GST HOLDINGS LIMITED
海灣控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock code: 0416

ATTRACTION & RETENTION SECTOR

Annual Report 2008

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Corporate Information

DIRECTORS

Executive Directors:

Song Jiacheng *(Chairman)*
Cao Yu
Peng Kaichen

Non-executive Directors:

Zeng Jun
Lee Kwan Hung, Eddie

Independent non-executive Directors:

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

AUDIT COMMITTEE

Chang Tso Tung, Stephen *(Chairman)*
Chan Chi On, Derek
Sun Lun

REMUNERATION COMMITTEE

Chan Chi On, Derek *(Chairman)*
Lee Kwan Hung, Eddie
Chang Tso Tung, Stephen

SENIOR MANAGEMENT

Jiang Zhengyu
Hung Lap Kay, Ernie (Company Secretary)

STOCK CODE

Hong Kong Stock Exchange 416

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HONG KONG BRANCH REGISTRAR AND TRANSFER OFFICE

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PRINCIPAL BANKERS

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

AUDITORS

PricewaterhouseCoopers

LEGAL ADVISERS

As to Hong Kong law

Woo, Kwan, Lee & Lo

As to Cayman Islands law

Conyers Dill & Pearman

As to PRC Law

Commerce & Finance Law Offices

Chairman's Statement

Dear Shareholders,

On behalf of GST Holdings Limited ("GST Holdings" or "the Company", together with its subsidiaries, "the Group"), I am pleased to present the Group's annual results for the year ended 31 December 2008.

Year 2008 was an extraordinary year, in which GST triumphed through challenges and tough trials. Severe natural disasters that stunned the world such as snowstorm, earthquake had put us to grim test. Unprecedented global financial tsunami, the legislation and stipulation of New Labor Contract Law and a series of unexpected issues and problems stemmed from company growth had encountered enormous challenges. In face of the difficult situation, all staff members of the Group were dedicated to innovation and diligence. Achievement of rapid sales growth wrote splendid history for the Group.

Industry Review

During the year under review, the organization of Beijing Olympics had encouraged the national and regional governments to give weight to community safety and harmonic development. Multitude of large-scale modern business buildings, hostels, shopping malls, supermarkets sprang up and in turn stimulated the growth of fire and security markets.

Late in the year, the protracted sub-prime mortgage crisis in the United States had eventually evolved into overwhelming financial crisis that shock the global economy. With the strength and concrete business foundation built through years, the Group gained a firm foothold in the turbulence of the financial tsunami and managed to achieve a sales growth.

During the year, with the economic recession deepened, signals of shrinkage of the fire and security markets emerged. Competition in the fire industry in the People's Republic of China (the "PRC") gathered intensity but remained dispersed on the terrain as local enterprises in the regions dominated and industry concentration was rather low. Still the Group managed to secure unparalleled advantage and attain remarkable success in trans-region operation with solid brand and nationwide sales network.

Driven by investment in property market and industrial reform, fire market in northeast and central west regions grew significantly. Among which, Tianjin, Liaoning, Sichuan provinces were the fastest-growing markets. In addition, the development of safe cities and intelligent communities created a wealth of business opportunities in the compass of security markets. In recent years, the safety construction has been in full engine across the nation to enhance social order and security control ability. Subsequent to Beijing Olympics, the Shanghai World Expo, Guangzhou Asian Games, Shenzhen Universiade would drum up tremendous demand for security facilities such as monitor, car parking management system, video entry system, Global Positioning System and car-embedded hard-disc recorder.

Results Highlights

Benefited from extensive sales network as well as active and prudent sales policy, the Group recorded an increase of 34.7% in revenue to RMB1,131,475,000 for the year ended 31 December 2008 yet profit attributable to equity holders of the Company experienced a slight drop of 1.8% to RMB177,676,000. The Board does not recommend dividend payout for the year.

Operating Strategy

GST envisioned to be the best in China, world-renowned fire and security total solutions provider by spurring new business growth through completion of product offering, branding, digitalization and internationalization.

Products

The Group's fire alarm system sales continued to lead the market during the year under review. Year 2008 was for the transition from old national standard to the new that involved a wide range of products including control panel, on-site facilities and so on. The Group was not only the first enterprise that had completed compliance with the new standard but also spearheaded the industry with its top 3C accredited products. Famed for its quality and strength, the Group managed to aptly adjust product price to sustain profitability under strong competition.

Situated in Shenzhen and opened in May 2008, the security products plant commenced production and became a vital production base for the Group other than Qinhuangdao and Beijing. The plant mainly manufactured a variety of video entry products and possessed independent supplying capability. As the production system matured, product research and development system grew along. Intelligent car park management system co-developed with other institutions had successfully passed the testing of the Ministry of Public Security. Together with the video entry system and monitor system completed previously, these newly-developed products proved our Group's victorious realization of being an integrated company that offers all-rounded one-stop service encompassing product development, manufacturing, sales and solutions planning and after-sales service.

Services

Our installation business is operated by a team of experienced professionals which offers system design and installation services. Promotion of installation safety has contributed to the increase of projects obtained in electricity plant and other industry fields. Satisfactory result was recorded in the year under review. The installation company of the Group was awarded with class one certificate for its fire prevention facility design and installation, as well as class one project certificate for construction intelligence. It is also accredited as the leading national enterprise compassing engineering capability in respects of fire prevention facility, construction intelligence, security project design and installation.

Apart from the market in the Mainland China, the Group aimed at the development opportunities in export market. The Group currently sells products to 85 regions including Asia, Middle East, Europe and America and so on. GST brand had been registered in over 87 around the world.

Achievements

The Group was honored to be awarded again "China Security Industry Top 100", "2008 Top 10 Building Intercom Brand" and "2008 Top 10 China Security Brand", proving the exceptional strength of the Group. The installation company of the Group was also awarded the National New Technology Enterprise Certificate co-issued by the Beijing Municipal Science and Technology Commission, the Financial Bureau of Beijing, the Beijing Municipal Office, State Administration of Taxation and the Beijing Local Taxation Bureau. In addition, the third generation remote monitor system "GST-119NET City Fire Prevention Remote Monitor System V5.0" researched and developed by the Group's fire network company was being accredited as the first batch of innovative products by the China Hubei Provincial Science and Technology Department. The Group's corporate influence grew with time and popularity was greatly enhanced.

Future Development

From the perspective of the macro environment setting, now is the era for fire and security industry to undergo reform and substantial development in China. Global economy considerably slowed down in the fourth quarter in 2008. The risk of further downturn increased and added uncertainty to the prospect. In face of the ongoing financial crisis, export market demand is susceptible to the major economy and the faltering property market would likely drag down the local market. Still, urbanization and industrialization would be the driving force for the China's economy. The Group would cautiously gauge the situation and maintain the normal operation of each business. Capitalizing on diversification of products and one-stop service would be the crucial means to generate moderate growth for the Group.

As a fire and security comprehensive solutions provider, the Group succeeded in transforming into a professionalism-and-service-oriented enterprise while had never stopped the search for innovation in business and profitability mode. As market capacity shrank, the Group would bring the edge of its own sales network into full play to boost sales. Moreover, extensive coastal area, Central West region and Northeast region would be future development focuses. It is believed that the fire and security business of the peripheral areas of the big cities, prefecture-level cities and other fast developing provinces and cities would become the Group's another growth drivers with more resources input for development.

Besides, the Group has done very well in mid to high-end market of fire and security market. It is also planned to make use of new products to expand to high-end market and grab greater share of the low-end market when opportunities arise. The Group is now completing product portfolios to strive for appreciable return.

As for trade receivables, the Group would adopt strict credit policy to reduce operational risk and actively retrieve outstanding amount to avoid bad debts under the present stagnant economy. The Group highly regards the quality of new contracts and make best endeavor to control and avert risk in order to protect the Group's operation margins.

Revised "Fire Prevention Law" was passed in the fifth meeting of the Standing Committee of the Eleventh National People's Congress and would take effect from 1 May 2009. This is conducive to the scientific development of the fire industry and raising the legal consciousness and protection of community safety. The Group would work hard in the direction set up by the state and leverage the new legislation on fire prevention to promote product sales and business growth.

The Group was honored to be the target of conditional general offer from the second substantial shareholder of the Company – United Technologies Corporation, a U.S. based company, of which application for the clearance of Anti-trust had been submitted to the Ministry of Commerce and pending approval of relevant authorities.

Facing the steep market condition and the challenges in sales, the Group has to make full use of our advantages in brand, technologies and market competitive edge in order to seize the opportunities disguised in the crisis. New sales philosophy would be injected to lead the Group to proceed prudently. The Group is confident of its own strength. We believe that working in concerted effort will overcome challenges. At last, I would like to extend my heartfelt gratitude to all staff members for their hard work on the Group's development and to our shareholders for their trust and support.

Song Jiacheng
Chairman

Hong Kong, 24 April 2009

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 recommended 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.

Revenue Analysis by Business Segments

	2008 RMB'000	% of Revenue	2007 RMB'000	% of Revenue	Growth (%)
Fire Alarm Systems	**810,680**	**71.6%**	578,319	68.8%	40.2%
Installation Services	**183,123**	**16.2%**	136,426	16.2%	34.2%
Security Products	**68,558**	**6.1%**	74,718	9.0%	–8.2%
Electric Power Meters & 119 Fire Alarm Network Systems	**69,114**	**6.1%**	50,688	6.0%	36.4%
Total	**1,131,475**	**100.0%**	840,151	100.0%	34.7%

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%).

Gross Profit Margin Analysis of Fire Alarm Systems by Customer Type

	Gross Profit Margin	
	2008	2007
Commercial & Residential	**48.8%**	47.1%
Industrial & Public Facilities	**49.7%**	48.7%
Export	**55.6%**	56.2%
Overall	**49.6%**	48.3%

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, Maidao 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).

Revenue Percentage Analysis of Fire Alarm Systems by Customer Types

	Revenue Percentage	
	2008	2007
Commercial & Residential	**64.8%**	64.1%
Industrial & Public Facilities	**27.3%**	27.1%
Export	**7.9%**	8.8%
Total	**100.0%**	100.0%

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 staff 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.

Revenue of Industrial and Public Facilities Customers

	2008 RMB'000	2007 RMB'000	Growth
Industrial & Public Facilities	221,466	156,542	41.5%

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.

Export revenue

	2008 RMB'000	2007 RMB'000	Growth
Export revenue	**64,002**	50,618	26.4%

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.

Revenue Percentage Analysis by Geographical Regions

	Revenue Percentage	
	2008	2007
Northern China	**31.1%**	29.4%
Eastern China	**23.1%**	23.0%
Southern China	**18.7%**	20.0%
Northeast	**8.9%**	9.0%
Southwest	**7.2%**	8.1%
Northwest	**5.3%**	4.5%
Export	**5.7%**	6.0%
Total	**100.0%**	100.0%

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.

Management Discussion and Analysis

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.

Revenue Percentage Analysis by Sales Channel

	Revenue Percentage	
	2008	2007
Installation professionals	**48.4%**	43.8%
End-users	**23.7%**	27.2%
System Integrators	**16.7%**	17.8%
Distributors	**5.5%**	5.2%
Export	**5.7%**	6.0%
Total	**100.0%**	100.0%

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 perentage 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 perentage 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.

Conclusion

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.

Biographies of Directors and Senior Management

DIRECTORS

Executive Directors

Mr. Song Jiacheng (宋佳城), aged 48, is the chairman of the Board, an executive Director, the chief executive officer of the Company and one of the founding shareholders of the Group. Mr. Song graduated from Southwest University of Science and Technology (formerly known as Sichuan College of Construction Materials Industry (四川建築材料工業學院)) with a bachelor's degree in engineering in 1983. Mr. Song gained management expertise by consecutively serving as the chairman of the Board and the chief executive officer of the Group since 1993. He has over 16 years of experience in the PRC fire alarm systems industry. From 1985 to 1993, Mr. Song was a lecturer at the Management Cadre School Qinhuangdao Branch under the State Administration of Buildings Materials Industry (國家建材局管理幹部學院秦皇島分院講師). Mr. Song was awarded one of the ''Top Ten Excellent Entrepreneurs of Privately-owned Science and Technology Companies in Hebei Province" (河北省十佳民營科技實業家) in 1997 and 1998 and is a member of the standing committee of the Hebei Provincial Committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議河北省委員會常務委員會常委). He was also given the award of one of the ''Year 2002 Excellent Entrepreneurs of China's Privately-owned Science and Technology Companies" (中國優秀民營科技企業家) by All-China Federation of Industry and Commerce (中華全國工商業聯合會) in 2002. In April 2002, he became an executive member of the All-China Federation of Industry & Commerce. In April 2004, Mr. Song was awarded the title of "Staff Caring Outstanding Entrepreneur" (全國關愛員工優秀民營企業家) by All-China Federation of Industry & Commerce (中華全國工商業聯合會) and All-China Federation of Trade Unions (中華全國總工會). In December 2004, he was awarded the title of "Outstanding Builder of Socialism with Chinese Characteristics" (優秀中國特色社會主義事業建設者) by United Front Work Department of the CPC Central Committee (中共中央統戰部), National Development and Reform Commission (國家發展和改革委員會), Ministry of Personnel of the People's Republic of China (人事部), State Administration for Industry & Commerce (國家工商總局), and All-China Federation of Industry & Commerce (全國工商聯). He currently serves as member of the national committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議全國委員會) and a vice president of Hebei Provincial Association of Business (河北省總商會).

Mr. Cao Yu (曹榆), aged 46, is an executive Director and president of the Company and one of the founding shareholders of the Group. Mr. Cao graduated from Tianjin University (天津大學) with a master's degree in communications and electronic systems in 1987 and a bachelor's degree in electronic engineering in 1982. Mr. Cao has been a director of Gulf Security Technology Company Limited ("GST") and has served in various management positions in the Group since 1993. He has over 16 years of experience in the PRC fire alarm systems industry. He is currently a member of the Qinhuangdao Municipal Committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議秦皇島市委員會) and serves as a vice president of the Committee on Fire Security Electronic Products of CFPA (中國消防協會電子行業分會) and is a member of China's National Committee on Fire Security Technology Standardization (全國消防標準化技術委員會). Mr. Cao is a director of the Research Committee on Fire Prevention Comprehensive Technology of China Construction Association (中國建築學會建築防火綜合技術分會), a member of the Expert Committee on Intelligent Building Technology of the Ministry of Construction of the PRC (建設部建築智能化技術專家委員會), a member of the Expert Committee of the China's Security Prevention Products Industry Association (中國安全防範產品行業協會專家委員會) and a member of the US National Fire Protection Association. Mr. Cao is also a vice director of Hebei Province Quality Management Association (河北省質量協會).

Mr. Peng Kaichen (彭開臣), aged 46, is an executive Director of the Company and one of the founding shareholders of the Group. Mr. Peng graduated from Southwest University of Science and Technology (formerly known as Sichuan College of Construction Materials Industry (四川建築材料工業學院) with a bachelor's degree in building materials industrial automation in 1984. Since 1993, Mr. Peng has been a director of the GST and has served in various management positions, including the manager for the research and development department, chief engineer, vice general manager in charge of production of GST.

Non-executive Directors

Mr. Zeng Jun (曾軍), aged 41, is a non-executive Director, a vice chairman of the Board and one of the founding shareholders of the Group. Mr. Zeng graduated from Fudan University (復旦大學) with a bachelor's degree in genetic engineering in 1989 and from Sino-Europe International Business School (中歐國際工商學院) with an EMBA degree in 2002. Mr. Zeng has been the vice chairman of GST since 1993 and was the executive vice general manager of GST from 1993 to 2000. Mr. Zeng also has been the general manager of Beijing Gulf Jingcheng Property Development Company Limited in October 2000 and the chairman and general manager of Fuho Capital Management Company Limited in May 2008.

Mr. Lee Kwan Hung, Eddie (李均雄), aged 43, is a non-executive Director. Mr. Lee graduated from the University of Hong Kong with a bachelor's degree in law in 1988 and a Postgraduate Certificate in Laws in 1989. He was qualified as a solicitor in Hong Kong in 1991 and in England and Wales in 1997. He was a senior manager of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") and is a partner of Woo, Kwan, Lee & Lo and the chief representative of Woo, Kwan, Lee & Lo's Beijing Office. Mr. Lee is also an independent non-executive director of GZI REIT Asset Management Limited, Embry Holdings Limited, Asia Cassava Resources Holdings Limited and NetDragon Websoft Inc., all of which are listed on the Main Board of the Stock Exchange. He was also a non-executive director of Mirabell International Holdings Limited, the shares of which were formerly listed on the Main Board of the Stock Exchange. Besides, Mr. Lee had been an independent non-executive director of China Mining Resources Group Limited (formerly known as Innomaxx Biotechnology Group Limited), the shares of which are listed on the Main Board of the Stock Exchange. Mr. Lee joined the Company in December 2004.

Independent Non-executive Directors

Mr. Chang Tso Tung, Stephen (張祖同), aged 60, is an independent non-executive Director. He joined the Company in February 2005. Mr. Chang was the former deputy chairman and a member of the management committee of Ernst & Young, Hong Kong. Mr. Chang graduated from London University with a bachelor's degree in science in 1973. Mr. Chang has been a fellow member of the Hong Kong Institute of Certified Public Accountants and is a fellow member of the Institute of Chartered Accountants in England and Wales. Mr. Chang previously served as the chairman of the audit department and also as the managing partner for professional services of Ernst & Young, Hong Kong. Mr. Chang has over 31 years of experience in auditing and advisory services.

Mr. Chan Chi On, Derek (陳志安), aged 45, is an independent non-executive Director. He joined the Company in February 2005. Mr. Chan is an executive director of Tai Fook Securities Group Limited, a company listed on the Stock Exchange, and is in charge of its capital markets division. Mr. Chan is also an independent non-executive director of GZI REIT Asset Management Limited. He also holds directorship in certain companies in hotel investment. He graduated from the Hong Kong University of Science & Technology with a master's degree in business administration in 1994 and graduated from the University of Hong Kong with a bachelor's degree of social sciences majoring in economics in 1985. Between 1989 and 1996, he has worked for the Stock Exchange. He is an adjunct professor in the School of Accounting and Finance of the Hong Kong Polytechnic University. Mr. Chan has over 19 years of experience in the financial services industry.

Mr. Sun Lun (孫倫), aged 68, is an independent non-executive Director. He joined the Company in February 2005. Mr. Sun graduated from Zhongbei University (中北大學) (formerly known as Taiyuan College of Mechanics (太原機械學院) with a bachelor's degree in chemical engineering in 1965. He is the chairman of the China's Fire Security Association. From 1991 to 2001, Mr. Sun was a director, vice president and president of the Fire Security Bureau of the Ministry of Public Security of the PRC (中華人民共和國公安部消防局), and from 1993 to 2001, he was the chairman of China's National Committee on Fire Security Technology Standardization (全國消防標準化技術委員會). From 1994 to 2000, he was a vice president of China Fire Products Quality Certification Committee (中國消防產品質量認証委員會). Mr. Sun has over 28 years of experience in the fire security industry. In 1997, Mr. Sun was awarded the Medal of the International Civil Defence Organization by the International Civil Defence Organization in honor of his contributions to the development of the fire security industry in China. In September 2003, Mr. Sun was awarded the Gold Award of the first "Ozonosphere Protection Award" (保護臭氧層貢獻獎) by the State Environmental Protection Administration of China (國家環保局授予國家) in recognition of his contribution in the China fire industry to protect the ozonosphere. In June 2005, he was appointed the vice-president of the Confederation of Fire Protection Association-Asia & Australia (國際消防協會聯盟亞澳分會).

SENIOR MANAGEMENT

Mr. Jiang Zhengyu (蔣正宇), aged 38, is the financial controller of the Group. Mr. Jiang graduated from Anhui University of Finance & Economics (安徽財經大學) with a bachelor's degree in finance and economics in 1993. Mr. Jiang qualified as Chinese certified public accountant in 1996 and he is a member of The Chinese Institute of Certified Public Accountants. Mr. Jiang joined the Group in 2006 and has over 16 years experience working in auditing and finance.

Mr. Hung Lap Kay (孔立基), aged 39, is the company secretary and finance manager of the Company. Pursuant to Rule 8.17 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange, he is also the company secretary of the Company. Mr. Hung holds a Bachelor of Business Administration (Hons) degree in Accounting from Hong Kong Baptist University and a master degree in accounting from Curtin University of Technology in Australia. Mr. Hung joined the Company in January 2007. Prior joining the Company, Mr. Hung was a group financial controller of China Photar Electronics Group Limited, a listed company on the Growth Enterprise Market Board of the Stock Exchange. Mr. Hung is also a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Hung has over 15 years experience working in accounting and auditing.

The Directors are pleased to present their report together with the audited financial statements for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The Group is engaged in the development, manufacturing, sales and installation of intelligent fire detection and control systems, automatic and intelligent security systems for residential, commercial and industrial uses. Particulars of the Company's subsidiaries as at 31 December 2008 are set out in note 36 to the financial statements.

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

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2008 are set out in the consolidated income statement on page 35.

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

RESERVES

Movements in reserves of the Group and the Company during the year are set out in note 30 to the financial statements.

The distributable reserves of the Company as at 31 December 2008 amounted to approximately RMB285 million (2007: RMB364 million) comprising net of share premium of RMB348 million and accumulated deficits of RMB63 million (2007: net of share premium of RMB411 million and accumulated deficits of RMB47 million).

PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment of the Group and the Company during the year are set out in note 15 to the financial statements.

SHARE CAPITAL

Details of the movements in the share capital during the year are set out in note 29 to the financial statements.

DIRECTORS

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

Executive Directors

Song Jiacheng *(Chairman)*
Cao Yu
Peng Kaichen

Non-executive Directors

Zeng Jun
Lee Kwan Hung, Eddie

Independent Non-executive Directors

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

According to the Articles of Association of the Company, at each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. A retiring Director is eligible for re-appointment. There are no provisions relating to retirement of Directors upon reaching any age limit.

As Mr. Cao Yu, Mr. Peng Kaichen and Mr. Zeng Jun have been longest in office, they shall retire at the conclusion of the 2008 annual general meeting, and all, being eligible, offer themselves for re-election.

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

DIRECTORS' SERVICE CONTRACTS

No Director has any existing or proposed service contract with any member of the Group that is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

MAJOR CUSTOMERS AND SUPPLIER

For the year ended 31 December 2008, aggregate sales to the five largest customers and aggregate purchases from the five largest suppliers accounted for less than 30% of our total sales and purchases, respectively.

CONNECTED TRANSACTIONS

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

Certain related party transactions as disclosed in note 35 to the financial statements also constituted connected transactions under the Listing Rules.

For the year ended 31 December 2008, the Group had the following connected transactions:

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

2. **Continuing connected transactions – Property management fee paid to a wholly-owned subsidiary of Gulf Group**
   On 11 June 2007, GST entered into a property management agreement for three years from 1 July 2007 to 30 June 2010 with The Gate Asset Management Company Limited ("The Gate")(北京新中關摩爾資產管理有限公司), an indirect subsidiary of Gulf Group, which was responsible for management services in relation to the office building of the Group in Zhongguancun, Beijing, including but not limited to day-to-day maintenance and management, security, cleaning, fire safety management and refurbishment. The annual property management fee was determined based on terms agreed upon by both parties. The annual cap in respect of the property management fee agreement for 31 December 2008 was RMB1,238,424. The amount of property management fee paid under the property management agreement recorded by the Group for the year ended 31 December 2008 and 31 December 2007 are set out in note 35(vii) to the financial statements.

3. **Exempted Continuing Connected Transactions**
   Certain exempted continuing connected transactions of the Group for the year ended 31 December 2008 and 31 December 2007 are set out in note 35(viii) to the financial statements.

The Directors of the Company (including the independent non-executive Directors of the Company) have reviewed the above continuing connected transaction and confirmed that the transaction has been entered into (1) in the ordinary and usual course of business of the Group; (2) on normal commercial terms; and (3) in accordance with the relevant agreements entered into on terms which are fair and reasonable and in the interests of the shareholders of the Company as a whole.

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

CONTRACT OF SIGNIFICANCE

There is no contract of significance in relation to the Group's business to which the Company, its subsidiaries or its holding company was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or any time during the year.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

As at 31 December 2008, the interests and/or short positions of the Directors and the chief executive of the Company in the Shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions of which they were taken or deemed to have taken under such provisions of the SFO), and/or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Beneficial interests in the shares of associated corporations

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

Share options granted to Directors

On 23 May 2007, the Company granted share options to all Directors under the share option scheme (the "Share Option Scheme") that was adopted on 7 June 2005 conditionally and became unconditional on 30 June 2005. Details of the share options movement as at 31 December 2008 are set out in the heading "Share Option Scheme" under Report of Directors.

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

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

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2008, the following person, not being a Director or chief executive of the Company, had an interest and/or short position in the Shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name of shareholder	Nature of interest	Capacity	Number of Shares	Approximate shareholding percentage
GST International Management Limited	Corporate interest	Registered and beneficial owner	427,479,369 (L)	53.43%
United Technologies Corporation ("UTC") *(Note)*	Corporate interest	Interest in controlled corporation	232,208,631 (L)	29.03%
Otis Elevator Company ("Otis") *(Note)*	Corporate interest	Interest in controlled corporation	230,224,631(L)	28.78%
Carrier Corporation ("Carrier") *(Note)*	Corporate interest	Interest in controlled corporation	230,224,631(L)	28.78%
United Technologies Far East Limited ("UTFE") *(Note)*	Corporate interest	Interest in controlled corporation	230,224,631(L)	28.78%

(L) Indicates a long position.

Note:

As at 31 December 2008, UTC holds 100% of the equity interests in each of Otis and Carrier. Otis and Carrier hold an aggregate of 100% equity interests in UTFE, which owns 230,224,631 Shares. In addition, UTC owns 1,984,000 Shares through another wholly-owned subsidiary.

Save as disclosed above, no other interests or short positions in the Shares or underlying shares of the Company were recorded in the register maintained under Section 336 of the SFO as at 31 December 2008.

SHARE OPTION SCHEME

The purpose of the Share Option Scheme is to provide incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Share Option Scheme include any employees, directors, substantial shareholders or any of their respective associates of the Company and/or any of its subsidiaries or associated companies.

The following table discloses the movement of the Company's share options during the year ended 31 December 2008:

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

The closing price of the Company's share on 22 May 2007, the date immediately before the date of grant of the share options (23 May 2007), was HK$2.80 per share. During the year ended 31 December 2008, the fair value of the share options granted recognized into administrative and general expense are set out in note 29 to the financial statements.

PURCHASES, SALE AND REDEMPTION OF THE SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's Shares for the year ended 31 December 2008. As at 31 December 2008, 800,000,000 Shares were in issue.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the latest practicable date prior to the issue of this annual report, the Company has public float of 17.54% which has fallen below 25% of the entire issued share capital of the Company, the minimum prescribed percentage as required by Rule 8.08 of the Listing Rules (the "Minimum Prescribed Percentage"). The shortfall in the Minimum Prescribed Percentage arose from increased shareholdings of the Company by UTC, who is a connected person of the Company only because it is a substantial shareholder of the Company. Details of the shareholdings of the Company and substantial shareholders as at 31 December 2008 are set out in the heading "Substantial Shareholders" under Report of Directors.

PRE-EMPTIVE RIGHTS

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

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 substantial shareholder of the Company, made proposed voluntary conditional cash offers to acquire all the issued shares in the capital of the Company 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 annual report issued, the application of the Offers has been submitted to the relevant governmental body of the PRC for approval.

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.

AUDITOR

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

By order of the Board
Song Jiacheng
Chairman

Hong Kong, 24 April 2009

The Company has made continuous effort to ensure high standards of corporate governance. The principles of corporate governance adopted by the Company emphasizes a quality board, sound internal controls and accountability to shareholders and these are based upon an established ethical corporate culture.

CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, the Company has applied the principles and complied with all the code provisions as set out in the Code on Corporate Governance Practices (the "CG Code") contained in the Appendix 14 of the Listing Rules during the year ended 31 December 2008, with an exception of the code provision A.2.1 of the CG Code that stipulates the roles of Chairperson and Chief Executive Officer should be separate and should not be performed by the same individual.

THE BOARD OF DIRECTORS

The overall management of the Group's business is vested in the Board. Key responsibilities include formulation of the Group's overall strategies and policies, setting of performance targets, evaluation of business performance and oversight of management.

As at 31 December 2008, the Board comprised eight Directors, including three Executive Directors, two Non-executive Directors and three Independent Non-executive Directors. Non-executive Directors and Independent Non-executive Directors are appointed for a term of three years from their respective dates of appointment. For a Director to be considered independent, the Board must determine the Director does not have any direct or indirect material relationship with the Group. In determining the independence of the Directors, the Board follows the requirements set out in the Listing Rules. Biographical details of the Directors are set out on pages 18 to 20.

The Board meets regularly and at least four times a year. Between scheduled meetings, senior management of the Group provides to the Directors information on a timely basis on the activities and development in the businesses of the Group and when required, additional Board meetings are held. In addition, Directors have full access to information on the Group and independent professional advice whenever deemed necessary by the Directors.

The Chairman is responsible for providing leadership to, and overseeing, the functioning of the Board to ensure that the Board acts in the best interests of the Group and Board meetings are planned and conducted effectively. The Chairman is primarily responsible for approving the agenda for each Board meeting, taking into account, where appropriate, matters proposed by other Directors for inclusion in the agenda. With the support of the Company Secretary and other senior management, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and receive adequate and reliable information in a timely manner. The Chairman also actively encourages Directors to fully engage in the Board's affairs and make contribution to the Board's functions.

The Board held six Board meetings in 2008 and two Board meetings to date in 2009. The attendance record of each member of the Board in 2008 is set out below:

Directors:	Attendance of Board meetings in 2008
Executive Directors	
Song Jiacheng *(Chairman)*	6/6
Cao Yu	6/6
Peng Kaichen	6/6
Non-executive Directors	
Zeng Jun	4/6
Lee Kwan Hung, Eddie	6/6
Independent Non-executive Directors	
Chang Tso Tung, Stephen	6/6
Chan Chi On, Derek	6/6
Sun Lun	4/6

BOARD COMMITTEES

As an integral part of good corporate governance practices, the Board established the following Board committees to oversee particular aspects of the Group's affairs. Each of these committees comprises entirely Non-executive Directors who have been invited to serve as members. These committees are governed by the respective terms of reference approved by the Board.

Audit Committee

The Audit Committee consists of three Independent Non-executive Directors with Mr. Chang Tso Tung, Stephen as the chairman. Other members are Mr. Chan Chi On, Derek and Mr. Sun Lun. At the discretion of the Audit Committee, Executive Directors and/or senior management personnel overseeing the Group's finance or internal audit functions may be invited to attend meetings. The Audit Committee normally meets four times a year.

The duties of the Audit Committee include, among other things, reviewing and monitoring the financial and internal control aspects of the Group. The Audit Committee reviews the truth and fairness of the Group's interim and annual financial statements, discusses with the external auditors the nature and scope of audit before the audit commences as well as the findings and recommendations raised by the auditors during and after completion of the audit. The Audit Committee conducts an assessment, at least annually, of the effectiveness of the Group's internal controls. This allows the Board to monitor the Group's overall financial position and to protect its assets. In addition, the Audit Committee supervises the internal audit function. The chairman of the Audit Committee summaries activities of the Audit Committee, highlights issues arising therefrom, and provides recommendations for reporting to the Board after each meeting.

The Audit Committee held four meetings in 2008 and three meetings to date in 2009. The attendance record of each member of the Audit Committee in 2008 is set out below:

Directors:	Attendance of Audit Committee Directors meetings in 2008
Chang Tso Tung, Stephen *(Chairman)*	4/4
Chan Chi On, Derek	4/4
Sun Lun	4/4

Remuneration Committee

The Remuneration Committee consists of one Non-executive Director and two Independent Non-executive Directors with Mr. Chan Chi On, Derek, an Independent Non-executive Director, as the chairman. Other members are Mr. Chang Tso Tung, Stephen and Mr. Lee Kwan Hung, Eddie. At the discretion of the Remuneration Committee, Executive Directors and/or senior management personnel overseeing the Group's human resource function may be invited to attend meetings.

The duties of the Remuneration Committee include, among other things, review the remuneration packages of Directors and senior management of the Group to assist the Board in attracting, retaining and motivating the right people to manage the business of the Group. In addition, the Remuneration Committee assesses the performance of the Executive Directors and senior management. The chairman of the Remuneration Committee summarises activities of the Remuneration Committee and provides recommendations for reporting to the Board after each meeting.

The Remuneration Committee held two meetings in 2008 and one meeting to date in 2009. The attendance record of each member of the Remuneration Committee in 2008 is set out below:

Directors:	Attendance of Remuneration Committee Directors meetings in 2008
Chan Chi On, Derek *(Chairman)*	2/2
Chang Tso Tung, Stephen	2/2
Lee Kwan Hung, Eddie	2/2

NOMINATION OF DIRECTORS

Having considered the scale and composition of the Board, the Company does not set up a nomination committee. The function of appointment and removal of Directors is undertaken by the Board. When considering candidates for directorship, the Board assesses, among others, experience level, qualifications and independence of candidates, if appropriate.

COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE PRACTICES AND THE MODEL CODE

None of the Directors is aware of any information which would reasonably indicate that the Company is not, or was not, in compliance with the Code of Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") throughout the year ended 31 December 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.

INTERNAL CONTROL

The Board has overall responsibility for ensuring the reliabilities and effectiveness of the Group's internal control system on, among other things, financial, operational and compliance controls. The Board has developed its systems of internal control and risk management and is also responsible for reviewing and maintaining an adequate internal control system to safeguard the interests of the shareholders and the assets of the Company. During the year under review, the Board has conducted reviews of the effectiveness of the Group's internal control system on major operations of the Group by appointing the Group's internal audit department. The Group's internal audit department reported major internal control review findings to the Board. No major issues but areas for improvement have been identified. All of the recommendations will be properly followed up to ensure that they are implemented within a reasonable period of time. The Board considered the Group's internal control system has implemented effectively for the year ended 31 December 2008.

COMMUNICATION WITH SHAREHOLDERS

The annual general meeting and extraordinary general meeting provide useful forum for shareholders to exchange views with the Board. At the 2007 Annual General Meeting held in 2008, the Chairman of the Board as well as the Chairman of the Audit Committee were present to answer shareholders' questions.

Separate resolutions are proposed at general meetings on each substantially separate issue, including the election of individual Directors.

Details of the poll voting procedures and the rights of shareholders to demand a poll were included in the circulars to shareholders. The said circulars also contained relevant details of the proposed resolutions, including biography of each Directors standing for re-election.

At the 2007 Annual General Meeting held in 2008, all the resolutions were dealt with on a poll and were passed by shareholders.

DIRECTORS' RESPONSIBILITY FOR FINANCIAL STATEMENTS

The following statement, which sets out the responsibilities of the Directors in relation to the financial statements, should be read in conjunction with, but distinguished from, the Auditor's Report on pages 33 to 34 which acknowledges the reporting responsibilities of the Group's auditor.

Accounts

The Directors acknowledge their responsibility to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the Group's profit and cashflows for the year then ended.

Going Concern

The Directors, having made appropriate enquiries, are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern.

AUDITOR

The Audit Committee has received a letter from PricewaterhouseCoopers confirming their independence in accordance with the requirement of Hong Kong Institute of Certified Public Accountants ("HKICPA"). Details of fees paid or payable to PricewaterhouseCoopers for the year ended 31 December 2008 are as follows:

	RMB'000
2008 interim review	550,000
2008 annual audit	2,000,000
Others	128,000
Total	2,678,000

PRICEWATERHOUSECOOPERS

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TO THE SHAREHOLDERS OF GST HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of GST Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 35 to 95, which comprise the consolidated and company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Director's responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 24 April 2009

	Notes	Year ended 31 December 2008 RMB'000	2007 RMB'000
Revenue	5	**1,131,475**	840,151
Cost of goods sold		**(658,487)**	(471,824)
Gross profit		**472,988**	368,327
Other income	7	**36,382**	45,089
Distribution costs		**(153,804)**	(98,688)
Administrative and general expenses		**(164,576)**	(127,032)
Operating profit	8	**190,990**	187,696
Share of results of			
Jointly controlled entity	18	**2,926**	392
Associates	19	**(71)**	(2,264)
Profit before income tax		**193,845**	185,824
Income tax expenses	9	**(16,133)**	(4,769)
Profit for the year		**177,712**	181,055
Attributable to:			
Equity holders of the Company		**177,676**	181,016
Minority interests		**36**	39
		177,712	181,055
Earnings per share for profit attributable to equity holders of the Company	11		
– Basic (RMB cents)		**22.2**	22.6
– Diluted (RMB cents)		**22.2**	22.6
Dividends	12	**–**	64,320

The accompanying notes on pages 41 to 95 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

	Notes	2008 RMB'000	2007 RMB'000
		As at 31 December	
ASSETS			
Non-current assets			
Property, plant and equipment	15	**338,184**	310,568
Prepaid operating leases for land	16	**9,406**	9,631
Intangible assets	17	**19,130**	16,024
Investment in a jointly controlled entity	18	**847**	188
Investment in associates	19	**–**	71
Deferred income tax assets	22	**6,034**	3,257
		373,601	339,739
Current assets			
Inventories	23	**241,471**	153,711
Trade receivables	24	**342,647**	253,385
Other receivables, deposits and prepayments	25	**55,675**	73,061
Amount due from a jointly controlled entity	18	**12,663**	24,373
Amount due from a related company	26	**3,534**	3,534
Restricted bank deposits	28	**16,474**	11,511
Cash and bank deposits	27	**413,701**	352,605
		1,086,165	872,180
Total assets		**1,459,766**	1,211,919
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	29	**84,800**	84,800
Reserves	30	**1,033,868**	919,278
		1,118,668	1,004,078
Minority interests		**908**	872
Total equity		**1,119,576**	1,004,950

	Notes	As at 31 December 2008 RMB'000	2007 RMB'000
LIABILITIES			
Current liabilities			
Trade payables	31	**145,514**	95,330
Other payables and accruals		**29,397**	17,062
Amount due to a related company	26	**40**	–
Advance from customers	32	**139,718**	70,272
Tax payable		**25,521**	24,305
		340,190	206,969
Total liabilities		**340,190**	206,969
Total equity and liabilities		**1,459,766**	1,211,919
Net current assets		**745,975**	665,211
Total assets less current liabilities		**1,119,576**	1,004,950

Approved and authorised for issue by the Board of Directors on 24 April 2009 and signed on its behalf by

Song Jiacheng
Director

Cao Yu
Director

The accompanying notes on pages 41 to 95 are an integral part of these consolidated financial statements.

Balance Sheet of the Company

	Notes	As at 31 December 2008 RMB'000	2007 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	15	**5,897**	141
Investment in and loans to subsidiaries	20	**367,172**	446,361
		373,069	446,502
Current assets			
Other receivables, deposits and prepayments	25	**234**	223
Amount due from a jointly controlled entity	18	**–**	5,306
Cash and bank deposits	27	**205**	214
		439	5,743
Total assets		**373,508**	452,245
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	29	**84,800**	84,800
Reserves	30	**284,788**	363,503
Total equity		**369,588**	448,303
LIABILITIES			
Current liabilities			
Other payables and accruals		**3,920**	3,942
Total liabilities		**3,920**	3,942
Total equity and liabilities		**373,508**	452,245
Net current (liabilities)/assets		**(3,481)**	1,801
Total assets less current liabilities		**369,588**	448,303

Approved and authorised for issue by the Board of Directors on 24 April 2009 and signed on its behalf by

Song Jiacheng
Director

Cao Yu
Director

The accompanying notes on pages 41 to 95 are an integral part of these consolidated financial statements.

	Attributable to equity holders of the Company			
	Share capital	Reserves	Minority interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2007	84,800	795,678	833	881,311
Employee share options scheme				
– value of services provided	–	1,224	–	1,224
Profit for the year	–	181,016	39	181,055
Total income recognised for the year	–	182,240	39	182,279
Dividend paid	–	(58,640)	–	(58,640)
At 31 December 2007	84,800	919,278	872	1,004,950

	Attributable to equity holders of the Company			
	Share capital	**Reserves**	**Minority interests**	**Total equity**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
At 1 January 2008	**84,800**	**919,278**	**872**	**1,004,950**
Employee share options scheme				
– value of services provided	**–**	**1,234**	**–**	**1,234**
Profit for the year	**–**	**177,676**	**36**	**177,712**
Total income recognised for the year	**–**	**178,910**	**36**	**178,946**
Dividend paid	**–**	**(64,320)**	**–**	**(64,320)**
At 31 December 2008	**84,800**	**1,033,868**	**908**	**1,119,576**

The accompanying notes on pages 41 to 95 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

	Notes	Year ended 31 December 2008 RMB'000	2007 RMB'000
Cash flows from operating activities			
Cash generated from operations	33	**185,905**	30,173
PRC income tax paid		**(13,888)**	(7,364)
Net cash generated from operating activities		**172,017**	22,809
Cash flows from investing activities			
Purchase of property, plant and equipment		**(47,348)**	(150,752)
Proceeds from disposal of property, plant and equipment		**2,774**	2,294
Increase in intangible assets		**(5,998)**	(3,875)
Placement of time deposits with original maturities over three months		**(87,126)**	–
Interest received		**3,971**	6,956
Sales of available-for-sale financial assets		**–**	90,000
Purchase of available-for-sale financial assets		**–**	(60,000)
Net cash used in investing activities		**(133,727)**	(115,377)
Cash flows from financing activities			
Dividend paid		**(64,320)**	(58,640)
Taking back restricted bank deposits		**–**	11,480
Net cash used in financing activities		**(64,320)**	(47,160)
Net decrease in cash and cash equivalents		**(26,030)**	(139,728)
Cash and cash equivalents at beginning of the year		**352,605**	492,333
Cash and cash equivalents at end of the year		**326,575**	352,605

The accompanying notes on pages 41 to 95 are an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

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

The principal activity of the Company is investment holding. The Company and its subsidiaries (together, the "Group") are engaged in the development, manufacturing, sales and installation of intelligent fire detection and control systems, automatic and intelligent securities systems for residential, commercial and industrial uses. The principal activities of the Company's subsidiaries are set out in note 36 to the financial statements.

The registered office of the Company is located at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681GT, George Town, Grand Cayman, Cayman Islands, British West Indies. The head office and principal place of business of the Company in Hong Kong is located at Suite 1612, 16/F, Shun Tak Center, West Tower, 168-200 Connaught Road C. Sheung Wan, Hong Kong and the principal place of business of the Company in Beijing is located in 17th –19th Floor, Tower B, The Gate, 19 Zhongguancun Avenue, Beijing 100080, The People's Republic of China (the "PRC").

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

These consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 24 April 2009.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

(a) Amendments and interpretations effective in 2008

- The International Accounting Standards ("IAS") 39, 'Financial instruments: Recognition and measurement', amendment on reclassification of financial assets permits reclassification of certain financial assets out of the held-for-trading and available-for-sale categories if specified conditions are met. The related amendment to IFRS 7, 'Financial instruments: Disclosures', introduces disclosure requirements with respect to financial assets reclassified out of the held-for-trading and available-for-sale categories. The amendment is effective prospectively from 1 July 2008. This amendment does not have any impact on the Group's financial statements, as the Group has not reclassified any financial assets.

(b) ***Interpretations effective in 2008 but not relevant***

The following interpretation to published standards is mandatory for accounting periods beginning on or after 1 January 2008 but is not relevant to the Group's operations:

- International Financial Reporting Interpretation Committee ("IFRIC") – Int 11, 'IFRS 2 – Group and treasury share transactions'

- IFRIC – Int 12, 'Service Concession arrangements'

- IFRIC – Int 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'

(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 2009 or later periods, and the Group has not early adopted them:

- IFRS 8, 'Operating segments' (effective from 1 January 2009). IFRS 8 replaces IAS 14, 'Segment reporting', 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 IFRS8 from 1 January 2009.

- IAS 1 (Revised), 'Presentation of financial statements' (effective from 1 January 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the consolidated income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The Group will apply IAS 1 (Revised) from 1 January 2009.

- IAS 27 (Revised), 'Consolidated and separate financial statements' (effective from 1 July 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in profit or loss. The Group will apply IAS 27 (Revised) from 1 January 2010.

- IFRS 1 (Amendment), 'First time adoption of IFRS' and IAS 27 'Consolidated and separate financial statements' (effective from 1 July 2009). The amended standard allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from IAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor. The Company will apply IAS 27 (Amendment) prospectively from 1 January 2010 in its separate financial statements.

- IFRS 2 (Amendment), 'Share-based payment' (effective from 1 January 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. As such these features would need to be included in the grant date fair value for transactions with employees and others providing similar services, that is, these features would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group will apply IFRS 2 (Amendment) from 1 January 2009.

- IFRIC – Int 16, 'Hedges of a net investment in a foreign operation' (effective from 1 October 2008). IFRIC – Int 16 clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the Group. The requirements of IAS 21, 'The effects of changes in foreign exchange rates', do apply to the hedged item. The Group will apply IFRIC – Int 16 from 1 January 2009.

- IASB's annual improvements project published in May 2008

  ➢ IAS 1 (Amendment), 'Presentation of financial statements' (effective from 1 January 2009). The amendment clarifies that some rather than all financial assets and liabilities classified as held for trading in accordance with IAS 39, 'Financial instruments: Recognition and measurement' are examples of current assets and liabilities respectively. The Group will apply the IAS 1 (Amendment) from 1 January 2009.

  ➢ IAS 19 (Amendment), 'Employee benefits' (effective from 1 January 2009).

    – The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation.

– The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation.

– The distinction between short term and long term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered.

– IAS 37, 'Provisions, contingent liabilities and contingent assets' requires contingent liabilities to be disclosed, not recognised. IAS 19 has been amended to be consistent.

The Group will apply the IAS 19 (Amendment) from 1 January 2009.

➢ IAS 28 (Amendment), 'Investments in associates' (and consequential amendments to IAS 32, 'Financial Instruments: Presentation' and IFRS 7, 'Financial instruments: Disclosures') (effective from 1 January 2009). An investment in associate is treated as a single asset for the purposes of impairment testing and any impairment loss is not allocated to specific assets included within the investment, for example, goodwill. Reversals of impairment are recorded as an adjustment to the investment balance to the extent that the recoverable amount of the associate increases. The Group will apply the IAS 28 (Amendment) to impairment tests related to investment in associates and any related impairment losses from 1 January 2009.

➢ IAS 36 (Amendment), 'Impairment of assets' (effective from 1 January 2009). Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Group will apply the IAS 36 (Amendment) and provide the required disclosure where applicable for impairment tests from 1 January 2009.

➢ IAS 38 (Amendment), 'Intangible assets' (effective from 1 January 2009). A prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. The Group will apply the IAS 38 (Amendment) from 1 January 2009.

➢ There are a number of minor amendments to IFRS 7, 'Financial instruments: Disclosures', IAS 8, 'Accounting policies, changes in accounting estimates and errors', IAS 10, 'Events after the balance sheet date', IAS 18, 'Revenue' and IAS 34, 'Interim financial reporting' which are not addressed above. These amendments are unlikely to have an impact on the Group's financial statements and have therefore not been analysed in detail.

These standards, amendments and interpretations to existing standards above are not expected to have material impact on the Group's financial statements.

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

The following interpretations and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods but are not relevant for the Group's operations:

- IAS 23 (Revised), 'Borrowing costs' (effective from 1 January 2009).

- IAS 32 (Amendment), 'Financial instruments: Presentation', and IAS 1 (Amendment), 'Presentation of financial statements' – 'Puttable financial instruments and obligations arising on liquidation' (effective from 1 January 2009).

- IFRS 3 (Revised), 'Business combinations' (effective from 1 July 2009).

- IFRS 5 (Amendment), 'Non-current assets held for sale and discontinued operations' (and consequential amendment to IFRS 1, 'First-time adoption') (effective from 1 July 2009).

- IFRIC – Int 13, 'Customer loyalty programmes' (effective from 1 July 2008).

- IFRIC – Int 15, 'Agreements for construction of real estates' (effective from 1 January 2009).

- IAS 39 (amendment), 'Financial Instruments: Recognition and Measurement' – 'Eligible hedged items' (effective from 1 July 2009).

- IFRIC – Int 17, 'Distributions of non-cash assets to owners' (effective from 1 July 2009).

- IFRIC – Int 18, 'Transfers of Assets from Customers' (effective for transfers on or after 1 July 2009).

- IASB's annual improvements project published in May 2008

  ➢ IAS 16 (Amendment), 'Property, plant and equipment' (and consequential amendment to IAS 7, 'Statement of cash flows') (effective from 1 January 2009).

  ➢ IAS 20 (Amendment), 'Accounting for government grants and disclosure of government assistance' (effective from 1 January 2009).

  ➢ IAS 27 (Amendment), 'Consolidated and separate financial statements' (effective from 1 January 2009).

  ➢ IAS 29 (Amendment), 'Financial reporting in hyperinflationary economies' (effective from 1 January 2009).

- IAS 31 (Amendment), 'Interests in joint ventures' (and consequential amendments to IAS 32 and IFRS 7) (effective from 1 January 2009).

- IAS 40 (Amendment), 'Investment property' (and consequential amendments to IAS 16) (effective from 1 January 2009).

- IAS 41 (Amendment), 'Agriculture' (effective from 1 January 2009).

- The minor amendments to IAS 20 'Accounting for government grants and disclosure of government assistance', IAS 29, 'Financial reporting in hyperinflationary economies', IAS 40, 'Investment property' and IAS 41, 'Agriculture', which are not addressed above.

2.2 Consolidation

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

(a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement (Note 2.6).

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

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

(b) *Transactions with minority interests*

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

(c) *Jointly controlled entity*

A jointly controlled entity is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity. Investment in a jointly controlled entity is accounted for by the equity method of accounting. Under this method the Group's share of the post-acquisition profits or losses of jointly controlled entity is recognised in the consolidated income statement and its share of post acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of investment.

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

(d) *Associates*

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

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

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

2.3 Segment reporting

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

2.4 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

(c) Group companies

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

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

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

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

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

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

2.5 Property, plant and equipment

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

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

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

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9). Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the income statement.

2.6 Intangible assets

(a) Goodwill

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

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

(b) ***Research and development costs***

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

– it is technically feasible to complete the intangible asset so that it will be available for use or sale;

– management intends to complete the intangible asset and use or sell it;

– there is an ability to use or sell the intangible asset;

– it can be demonstrated how the intangible asset will generate probable future economic benefits;

– adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and

– the expenditure attributable to the intangible asset during its development can be reliably measured.

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

Development assets are tested for impairment annually, in accordance with IAS 36 as described in Note 2.9.

2.7 Construction-in-progress

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

2.8 Prepaid operating leases for land

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

2.9 Impairment of investments in subsidiaries, jointly controlled entity, associates and non-financial assets

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

2.10 Financial Assets

2.10.1 Classification

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

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the balance sheet (Notes 2.12 and 2.13).

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in noncurrent assets unless the management intends to dispose of the investment within 12 months of the balance sheet date.

2.10.2 Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

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

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated income statement.

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

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the consolidated income statement. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement. Impairment testing of trade receivables is described in Note 2.12.

2.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.12 Trade and other receivables

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

2.13 Cash and cash equivalents

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

2.14 Share capital

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

2.15 Trade payables

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

2.16 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement.

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

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

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

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

2.17 Employee benefits

(a) Defined Contribution plans

(1) The Group participates in a number of defined contribution plans in the PRC. The plans are organised by relevant municipal governments in the PRC. Contributions to the above schemes by the Group are calculated as a percentage of employees' basic salaries. The Group's contributions to the defined contribution retirement scheme are expensed as incurred. Once the contributions have been paid, the Company has no further payment obligations.

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

(b) Share-based compensation

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

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

2.18 Provisions

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

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

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.19 Revenue recognition

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

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

(a) Revenue for sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods or all critical components of the goods are delivered to customers and title has passed.

(b) Revenue for installation service is recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual costs incurred up to the balance sheet date as a percentage of total estimated costs for each contract.

(c) Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

2.20 Government grants

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

2.21 Leases

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

2.22 Dividend distribution

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

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

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

(a) Market risk

(i) Foreign exchange risk

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

At 31 December 2008, if RMB had weakened/strengthened against HKD by 1%, with all other variables unchanged, net profit would have increased/decreased approximately RMB9,000 (2007: approximately RMB735,000).

At 31 December 2008, if RMB had weakened/strengthened against USD by 1%, with all other variables unchanged, net profit would have increased/decreased approximately RMB84,000 (2007: approximately RMB60,000).

The Group's treasury policy is to manage exposure to foreign exchange risk whenever its financial impact is material to the Group. The Group will continue to monitor its foreign exchange position. For the year ended 31 December 2008, the Group did not use any financial instruments or enter into any contract in order to hedge against its exposure to foreign exchange risk.

(ii) Price risk

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

(iii) Cash flow and fair value interest rate risk

The Group's interest-bearing assets are mainly represented by cash and bank deposits as disclosed in Note 27. For the year ended 31 December 2008, Interest income is approximately RMB4,077,000 (2007: RMB6,749,000). Apart from this, the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group had no bank borrowings as at 31 December 2008 and 31 December 2007. As such, the Group is not exposed to interest-rate risk from long-term borrowings and has not used any interest rate swaps to hedge its exposure to interest-rate risk.

(b) Credit risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, deposits with banks, as well as credit exposures to customers, including outstanding receivables and committed transactions.

(i) Trade receivables

The carrying amount of trade receivables included in the consolidated balance sheet represents the Group's maximum exposure to credit risk in relation to its financial assets. The Group's main business is development, manufacturing, sales and installation of intelligent fire detection and control systems, automatic and intelligent securities systems. Most customers are professional fire equipments installers, systems integrators and sub-contractors who are usually small in scale and spreading over different provinces in PRC. Thus the customer base of the Group is much diversified. As such, the Group's trade receivables relate to a large number of diversified customers and there is no significant concentration of credit risk for the Group. The Group has almost 194 representative offices spreading over different provinces in PRC. These representative offices are responsible for sales of products and collection of trade receivables. The Group has policies in place for each representative office to ensure that sales of products are made to customers with an appropriate credit history and these representative offices will perform credit evaluations of their customers.

The credit evaluations include risk control assessment of the credit quality of the customer, taking into account of its financial position, past experience and other factors, such as reviewing legal incorporation documents of the customer's company and impact of external financial environment fluctuation to the customer. Customers' credit quality is assessed and classified based on factors such as cash advance received, repayment agreement signed and long-term co-operating relationship with each customer. Higher rating will be granted to customers with cash advance received, repayment agreement signed and long-term co-operating relationship. Individual risk limits are set based on credit evaluations of customers and management's classification. The utilisation of credit limits is regularly monitored.

The management will also monitor the recovery rate of receivables balance of each representative office on an on-going basis in order to ensure the outstanding receivable balance not yet recovered of each representative office has not exceeded the limit set by the management. The Group also has policy in the calculation of sales commission for sales representatives. It is mainly based on the amount of receivables recovered from customers. If some receivables cannot be recovered and become bad debt, the sales representatives will not get their sales commission. For those customers exceed its credit limit, the Group will suspend delivery of goods to those customers until their outstanding debts are settled. In this regard, the management considers that the Group's credit risk is significantly reduced.

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

(ii) Cash and bank deposits

The Group keeps over 99% of its cash and bank deposits in reputable banks such as China Construction Bank, China Merchants Bank, Bank of China and Hong Kong and Shanghai Banking Corporation Limited as saving deposits and short-term bank deposits (Note 27). These banks have an independent rating of 'A' or strong and stable historical background in PRC and Hong Kong. As such, the Group's exposure to credit risk in this regards is not significant.

(c) ***Liquidity risk***

Prudent liquidity risk management includes maintaining sufficient cash and marketable securities, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions. The Group ensures that it maintains sufficient cash, which is available to meet its liquidity requirement for normal operation including working capital and capital expenditure requirements according to the annual forecast of fixed assets acquisition. The Group will carry out forecast on its working capital and capital expenditure requirements periodically and reviewed its daily cash position and historical cash requirement for normal operation.

During 2008 and 2007, the Group does not have any bank borrowing. As at 31 December 2008, trade payables of the Group are mostly due within one year. As at 31 December 2008, the Group does not have any capital commitment (2007: RMB2,368,000) and only have operating lease commitments for buildings which is due within one year by amount of RMB1,836,000 (2007: RMB1,547,000) (Note 34). As at 31 December 2008, as the Group has sufficient cash and bank deposits by RMB413,701,000 (2007: RMB352,605,000) (Note 27), management considered that the Group has adequate resources to finance its liquidity requirement and the liquidity risk of the Group is low.

3.2 Capital risk management

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

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

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

During 2008, the Group did not have any current and non-current bank borrowings. As such, the gearing ratio of the Group was zero (2007: zero) and the management considered there is no capital risk of the Group.

3.3 Fair value estimation

The carrying amounts of the Group's financial assets including cash and bank deposits, trade receivables and other receivables, amount due from a jointly controlled entity and financial liabilities including trade payables and other payables, approximate their fair values due to their short maturities.

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(a) Impairment of non-current assets

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

(b) Income taxes

The Group is subject to income taxes principally in the PRC. Significant judgement is required in determining the provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Moreover, for some domestic subsidiaries in the Group, the taxation exemption and the applicable PRC income tax rate are also subject to re-assessment by the respective local tax bureau in view of the new Corporate Income Tax Law. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(c) Provision for doubtful debts

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

(d) Percentage of completion of installation contracts

The Management estimates the percentage of completion of installation contracts. These estimates are based on the actual costs incurred up to the balance sheet date as a percentage of total estimated costs for each contract. The Management assesses the completion progress at each balance sheet date. The reliability of these estimates is subject to the timely update of total estimated costs and the accurate recording of actual costs incurred. If the total estimated costs and actual costs incurred are untimely updated or incorrectly recorded, the revenue for the period in which such unreliable estimation arise will be affected.

5. REVENUE

	Year ended 31 December	
	2008	2007
	RMB'000	RMB'000
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	**1,131,475**	840,151

6. SEGMENT INFORMATION

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

Business segment

Year ended 31 December 2008	Sales of goods: Fire alarm systems RMB'000	Sales of goods: Fire alarm network systems RMB'000	Sales of goods: Video entry systems and building automation systems RMB'000	Sales of goods: Electric power meters RMB'000	Provision of services: Installation services RMB'000	Corporate RMB'000	Group RMB'000
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 31 December 2007	Sales of goods: Fire alarm systems RMB'000	Sales of goods: Fire alarm network systems RMB'000	Sales of goods: Video entry systems and building automation systems RMB'000	Sales of goods: Electric power meters RMB'000	Provision of services: Installation services RMB'000	Corporate RMB'000	Group RMB'000
Gross segment revenue	612,261	65,888	74,718	31,402	136,426	–	920,695
Inter-segment revenue	(33,942)	(46,602)	–	–	–	–	(80,544)
Revenue	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 leases for land	225	–	–	–	–	–	225
Development costs amortisation	2,391	–	–	–	–	–	2,391
Provision for impairment of receivables	5,940	334	–	862	1,928	–	9,064

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.

7. OTHER INCOME

	Year ended 31 December	
	2008	2007
	RMB'000	RMB'000
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
	36,382	45,089

8. OPERATING PROFIT

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

	Year ended 31 December	
	2008	2007
	RMB'000	RMB'000
Charging:		
Changes in inventories of finished goods and work in progress	**–**	654
Raw materials and consumables used	**598,882**	388,972
Employee benefit expense (Note 13)	**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
Crediting:		
Net gain on disposal of property, plant and equipment	**(73)**	(351)
Changes in inventories of finished goods and work in progress	**(60,569)**	–

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

9. INCOME TAX EXPENSES

	Year ended 31 December	
	2008	2007
	RMB'000	RMB'000
Current income tax	**18,910**	7,272
Deferred income tax (Note 22)		
– Origination and reversal of temporary differences	**(2,777)**	(851)
– Effect of change in tax rates under new Corporate Income Tax Law	**–**	(1,652)
	(2,777)	(2,503)
	16,133	4,769

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.

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "new CIT Law"). The new CIT Law becomes effective on 1 January 2008 and introduces a wide range of changes which, include, but not limited to, the unification of the income tax rate for domestic-invested enterprises and foreign-invested enterprises, which results in increasing the income tax rates for foreign invested enterprises from 15% or 24% to 25%. In addition, the New CIT Law also provides a five-year transitional period starting from its effective date for those enterprises which were established before the promulgation date of the new tax law and which were entitled to preferential income tax rates under the then effective tax laws or regulations. Also pursuant to the new CIT Law, effective from 1 January 2008, enterprises that have applied and been granted High / New Technology Enterprise ("HNTE") will be entitled to a favorable statutory tax rate of 15%.

Gulf Security Technology Company Limited ("GST"), Beijing Gulf Electric Meters Company Limited ("Gulf Meters"), Gulf Fire Prevention Network Company Limited ("Gulf Network") and Qinhuangdao Gulf Plastic & Metal Products Company Limited ("Gulf Plastic"), subsidiaries of the Group, as Foreign Investment Enterprises ("FIEs") registered in a designated development zone, have been exempted from taxation for the first two profitable years and a 50% relief from the applicable national PRC income tax rate for the next three years (the "Exemption and Relief"). Because GST and Gulf Network got and applied the Exemption and Relief since 2004, GST and Gulf Network have been exempted from taxation in 2004 and 2005 and a 50% relief was applied in 2006, 2007 and 2008. Because Gulf Meters got and applied the Exemption and Relief since 2005, Gulf Meters has been exempted from taxation in 2005 and 2006 and a 50% relief was applied in 2007 and 2008 and will be applied in 2009. Because Gulf Plastic got and applied the Exemption and Relief since 2006, Gulf Plastic has been exempted from taxation in 2006 and 2007 and a 50% relief was applied in 2008 and will be applied in 2009 and 2010.

Beijing Gulf Wei'er Electrical Engineering Company Limited ("Beijing Gulf Engineering"), a subsidiary of the Group, is a designated HNTE registered in Zhongguancun Science Park. According to relevant tax laws and regulations in the PRC, effective since the incorporation of Beijing Gulf Engineering in March 2004, it has been exempted from taxation for the first three profitable years and a 50% relief from the applicable national PRC income tax rate for the next three years. Because Beijing Gulf Engineering applied the aforesaid exemption and relief since 2004, Beijing Gulf Engineering has been exempted from taxation in 2004, 2005 and 2006 and a 50% relief was applied in 2007 and 2008 and will be applied in 2009.

In order to increase the productivity, GST constructed the 3rd phase of the factory (the "GST 3rd Phase") which was completed for production since August 2006. According to relevant tax laws and regulations in the PRC, the additional investment of the GST 3rd Phase is exempted from taxation for the first two profitable years and a 50% relief from the applicable national PRC income tax rate for the next three years. Because the GST 3rd Phase has made profit since its first operation year, which is 2006, the GST 3rd Phase has been exempted from taxation in 2006 and 2007 and a 50% relief was applied in 2008 and will be applied in 2009 and 2010.

On 26 December 2007, the State Council issued the "Circular of the State Council on the Implementation of Transitional Preferential Enterprise Income Tax Policies". Pursuant to this Circular, the transitional income tax rates for the Group's subsidiaries, GST, Gulf Network and Gulf Plastic, as manufacturing foreign invested enterprises, established in the Qinhuangdao Economic and Technology Development Zone before 16 March 2007, are 18%, 20%, 22%, 24% and 25% for 2008, 2009, 2010, 2011 and 2012, respectively. Other tax preferential treatments such as 50% relief in income tax rate shall be based on the above transitional income tax rate. Thus, the provisions for income tax for GST, Gulf Network and Gulf Plastic were provided at a rate of 9% for 2008 (2007: GST, Gulf Network: 7.5%; Gulf Plastic: 0%).

In 2008, Beijing Gulf Engineering applied for and was subsequently approved as HNTE, and accordingly, it was subject to a favorable income tax rate of 15% according to the New CIT Law and the above transitional income tax rates for the period from 2008 to 2012 were no longer applicable to it. Thus the provision for income tax was provided at a rate of 7.5% for 2008 (2007: 7.5%).

For Gulf Meters, the applicable PRC income tax rate is 25% (2007: 24%) and accordingly the provision for income tax was provided at a rate of 12.5% for 2008 (2007: 12%). The applicable PRC income tax rate for other subsidiaries of the Group in the PRC was 25% for 2008 (2007:33%).

Pursuant to the new CIT Law and the Detail Implementation Regulations ("DIR") issued by the State Administration of Taxation ("SAT") on 6 December 2007, a 10% withholding tax will be levied on dividend payable declared and remitted by FIEs to its foreign investors on or after 1 January 2008. On 22 February 2008, the Ministry of Finance ("MoF") and SAT jointly issued Cai Shui 2008 Circular 1 ("Circular 1"). According to Article 4 of Circular 1, where FIEs declare dividend in 2008 from the cumulative retained earnings as of 31 December 2007, such dividends earned by the foreign investor shall be exempt from corporate withholding income tax. For dividend which arises from FIEs profit earned after 1 January 2008, withholding income tax will be levied on the foreign investor. The Group has decided not to pay out dividends arising from FIEs profit earned after 1 January 2008 in the foreseeable future.

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

	Year ended 31 December	
	2008	2007
	RMB'000	RMB'000
Profit before income tax	**193,845**	185,824
PRC income calculated at statutory rate of 25% (2007: 33%)	**48,461**	61,322
Non-deductible expenses	**10,829**	7,758
Effect of change in tax rates under new CIT Law	**–**	(1,652)
Effect of different income tax assessment rate and tax exemption	**(32,459)**	(45,821)
Tax losses for which no deferred income tax asset was recognised	**1,044**	–
Additional allowances	**(3,841)**	(5,138)
Income not subject to tax	**(7,901)**	(11,700)
Income tax expenses	**16,133**	4,769

10. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The loss attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of RMB15,629,000 (2007: RMB13,340,000).

11. 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)	**177,676**	181,016
Weighted average number of ordinary shares in issue (thousands)	**800,000**	800,000
Basic earnings per share (RMB cents per share)	**22.2**	22.6
Diluted earnings per share (RMB cents per share)	**22.2**	22.6

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.

12. 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.

13. EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2008	2007
	RMB'000	RMB'000
Wages and salaries excluding directors' emoluments	**104,181**	75,484
Retirement benefit contributions – Employees (Note 14)	**11,843**	4,869
Staff welfare and allowances	**21,004**	12,461
Directors' emoluments	**4,370**	4,489
Amortisation of fair value of share options	**1,234**	1,224
	142,632	98,527

The number of employees (excluding directors) as at 31 December 2008 was 3,531 (2007: 3,460).

(a) Directors' emoluments

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

	2008					2007				
	Salaries, bonus, allowances and benefits RMB'000	Retirement benefit contributions RMB'000	Subtotal RMB'000	Amortisation of fair value of share options granted to directors RMB'000	Total RMB'000	Salaries, bonus, allowances and benefits RMB'000	Retirement benefit contributions RMB'000	Subtotal RMB'000	Amortisation of fair value of share options granted to directors RMB'000	Total RMB'000
Song Jiacheng	**1,435**	**14**	**1,449**	**207**	**1,656**	1,320	12	1,332	205	1,537
Cao Yu	**1,265**	**14**	**1,279**	**166**	**1,445**	1,100	12	1,112	165	1,277
Peng Kaichen	**600**	**11**	**611**	**123**	**734**	1,050	5	1,055	122	1,177
Xu Shaowen (Note)	**–**	**–**	**–**	**–**	**–**	224	8	232	–	232
Zeng Jun	**130**	**–**	**130**	**123**	**253**	120	–	120	122	242
Lee Kwan Hung, Eddie	**258**	**–**	**258**	**123**	**381**	180	–	180	122	302
Chang Tso Tung, Stephen	**258**	**–**	**258**	**123**	**381**	180	–	180	122	302
Chan Chi On, Derek	**255**	**–**	**255**	**123**	**378**	150	–	150	122	272
Sun Lun	**130**	**–**	**130**	**123**	**253**	128	–	128	122	250
	4,331	**39**	**4,370**	**1,111**	**5,481**	4,452	37	4,489	1,102	5,591

Note: Resigned on 18 May 2007

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

(b) Five highest paid individuals

The five highest paid individuals included three directors (2007: three directors) whose emoluments are included in the above disclosures. The emoluments of the remaining two (2007: two) individuals are as follows:

	Year ended 31 December	
	2008 RMB'000	2007 RMB'000
Salaries, bonus, allowance and benefits in kind	**1,581**	1,578
Retirement benefit contribution	**24**	49
	1,605	1,627

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

	Number of individuals Year ended 31 December	
	2008	2007
Emolument band		
Nil to HK$1,000,000	**2**	1
HK$1,000,000 to HK$1,500,000	**–**	1

(c) During 2007 and 2008, no emoluments were paid to the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

14. RETIREMENT BENEFITS

	Year ended 31 December	
	2008	2007
	RMB'000	RMB'000
Employees	**11,843**	4,869
Directors	**39**	37
Obligations on defined contribution plans charged for the year	**11,882**	4,906

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

15. PROPERTY, PLANT AND EQUIPMENT

	Group						
	Buildings	Leasehold Improvements	Plant and machinery	Vehicles	Equipment, furniture and fixture	Construction In-progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost							
At 1 January 2007	113,339	–	69,131	22,578	28,701	4,630	238,379
Additions	107,226	–	11,289	4,461	5,470	20,415	148,861
Transfers	3,660	–	596	–	166	(4,422)	–
Disposals	(781)	–	(2,592)	(1,646)	(1,293)	–	(6,312)
At 31 December 2007	223,444	–	78,424	25,393	33,044	20,623	380,928
Additions	8,340	1,534	10,810	5,176	6,280	20,514	52,654
Transfers	17,366	–	–	–	–	(17,366)	–
Disposals	(211)	–	(3,818)	(2,102)	(2,232)	(273)	(8,636)
At 31 December 2008	248,939	1,534	85,416	28,467	37,092	23,498	424,946
Accumulated depreciation							
At 1 January 2007	11,769	–	16,488	12,203	15,424	–	55,884
Depreciation charge for the year	6,301	–	6,641	2,809	3,094	–	18,845
Depreciation written off – disposal	(128)	–	(1,708)	(1,463)	(1,070)	–	(4,369)
At 31 December 2007	17,942	–	21,421	13,549	17,448	–	70,360
Depreciation charge for the year	7,792	271	7,170	2,854	4,250	–	22,337
Depreciation written off – disposal	(49)	–	(2,172)	(1,810)	(1,904)	–	(5,935)
At 31 December 2008	25,685	271	26,419	14,593	19,794	–	86,762
Net book value							
At 31 December 2007	205,502	–	57,003	11,844	15,596	20,623	310,568
At 31 December 2008	223,254	1,263	58,997	13,874	17,298	23,498	338,184

		Company	
		Equipment,	
		furniture and	
	Buildings	**fixture**	**Total**
	RMB'000	RMB'000	RMB'000
Cost			
At 1 January 2007	–	654	654
Additions	–	40	40
At 31 December 2007	–	694	694
Additions	5,759	171	5,930
At 31 December 2008	5,759	865	6,624
Accumulated depreciation			
At 1 January 2007	–	357	357
Depreciation charge for the year	–	196	196
At 31 December 2007	–	553	553
Depreciation charge for the year	82	92	174
At 31 December 2008	82	645	727
Net book value			
At 31 December 2007	–	141	141
At 31 December 2008	5,677	220	5,897

As of 31 December 2008, the Group has not obtained ownership certificates for some properties and premises of the Group at a carrying value of approximately RMB134,599,000 (2007: RMB81,696,000). The Group is in the progress of obtaining these certificates.

16. PREPAID OPERATING LEASES FOR LAND

	2008 RMB'000	2007 RMB'000
Cost		
Beginning and end of the year	**11,345**	11,345
Accumulated amortisation		
Beginning of the year	**1,714**	1,489
Charge for the year	**225**	225
End of the year	**1,939**	1,714
Net book value		
Beginning of the year	**9,631**	9,856
End of the year	**9,406**	9,631

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

17. INTANGIBLE ASSETS

	2008			2007		
	Goodwill	Development costs	Total	Goodwill	Development costs	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost						
Beginning of the year	**6,541**	**12,953**	**19,494**	6,541	9,078	15,619
Additions	**–**	**5,998**	**5,998**	–	3,875	3,875
End of the year	**6,541**	**18,951**	**25,492**	6,541	12,953	19,494
Accumulated amortisation						
Beginning of the year	**–**	**3,470**	**3,470**	–	1,079	1,079
Charge for the year	**–**	**2,892**	**2,892**	–	2,391	2,391
End of the year	**–**	**6,362**	**6,362**	–	3,470	3,470
Net book value						
Beginning of the year	**6,541**	**9,483**	**16,024**	6,541	7,999	14,540
End of the year	**6,541**	**12,589**	**19,130**	6,541	9,483	16,024

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

Goodwill is allocated to the Group's cash-generating units ("CGU") identified according to business segment. The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by the management covering a one-year period. Key assumptions used by the management to calculate value-in-use include gross margin of the products to be sold for next year at 47.5%, growth rate of the business for next year at 2.8% and the discount rate at 5.31% per annum, which is the RMB lending annual interest rate prevailing in the PRC. The growth rate is based on the management's past experience and knowledge in the fire alarm products industry, contract-on-hand and marketing strategy of the Group and adjusting with growth forecast of National Gross Domestic Product and growth of related industries such as real estate industry. Cash flow projections during the budget period are also based on the expected sales of fire alarm products during the budget period. Expected cash inflows/ outflows, which include the sales of fire alarm products, have been determined based on past performance and management's expectations for the market development.

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

	As at 31 December 2008 and 2007		
	Fire alarm systems	**Fire alarm network systems**	**Total**
	RMB'000	RMB'000	RMB'000
Goodwill	5,972	569	6,541

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

Group:

	As at 31 December	
	2008	2007
	RMB'000	RMB'000
Investment in a jointly controlled entity:		
Share of net assets	**847**	188

	2008	2007
	RMB'000	RMB'000
Beginning of the year	**188**	(204)
Share of profit	**2,926**	392
Elimination of unrealized profit for sales to a jointly controlled entity	**(2,267)**	–
End of the year	**847**	188
Amount due from a jointly controlled entity		
0 to 90 days	**7,437**	3,694
91 to 180 days	**4,414**	13,908
181 to 365 days	**–**	5,666
Over 365 days	**812**	1,105
	12,663	24,373

As of 31 December 2008, the amount due from a jointly controlled entity of approximately RMB812,000 (2007: RMB6,771,000) were past due but not impaired.

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

Company:

	As at 31 December	
	2008	2007
	RMB'000	RMB'000
Amount due from a jointly controlled entity		
181 to 365 days	**–**	5,306
	–	5,306

Details of the jointly controlled entity are set out in Note 36.

19. INVESTMENTS IN ASSOCIATES

	As at 31 December	
	2008	2007
	RMB'000	RMB'000
Beginning of the year	**71**	2,335
Share of loss	–	(61)
Impairment of investment in associates	**(71)**	(2,203)
End of the year	–	71
Representing:		
Share of net assets, unlisted	–	71

Details of the associates are set out in Note 36.

20. INVESTMENTS IN AND LOANS TO SUBSIDIARIES

	Company	
	As at 31 December	
	2008	2007
	RMB'000	RMB'000
Investments in subsidiaries		
– Unlisted shares, at cost	**159,678**	159,678
Loans to a subsidiary (Note)	**207,494**	286,683
	367,172	446,361

Note:

The balance is unsecured and interest-free. It is in equity nature and has no settlement plan in the near future. Details of the subsidiaries are set out in Note 36.

21. FINANCIAL INSTRUMENTS BY CATEGORY

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

	Notes	Group As at 31 December 2008 RMB'000	2007 RMB'000
Assets as per consolidated balance sheet			
Loans and receivables			
Trade receivables	24	**342,647**	253,385
Other receivables	25	**23,168**	33,500
Amount due from a jointly controlled entity	18	**12,663**	24,373
Amount due from a related company	26	**3,534**	3,534
Restricted bank deposits	28	**16,474**	11,511
Cash and bank deposits	27	**413,701**	352,605
Total		**812,187**	678,908

	Notes	Company As at 31 December 2008 RMB'000	2007 RMB'000
Assets as per balance sheet of the company			
Loans and receivables			
Loans to a subsidiary	20	**207,494**	286,683
Amount due from a jointly controlled entity	18	**–**	5,306
Other receivables	25	**234**	223
Cash and bank deposits	27	**205**	214
Total		**207,933**	292,426

22. DEFERRED INCOME TAX

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

	As at 31 December	
	2008	2007
	RMB'000	RMB'000
Deferred tax assets:		
– Deferred tax asset to be recovered after more than 12 months	**5,583**	4,012
– Deferred tax asset to be recovered within 12 months	**2,339**	1,379
	7,922	5,391
Deferred tax liabilities:		
– Deferred tax liabilities to be settled after more than 12 months	**1,510**	1,897
– Deferred tax liabilities to be settled within 12 months	**378**	237
	1,888	2,134
Deferred tax assets – net	**6,034**	3,257

The gross movement on the deferred income tax account is as follows:

	2008	2007
	RMB'000	RMB'000
Beginning of the year	**3,257**	754
Credited to the income statement	**2,777**	2,503
End of the year	**6,034**	3,257

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

	Development Cost RMB'000
At 1 January 2007	720
Charged to income statement	1,414
At 31 December 2007	2,134
Credited to income statement	(246)
At 31 December 2008	1,888

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

	Provision for impairment of receivables RMB'000	Provision for inventory obsolescence RMB'000	Property, plant and equipments RMB'000	Accrual and Unrealized profit RMB'000	Tax Loss RMB'000	Total RMB'000
At 1 January 2007	1,174	112	36	152	–	1,474
(Charged)/credited to income statement	3,574	246	(36)	133	–	3,917
At 31 December 2007	4,748	358	–	285	–	5,391
Credited to income statement	769	470	66	51	1,175	2,531
At 31 December 2008	5,517	828	66	336	1,175	7,922

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of RMB1,044,000 (2007: Nil) in respect of losses amounting to RMB4,177,000 (2007: Nil) that cannot be carried forward against future taxable income.

23. INVENTORIES

	As at 31 December	
	2008	2007
	RMB'000	RMB'000
Raw materials	**65,289**	50,572
Work-in-progress	**20,268**	16,659
Finished goods	**97,329**	43,491
	182,886	110,722
Components delivered to customers in respect of contracts not yet completed at year end	**58,585**	42,989
At cost, less provision for obsolete inventories	**241,471**	153,711

24. 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
	RMB'000	RMB'000
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
	381,767	279,416
Less: Provision for impairment of receivables	**(39,120)**	(26,031)
	342,647	253,385

The carrying amounts of the Group's trade receivables approximated its fair value as at 31 December 2008 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.

As of 31 December 2008, trade receivables of approximately RMB35,264,000 (2007: approximately RMB42,674,000) were past due but not impaired. The ageing analysis of these trade receivables is as follows:

	As at 31 December	
	2008	2007
	RMB'000	RMB'000
Past due but not impaired:		
0 to 90 days	**13,956**	17,132
91 to 180 days	**14,593**	19,508
181 to 365 days	**6,715**	6,034
	35,264	42,674

As of 31 December 2008, trade receivables of approximately RMB58,226,000 (2007: approximately RMB37,159,000) were impaired. The amount of the provision for impairment of receivables was approximately RMB39,120,000 (2007: approximately RMB26,031,000). The ageing analysis of these receivables is as follows:

	As at 31 December	
	2008	2007
	RMB'000	RMB'000
Past due and impaired:		
181 to 365 days	**10,694**	6,358
Over 365 days	**47,532**	30,801
	58,226	37,159

As at 31 December 2008 and 2007, the carrying amounts of the Group's trade receivables are all RMB denominated.

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

	As at 31 December	
	2008	2007
	RMB'000	RMB'000
As at 1 January	**26,031**	16,967
Provision for impairment of receivables	**13,089**	9,064
As at 31 December	**39,120**	26,031

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

The credit quality of trade receivables that are neither past due nor impaired can be assessed by reference to the nature of the receivables as below:

	As at 31 December	
	2008	2007
	RMB'000	RMB'000
Counterparties without external credit rating		
Group 1 – existing customers with debts not yet due according to the contract	**250,057**	172,880
Group 2 – existing customers with repayment agreement signed	**26,150**	20,368
Group 3 – retention monies for installation projects	**12,070**	6,335
	288,277	199,583

25. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	Group As at 31 December	
	2008	2007
	RMB'000	RMB'000
Other Receivables	**23,168**	33,500
Prepayments	**19,811**	21,792
Prepaid expense	**4,663**	5,060
Other current assets	**8,033**	12,709
	55,675	73,061

	Company As at 31 December	
	2008	2007
	RMB'000	RMB'000
Other Receivables	**42**	42
Prepaid expense	**192**	181
	234	223

26. AMOUNT DUE FROM/TO A RELATED COMPANY

	As at 31 December	
	2008	2007
	RMB'000	RMB'000
Amount due from a related company:		
Beijing Gulf Jingcheng Property Development Company Limited ("Beijing Gulf Property")	**3,534**	3,534
Amount due to a related company:		
Gulf Technology Group Company Limited ("Gulf Group")	**40**	–

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

Amount due from a related company is the retention of the installation projects completed in 2007. Based on past experience and relationship with Beijing Gulf Property, the Management estimated that the amount could be fully recovered.

Amounts due from/(to) a related company are unsecured and interest-free.

27. CASH AND BANK DEPOSITS

	Group As at 31 December	
	2008	2007
	RMB'000	RMB'000
Cash and cash equivalents	**326,575**	352,605
Time deposits with original maturities over three months	**87,126**	–
	413,701	352,605

The effective interest rate on time deposits with original maturities over three months of the Group was 3.11% per annum (2007: Nil). Time deposits with original maturities over three months have a weighted average remaining maturity of 95 days (2007: Nil).

	Company As at 31 December	
	2008	2007
	RMB'000	RMB'000
Cash and cash equivalents	**205**	214
	205	214

	Group		Company	
	As at 31 December		As at 31 December	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash and cash equivalents				
RMB denominated	**285,238**	258,596	**–**	–
USD denominated	**39,437**	24,914	**170**	177
HKD denominated	**816**	69,082	**23**	24
Others	**1,084**	13	**12**	13
	326,575	352,605	**205**	214
Time deposits with original maturities over three months				
RMB denominated	**82,000**	–	**–**	–
USD denominated	**5,126**	–	**–**	–
	87,126	–	**–**	–
Total cash and bank deposits	**413,701**	352,605	**205**	214

28. RESTRICTED BANK DEPOSITS

	Group	
	As at 31 December	
	2008	2007
	RMB'000	RMB'000
Restricted bank deposits	**16,474**	11,511

The effective interest rate on restricted bank deposits of the Group was 0.36% per annum (2007: 0.72% per annum).

The restricted bank deposits were the amount deposited in bank as escrow for the installation projects bidding.

29. SHARE CAPITAL

	Authorised Common shares of HK$0.1 each	
	No. of shares	RMB'000
As 1 January 2007 and at 31 December 2007	2,000,000,000	212,000
As 1 January 2008 and at 31 December 2008	2,000,000,000	212,000

	Issued Common shares of HK$0.1 each	
	No. of shares	RMB'000
As 1 January 2007 and at 31 December 2007	800,000,000	84,800
As 1 January 2008 and at 31 December 2008	800,000,000	84,800

Share Options

On 23 May 2007, the Company granted share options to Directors and employees under the share option scheme (the "Share Option Scheme") that was adopted on 7 June 2005 conditionally and became unconditional on 30 June 2005. The exercise price of the granted options is HK$2.80 which equals the market price of the shares of the Company on the date immediately before the date of grant of the share options. The options granted are divided into three batches according to the exercisable periods (the vesting periods). The purpose of the Share Option Scheme is to provide incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Share Option Scheme include any employees, directors, substantial shareholders or any of their respective associates of the Company and/or any of its subsidiaries or associated companies.

The following table discloses the movement of the Company's share options during the year ended 31 December 2008:

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

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

The fair value of the 4,950,000 share options granted determined by an independent third party using the Black-Scholes option pricing model was approximately HK$3,560,733 (approximately RMB3,482,397). On 31 August 2007, 450,000 share options granted were lapsed upon resignation of an employee. As such, the fair value of remaining 4,500,000 share options granted was approximately HK$3,237,033 (approximately RMB3,165,818). During the year ended 31 December 2008, HK$1,261,000 (approximately RMB1,234,000) was recognized into administrative and general expense (2007: HK$1,252,000/RMB1,224,000) for the fair value of the share options granted. There is no other share option granted up to the date of this report.

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

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

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

30. RESERVES

	Group						
	Share premium	Merger reserves	General reserves	Other reserves	Currency translation adjustments	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2007	308,671	102,902	91,810	–	15	292,280	795,678
Dividend paid	(58,640)	–	–	–	–	–	(58,640)
Profit for the year	–	–	–	–	–	181,016	181,016
Employee share option scheme							
– value of service provided	–	–	–	1,224	–	–	1,224
Transfer	–	–	19,718	–	–	(19,718)	–
At 31 December 2007	250,031	102,902	111,528	1,224	15	453,578	919,278
Dividend paid	(64,320)	–	–	–	–	–	(64,320)
Profit for the year	–	–	–	–	–	177,676	177,676
Employee share option scheme							
– value of service provided	–	–	–	1,234	–	–	1,234
Transfer	–	–	19,364	–	–	(19,364)	–
At 31 December 2008	185,711	102,902	130,892	2,458	15	611,890	1,033,868

	Company			
	Share premium	Other reserves	Accumulated deficits	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2007	468,243	–	(33,984)	434,259
Dividend paid	(58,640)	–	–	(58,640)
Employee share option scheme				
– value of service provided	–	1,224	–	1,224
Loss for the year	–	–	(13,340)	(13,340)
At 31 December 2007	409,603	1,224	(47,324)	363,503
Dividend paid	(64,320)	–	–	(64,320)
Employee share option scheme				
– value of service provided	–	1,234	–	1,234
Loss for the year	–	–	(15,629)	(15,629)
At 31 December 2008	345,283	2,458	(62,953)	284,788

(a) Merger reserve of the Group represents the difference between the value of the paid-up capital of the subsidiaries acquired and the value of the Company's shares issued in exchange therefore pursuant to the group reorganisation completed in December 2004.

(b) General reserves represent statutory reserve which is composed of appropriation at 10% of the net profit of certain subsidiaries of the Group according to their respective Articles of Association.

(c) Pursuant to Section 31 of the Cayman Islands Companies Law (2003 Revision) and the Articles of Association of the Company, share premium of the Company is available for distribution to shareholders subject to a solvency test on the Company and the provisions in the Articles of Association of the Company.

31. TRADE PAYABLES

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

	As at 31 December	
	2008	2007
	RMB'000	RMB'000
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
	145,514	95,330

32. ADVANCE FROM CUSTOMERS

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

33. CASH GENERATED FROM OPERATIONS

	Year ended 31 December	
	2008	2007
	RMB'000	RMB'000
Operating profit	**190,990**	187,696
Depreciation	**22,337**	18,845
Amortisation of prepaid operating leases for land	**225**	225
Development costs amortisation	**2,892**	2,391
Provision for impairment of receivables	**13,089**	9,064
Provision for obsolete inventories	**2,884**	884
Net gain on disposal of property, plant and equipment	**(73)**	(351)
Interest income	**(4,077)**	(6,749)
Amortisation of value of services provided under employee share options scheme	**1,234**	1,224
Operating profit before working capital changes	**229,501**	213,229
Increase in restricted bank deposits	**(4,963)**	(5,439)
Increase in inventories	**(90,644)**	(36,117)
Increase in trade receivables	**(102,351)**	(118,036)
Decrease/(increase) in other receivables, deposits and prepayments	**17,493**	(39,783)
Decrease/(increase) in due from a jointly controlled entity	**8,671**	(9,529)
Increase in due from a related company	**–**	(3,534)
Increase in due to a related company	**40**	–
Increase/(decrease) in trade payables	**50,184**	(12,459)
Increase in other payables and accruals	**12,335**	715
Decrease in advance from a related company	**–**	(1,998)
Increase in advance from customers	**69,446**	37,725
(Decrease)/increase in other taxes payable	**(3,807)**	5,399
Cash generated from operations	**185,905**	30,173

In the cash flow statement, proceeds from disposal of property, plant and equipment comprise:

	2008	2007
	RMB'000	RMB'000
Net book amount (Note 15)	**2,701**	1,943
Net gain on disposal of property, plant and equipment	**73**	351
Proceeds from disposal of property, plant and equipment	**2,774**	2,294

34. COMMITMENTS

(a) Capital commitments

Capital expenditure contracted for at the balance sheet date but not yet incurred is as follows:

	As at 31 December	
	2008	2007
	RMB'000	RMB'000
Property, plant and equipment	**–**	2,368

(b) Operating lease commitments for buildings

	As at 31 December	
	2008	2007
	RMB'000	RMB'000
First year	**1,836**	1,547
Second to fifth year	**2,004**	2,453
After the fifth year	**438**	479
	4,278	4,479

35. RELATED PARTY TRANSACTIONS

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

		Year ended 31 December	
		2008	2007
	Notes	**RMB'000**	RMB'000
Sales to jointly controlled entity	(i)	**42,689**	37,441
Repair cost paid to a related company	(ii)	**–**	132
Services rendered to a related company	(iii)	**–**	6,298
Rental paid to a related company	(iv)	**40**	240
Compensation and remuneration for key management personnel	(v)	**4,420**	4,489
Acquisition of office premises	(vi)	**–**	81,696
Property management fee paid to a related company	(vii)	**1,238**	619
Car park license fee paid to a related company	(viii)	**501**	236

Notes:

(i) Sales of finished goods to a jointly controlled entity, Global System Technology PLC ("GST PLC") were conducted in the normal course of business at prices and terms mutually agreed by the parties involved.

(ii) Repair cost paid to Qinhuangdao Development Zone Junhui Car Repair and Decoration Company Limited, a subsidiary of Gulf Group, were conducted at prices and terms mutually agreed by the parties involved.

(iii) Services rendered to Beijing Gulf Jingcheng Property Development Company Limited ("Beijing Gulf Property"), a subsidiary of Gulf Group, represented installation services provided by the Group at terms mutually agreed by the parties involved.

(iv) Rental paid to Gulf Group was determined based on market rent.

(v) The key management personnel are the directors of the Company. Their compensations and remunerations are set out in note 13 to the financial statements.

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

(vii) Property management fee paid to The Gate Asset Management Company Limited ("The Gate") (北京新中關摩爾資產管理有限公司), a subsidiary of Beijing Gulf Property, which provides property management services in relation to the office building of the Group in Zhongguancun, Beijing. The property management fee was determined based on terms agreed upon by both parties.

(viii) Car park license fee paid to The Gate which provides the Group with the right to use certain car park facilities in the office building of the Group in Zhongguancun, Beijing. The car park license fee was determined based on terms agreed upon by both parties..

The receivables and payables due from and to related companies have been disclosed in Notes 18 and 26.

36. PARTICULARS OF SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITY

As at 31 December 2008, the Company has direct and indirect interests in the following subsidiaries, associates and a jointly controlled entity which are all limited liability companies or have substantially the same characteristics as a limited liability company:

Company	Place and date of incorporation/ establishment	Issued/ registered and fully paid share capital	Attributable equity interests	Principal activities and place of operation
Subsidiaries				
Interests held directly:				
GST Group International Limited	The British Virgin Islands (the "BVI") 17 March 2004	USD 0.01	100%	Investment holding in the BVI
Interests held indirectly:				
Gulf Security Technology Company Limited	The PRC 25 April 2004	USD36,280,000	100%	Manufacturing and sales of intelligent fire detection and control systems in the PRC
Gulf Fire Prevention Network Company Limited	The PRC 16 April 2004	USD7,000,000	100%	Development and sales of fire alarm network products in the PRC
Beijing Gulf Electric Meters Company Limited	The PRC 10 May 2004	USD6,500,000	100%	Development and sales of power meter in the PRC
Gulf Electrical Engineering Company Limited	The PRC 24 September 1996	RMB50,000,000	100%	Provision of system integration and installation services in the PRC
Beijing Gulf Wei'er Electrical Engineering Company Limited	The PRC 24 March 2004	RMB100,000,000	100%	Provision of system integration and installation services in the PRC
Qinhuangdao Gulf Labour Services Company Limited	The PRC 9 March 2005	RMB500,000	100%	Provision of human resources services

Company	Place and date of incorporation/ establishment	Issued/ registered and fully paid share capital	Attributable equity interests	Principal activities and place of operation
Qinhuangdao Gulf Plastic & Metal Products Company Limited	The PRC 5 June 2006	USD2,000,000	100%	Manufacturing and sales of plastic and metal products, metal components and mould in the PRC
Qinhuangdao Gulf Software Technology Company Limited	The PRC 5 June 2006	USD2,000,000	100%	Development and sales of software product, computer integrated circus system and corresponding computing technology
Qinhuangdao City Chengan Fire Prevention Network Company Limited	The PRC 9 August 2001	RMB2,000,000	51%	Sales of fire alarm network products and provision of related installation, maintenance and technical services in the PRC
GST Security and Safety Holdings Limited	The BVI 27 June 2007	USD1	100%	Investment holding in the BVI
Shenzhen Gulf Security Technology Company Limited	The PRC 17 October 2007	RMB10,000,000	100%	Design development and sales of security equipments, electronics equipments, surveillance equipments, mould and computing software products
Gulf Link-Zone Fire Technology (Beijing) Company Limited	The PRC 26 September 2008	RMB1,000,000	100%	OEM and ODM fire protection equipments in the PRC
Associates				
Interests held indirectly:				
Nanning Gulf Fire Prevention Network Technology Company Limited	The PRC 19 September 2001	RMB1,000,000	25%	Sales of fire alarm network products and provision of related installation, maintenance and technical services in the PRC

Company	Place and date of incorporation/ establishment	Issued/ registered and fully paid share capital	Attributable equity interests	Principal activities and place of operation
Henan Province Hongda Gulf Chengan Firefighting Network Company Limited	The PRC 21 November 2005	RMB10,000,000	25%	Sales of fire alarm network products and provision of related installation, maintenance and technical services in the PRC
Jointly controlled entity				
Interests held indirectly:				
Global System Technology PLC	United Kingdom 23 November 2000	£50,000	51%	Sales of fire alarm systems, power meters and other electronic equipment in Dubai

37. 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 including shares, (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 annual report issued, the application of the Offers has been submitted to the relevant governmental body of the PRC for approval.

38. ULTIMATE HOLDING COMPANY

As at 31 December 2008, the directors of the Company regarded GST International Management Limited, a company incorporated in the BVI, as being the ultimate holding company.

Financial Summary

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

RESULTS

	For the year ended 31 December				
(RMB' million)	**2008**	2007	2006	2005	2004
Revenue	**1,131**	840	646	562	424
Gross profit	**473**	368	317	288	214
Operating profit	**191**	188	172	165	130
Profit attributable to equity holders	**178**	181	165	162	123

ASSETS AND LIABILITIES

	For the year ended 31 December				
(RMB' million)	**2008**	2007	2006	2005	2004
Total non-current assets	**374**	340	211	150	113
Total current assets	**1,086**	872	851	778	396
Total current liabilities	**340**	207	180	154	232
Net current assets	**746**	665	671	624	164
Net assets	**1,120**	1,005	882	774	277

GST HOLDINGS LIMITED

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