lease.

2.22 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk, and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

The management will analyse and formulate measures to manage the Group's exposure to financial risks with close co-operation with the Group's operating units. Generally, the Group introduces conservative strategies on its risk management. As the Group's exposure to these financial risks is kept to a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes.

(a) Market risk

(i) Foreign exchange risk

With the majority of the Group's businesses transacted in RMB, even though certain deposits are placed with banks in Hong Kong and denominated in Hong Kong dollars ("HKD") and United States dollars ("USD") arising from issuance of shares in 2006 and certain export sales denominated in USD, RMB is defined as the Group's functional currency. In Hong Kong, companies are not allowed to open RMB bank accounts and conversion of foreign currencies to RMB is therefore restricted. On the other hand, the conversion of RMB into foreign currencies in the PRC is subject to the rules and regulations of foreign exchange control promulgated by the PRC Government. As a result of its significant business operations in PRC, the Group's revenue and expenses are mainly denominated in RMB and over 90% of the financial assets and liabilities are denominated in RMB. The effect of the fluctuations in the exchange rate of the RMB against foreign currencies on the Group's result of operations is therefore minimal and the Group has not entered into any hedging transactions in order to reduce the Group's exposure to foreign currency risk in this regards.

At 31 December 2007, if RMB had weakened/strengthened against HKD by 1%, with all other variables unchanged, net profit would have increased/ decreased approximately RMB 735,000.(2006: approximately RMB 1,037,000).

At 31 December 2007, if RMB had weakened/strengthened against USD by 1%, with all other variables unchanged, net profit would have increased/ decreased approximately RMB 103,000.(2006: approximately RMB 82,000) .

The Group's treasury policy is to manage exposure to foreign exchange risk whenever its financial impact is material to the Group. The Group will continue to monitor its foreign exchange position. For the year ended 31 December 2007, the Group did not use any financial instruments or enter into any contract in order to hedge against its exposure to foreign exchange risk.

(ii) Price risk

The Group is not exposed to equity securities price risk because the Group does not hold any investments in equity securities. The management also considers the Group's exposure to commodity price risk is low because proportion of raw materials with sensitive price movement to total cost of production is very low and there are many other substitutes of these raw materials due to product technology change.

(iii) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets except for the bank deposits as disclosed in Note 26, the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group had no bank borrowings as at 31 December 2007 and 31 December 2006. As such, the Group is not exposed to interest-rate risk from long-term borrowings and has not used any interest rate swaps to hedge its exposure to interest-rate risk.

(b) Credit risk

Credit risk arises from cash and cash equivalents, deposits with banks, as well as credit exposures to customers, including outstanding receivables and committed transactions.

(i) Trade receivables

The carrying amount of trade receivables included in the consolidated balance sheet represents the Group's maximum exposure to credit risk in relation to its financial assets. As the Group's exposure is spread over a diversified portfolio of customers, there is no significant concentration of credit risk for the Group.

The Group has almost 182 representative offices spreading over different provinces in PRC. These representative offices are responsible for sales of products and collection of trade receivables. The Group has policies in place for each representative office to ensure that sales of products are made to customers with an appropriate credit history and these representative offices will perform credit evaluations of their customers. The credit evaluations include risk control assessment of the credit quality of the customer, taking into account its financial position, past experience and other factors, such as reviewing legal incorporation documents of the customer's company. Individual risk limits are set based on credit evaluations of customers in accordance with limits set by the management. The utilisation of credit limits is regularly monitored. The management will also monitor the recovery rate of receivables balance of each representative office on on-going basis in order to ensure the recovery rate of each representative office has not exceeded the limit set by the management. The Group also has policy in the calculation of sales commission for sales representatives. It is mainly based on the amount of receivables recovered from customers. If some receivables cannot be recovered and become bad debt, the sales representatives will not get their sales commission. For those customers exceed its credit limit, the Group will suspend delivery of goods to those customers until their outstanding debts are settled. In this regards, the management considers that the Group's credit risk is significantly reduced.

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

(ii) Cash and cash equivalents

The Group keeps over 99% of its cash and cash equivalents in reputable banks with strong and stable historical background in PRC and Hong Kong as saving deposits and short-term bank deposits (Note 26). As such, the Group's exposure to credit risk in this regards is not significant.

(c) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and marketable securities, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions. The Group ensures that it maintains sufficient cash, which is available to meet its liquidity requirement including working capital and capital expenditure requirements. The Group has carried out forecast on its working capital and capital expenditure requirements periodically and reviewed its daily cash position and historical cash requirement. As the Group has sufficient cash and cash equivalents (Note 26) during 2007, the management considered that the Group has adequate resources to finance its liquidity requirement and the liquidity risk of the Group is low.

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity', as shown in the consolidated balance sheet, plus net debt.

During 2007, the Group did not have any current and non-current borrowings. As such, the gearing ratio of the Group was zero (2006: zero) and the management considered there is no capital risk of the Group.

3.3 Fair value estimation

The carrying amounts of the Group's financial assets including cash and cash equivalents, trade receivables and other receivables, available-for-sale financial assets and financial liabilities including trade payables 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.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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 non-current assets.

(b) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement 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.

(c) 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.

(d) Percentage of completion of installation contracts

The 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. The Management assesses the completion progress at each balance sheet date.

5. TURNOVER

	Year ended 31 December	
	2007	2006
	RMB'000	RMB'000
Sales of goods		
Fire alarm systems	**578,319**	476,138
Fire alarm network systems	**19,286**	12,197
Video entry systems and building automation systems	**74,718**	38,259
Electric power meters	**31,402**	23,333
Provision of services		
Installation services	**136,426**	95,844
	840,151	645,771

6. SEGMENT INFORMATION

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

Business segment

Year ended 31 December 2007	Sales of goods: Fire alarm systems RMB'000	Sales of goods: Fire alarm network systems RMB'000	Sales of goods: Video entry systems and building automation systems RMB'000	Sales of goods: Electric power meters RMB'000	Provision of services: Installation services RMB'000	Corporate RMB'000	Group RMB'000
Turnover	578,319	19,286	74,718	31,402	136,426	–	840,151
Segment results	160,751	14,145	15,888	658	6,655	(17,150)	180,947
Interest income							6,749
Operating profit							187,696
Share of results of							
– Jointly controlled entity	392	–	–	–	–	–	392
– Associates	–	(2,264)	–	–	–	–	(2,264)
Profit before income tax							185,824
Income tax expenses							(4,769)
Profit for the year							181,055
Segment assets	711,265	114,324	70,279	61,309	150,122	104,620	1,211,919
Segment liabilities	135,068	5,948	13,349	7,641	41,019	3,944	206,969
Capital expenditure	112,977	361	11,167	2,130	5,152	17,074	148,861
Depreciation	14,689	215	1,451	364	1,753	373	18,845
Amortisation of prepaid operating lease for land	225	–	–	–	–	–	225
Development costs amortisation	2,391	–	–	–	–	–	2,391
Provision for impairment of receivables	5,940	334	–	862	1,928	–	9,064

Notes to the Consolidated Financial Statements (cont')

	Sales 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
Turnover	476,138	12,197	38,259	23,333	95,844	–	645,771
Segment results	152,338	3,356	8,137	2,137	14,458	(19,103)	161,323
Interest income							10,787
Operating profit							172,110
Share of results of							
– Jointly controlled entity	1,304	–	–	–	–	–	1,304
– Associates	–	(286)	–	–	–	–	(286)
Profit before income tax							173,128
Income tax expenses							(8,001)
Profit for the year							165,127
Segment assets	665,812	56,591	35,376	55,496	135,351	112,255	1,060,881
Segment liabilities	138,991	3,917	7,413	2,399	21,335	5,515	179,570
Capital expenditure	61,674	1,165	3,272	334	4,180	–	70,625
Depreciation	9,096	167	483	367	1,143	247	11,503
Amortisation of prepaid operating lease for land	225	–	–	–	–	–	225
Development costs amortisation	601	–	–	–	–	–	601
Provision for impairment of receivables	(487)	102	–	765	1,910	–	2,290

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

7. OTHER INCOME

	Year ended 31 December	
	2007	2006
	RMB'000	RMB'000
Government grant	**7,957**	162
Value-added tax refund	**30,144**	16,859
Interest income	**6,749**	10,787
Sales of raw material, net of cost	**239**	30
	45,089	27,838

8. OPERATING PROFIT

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

	Year ended 31 December	
	2007	2006
	RMB'000	RMB'000
Charging:		
Changes in inventories of finished goods and working in progress	**654**	20,298
Raw materials and consumables used	**388,972**	254,123
Employee benefit expense (Note 12)	**98,527**	65,492
Research costs	**10,789**	8,345
Rental expenses	**4,083**	5,336
Development costs amortisation	**2,391**	601
Depreciation	**18,845**	11,503
Provision for impairment of receivables	**9,064**	2,290
Provision for obsolete inventories	**884**	803
Net loss on disposal of property, plant and equipment	**–**	27
Amortisation of prepaid operating lease for land	**225**	225
Impairment of investment in associates	**2,203**	–
Net exchange loss	**5,395**	5,688
Auditors' remuneration	**2,423**	2,109
Crediting:		
Net gain on disposal of property, plant and equipment	**(351)**	–

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

9. INCOME TAX EXPENSES

	Year ended 31 December	
	2007	2006
	RMB'000	RMB'000
Current income tax	**7,272**	8,755
Deferred income tax (Note 21)		
– Origination and reversal of temporary differences	**(851)**	(754)
– Effect of change in tax rates under new CIT Law	**(1,652)**	–
	(2,503)	(754)
	4,769	8,001

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.

Gulf Security Technology Company Limited ("GST"), Beijing Gulf Electric Meters Company Limited ("Gulf Meters") and Qinhuangdao Gulf Fire Prevention Network Company Limited ("Gulf Network"), subsidiaries of the Group, as Foreign Investment Enterprises("FIEs") registered in a designated development zone, have been 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 2007, the applicable PRC income tax rate for Gulf Meters is 24% (2006: 24%). Designated as High Technology Enterprises, the applicable PRC income tax rate for GST and Gulf Network for 2007 is 15% (2006: 15%).

In order to increase the productivity, GST constructed the 3rd phase of the factory (the "3rd Phase") which was completed for production since August 2006. According to relevant tax laws and regulations in the PRC, the additional investment of the 3rd Phase is exempt 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.

Beijing Gulf Wei'er Electrical Engineering Company Limited ("Beijing Gulf Engineering"), a subsidiary of the Group, is a designated High Technology Enterprise registered in Zhongguancun Science Park. According to relevant tax laws and regulations in the PRC, effective since the incorporation of Beijing Gulf Engineering in March 2004, Beijing Gulf Engineering has been exempted from taxation for the first three profitable years and a 50% relief from the applicable national PRC income tax rate for the next three years. The applicable PRC income tax rate of Beijing Gulf Engineering for 2007 is 15% (2006: 15%).

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "new CIT Law"). The new CIT Law becomes effective on 1 January 2008 and introduces a wide range of changes which, include, but not limited to, the unification of the income tax rate for domestic-invested enterprises and foreign-invested enterprises, which results in increases the income tax rates for foreign invested enterprises from 15% or 24% to 25%. Pursuant to the new CIT Law, effective from 1 January 2008, enterprises that have applied and been granted High/New Technology Enterprise ("HNTE") will be able to enjoy a reduced tax rate of 15%. However, as of 31 December 2007, the detailed implementation rules relating to obtaining the HNTE status have not been published. The above mentioned income tax preferential rates or status currently enjoyed by the Group will be subject to re-assessment in 2008 by the respective local tax bureau in view of the new CIT Law. Consequently, when recognizing deferred taxes as at 31 December 2007, the Company applied a tax rate of 25% on temporary differences.

Pursuant to the new CIT Law and the Detail Implementation Regulations ("DIR") issued by the State Administration of Taxation ("SAT") on 6 December 2007, a 10% withholding tax will be levied on dividend payable declared and remitted by FIEs to its foreign investors on or after 1 January 2008. On 22 February 2008, the Ministry of Finance ("MoF") and SAT jointly issued Cai Shui 2008 Circular 1 ("Circular 1"). According to Article 4 of Circular 1, where FIEs declare dividend in 2008 and beyond out of the cumulative retained earnings as of 31 December 2007, such dividends earned by the foreign investor shall be exempt from corporate withholding income tax. For dividend which arises from FIEs profit earned after 1 January 2008, withholding income tax will be levied on the foreign investor.

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

	Year ended 31 December	
	2007	2006
	RMB'000	RMB'000
Profit before income tax	**185,824**	173,128
PRC income tax calculated at statutory rate of 33%	**61,322**	57,132
Non-deductible expenses	**7,758**	6,915
Effect of change in tax rates under new CIT Law	**(1,652)**	–
Effect of different income tax assessment rate and tax exemption	**(45,821)**	(45,941)
Additional allowances	**(5,138)**	(4,598)
Income not subject to tax	**(11,700)**	(5,609)
Others	**–**	102
Income tax expenses	**4,769**	8,001

10. EARNINGS PER SHARE

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 31 December	
	2007	2006
Profit attributable to equity holders of the Company (RMB'000)	**181,016**	164,993
Weighted average number of ordinary shares in issue (thousands)	**800,000**	800,000
Basic earnings per share (RMB cents per share)	**22.6**	20.6
Diluted earnings per share (RMB cents per share)	**N/A**	N/A

For the year ended 31 December 2007, the share options did not have a dilutive effect because the average market price of ordinary shares during the period did not exceed the exercise price of the options. There was no dilutive potential ordinary share outstanding for the year ended 31 December 2006.

11. DIVIDENDS

A final dividend of RMB8.04 cents per share (approximately HK8.56 cents) for the year ended 31 December 2007, amounting to a total dividend of RMB64,320,000 (approximately HK$68,480,000) representing a payout ratio of 35.5% (2006: 35.5%) to those shareholders whose names appear on the register of members of the Company on 21 May 2008, has been approved by the Board of Directors on 14 April 2008 and is to be proposed at the forthcoming annual general meeting of the Company (the "Meeting") on or about 21 May 2008. These financial statements do not reflect this proposed dividend.

A final dividend of RMB7.33 cents per share (approximately HK7.33 cents) for the year ended 31 December 2006, amount to total dividend of RMB58,640,000 (approximately HK$58,640,000) was approved at the annual general meeting of the Company on 18 May 2007 and it was paid on 23 May 2007.

12. EMPLOYEE BENEFIT EXPENSE

	Year ended 31 December	
	2007	2006
	RMB'000	RMB'000
Wages and salaries (excluding directors' emoluments)	**75,484**	49,082
Retirement benefit contributions – Employee (Note 13)	**4,869**	3,053
Staff welfare and allowances	**12,461**	9,123
Directors' emoluments (excluding amortisation of fair value of share options granted to directors) (Note a)	**4,489**	4,234
Amortisation of fair value of share options granted to directors and employees	**1,224**	–
	98,527	65,492

The number of employees (excluding directors) as at 31 December 2007 was 3,460 (2006: 2,418).

Notes to the Consolidated Financial Statements (cont')

(a) Directors' emoluments

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

	2007					2006				
	Salaries, bonus, allowances and benefits	Retirement benefit contributions	Subtotal	Amortisation of fair value of share options granted to directors	Total	Salaries, bonus, allowances and benefits	Retirement benefit contributions	Subtotal	Amortisation of fair value of share options granted to directors	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Song Jiacheng	1,320	12	1,332	205	1,537	1,181	11	1,192	–	1,192
Cao Yu	1,100	12	1,112	165	1,277	982	11	993	–	993
Peng Kaichen	1,050	5	1,055	122	1,177	880	7	887	–	887
Xu Shaowen (Note)	224	8	232	–	232	401	11	412	–	412
Zeng Jun	120	–	120	122	242	120	–	120	–	120
Lee Kwan Hung, Eddie	180	–	180	122	302	180	–	180	–	180
Chang Tso Tung, Stephen	180	–	180	122	302	180	–	180	–	180
Chan Chi On, Derek	150	–	150	122	272	150	–	150	–	150
Sun Lun	128	–	128	122	250	120	–	120	–	120
	4,452	37	4,489	1,102	5,591	4,194	40	4,234	–	4,234

Note: Resigned on 18 May 2007

None of the directors of the Company waived any emoluments paid/payable to them by the Group.

(b) Five highest paid individuals

The five highest paid individuals included three directors (2006: three directors) whose emoluments are included in the above disclosures. The emoluments of the remaining two (2006: two) individuals are as follows:

	Year ended 31 December	
	2007	2006
	RMB’000	RMB’000
Salaries, bonus, allowance and benefits in kind	**1,578**	1,376
Retirement benefit contribution	**49**	98
	1,627	1,474

The emoluments of the above individuals fell within the following band:

	Number of individuals Year ended 31 December	
	2007	2006
Emolument band		
Nil to HK$1,000,000	**1**	1
HK$1,000,000 to HK$1,500,000	**1**	1

(c) During 2006 and 2007, no emoluments were paid to the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

13. RETIREMENT BENEFITS

	Year ended 31 December	
	2007	2006
	RMB’000	RMB’000
Employee	**4,869**	3,053
Directors	**37**	40
Obligations on defined contribution plans charged for the year	**4,906**	3,093

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.

14. PROPERTY, PLANT AND EQUIPMENT

	Group					
	Buildings	Plant and machinery	Vehicles	Equipment, furniture and fixture	Construction In-progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost						
At 1 January 2006	73,491	42,657	18,350	24,423	18,182	177,103
Additions	2,256	17,072	5,937	5,667	39,693	70,625
Transfers	38,944	14,301	–	–	(53,245)	–
Disposals	(1,352)	(4,899)	(1,709)	(1,389)	–	(9,349)
At 31 December 2006	113,339	69,131	22,578	28,701	4,630	238,379
Additions	107,226	11,289	4,461	5,470	20,415	148,861
Transfers	3,660	596	–	166	(4,422)	–
Disposals	(781)	(2,592)	(1,646)	(1,293)	–	(6,312)
At 31 December 2007	223,444	78,424	25,393	33,044	20,623	380,928
Accumulated depreciation						
At 1 January 2006	9,069	12,759	12,095	13,349	–	47,272
Charge for the year	2,805	4,363	1,071	3,264	–	11,503
Written off on disposal	(105)	(634)	(963)	(1,189)	–	(2,891)
At 31 December 2006	11,769	16,488	12,203	15,424	–	55,884
Charge for the year	6,301	6,641	2,809	3,094	–	18,845
Written off on disposal	(128)	(1,708)	(1,463)	(1,070)	–	(4,369)
At 31 December 2007	17,942	21,421	13,549	17,448	–	70,360
Net book value						
At 31 December 2006	101,570	52,643	10,375	13,277	4,630	182,495
At 31 December 2007	205,502	57,003	11,844	15,596	20,623	310,568

Company

	Equipment, furniture and fixture RMB'000
Cost	
At 1 January 2006	640
Additions	14
At 31 December 2006	654
Additions	40
At 31 December 2007	694
Accumulated depreciation	
At 1 January 2006	90
Charge for the year	267
At 31 December 2006	357
Charge for the year	196
At 31 December 2007	553
Net book value	
At 31 December 2006	297
At 31 December 2007	141

As of 31 December 2007, the Group has not obtained ownership certificates for buildings of the Group at a carrying value of approximately RMB 81,696,000. Management represents the Group is in the process of obtaining the certificate.

15. PREPAID OPERATING LEASE FOR LAND

	2007	2006
	RMB'000	RMB'000
Cost		
Beginning and end of the year	**11,345**	11,345
Accumulated amortization		
Beginning of the year	**1,489**	1,264
Charge for the year	**225**	225
End of the year	**1,714**	1,489
Net book value		
Beginning of the year	**9,856**	10,081
End of the year	**9,631**	9,856

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

16. INTANGIBLE ASSETS

	2007			2006		
	Goodwill	Development costs	Total	Goodwill	Development costs	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost						
Beginning of the year	6,541	9,078	15,619	6,541	2,482	9,032
Additions	–	3,875	3,875	–	6,596	6,596
End of the year	6,541	12,953	19,494	6,541	9,078	15,619
Accumulated amortization						
Beginning of the year	–	1,079	1,079	–	478	478
Charge for the year	–	2,391	2,391	–	601	601
End of the year	–	3,470	3,470	–	1,079	1,079
Net book value						
Beginning of the year	6,541	7,999	14,540	6,541	2,004	8,545
End of the year	6,541	9,483	16,024	6,541	7,999	14,540

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 the 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 as assumpting to be similar to that of current year and growth rate of the business.

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

	As at 31 December 2007 and 2006		
	Fire alarm systems	Fire alarm network systems	Total
	RMB'000	RMB'000	RMB'000
Goodwill	**5,972**	**569**	**6,541**

17. INVESTMENT IN AND AMOUNT DUE FROM A JOINTLY CONTROLLED ENTITY

Group:	**As at 31 December**	
	2007	2006
	RMB'000	RMB'000
Investment in a jointly controlled entity:		
Share of net assets/(liabilities)	**188**	(204)
Amounts due from a jointly controlled entity		
0 to 90 days	**3,694**	4,886
91 to 180 days	**13,908**	8,727
181 to 365 days	**5,666**	8
Over 365 days	**1,105**	1,223
	24,373	14,844

The amounts due from a jointly controlled entity are unsecured, interest-free, mostly repayable in accordance with the trading terms and denominated in US dollars.

Company:	**As at 31 December**	
	2007	2006
	RMB'000	RMB'000
Amount due from a jointly controlled entity		
181 to 365 days	**5,306**	–
	5,306	–

The amount due from a jointly controlled entity is unsecured, interest-free, without fixed repayment terms and denominated in US dollars.

Details of the jointly controlled entity are set out in Note 35.

18. INVESTMENTS IN ASSOCIATES

	As at 31 December	
	2007	2006
	RMB'000	RMB'000
Beginning of the year	**2,335**	2,621
Share of loss	**(61)**	(286)
Impairment of investment in associates	**(2,203)**	–
End of the year	**71**	2,335
Representing:		
Share of net assets, unlisted	**71**	2,335

The Group's share of the results of its associates, all of which are unlisted, and its aggregated assets and liabilities, are as follows:

	As at 31 December	
	2007	2006
	RMB'000	RMB'000
Assets	**2,557**	2,557
Liabilities	**283**	222
Revenues	**25**	50
Loss	**(61)**	(286)

Details of the associates are set out in Note 35.

19. INVESTMENTS IN AND LOANS TO SUBSIDIARIES

	Company As at 31 December	
	2007	2006
	RMB'000	RMB'000
Investments in subsidiaries		
– Unlisted shares, at cost	**159,678**	159,678
Loans to a subsidiary	**286,683**	277,066
	446,361	436,744

The balance of the loans to a subsidiary 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 35.

20. FINANCIAL INSTRUMENTS BY CATEGORY

The accounting policies for financial instruments have been applied to the line items below:

		Group		
		Loans and receivables	**Available-for-sale**	**Total**
	Notes	RMB'000	RMB'000	RMB'000
Assets as per consolidated balance sheet				
31 December 2007				
Trade receivables	23	253,385	–	253,385
Other receivables, deposits and prepayments		73,061	–	73,061
Amount due from a jointly controlled entity	17	24,373	–	24,373
Amount due from a related company	24	3,534	–	3,534
Restricted bank deposits	27	11,511	–	11,511
Cash and cash equivalents	26	352,605	–	352,605
Total		718,469	–	718,469
31 December 2006				
Available-for-sale financial assets	25	–	30,000	30,000
Trade receivables	23	144,413	–	144,413
Other receivables, deposits and prepayments		33,485	–	33,485
Amount due from a jointly controlled entity	17	14,844	–	14,844
Amount due from a related company	24	–	–	–
Restricted bank deposits	27	17,552	–	17,552
Cash and cash equivalents	26	492,333	–	492,333
Total		702,627	30,000	732,627

Notes to the Consolidated Financial Statements (cont')

	Notes	**Company Loans and receivables** RMB'000
Assets as per balance sheet		
31 December 2007		
Loans to subsidiaries	19	286,683
Amount due from a jointly controlled entity	17	5,306
Other receivables, deposits and prepayments		223
Cash and cash equivalents	26	214
Total		292,426
31 December 2006		
Loans to subsidiaries	19	277,066
Amount due from a jointly controlled entity	17	–
Other receivables, deposits and prepayments		1,291
Cash and cash equivalents	26	86,241
Total		364,598

21. DEFERRED INCOME TAX

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:

	As at 31 December	
	2007	2006
	RMB'000	RMB'000
Deferred tax assets:		
– Deferred tax asset to be recovered after more than 12 months	**(4,012)**	(923)
– Deferred tax asset to be recovered within 12 months	**(1,379)**	(551)
	(5,391)	(1,474)
Deferred tax liabilities:		
– Deferred tax liabilities to be settled after more than 12 months	**1,897**	600
– Deferred tax liabilities to be settled within 12 months	**237**	120
	2,134	720
Deferred tax assets – net	**(3,257)**	(754)

The net movement on the deferred taxation is as follows:

	2007	2006
	RMB'000	RMB'000
Beginning of the year	**(754)**	–
Credited to the income statement	**(2,503)**	(754)
End of the year	**(3,257)**	(754)

Notes to the Consolidated Financial Statements (cont')

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

	Research and development Capitialisation RMB'000
At 1 January 2006	–
Charged to income statement	720
At 31 December 2006	720
Charged to income statement	1,414
At 31 December 2007	2,134

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

	Provision for impairment of receivables RMB'000	**Provision for inventory obsolescence** RMB'000	**Property, plant and equipments** RMB'000	**Unrealized profit** RMB'000	**Total** RMB'000
At 1 January 2006	–	–	–	–	–
Credited to income statement	(1,174)	(112)	(36)	(152)	(1,474)
At 31 December 2006	(1,174)	(112)	(36)	(152)	(1,474)
Charged/(credited) to income statement	(3,574)	(246)	36	(133)	(3,917)
At 31 December 2007	(4,748)	(358)	–	(285)	(5,391)

There was no material unprovided deferred income tax.

22. INVENTORIES

	As at 31 December	
	2007	2006
	RMB'000	RMB'000
Raw materials	**50,572**	33,715
Work-in-progress	**16,659**	18,014
Finished goods	**43,491**	41,482
	110,722	93,211
Components delivered to customers in respect of contracts not yet completed at year end	**42,989**	25,267
At cost, less provision for obsolete inventories	**153,711**	118,478

23. TRADE RECEIVABLES

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

	As at 31 December	
	2007	2006
	RMB'000	RMB'000
0 to 90 days	**148,367**	74,614
91 to 180 days	**45,014**	22,717
181 to 365 days	**31,422**	24,749
Over 365 days	**54,613**	39,300
	279,416	161,380
Less: Provision for impairment of receivables	**(26,031)**	(16,967)
	253,385	144,413

The carrying amounts of the Group's trade receivables approximated its fair value as at 31 December 2007 because of the short maturities of these receivables. Based on the past experience, the Management estimated that the carrying amounts of the Group's trade receivables could be fully recovered.

Trade receivables that are less than three months past due are not considered impaired. As of 31 December 2007, trade receivables of approximately RMB 42,674,000 (2006: approximately RMB 18,403,000) were past due but not impaired. The ageing analysis of these trade receivables is as follows:

	As at 31 December	
	2007	2006
	RMB'000	RMB'000
Past due but not impaired:		
0 to 90 days	**17,132**	9,644
91 to 180 days	**19,508**	4,462
181 to 365 days	**6,034**	4,297
	42,674	18,403

As of 31 December 2007, trade receivables of approximately RMB 37,159,000 (2006: approximately RMB 34,943,000) were impaired. The amount of the provision for impairment of receivables was approximately RMB 26,031,000 (2006: approximately RMB 16,967,000). The ageing analysis of these receivables is as follows:

	As at 31 December	
	2007	2006
	RMB'000	RMB'000
Past due and impaired:		
181 to 365 days	**6,358**	5,695
Over 365 days	**30,801**	29,248
	37,159	34,943

Movements on the provision for impairment of trade receivables are as follows:

	2007	2006
	RMB'000	RMB'000
As at 1 January	**16,967**	17,902
Provision for receivable impairment	**9,064**	2,290
Receivables written off during the year as uncollectible	**–**	(3,225)
As at 31 December	**26,031**	16,967

The maximum exposure to credit risk at the reporting date is the carrying amount of the trade receivables. The Group does not hold any collateral as security.

24. AMOUNT DUE FROM AND ADVANCE FROM A RELATED COMPANY

	As at 31 December	
	2007	2006
	RMB'000	RMB'000
Amount due from a related company:		
Beijing Gulf Jingcheng Property Development Company Limited ("Beijing Gulf Property")	**3,534**	–
Advance from a related company:		
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.

Amounts due from a related company are all within 90 days, unsecured, interest free and repayable in accordance with the trading terms.

The advance from Beijing Gulf Property represented cash received in respect of contracts not yet completed at 31 December 2006.

25. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	As at 31 December	
	2007	2006
	RMB'000	RMB'000
As at 1 January	**30,000**	–
Addition	**60,000**	30,000
Disposal	**(90,000)**	–
As at 31 December	**–**	30,000

Available for sales financial assets were unlisted cash value-added funds denominated in Renminbi. Interest on available for sale financial assets is recognized in the income statement as part of other income.

26. CASH AND CASH EQUIVALENTS

	Group	
	2007	2006
	RMB'000	RMB'000
Cash at bank and in hand	**274,417**	257,614
Short-term bank deposits	**78,188**	234,719
	352,605	492,333

The effective interest rate on short-term bank deposits of the Group was 2.88% per annum (2006: 2.31% per annum). Short-term bank deposits have a weighted average remaining maturity of 33 days (2006: 29 days).

	Company	
	2007	2006
	RMB'000	RMB'000
Cash at bank and in hand	**214**	1,132
Short-term bank deposits	**–**	85,109
	214	86,241

	Group As at 31 December		Company As at 31 December	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Cash at bank and in hand				
RMB	**199,096**	234,385	**–**	–
HK$ denominated	**61,364**	6,786	**177**	1,112
US$ denominated	**13,944**	16,423	**24**	–
Others	**13**	20	**13**	20
	274,417	257,614	**214**	1,132
Short-term bank deposits				
RMB	**59,500**	126,520	**–**	–
HK$ denominated	**7,718**	96,871	**–**	85,109
US$ denominated	**10,970**	11,328	**–**	–
	78,188	234,719	**–**	85,109
Total cash and cash equivalents	**352,605**	492,333	**214**	86,241

The conversion of RMB denominated balance into foreign currencies and vice versa in the PRC 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.

Notes to the Consolidated Financial Statements (cont')

27. RESTRICTED BANK DEPOSITS

	Group As at 31 December	
	2007	2006
	RMB'000	RMB'000
Restricted bank deposits	**11,511**	17,552

The effective interest rate on restricted bank deposits of the Group was 0.72% per annum (2006: 0.72% per annum).

All of the restricted bank deposits are donominated in RMB.

28. SHARE CAPITAL

	Authorised Common shares of HK$0.1 each	
	No. of shares	RMB'000
As 1 January 2006 and at 31 December 2006	2,000,000,000	212,000
As 1 January 2007 and at 31 December 2007	2,000,000,000	212,000

	Issued Common shares of HK$0.1 each	
	No. of shares	RMB'000
As 1 January 2006 and at 31 December 2006	800,000,000	84,800
As 1 January 2007 and at 31 December 2007	800,000,000	84,800

Share Options

On 23 May 2007, the Company granted share options to all Directors under the share option scheme (the "Share Option Scheme") that was adopted on 7 June 2005 conditionally and became unconditional on 30 June 2005. The exercise price of the granted options is HK$2.80 which equals the market price of the shares of the Company on the date immediately before the date of grant of the share options. The options granted are divided into three batches according to the exercisable periods (the vesting periods). 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 2007, share options had been granted under the Share Option Scheme and the following table discloses the movement of the Company's share options during the year ended 31 December 2007:

				Number of share options			
	Date of grant	Exercisable period	Exercise price per share HK$	Balance as at 1 January 2007	Granted during the year	Lapsed upon resignation	Balance as at 31 December 2007
Category 1:							
Directors	23 May 2007	23 May 2008 – 22 May 2017	2.80	–	1,350,000	–	1,350,000
Directors	23 May 2007	23 May 2009 – 22 May 2017	2.80	–	1,350,000	–	1,350,000
Directors	23 May 2007	23 May 2010 – 22 May 2017	2.80	–	1,350,000	–	1,350,000
				–	4,050,000	–	4,050,000
Category 2:							
Employees	23 May 2007	23 May 2008 – 22 May 2017	2.80	–	300,000	(150,000)	150,000
Employees	23 May 2007	23 May 2009 – 22 May 2017	2.80	–	300,000	(150,000)	150,000
Employees	23 May 2007	23 May 2010 – 22 May 2017	2.80	–	300,000	(150,000)	150,000
				–	900,000	(450,000)	450,000
				–	4,950,000	(450,000)	4,500,000

Movements in the number of outstanding share options are as follows:

	2007 Exercise price in HK$ per share	2007 Share options
At 1 January	–	–
Granted	2.80	4,950,000
Lapsed	2.80	(450,000)
Exercised	–	–
At 31 December	2.80	4,500,000

The closing price of the Company's share on 22 May 2007, the date immediately before the date of grant of the share options (23 May 2007), was HK$2.80 per share.

The fair value of the 4,950,000 share options granted determined by an independent third party using the Black-Scholes option pricing model was approximately HK$3,560,733 (approximately RMB3,482,397). On 31 August 2007, 450,000 share options granted were lapsed upon resignation of an employee. As such, the fair value of remaining 4,500,000 share options granted was approximately HK$3,237,033 (approximately RMB3,165,818) and HK$1,252,000 (approximately RMB1,224,000) of the fair value of the share options granted was recognized for the year ended 31 December 2007 (2006: Nil). There is no other share option granted up to the date of this report.

The following significant assumptions were used to derive the fair value using the Black-Scholes option pricing model:

Expected life of options	2-4 years
Expected volatility based on historical volatility of share price	34%
Expected annual dividend yield	2.61%
Risk Free Interest rate	4.002% – 4.099%

Due to the subjectivity and uncertainty of the values of options, such values are subject to a number of assumptions and with regard to the limitation of the model.

29. RESERVES

	Group						
	Share premium RMB'000	Merger reserves RMB'000	General reserves RMB'000	Other reserve RMB'000	Currency translation adjustments RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2006	366,351	102,902	78,502	–	48	140,595	688,398
Dividend paid	(57,680)	–	–	–	–	–	(57,680)
Profit for the year	–	–	–	–	–	164,993	164,993
Currency translation difference – jointly controlled entity	–	–	–	–	(33)	–	(33)
Transfer	–	–	13,308	–	–	(13,308)	–
At 31 December 2006	308,671	102,902	91,810	–	15	292,280	795,678
Dividend paid	(58,640)	–	–	–	–	–	(58,640)
Profit for the year	–	–	–	–	–	181,016	181,016
Employee share option scheme – value of service provided		–	–	1,224	–	–	1,224
Transfer	–	–	19,718	–	–	(19,718)	–
At 31 December 2007	250,031	102,902	111,528	1,224	15	453,578	919,278

	Company			
	Share premium	**Other reserve**	**Accumulated deficits**	**Total**
	RMB’000	RMB’000	RMB’000	RMB’000
At 1 January 2006	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
Dividend paid	(58,640)	–	–	(58,640)
Employee share option scheme				
– value of service provided	–	1,224	–	1,224
Loss for the year	–	–	(13,340)	(13,340)
At 31 December 2007	409,603	1,224	(47,324)	363,503

(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. In accordance with the Company Law of PRC, which was revised on 27 October 2005 and effective since 1 January 2006, the statutory public welfare reserve will not be appropriated since 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 was all converted 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.

30. TRADE PAYABLES

	As at 31 December	
	2007	2006
	RMB'000	RMB'000
0 to 90 days	**80,139**	98,050
91 to 180 days	**9,810**	8,188
181 to 365 days	**2,937**	1,782
Over 365 days	**2,444**	1,660
	95,330	109,680

31. ADVANCE FROM CUSTOMERS

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

32. CASH GENERATED FROM OPERATIONS

	Year ended 31 December	
	2007	2006
	RMB'000	RMB'000
Operating profit	**187,696**	172,110
Depreciation	**18,845**	11,503
Amortisation of prepaid operating lease for land	**225**	225
Development costs amortisation	**2,391**	601
Provision for impairment of receivables	**9,064**	2,290
Provision for obsolete inventories	**884**	803
Net (gain)/loss on disposals of fixed assets	**(351)**	27
Interest income	**(6,749)**	(10,787)
Amortisation of value of services provided under employee share options scheme	**1,224**	–
Operating profit before working capital changes	**213,229**	176,772
Increase in inventories	**(36,117)**	(36,564)
Increase in trade receivables	**(118,036)**	(19,663)
Increase in other receivables, deposits and prepayments	**(39,783)**	(6,731)
Increase in due from a jointly controlled entity	**(9,529)**	(5,237)
Increase in due from a related company	**(3,534)**	–
(Decrease)/increase in trade payables	**(12,459)**	21,716
Increase in other payables and accruals	**715**	4,315
(Decrease)/increase in advance from a related company	**(1,998)**	1,998
Increase/(decrease) in advance from customers	**37,725**	(1,118)
Increase/(decrease) in other taxes payable	**5,399**	(3,098)
Cash generated from operations	**35,612**	132,390

33. COMMITMENTS

(a) Capital commitments

	As at 31 December	
	2007	2006
	RMB'000	RMB'000
Property, plant and equipment	**2,368**	98,662

(b) Operating lease commitments for buildings

	As at 31 December	
	2007	2006
	RMB'000	RMB'000
First year	**1,547**	3,143
Second to fifth year	**2,453**	2,730
After the fifth year	**479**	1,479
	4,479	7,352

34. 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 December	
		2007	2006
	Notes	**RMB'000**	RMB'000
Sales to jointly controlled entity	(i)	**37,441**	27,915
Repair cost paid to a related company	(ii)	**132**	105
Services rendered to a related company	(iii)	**6,298**	17,984
Rental paid to a related company	(iv)	**240**	240
Service fee paid to a related company	(v)	**–**	1,046
The compensation and remuneration for key management personnel	(vi)	**4,489**	4,234
Acquisition of office premises	(vii)	**81,696**	–

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 key management personnel are the directors of the Company. Their compensations and remunerations are set out in the note 12 to the financial statements.

(vii) The consideration for the acquisition of office premises in Zhongguancun was determined according to the framework agreement dated 13 November 2006 signed between GST and Beijing Gulf Property with approval from independent shareholders of the Company by way of poll at the extraordinary general meeting held on 29 December 2006 and was paid to Beijing Gulf Property on 13 March 2007.

35. PARTICULARS OF SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITY

As at 31 December 2007, 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:

Company	Place and date of incorporation/ establishment	Issued/ registered and fully paid share capital	Attributable equity interests	Principal activities and place of operation
Subsidiaries				
Interests held directly:				
GST Group International Limited	The British Virgin Islands (the "BVI") 17 March 2004	USD 0.01	100%	Investment holding in the BVI
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 Engineering Company Limited	The PRC 24 March 2004	RMB15,000,000	100%	Provision of system integration and Electrical installation services in the PRC
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 integrated circus system and corresponding computing technology

Notes to the Consolidated Financial Statements (cont')

Company	Place and date of incorporation/ establishment	Issued/ registered and fully paid share capital	Attributable equity interests	Principal activities and place of operation
Qinhuangdao City Chengan Fire Prevention Network Company Limited	The PRC 9 August 2001	RMB2,000,000	51%	Sales of fire alarm network products and provision of related installation, maintenance and technical services in the PRC
GST Security and Safety Holdings Limited	The BVI 27 June 2007	USD1	100%	Investment holding in the BVI
Shenzhen Gulf Security Technology Company Limited	The PRC 17 October 2007	RMB10,000,000	100%	Design development and sales of security equipments, electronics equipments, surveillance equipments, mould and computing software products
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	The PRC 21 November 2005	RMB10,000,000	25%	Sales of fire alarm network products and provision of related installation, maintenance and technical services in the PRC
Jointly controlled entity				
Interests held indirectly:				
Global System Technology PLC	United Kingdom 23 November 2000	£50,000	51%	Sales of fire alarm systems, power meters and other electronic equipment in Dubai

During the year, GST Security and Safety Holdings Limited incorporated in the BVI to be wholly-owned subsidiary of GST Group International Limited ("GGIL"), a wholly-owned subsidiary of the Company and Shenzhen Gulf Security Technology Company Limited incorporated in the PRC to be wholly-owned subsidiary of Beijing Gulf Engineering, an indirectly wholly-owned subsidiary of the Company. Details of these two subsidiaries are set out as above.

36. ULTIMATE HOLDING COMPANY

As at 31 December 2007, the directors of the Company regarded GST International Management Limited, a company incorporated in the BVI, as being the ultimate holding company.

FINANCIAL SUMMARY

Published results and assets and liabilities of the Group are as follows:

RESULTS

	For the year ended 31 December				
(RMB' million)	**2007**	2006	2005	2004	2003
Turnover	**840**	646	562	424	316
Gross profit	**368**	317	288	214	172
Operating profit	**188**	172	165	130	99
Profit attributable to equity holders	**181**	165	162	123	79

ASSETS AND LIABILITIES

	For the year ended 31 December				
(RMB' million)	**2007**	2006	2005	2004	2003
Total non-current assets	**340**	210	150	113	123
Total current assets	**872**	851	778	396	268
Total current liabilities	**207**	180	154	232	228
Net current assets	**665**	671	624	164	40
Net assets	**1,005**	881	774	277	163

GST HOLDINGS LIMITED
Stock code: 0416
Suite 1612, 16/F
Shun Tak Center, West Tower
168-200 Connaught Road C
Sheung Wan
Hong Kong
www.gst.com.cn