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海灣控股有限公司

GST HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 0416)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2008

HIGHLIGHTS

- Revenue of the Group for the year grew 34.7% to approximately RMB1,131.5 million.
- Operating profit for the year increased 1.8% to approximately RMB191.0 million.
- Profit attributable to equity holders of the Company for the year decreased by 1.8% to approximately RMB177.7 million.
- Basic earnings per share for the year was RMB22.2 cents (2007: RMB 22.6 cents).
- The Board of Directors does not recommend the payment of a final dividend in respect of the year ended 31 December 2008.

The board of directors (the “Board of Directors”) of GST Holdings Limited (the “Company”) is pleased to present the consolidated annual results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2008.

CONSOLIDATED INCOME STATEMENT

		Year ended 31 December	
		2008	2007
	Notes	RMB'000	RMB'000
Revenue	2	1,131,475	840,151
Cost of goods sold		<u>(658,487)</u>	<u>(471,824)</u>
Gross profit		472,988	368,327
Other income	4	36,382	45,089
Distribution costs		(153,804)	(98,688)
Administrative and general expenses		<u>(164,576)</u>	<u>(127,032)</u>
Operating profit	5	190,990	187,696
Share of results of			
Jointly controlled entity		2,926	392
Associates		<u>(71)</u>	<u>(2,264)</u>
Profit before income tax		193,845	185,824
Income tax expenses	6	<u>(16,133)</u>	<u>(4,769)</u>
Profit for the year		<u><u>177,712</u></u>	<u><u>181,055</u></u>
Attributable to:			
Equity holders of the Company		177,676	181,016
Minority interests		<u>36</u>	<u>39</u>
		<u><u>177,712</u></u>	<u><u>181,055</u></u>
Earnings per share for profit attributable to equity holders of the Company	7		
– Basic (RMB cents)		<u><u>22.2</u></u>	<u><u>22.6</u></u>
– Diluted (RMB cents)		<u><u>22.2</u></u>	<u><u>22.6</u></u>
Dividends	8	<u><u>–</u></u>	<u><u>64,320</u></u>

CONSOLIDATED BALANCE SHEET

		As at 31 December	
		2008	2007
	Notes	RMB'000	RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		338,184	310,568
Prepaid operating leases for land		9,406	9,631
Intangible assets		19,130	16,024
Investment in a jointly controlled entity		847	188
Investment in associates		–	71
Deferred income tax assets		6,034	3,257
		<u>373,601</u>	<u>339,739</u>
Current assets			
Inventories		241,471	153,711
Trade receivables	9	342,647	253,385
Other receivables, deposits and prepayments		55,675	73,061
Amount due from a jointly controlled entity		12,663	24,373
Amount due from a related company		3,534	3,534
Restricted bank deposits		16,474	11,511
Cash and bank deposits		413,701	352,605
		<u>1,086,165</u>	<u>872,180</u>
Total assets		<u><u>1,459,766</u></u>	<u><u>1,211,919</u></u>
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital		84,800	84,800
Reserves		1,033,868	919,278
		1,118,668	1,004,078
Minority interests		<u>908</u>	<u>872</u>
Total equity		<u><u>1,119,576</u></u>	<u><u>1,004,950</u></u>

		As at 31 December	
		2008	2007
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
LIABILITIES			
Current liabilities			
Trade payables	<i>10</i>	145,514	95,330
Other payables and accruals		29,397	17,062
Amount due to a related company		40	–
Advance from customers		139,718	70,272
Tax payable		25,521	24,305
		<u>340,190</u>	<u>206,969</u>
Total liabilities		<u>340,190</u>	<u>206,969</u>
Total equity and liabilities		<u>1,459,766</u>	<u>1,211,919</u>
Net current assets		<u>745,975</u>	<u>665,211</u>
Total assets less current liabilities		<u>1,119,576</u>	<u>1,004,950</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 accounting policies adopted are consistent with those as described in the Group’s 2007 financial statements.

2. REVENUE

	Year ended 31 December	
	2008	2007
	<i>RMB’000</i>	<i>RMB’000</i>
Sales of goods		
Fire alarm systems	810,680	578,319
Fire alarm network systems	25,897	19,286
Video entry systems and building automation systems	68,558	74,718
Electric power meters	43,217	31,402
Provision of services		
Installation services	183,123	136,426
Revenue and turnover	<u>1,131,475</u>	<u>840,151</u>

3. 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 People's Republic of China ("PRC").

Business segment

Year ended	Sales of goods				Provision of services			Group
	Fire alarm systems	Fire alarm network systems	Video entry systems and building automation systems	Electric power meters	Installation services	Corporate	RMB'000	
31 December 2008	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Gross segment revenue	866,698	27,929	68,558	43,217	183,123	-	1,189,525	
Inter-segment revenue	(56,018)	(2,032)	-	-	-	-	(58,050)	
Revenue	810,680	25,897	68,558	43,217	183,123	-	1,131,475	
Segment results	212,451	2,499	2,566	(4,146)	(14,784)	(11,673)	186,913	
Interest income							4,077	
Operating profit							190,990	
Share of results of								
– Jointly controlled entity	2,926	-	-	-	-	-	2,926	
– Associates	-	(71)	-	-	-	-	(71)	
Profit before income tax							193,845	
Income tax expenses							(16,133)	
Profit for the year							177,712	
Segment assets	959,410	128,213	57,521	72,427	218,574	23,621	1,459,766	
Segment liabilities	212,253	12,221	23,279	21,792	66,685	3,960	340,190	
Capital expenditure	19,017	2,258	6,816	171	18,463	5,929	52,654	
Depreciation	17,308	638	1,127	383	2,012	869	22,337	
Amortisation of prepaid								
operating leases for land	225	-	-	-	-	-	225	
Development costs amortisation	2,892	-	-	-	-	-	2,892	
Provision for impairment								
of receivables	8,654	356	-	2,552	1,527	-	13,089	

Year ended	Sales of goods				Provision of services		
	Fire alarm systems	Fire alarm network systems	Video entry systems and building automation systems	Electric power meters	Installation services	Corporate	Group
31 December 2007	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Gross segment revenue	612,261	65,888	74,718	31,402	136,426	–	920,695
Inter-segment revenue	<u>(33,942)</u>	<u>(46,602)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(80,544)</u>
Revenue	578,319	19,286	74,718	31,402	136,426	–	<u>840,151</u>
Segment results	160,751	14,145	15,888	658	6,655	(17,150)	180,947
Interest income							<u>6,749</u>
Operating profit							187,696
Share of results of							
– Jointly controlled entity	392	–	–	–	–	–	392
– Associates	–	(2,264)	–	–	–	–	<u>(2,264)</u>
Profit before income tax							185,824
Income tax expenses							<u>(4,769)</u>
Profit for the year							<u>181,055</u>
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 leases for land	225	–	–	–	–	–	225
Development costs amortisation	2,391	–	–	–	–	–	2,391
Provision for impairment							
of receivables	<u>5,940</u>	<u>334</u>	<u>–</u>	<u>862</u>	<u>1,928</u>	<u>–</u>	<u>9,064</u>

Inter-segment transfers or transactions are entered into at a term and conditions agreed upon by respective parties.

Capital expenditure comprises additions to property, plant and equipment.

4. OTHER INCOME

	Year ended 31 December	
	2008	2007
	<i>RMB'000</i>	<i>RMB'000</i>
Government grant related to revenue	225	7,957
Value added tax refund	31,602	30,144
Interest income	4,077	6,749
Others	478	239
	<u>36,382</u>	<u>45,089</u>

5. OPERATING PROFIT

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

	Year ended 31 December	
	2008	2007
	<i>RMB'000</i>	<i>RMB'000</i>
Charging:		
Changes in inventories of finished goods and work in progress	–	654
Raw materials and consumables used	598,882	388,972
Employee benefit expense	142,632	98,527
Research costs	13,551	10,789
Rental expenses	3,614	4,083
Transportation expenses	13,805	8,935
Development costs amortisation	2,892	2,391
Depreciation	22,337	18,845
Provision for impairment of receivables	13,089	9,064
Provision for obsolete inventories	2,884	884
Amortisation of prepaid operating leases for land	225	225
Impairment of investment in associates	71	2,203
Net exchange loss	2,289	5,395
Auditors' remuneration	2,678	2,423
	<u>2,678</u>	<u>2,423</u>
Crediting:		
Net gain on disposal of property, plant and equipment	(73)	(351)
Changes in inventories of finished goods and work in progress	(60,569)	–
	<u>(60,569)</u>	<u>–</u>

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

6. INCOME TAX EXPENSES

	Year ended 31 December	
	2008	2007
	RMB'000	RMB'000
Current income tax	<u>18,910</u>	<u>7,272</u>
Deferred income tax		
– Origination and reversal of temporary differences	(2,777)	(851)
– Effect of change in tax rates under new Corporate Income Tax Law	<u>–</u>	<u>(1,652)</u>
	<u>(2,777)</u>	<u>(2,503)</u>
	<u>16,133</u>	<u>4,769</u>

7. 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	
	2008	2007
Profit attributable to equity holders of the Company (RMB'000)	<u>177,676</u>	<u>181,016</u>
Weighted average number of ordinary shares in issue (thousands)	<u>800,000</u>	<u>800,000</u>
Basic earnings per share (RMB cents per share)	<u>22.2</u>	<u>22.6</u>
Diluted earnings per share (RMB cents per share)	<u>22.2</u>	<u>22.6</u>

For the year ended 31 December 2008 and 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.

8. DIVIDENDS

The Board of Directors does not recommend the payment of a final dividend in respect of the year ended 31 December 2008.

A final dividend of RMB8.04 cents per share (approximately HK8.56 cents) for the year ended 31 December 2007, amount to total dividend of RMB64,320,000 (approximately HK\$68,480,000) was approved at the annual general meeting of the Company on 21 May 2008 and it was paid on 28 May 2008.

9. 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	
	2008	2007
	<i>RMB'000</i>	<i>RMB'000</i>
0 to 90 days	199,147	148,367
91 to 180 days	44,088	45,014
181 to 365 days	54,256	31,422
Over 365 days	84,276	54,613
	<u>381,767</u>	<u>279,416</u>
Less: Provision for impairment of receivables	<u>(39,120)</u>	<u>(26,031)</u>
	<u><u>342,647</u></u>	<u><u>253,385</u></u>

10. TRADE PAYABLES

At 31 December 2008, the ageing analysis of the trade payables was as follows:

	As at 31 December	
	2008	2007
	<i>RMB'000</i>	<i>RMB'000</i>
0 to 90 days	116,373	80,139
91 to 180 days	10,367	9,810
181 to 365 days	11,341	2,937
Over 365 days	7,433	2,444
	<u>145,514</u>	<u>95,330</u>
	<u><u>145,514</u></u>	<u><u>95,330</u></u>

MANAGEMENT DISCUSSION AND ANALYSIS

The integrated business development strategy adopted by the Group emphasizes the complementary support and balanced development among businesses. This enabled the Group's overall business to thrive in spite of the economic downtrend. Besides, the strenuous promotion of public safety and precautionary awareness by the People's Republic of China ("PRC") Government stimulated the demand for fire and security product and in turn provided favourable factors for the Group's business development.

For the year ended 31 December 2008, the Group's revenue increased by 34.7% to approximately RMB1,131,475,000 (2007: RMB840,151,000) and gross profit rose by 28.4% to approximately RMB472,988,000 (2007: RMB368,327,000). Slight growth in the proportion of overall revenue and gross profit of the Group's core fire alarm systems business were recorded and managed to offset the decrease in the gross profit margin in installation services and security products. Overall gross profit margin only dropped by 2 percentage points to 41.8% (2007: 43.8%). Though the number of employees in the Group remained stable in 2008, the raised remuneration standards and sharp increase in social insurance fee caused labour cost to become the major obstacle to profit growth. This led to a 55.8% increase in distribution costs, which accounted for 13.6% in total revenue. Profit before income tax increased by 4.3% to approximately RMB193,845,000 (2007: RMB185,824,000). The new Corporate Income Tax Law of the PRC changed income tax rate and also the expiry of part of tax relief greatly increased tax expenses by 238.3%, consequently the income tax expenses for the year under review surged to approximately RMB16,133,000 (2007: approximately RMB4,769,000), which caused the profit attributable to equity holders of the Company to drop by 1.8% to approximately RMB177,676,000 (2007: RMB181,016,000). The Group's basic earnings per share is RMB22.2 cents (2007: RMB22.6 cents). The Board of Directors recommends no dividend payout for the year ended 31 December 2008.

Market Review

Year 2008 was not only the third year of the PRC's Eleventh Five-year Plan, but also the year of staging Beijing Olympic Games as well as the first year of the full implementation of the strategic deployment set out by the 17th Chinese Communist Party Conference. The Chinese Communist Party first incorporated information to the 17th general meeting report, indicating the "five aspects of development", which means industrialization, information offering, urbanization, marketing and internationalization, laying a macro administrative foundation for the sustainable expansion of the Chinese fire and security intelligence network market.

The 2008 annual fixed social assets investments increased 25.5%, which was 0.7 percentage points faster than the growth of last year. Ever since the May 12 earthquake, the PRC government restated that it would dedicate more resources to infrastructure development to stay ahead of the urbanization process, particularly focusing on rural areas and the Western region with projects including railways and highway infrastructures. Owing to the recession in real estate market, development in properties slowed down, and investment in industrial production facilities also declined due to decreased demand. But projects funded by the PRC government still continued to stimulate the economy.

Business Review

The Group is a total fire and security solutions provider engaged in Research and Development (“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.

Since the implementation of a new mandatory accreditation standard for fire alarm systems in the PRC, the Group had obtained the largest number of certifications in the new assessments, with a total of 48 products accredited with the new standard.

Fire Alarm Systems

Being the core business of the Group, revenue for fire alarm business in the year under review increased 40.2% to RMB810,680,000 (2007: RMB578,319,000), which took up approximately 71.6% of the total revenue.

The Group’s diversified customer base stretched across various strata including business, residential to professional customers in the industrial fields of metallurgy, electricity, petrol-chemical; as well as the areas of banking, government organizations, airports, railways and public facilities.

With stringent control on production costs and general expenses, the Group has successfully raised its gross profit margin in fire alarm system business in the year under review from 48.3% to 49.6%. The Group has dedicated its utmost effort to evading irrational price war by adjusting prices of different products in spite of the intensified competitions within the industry. The move has successfully maintained the gross profit margin on a satisfactory level and directly stimulated the Group’s overall profit. Each client spectrum developed rapidly to drive an increase in overall gross profit margin, with overseas customers (gross profit margin 55.6%) as the leading customer group. The Group’s diversified customer base comprises industrial and public facilities customers (gross profit margin 49.7%), civilian commercial customers (gross profit margin 48.8%) and residential clients (gross profit margin 48.9%).

Year 2008 has been a significant year with the Beijing Olympics exciting the construction of various infrastructures. For the Olympic Games, the Group supplied fire alarm systems for more than 20 Olympic and training arenas in the Olympic Village, Olympic airport express and convention centres to ensure the smooth running of the Games. In addition, the Group was also involved in various large-scale projects, including power transmission projects between Praha, Inner Mongolia and Liaoning, large scale Dalian Aromatic Hydrocarbon Complex, Guangdong Acer Factory, Guangxi Petrochemical Company of China National Petroleum Corporation, Shanghai International Terminal (Port Service Building), Beijing-Tianjin Citywide Railway Extension, Inner Mongolia Hospital, Qingdao Train Station, Olympic Sports Centre in Jinan, Maida Garden Projects in Qingdao and residential units for staff members of Ministry of Foreign Affairs. The Group’s newly signed contracts on fire alarm products business reached approximately RMB1,360,000,000 for 2008 (2007: RMB980,000,000).

Fire Extinguishing Products

Development of fire extinguishing products business is already on proper course. Newly signed contracts on fire extinguishing products reached RMB29,980,000 for 2008 (2007: RMB7,372,000).

Industrial and Public Facilities Market

Starting from the second half of 2008, growth in Chinese industries has slid significantly due to the sharp decrease in international market demand. The hardest-hit areas are the southeast coastal areas with greater export business development while areas in the mid-west and north-east regions driven mainly by internal demand businesses were less affected. The Group expanded its business in the areas less vulnerable such as Qinghai, Tianjin, Shaanxi, and Xinjiang provinces to balance business recession in other areas. During the year under review, revenue of fire alarm systems from industrial and public facilities customers increased by 41.5% to approximately RMB221,466,000 (2007: RMB156,542,000), accounting for 27.3% of the total revenue from fire alarm systems (2007: 27.1%).

Completed projects in industrial and public facilities sectors in the year 2008 include: Beijing Olympic National Park central zone underground car parking project, fire alarm system modification in the Natatorium of Tsinghua University, fire alarm system in residential units for staffs of Ministry of Foreign Affairs, fire alarm systems for Harbin Aircraft Industry Group Company Limited, installation of fire alarm system in Tianjin Railway Station and the infra-red closed circuit monitoring system in China Millennium Monument.

Export Market

The Group is committed to improving products functions, effectiveness and safety standards, and has successfully obtained accreditations in overseas markets. Influence and reputation of the Group's brand were further polished which bolstered sales performance in export markets. For the year ended 31 December 2008, the Group's export revenue increased by 26.4% to RMB64,002,000 (2007: RMB50,618,000), which made up 7.9% of fire alarm system total revenue (2007: 8.8%). At the end of 2008, the Group obtained international and regional certifications including Britain LPCB Recognition, the USA UL certification, European Union CE certification, Australian SAI certification, Russia FSCS certification, Ukraine National certification, Singapore PSB certification, Malaysia National certification, Uruguay National certification for Fire Safety Products, Hungary National Fire Safety Products certification, Hong Kong Fire Services Department Fire Safety Products certification, Syria National Fire Safety Products certification and Israel National Fire Safety Products certification. Quality of the Group's products was affirmed, proving its competitiveness among local and international industry players.

Since its inception in early 2008, the international department responsible for coordinating international sales has now developed into a full-fledged international business team incorporating businesses in market exploration, market support, technical services and contract administration. The department developed products specifically to the international markets and localized them according to the needs of different regional markets, for example, changing the product design based on different languages. This includes special fire alarm remote control system using CRT language. It is translated into English, Russian, Portuguese, Spanish, Italian and Arabian languages, and the products have been launched successfully. Temperature monitoring products were accredited with import-export permits from relevant departments in different countries. Products were exported to the Middle East, Italy, Poland, etc. The professional team following up on international accreditations closely monitored changes in international recognition standards and requirements, and helped to strive for relevant certifications for the Group's products to fulfill the entry requirements of export products to international markets, thus speeding up the expansion process.

The Group successfully opened its first overseas sales office in Ho Chi Minh City, Vietnam. It provided regional support and a platform in communicating with foreign clients as well as technical support services for Southeast Asian region including Vietnam. The Group has also completed a number of projects in Vietnam, including ACG International School, Hung Vuong Shopping Centre, Sheraton Saigon Hotel and Building, and Kumho Tire Factory, and also Saburovo Apartments in Russia.

The Group is actively setting up more sales channels, and has successfully opened up new markets in 6 countries and regions comprising of Azerbaijan in Asia, Ghana and Rwanda in Africa, Poland and the Netherlands in Europe and Canada and North America. At present, the Group's international sales network covers the five continents of Asia, Africa, Europe, the Americas and Oceania, 85 countries and regions. The GST trademark is also registered and protected in 87 countries and regions worldwide.

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, car parking self-management systems and premises integrated cabling.

During the year under review, revenue in installation services business reached RMB183,123,000 (2007: RMB136,426,000) with buttress from abundant contracts on-hand, representing approximately 34.2% increase compared to that of the year before, occupying 16.2% of total revenue. However, the gross profit margin of installation services plunged down to 11.0%, which constituted a fall of 13.8 percentage points in the gross profit margin from the year before. It was due to acceptance of lower margin installation projects under intensified market competition and higher labour costs along with the sharp increase in raw material costs.

Being the only total fire and security solution provider with its own manufactured products and installation services in the fire safety and security business in China, the Group has incomparable advantages over its competitors. In the year under review, the installation company of the Group gained first class certification in fire and security facilities design and construction as well as first class certification in digitalized systems construction design. The Group was also accredited the highest honour in design and construction of fire and security projects, digitalized construction projects and security projects.

The Group participated in a number of projects including Building Automation Systems of Yingbin Building of Baotou Hotel, Inner Mongolia, Jinsha City Plaza Project in Shandong Province, Tianjin Railway Station Reconstruction Project and construction of large scale refining facilities with capacity over ten million tons in Guangxi Petrochemical Project by Petrochina Company Limited during the year under review. Newly signed contracts amounted to RMB226,698,000 for 2008 (2007: RMB216,727,000).

Security Products

The Group focused on selling self-manufactured security products, which consists of video entry system and building automation system, and provides additional supplementary repairing and maintenance services for different security products. A slight decline was recorded in the business performance of security products in the year under review. Main reasons for the decrease include recession in real estate market, dramatic slump in the demand of building self-monitoring system from residential customers, leading to a significant drop in the income from building automation system. For the year ended 31 December 2008, revenue of security products dropped by 8.2% to RMB68,558,000 (2007: 74,718,000), taking up 6.1% of total revenue. Gross profit margin of security products also declined because of decreased sales, decreased price and intensified market competition, which dropped by 12.2 percentage points to 24.8% (2007: 37.0%)

The Group's video inter-com product snatched the leading position in the PRC market. New products were launched in the year under review which include touch screen entrance panel and indoor panel, video inter-com system, video entry system, a new network solution with 3-in-1 staircase control system. The Group's security product portfolios were further enriched. Products strength thus became even greater.

119 Fire Alarm Network Systems

119 fire alarm network systems developed steadily in the year under review. At present, 119 fire alarm network systems are installed in a total of 158 cities. The Group provided and installed corresponding system for 132 cities, having a market share as large as 83.5%, demonstrating its unrivalled advantages. During the year under review, the Group installed 119 fire alarm network systems in 39 cities in the PRC, including Nanjing, Guangzhou, Xishuangbanna, Zhenjiang, Urumqi, Zhangzhou and Xuzhou. Proceeds from the revenue of 119 fire alarm network systems recorded a 34.3% growth, amounting to RMB25,897,000 (2007: RMB19,286,000), with a gross profit margin of 73.0% (2007:73.3%).

119 fire alarm network systems market became more and more mature. Improved fire safety awareness and legislation in fire safety directly encouraged the popularization of 119 fire alarm network systems in an increasing number of cities. The Group outweighed its competitors in technology, services support and product quality. As a result, a larger market share in 119 fire alarm network systems market was expected by grasping on the qualities of high gross profit margin and steady recurrent income of 119 fire alarm network systems to strengthen the influence of the GST brand.

The third generation remote monitor system “GST-119NET City Fire and Security Remote Monitor System V5.0” researched and developed by the Group’s fire alarm network company used advanced multimedia technology wired and wireless communication technology, video compression and transfer technology, self-alarm and control technology and geographical information technology design. System software is structured as C/S+B/S. The monitoring centre adopts a three-tier structure. Information received by the monitoring centre can be supplied by 119 command centre and related departments, and at the same time supporting Internet enquiry. The system supports transfer using broadband network, VPN, GPRS, CDMA1X and telephone cable. The product was also accredited as the first batch of innovative products by the China Hubei Provincial Science and Technology Department. Revenue of “GST-119NET City Fire and Security Remote Monitor System V5.0” in 2008 amounted to RMB20,750,000.

Other Products

Other products include electric power meters and intelligent water meter, with a 37.6% growth in revenue to RMB43,217,000 (2007: RMB31,402,000).

Nationwide Sales Network

During the year under review, the number of sales offices reached 194, taking care of businesses in fire alarm products and security products (134 offices), industrial fire engineering and system integration engineering (24 offices), building control product business (15 offices), fire alarm network business (21 offices), area covered not only surpassed rivals, but also giving decisive advantage to the Group. The Group has a professional team with 1,692 members responsible for sales, marketing and technical support, enabling the Group to provide comprehensive and instant services to customers in different areas. The extensive nationwide sales network platform also serves as an ideal platform for international brands to enter the market.

Marketing

The Group organized product promotion campaigns in cities including Hong Kong, Macau, Thailand, Ukraine, Vietnam, India, United Arab Emirates, and Britain, effectively raised the recognition of GST brand by inviting well-known professionals in local consultant companies, professionals in the field, and property developers to the promotion campaigns.

The Group has also exerted extra efforts in expanding overseas markets. The Group participated in the “ISC West” in Las Vegas, the USA, the “IFSEC” in Birmingham, Britain, the “Intersec” in Dubai, United Arab Emirates, the “Exposec” in Sao Paulo, Brazil, International Fire and Security Exhibition in Ukraine, International Fire and Security Exhibition in Russia, Fire and Security Exhibition in Sydney, Australia, Fire and Security Exhibition in Pakistan, the “SecuTech” in Hanoi, Vietnam, Fire and Security Exhibition in Malaysia, Fire and Security Exhibition in Singapore and Fire and Security Exhibition in Indonesia, boosting the appeal of GST brand in the international market. In addition, with the increased usage of the Group’s products in various projects globally, more and more customers are attracted by the superior quality of the Group’s products, competitive price, timely after-sales service and efficient logistics service.

Keeping the Group’s promise of comprehensive after-sales service, the Group organized training workshops for clients to demonstrate the use of new products. A total of 4 training workshops on fire installation engineering were organized in 2008, in which 234 engineers were trained and accredited by the Group.

Sales Channels

During the past year of an unstable economic situation, performance of the Group’s major distribution channels remained stable, dominated by specialized installers. The Group actively promoted direct sales in the industrial sector, engineering sector and special venues sector.

Product R&D and Improvement

Closely tracking customers’ needs, keeping an eye on industry moves and monitoring the developments in fire alarm and security legislation enabled the Group to constantly refine the quality and advance the function of products so as to stay ahead in the industry. During the year, the Group actively researched and developed new products to enrich its product portfolio. Products included GB-QB-GST300 vehicle fire alarm monitoring system, GST-GM graphic display facility, GST-QKP01 gas fire extinguishing control panel and GT-DH9501 electric fire monitoring and detection product. These products were successfully marketed and the Group also developed a temperature monitoring device which was accredited CE certification for 16 models, 7 kinds of building control, fire safety monitoring software were accredited computer authentication registration certificate. Linear wired fire detection device, HW-VDS100 video fire safety monitoring system also received testing reports.

Abundant Contracts On-hand

In order to protect the Group’s interests, the Group is accustomed to entering into contracts with clients before delivery of goods. As at 31 December 2008, contracts on-hand amounted to approximately RMB856,669,000, representing an increase of 59.4% as compared to that of the previous year (2007: RMB537,279,000)

Operating Costs

During the year under review, the Group implemented corresponding measures to strictly control relevant operating costs as a result of higher labour costs under the effect of the new labour contract law. The share of revenue taken up by overall operating cost was only 1.3 percentage points up from last year. For the year ended 31 December 2008, distribution costs were RMB153,804,000 (2007: RMB98,688,000), an increase of 55.8% compared to that of 2007. Expansion in the PRC and overseas markets increased the burden on distribution costs. Increasing number of sales offices, marketing staffs and technicians significantly lifted remuneration expenses, which caused a 1.9 percentage point increase in the share of total revenue taken up by operation costs, from 11.7% to 13.6%. Administrative and general expenses in the year under review were approximately RMB164,576,000 (2007: RMB127,032,000), up by 29.6% compared to that of last year, mainly caused by expansion in the Group's business scale and the purchase of administrative system software in strengthening the Group's overall administration. These costs only took up 14.5% of total revenue, which is 0.6 percentage point less than that of last year.

Other Income and Income Tax Expenses

For the year ended 31 December 2008, income from preferential value added tax refund amounted to RMB31,602,000 (2007: RMB30,144,000), increased by 4.8% than that of last year. The new Corporate Income Tax Law of the PRC changed income tax rate and also the expiry of part of tax relief greatly increased income tax expenses by 238.3% to RMB16,133,000 (2007: approximately RMB4,769,000)

Working Capital, Financial Resources and Bank Loans

For the year ended 31 December 2008, the Group recorded operating cash inflow of approximately RMB172,017,000, representing an increase of 654.2% over last year's RMB22,809,000, largely due to increase in advance from customers and collection of other receivables, deposits and prepayments, in relation to the Group's business expansion and stable operating profit of the Group for the year. Cash used in the investing activities amounted to RMB133,727,000 (2007: RMB115,377,000), mainly for purchase of fixed assets and placement of time deposits with original maturities over three months. Cash used in financing activities amounted to RMB64,320,000 (2007: RMB47,160,000), mainly for the payment of dividend declared in 2008. 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.

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 revenue and raw material purchase are denominated in Renminbi. Though the financial crisis is leading to depreciation in Asian currencies, and 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 favours the raw material purchase price of the Group, and also helping the Group in cost control. It is expected positive impact to the future financial performance of the Group. On the other hand, the Group's export revenue, which is denominated in United States dollar and less than 6% of total revenue, is subject to limited negative impact of the appreciation of Renminbi against United States dollar.

The Group's bank deposits are predominately in Renminbi, Hong Kong dollar and the United States dollar. The Board is in the opinion that the appreciation of Renminbi may not generate any significant effect on the financial position of the Group's operation. Only a foreign exchange loss of approximately RMB2,289,000 (2007: RMB5,395,000) was reflected in the Group's financial statements. The Group's treasury policy stipulates management of foreign currency exposure to minimize unfavourable financial impact on the Group. The Group will continue to monitor its foreign exchange position. For the year ended 31 December 2008, 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 the Group's employees increased 2.1% from 3,460 in the year 2007 to 3,531 as at 31 December 2008. 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 financial crisis is still distressing nations worldwide. Huge uncertainty lingers over global economy as the final outcome of the financial crisis is left unknown. Worrying that the financial crisis may eventually develop into an economic crisis, governments of different countries implemented a series of measures to increase support towards financial institutions and the financial market in the hope of reviving the economy.

In prevention of negative effects that the financial tsunami may bring on the Chinese economy, the State Council introduced a total of ten measures promoting internal demand and encouraging economic growth to improve people's livelihood, infrastructure and reconstruction work after disaster. The estimated amount to be invested in two years in reviving the economy reaches RMB4 trillion. As a total fire and security solution provider, the Group will make best use of the opportunities given by the implementation of economic policy to strive for project contracts and market different products.

The PRC government dedicates its effort in promoting the development of safe city by renewing national standard and recognition on fire and security products and facilities to increase overall product and service qualities. Implementation of new national standards posed a great challenge on the Group's competitors. The Group is confident to sustain business growth with its strong foundation and active business development strategy.

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

1. Fire Alarm Systems

Benefiting from the Group's brand appeal, fire alarm system products have already gained advantages in some regions. The Group will put on a slight increase in the product price in order to stimulate consumption and dominate the market. Targeting on the huge market prospects in electric fire products, the Group will launch a new generation of products with improved functions to seize business opportunities.

2. Fire Extinguishing Products

Gas extinguishing products become more mature, particularly in HFC-227 products. In face of large demand, the Group shall seek greater business advancement in the coming year through its wide sales platform.

3. Industrial and Public Facilities Sector

Recession in external demand caused great decline in the growth of industries in the PRC. However, benefiting from policies which aimed at stimulating economy, heavy chemical industries including steel, petro-chemical, construction material, and machine facilities shall be the first to recover. More business opportunities for fire alarm and security business shall be created.

4. Export Market

The Group anticipates that its international business shall suffer from the global economic recession stimulated by the financial crisis in the United States. Asia and Europe will be the focus in export market. The Group will continue to explore potential markets to increase export sales. To improve service quality, the Group will constantly update its management system to increase effectiveness in management, increase accuracy in information gathering, customer services as well as the timely management of contracts.

5. Nationwide Sales Network

The Group will keep strengthening and integrating sales offices to increase efficiency, and maximize its advantages in sales network. The Group has also worked out new management modules and introduced regional marketing directors to coordinate and facilitate the sales of fire and security products by analyzing and concluding special qualities of different regions.

6. Installation Services

The Group's installation services shall develop from marketing and expansion model to profit-oriented model. In view of the slowdown in real estate development prospect, future development in installation services shall depend largely on the construction of large infrastructure projects. To boost the gross profit margin of installation services to a satisfactory level, the Group will exert stringent control on contracts terms and purchase costs to secure profit.

7. OEM & ODM Products

With various products and brands in sales, the Group shall be the first company to use security labels on its products in the fire alarm industry, to provide assurance for products sold on product sales platform. We also plan to build the first e-business website on fire alarm products, to strengthen logistics of products and communications between the Group and our customers, and hopefully increase sales volume with the development of the website.

8. Security Products

The Group shall continue to increase the amount of resources put in the R&D of new products, and introduce digitalized system products, semi-digitalized Internet IP systems, and fashionable internal side ports of medium price range. In addition, we will launch a set of management software that includes the administration of video inter-com, video entry and car parking system to build an integrated database. This will be the new attraction of the Group's business, further strengthening the leading position of GST brand in the industry.

9. Attraction and Retention of High-Calibre Talents

Even with a high labour cost caused by the new labour contract law, the Group attaches much importance to high-calibre talents. Being a law-abiding enterprise, the Group will increase efforts on the recruitment of high-caliber talents in the fields of R&D, installation, sales and repairing, to better prepare our staff and set a sound foundation for the Group's business development.

It is expected that business environment shall be full of challenges in the coming year with the financial tsunami affecting nations worldwide. The Group has overcome many adversities ever since the start of its business, and the valuable experience gained gives us enough confidence in dealing with the economic challenges ahead. In the coming year, the Group is determined to raise our technology to a higher level and get a better grasp on market information for facilitating the introduction of products mix and quality to an international level for the expansion of overseas market. The Group successfully gained desirable growth while maintaining a satisfactory performance in 2008. This is the fruitful result of the Group's hard work and implementation of effective strategies. The Group shall continue to develop its core business in fire alarm systems, fire extinguishing products, security products, installation services, entrusted products and fire network systems to strive for the highest returns for shareholders.

DIVIDENDS

The Board of Directors does not recommend the payment of a final dividend in respect of the year ended 31 December 2008.

A final dividend of RMB8.04 cents per share (approximately HK8.56 cents) for the year ended 31 December 2007, amount to total dividend of RMB64,320,000 (approximately HK\$68,480,000) was approved at the annual general meeting of the Company on 21 May 2008 and it was paid on 28 May 2008.

EVENTS AFTER THE BALANCE SHEET DATE

According to the joint announcement dated 3 December 2008, United Technologies Far East Limited ("UTFE"), a wholly-owned subsidiary of United Technologies Corporations ("UTC") which is a substantial shareholder of the Company, made a proposed voluntary conditional cash offers to acquire all the issued shares in the capital of the Company including shares held by GST International Management Limited ("GST International"), the controlling shareholder of the Company, (other than those shares already held by UTFE and parties acting in concert with it), and for the cancellation of all the outstanding share options of the Company (the "Offers"). The Offers, if and when made, will be made on HK\$3.38 in cash for each share of the Company and HK\$0.58 in cash for each share option of the Company. The making of the Offers is conditional upon any applicable waiting periods for a response from the relevant governmental or regulatory body having expired or being terminated and/or any consent or approval (including without limitation any approval in relation to the PRC Antitrust Filing and national security approval, as may be necessary) of any governmental or regulatory body in relation to the Offers or the completion thereof having been obtained in terms reasonably satisfactory to UTFE pursuant to the provisions of any laws or regulations in the PRC and other relevant jurisdictions, in each case where necessary for completion of the Offers.

As at the date of this announcement, the application of the Offers has been submitted to the relevant governmental body of the PRC for approval.

PURCHASES, SALE AND REDEMPTION OF THE SHARES

The Company's Shares were listed on the Main Board of the Stock Exchange on 30 June 2005. Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's Shares for the year ended 31 December 2008. As at 31 December 2008, 800,000,000 Shares were in issue.

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 2008 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 2008.

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.

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 2008 have been reviewed by the Committee.

PUBLICATION OF FURTHER INFORMATION ON THE STOCK EXCHANGE'S WEBSITE

The 2008 annual report containing all the information required by the Listing Rules will be published on the Stock Exchange's website and the Company's website at "www.gst.com.cn" in due course.

The Board of Directors would like to express our gratitude to our investors and employees for their support in the past.

Yours faithfully,
By order of the Board
Song Jiacheng
Chairman

Hong Kong, 24 April 2009

As at the date of this announcement, the executive Directors are Mr. Song Jiacheng, Mr. Cao Yu and Mr. Peng Kaichen, the non-executive Directors are Mr. Zeng Jun and Mr. Lee Kwan Hung, Eddie and the independent non-executive Directors are Mr. Chang Tso Tung, Stephen, Mr. Chan Chi On, Derek and Mr. Sun Lun.