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 2007

HIGHLIGHTS

- Turnover of the Group for the year grew 30.1% to approximately RMB840.2 million.
- Operating profit for the year increased 9.1% to approximately RMB187.7 million.
- Profit attributable to equity holders of the Company for the year increased by 9.7% to approximately RMB181.0 million.
- Basic earnings per share for the year was RMB22.6 cents (2006: RMB20.6 cents).
- The Board recommends the payment of a final dividend for the year of RMB8.04 cents (approximately HK8.56 cents) per share, representing pay out ratio of 35.5%.

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 2007.

CONSOLIDATED INCOME STATEMENT

	Notes	Year ended 31 December **2007** *RMB'000*	2006 *RMB'000*
Turnover	*2*	**840,151**	645,771
Cost of goods sold		**(471,824)**	(329,041)
Gross profit		**368,327**	316,730
Other income	*4*	**45,089**	27,838
Distribution costs		**(98,688)**	(81,583)
Administrative and general expenses		**(127,032)**	(90,875)
Operating profit	*5*	**187,696**	172,110
Share of results of			
Jointly controlled entity		**392**	1,304
Associates		**(2,264)**	(286)
Profit before income tax		**185,824**	173,128
Income tax expenses	*6*	**(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	*7*		
– Basic (RMB cents)		**22.6 cents**	20.6 cents
– Diluted (RMB cents)		**N/A**	N/A
Dividends	*8*	**64,320**	58,640

CONSOLIDATED BALANCE SHEET

	Notes	As at 31 December 2007 RMB'000	2006 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		**310,568**	182,495
Prepaid operating lease for land		**9,631**	9,856
Intangible assets		**16,024**	14,540
Investment in a jointly controlled entity		**188**	(204)
Investment in associates		**71**	2,335
Deferred income tax assets		**3,257**	754
		339,739	209,776
Current assets			
Inventories		**153,711**	118,478
Trade receivables	*9*	**253,385**	144,413
Other receivables, deposits and prepayments		**73,061**	33,485
Amount due from a jointly controlled entity		**24,373**	14,844
Amount due from a related company		**3,534**	–
Available-for-sale financial assets		**–**	30,000
Restricted bank deposits		**11,511**	17,552
Cash and cash equivalents		**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		**84,800**	84,800
Reserves		**919,278**	795,678
		1,004,078	880,478
Minority interests		**872**	833
Total equity		**1,004,950**	881,311
LIABILITIES			
Current liabilities			
Trade payables	*10*	**95,330**	109,680
Other payables and accruals		**17,062**	16,347
Advance from customers		**70,272**	32,547
Advance from a related company		**–**	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

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 2006 financial statements.

(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'.

(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 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. 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

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 31 December 2007	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
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*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

Year ended 31 December 2006	Sales of goods 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*	Provision of services 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.

4. 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

5. OPERATING PROFIT

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

	Year ended 31 December	
	2007	2006
	RMB'000	*RMB'000*
Charging:		
Employee benefit expense	**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.

6. INCOME TAX EXPENSES

	Year ended 31 December	
	2007	2006
	RMB'000	*RMB'000*
Current income tax	**7,272**	8,755
Deferred income tax		
– 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.

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	
	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.

8. 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.

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	
	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.

10. 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

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

DIVIDENDS

The Board of Directors recommended the payment of a final dividend of RMB8.04 cents (2006: RMB7.33 cents) per share equivalent to approximately HK8.56 cents (2006: approximately HK7.33 cents) for the year ended 31 December 2007, representing an increase of 9.7% over previous year, to those shareholders whose names appear on the register of members of the Company on 21 May 2008.

PURCHASES, SALE AND REDEMPTION OF THE SHARES

The Company's Shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited (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 2007. As at 31 December 2007, 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 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.

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.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Wednesday, 14 May 2008 to Wednesday, 21 May 2008 (both days inclusive) during which period no transfer of Shares will be registered. In order to qualify for the proposed final dividend and the entitlement to attend and vote at the Meeting, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4 p.m. on Tuesday, 13 May 2008.

PUBLICATION OF FURTHER INFORMATION ON THE STOCK EXCHANGE'S WEBSITE

The 2007 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, 14 April 2008

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.